

Integration from Breeding to Feeding to Eating – A Producer Owned Cooperative

Arnold Drung

Conestoga Meat Packers Ltd., 313 Menno St., RR#2 Breslau, ON N0B 1M0

Email: adrung@conestogameats.com

■ Introduction

What began as a dream for a number of Southwestern Ontario hog farmers in 1994 became a reality in 2001 – a producer owned hog processing operation. In the time since Progressive Pork Producers Co-operative Inc. purchased Conestoga Meat Packers Ltd., much has occurred both within the company and the marketplace. This presentation will provide an overview of the evolution of the business as well as the methods that are being used to optimize it.

■ Background

The seed for development of a producer owned processing plant in Southwestern Ontario was the trade disruption that took place in the market following imposition of a countervailing duty on Canadian hogs in the late 1980s. The price of Canadian hogs dropped as the industry factored the value of the countervail duty into pricing. Ontario farmers were upset by this state of affairs and a number felt that the best way for producers to correct this situation was to operate their own processing plant. The Progressive Pork Producer's Co-operative (PPP) was chartered in 1994 to achieve this goal. Original membership ran as high as 500+. The group quickly formulated plans by which it could enter the market in as rapid and stable a way as possible.

In 1995, the co-op purchased a vacant former vegetable processing plant with the intention of converting it into a full scale meat processing operation. Also at this time, a supply agreement was developed with the Thorn Apple Valley processing operation in Detroit, Michigan, under which hogs from the co-op began to be shipped to Detroit for processing. Plans were developed to

operate the new London processing plant as a joint venture between PPP and Thorn Apple Valley. These plans all changed when Thorn Apple Valley experienced financial troubles and eventually ceased operations.

The last events coincided with the hog price crash of late 1998. That situation strengthened the resolve of members to proceed with development of their own processing plant. Further feasibility studies were conducted and a full business plan developed. However, the scale of the operation contemplated ended up being beyond what the membership of the co-op could reasonably undertake. After a series of tentative starts, the group was provided with the opportunity to purchase an existing business, Conestoga Meat Packers Ltd. located in Breslau, Ontario, near Kitchener. This was a successful family-owned processing operation with an excellent reputation in the marketplace.

After a review of the situation, the decision was made to proceed with the purchase of Conestoga and this happened in the Fall of 2001. Concurrently, it was decided to evolve PPP into a new generation co-operative. This meant that members would be required to invest a larger amount in the operation with a specific contribution for each hog they would have processed at the plant on an annual basis. This provided the funding for the purchase and expansion of Conestoga to allow for processing of all member hogs. A total of 172 farmers chose to become members of the new PPP/Conestoga with total annual shipments of 650,000 hogs.

■ **Membership Drivers**

The key drivers for farmers who became members of PPP were twofold. The first was the ability to smooth out the revenue curve for farms. Farmer and processor margins have typically been mirror images of each other – looking at history, a combined operation should have a less volatile revenue curve. The second driver was to secure hook space for the member's hogs. The large number of consolidations and closures within the processing industry left many producers leery of finding a guaranteed future home for their production and they wanted to ensure that this was available.

■ **From Dream to Reality**

The purchase of the Conestoga plant was a tremendous opportunity but, from the outset, also provided some very large challenges. The first of these was the completion and commissioning of a significant addition to the plant. The operation had grown to a level of 3,000 hogs per week but the new ownership required annual single shift processing capacity of 13,000 hogs. The plant

was enlarged to handle this volume followed by hiring and training of the required personnel. A two year ramp up program was developed in order to allow for the required training, completion of modifications to existing areas of the plant and implementation of an appropriate go-to-market strategy.

■ **Challenge #1 – Hog Supply**

With the purchase of the new plant, it was rapidly determined that a large determinant of Conestoga's previous success had been its hog supply. The previous owners had spent a great deal of time sourcing and contracting hogs with suppliers who had ideal characteristics for the plant's customers and who could be relied upon to consistently deliver hogs with these characteristics.

Once the company was purchased by PPP, the first priority was getting member hogs into the plant. The dilemma experienced was that the profile of the membership's hogs did not completely match that of the previous supply. This required a complete change in thinking on the part of the membership. Previously, members had received very little feedback on their hogs from whichever packer they sent them to. The primary method of feedback was the settlement sheet received from the provincial marketing board which included weight, fat, muscle and yield data on every hog and also included an index value. The average index value was taken as a proxy for overall hog quality and it was generally accepted that if a producer's hogs were at or above the provincial average index value, the hogs were of good quality. Experience has shown that averages and index values can do a poor job of approximating the value of the hog to the plant. As the index equation is heavily weighted towards the absence of fat, high indexing hogs have not always provided a level of muscle and lean meat, which generates the highest return.

