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## **Farmland Industries**

**A case description on vertical co-ordination  
in U.S. pork industry**

RIJNCONSULT 

*in samenwerking met* Agro Keten Kennis



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## **FARMLAND “PROUD TO BE FARMER OWNED”**

### **1. INTRODUCTION**

Farmland is challenged as never before. The shift from domestic market protection to international market access, the saturated markets and consumers who are more demanding with respect to food and food safety make that Farmland has to make aggressive actions. To stay a major player in the future pork industry, actions have to be made on the field of integrated production, marketing systems and supply chain management.

**This case shows Farmlands’ believe that a supply chain approach is the main strategy to compete for the future. Their biggest challenge is to integrate all independent producers into a food chain or system approach.**

The Farmland case is one of a series of three benchmark cases on vertical co-ordination. These descriptions are part of the Agri Chain Competence project ‘DECANETHUS’, an experimental study focused on developing a benchmark method and a first description of co-ordination mechanisms in pork supply chains in four countries (DE stands for Denmark, CA for Canada, NETH for the Netherlands and US for United States of America). The objective of the cases is to test the developed methodology for a particular pork supply chain.

In a short statement, Farmland is the largest Farmers owned co-operative in the US. The company began in 1929 and today its major business lines include Crop Production Inputs, Feed, Petroleum, Grain, Pork and Beef. In 1997 the Farmland Meat Group was formed in order to help producers make necessary changes in the way they do business and to become more competitive in the new global marketplace. The most important markets are food service, retail, industrial and export. Farmland also tries to get a grip on the genetics side of the supply chain (section 2).

To face the driving forces for change Farmland takes actions on the field of chain optimisation, chain differentiation and chain care. Farmland bases its involvement on the belief that there is a role for the independent co-operative to help independent swine producers to make the transition to a food chain or system perspective. Farmland markets value added processed pork products to their markets under several brand names (section 3).

One of the biggest challenges for Farmland is to make their co-operative structure competitive with fully integrated companies. To be able to respond to this goal it is important that barriers are taken away or solved. The most important barriers for Farmland are: lack of commitment to chain thinking of retailers, communication channels with local authorities and the co-operative structure of Farmland. Finally, examples of chain management activities, as for instance the ‘Prime Time Production Tool for Prime Pork’, are presented (section 4).

## 2. FARMLAND SUPPLY CHAIN

### 2.1. Company profile

Farmland began in 1929 as the Union Oil Company when six farmer-owned co-operatives joined forces to buy and distribute petroleum products.

<b>Fact and figures</b>	
Farmland Pork	
• Turnover (payment price mln \$):	1,372
• Production (* 1000 market hogs):	8,000
• Market share (% national):	9% (Slaughter capacity)
• Important markets	
Retail	
Foodservice	
Industrial	
Export	
• Number of involved farmers	10,000
• Slaughter capacity (daily)	33,800

Source: IAMA Case –101-1197-02, Farmland Industries, Inc., the Changing Consumer: Implications For A Producer-Owned Pork Processor

It expanded other co-op products in the early 1930’s, and, by the late 1950’s, the company had become a powerful force in de agricultural and responded to farmer’s demands for more herbicides, insecticides and other chemicals by purchasing a chemical company. On September 1, 1966, the Association changed its name to Farmland Industries Inc. By its 50th anniversary in 1979, it had become one of the nation’s largest farmer-owned co-operatives, with its pork processing subsidiary Farmland Foods emerging as one of the nation’s leading meat companies. In 1992, Farmland expanded its business into grain and beef, and today continues to be a leading supplier of quality agricultural-based supply and consumer products. Its major business lines include Crop Production Inputs, Feed, Petroleum, Grain, Pork and Beef.

In 1997 the Farmland Meat Group was formed to help producers make necessary changes, like adopting new technologies, reducing costs and forming alliances and new generation co-operatives, in the way they do business, to become more competitive in the new global marketplace<sup>1</sup>.

## 2.2 Farmland Chain profile

Farmland is the largest farmer owned co-operative in the U.S. The chain concept of Farmland is more like a network of enterprises. Its bases are the farm and ranch families who own and control the local co-operatives, which in exchange own and control Farmland Industries.

### *Retail*

As the food industry continues to change, partnerships with retailers have become paramount to success. Farmland is developing a strategy of coming to exclusive relationships with retailers. The last year Farmland partnered with HY-Vee Food store in the central part of the US, Baker store's in Omaha, Grand Union stores in New York, Jewel Food Stores in Chicago, and Fred Meyer stores in the Seattle area<sup>2</sup>.