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Based on this situation, the PPP Board and Conestoga management embarked on a program of communication, education and quality improvement initiatives which have continued to the current time, the objective being to optimize the hog supply in the quickest way possible.

■ **Premium / Discount Program**

One of the basic premises among the members of the co-op was that they should be paid for hogs based on the value that those hogs returned to the

plant. In order to encourage members to make quality changes quickly and to provide incentive to maintain quality, a premium/discount system was rapidly initiated. All PPP members have the opportunity of receiving premiums based on the quality of their hogs and their value to the plant. Conversely, member hogs are also discounted if they are outside of the quality window required by the plant. This has been the primary incentive utilized to improve overall hog quality coming into the plant.

■ **Communication Program**

The PPP/Conestoga program for communication and quality enhancement is based on the use of a number of different tools, all geared toward a rapid, consistent and actionable flow of information and feedback to members.

The first of these tools is the producer daily shipment report. This information is sent to individual members on the day following slaughter of their hogs. It provides a number of pieces of information including:

- Number of hogs killed
- Fat, muscle, weight and yield class averages
- Total of hogs within plant specification
- Grid showing hogs by yield and weight cell
- Fat, muscle and weight data for each individual hog
- Premium and grading information

The Conestoga Procurement Department will contact members directly with any issues, and members are encouraged to call in if they have questions or issues. The report has gone through a number of iterations but the rapid feedback has allowed for quick resolution of many issues and allows members to undertake necessary actions in a timely manner.

The second tool for quality enhancement is the plant visit. All members are expected to visit the plant on an annual basis to view their hogs going through the production process. Prior to a member visit, their hogs are slaughtered and separated in the hog cooler. On the day following, members will view their hogs going through the cutting process. Feedback is first provided on how the hogs performed through the slaughter process. Any issues with respect to handling or illness as well as any other problems are reviewed. Members can then see how their hogs perform on the cut. The individual primals are viewed and full dissections of product will be done to give the producer a sense of the quality of meat derived from their hogs. This has proven to be an extremely valuable tool. Seeing the final product as the consumer or customer will see it and having the ability to judge it against other

product has often provided the necessary impetus for members to make changes in their operations to better meet the needs of the plant and ultimately, its customers.

As part of the visit, members are encouraged to and generally do bring along key suppliers including feed and genetics companies as well as their veterinarian. This allows for immediate dialogue and development of action plans with the involved parties, and results in a quicker response.

The third tool utilized is the “Producer Report Card” which is sent to all members on a quarterly basis. The report card accumulates data on the member’s hogs for the year to date. Then, all of the members are ranked according to three criteria – muscle depth, fat, and total grading and premium dollars generated. The three criteria are weighted equally to provide an overall ranking for each member. This has proven to be a very valuable tool. While there is somewhat of a pride factor among members (no one wants to be at the bottom of the producer list) an even greater factor is the amount of index and premium dollars that members are generating. The ranking allows members to see how many dollars are potentially available and gives those not yet at the top something to strive for.

■ Progress to Date

The PPP/Conestoga operation is now entering its fifth year and to say that everything has gone smoothly and according to plan would be a stretch. First off, market conditions over the past five years have been a challenge. Packer margins have been on a downward trend making it increasingly difficult to achieve desired results. Also, the work involved in getting the operation to full production and optimal efficiency has been huge and is still a work in progress.

From a membership perspective, members are much more attuned to the needs of the marketplace based on the results of the plant. A new payment structure has been implemented whereby members are paid on the value of meat sold as opposed to the live hog market. This has made them particularly sensitive to the requirements of the marketplace. Whereas early discussions with members usually dealt with the price of hogs, now the focus is much more on the price of meat and conditions in the market for the end product.

***Members are paid on the
value of meat sold***

■ Future Plans

Looking to the future, the market for fresh pork globally is expected to continue to grow. However, competition is intensifying and as a major exporter, Canada must continue to adapt its strategies to remain competitive in the global market. This impacts all producers and processors in the country.

The PPP/Conestoga operation is focused on a number of opportunities to continue to improve its long-term prospects. These include:

- Product differentiation – utilizing the benefits inherent in the producer-owned, co-op structure to provide meaningful additional value for customers
- Maximizing utilization of all parts of the carcass
- Optimizing the customer mix between domestic and export and between retail and further processor customers
- Finding ways of adding value and reducing costs for the co-op members

The membership of PPP/Conestoga is committed to the long-term success of the operation and has demonstrated a willingness to do the things that are required to be successful in this challenging and constantly changing industry.