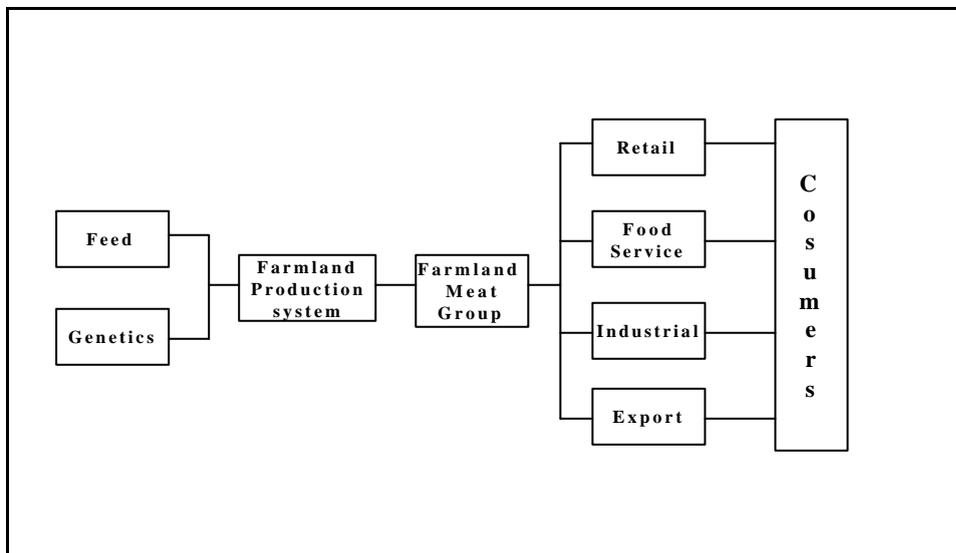


Figure 1: The Farmland supply chain

<sup>1</sup> IAMA Case –101-1197-02, Farmland Industries, Inc., the Changing Consumer: Implications For A Producer-Owned Pork Processor

<sup>2</sup> Farmland annual report 1997

### ***Foodservice***

Changes in consumer lifestyles have resulted in a shift of the consumer food dollar, in favour of food service (>50%). The Farmland Meats Group is well positioned to address this shift. Strategic alliances have been formed with major restaurant chains this year, which will serve 10 million pounds of Farmland product this year. In addition, Farmland ham, bacon and sausage can be found at leading casinos in Las Vegas, Nevada.

### ***Export***

Farmland Pork is positioned to take advantage of emerging international markets. Rapidly changing Asian economics continue to create a demand for consistent supply of safe, high quality meat products. Russia remains an important market for Farmland hot dogs and fabricated pork products and Farmland continues to develop new products for this export market. The Pork Division is prepared to participate in the economic expansion of Mexico as well, as that country continues to show solid signs of economic vigour and consumer spending rises.

### ***The Farmland Meats Group***

Further aligning the Farmland production system from the producer's animal to the consumer's plate, the Meats Group links livestock production with production alliances and meat processing, marketing and distribution. This structure provides Farmland and its producer-owners with all the advantages of large integrated companies, with one positive difference, the Farmland Meats Group is part of the Farmland system, which is owned and controlled by producers.

Farmland is the 6<sup>th</sup> largest slaughtering company and slaughters about 8 million hogs a year. At this time 75% of the pork is produced and sold in an open market system, 10% is produced Farmland owned, 0% in the America's Best Pork system, 5% on contract and 10% by mega producers/farmers.

### ***Livestock Production***

The Farmland Livestock Production Group is helping farm families faced with the impacts of the changing swine industry. Farmland works with about 10,000 involved hog producers in its system. The supplying can be on an open market base, Farmland owned, on contract or through mega producers.

New initiatives have been started to come to more vertical co-ordination. Through contract production and joint ventures, Farmland wants to have more hog production ownership.

### ***Feed Industry***

The Farmland Feed division quickly tries to adapt to its rapidly changing business environment. To improve the efficiency, the Feed division is implementing a backward integration strategy, moving its emphasis from formula feed to basic feed ingredient. The Feed division worked with the Meat Group to create additional value-added basic feed ingredients from animal by-products.

### ***Genetics***

As a systematised pork production company, Farmland would be incomplete without control of sow development. Farmlands' management believes adoption of artificial insemination (AI) will improve genetics more rapidly than traditional breeding methods.

## **3. CHAIN STRATEGY**

### **3.1 Driving forces for change**

The most important trends that can be argued as Farmlands driving forces for change are:

- US consumers are becoming more demanding with respect to food and food safety;
- markets are getting saturated;
- shift from domestic market protection to international market access;
- new technologies like: application of industrial methods of production, new genetics and Information and Communication Technology.

### **3.2 Impacts on the Farmland Chain**

The drivers for change have their impact on the pork supply chain and more specific, on the Farmland company. In the Decanethus case studies we assign these impacts to three categories: *Chain optimisation*, *Chain care*, *Chain differentiation*. The most important impacts for Farmland can be seen on the field of Chain optimisation followed by Chain differentiation and Chain care.

#### **Chain Optimisation**

Attention to *Chain optimisation* is very important for Farmland. There has been a strong focus on cost control and improved risk management. In the coming years there will also be adapted new logistic systems, which shorten the supply lines from farms to the plants. Efficiencies also can be made through better communication. New ICT techniques make it possible to communicate online. The local network will change to an information network with attention to improvement of the production and marketing.

## **Chain Differentiation**

*Chain differentiation* is becoming more important the coming years. Different markets ask for different genetics. Licenses are needed to secure the investment in chain differentiation. The production of hogs will be more specialised and the ownership will be more dedicated under the condition of partnership.

Farmland places great emphasis on their brand strategy. The slogan “proud to be farmers owned” is very well recognised by the customers. Farmland’s brand strategy also includes regional brands. Farmland extra Tender line (branded, value added, fresh pork) is an industry leader, when carrying the Farmland brand name or when marketed in partnership with retailers. The company recently started a program called America’s Best Pork, which designed to help independent producers to remain competitive through sustainable production systems that fit within an integrated pork food chain approach.

## **Chain Care**

Farmland is committed to the safety of all its meat products. HACCP is implemented and translated back in the production chain. Traceability is becoming more important because large buyers and international markets demand such a system. There has also started a verification system where producers become certified by the veterinarian. Part of the program also is the usage of medicine and feed.

### **3.3 Chain strategy**

Farmland bases its involvement in the pork industry on the belief that there is a role for the co-operative to help independent swine producers make the transition to a food chain or system perspective. They see the need to integrate independent producers in a commitment to a food chain approach. Farmland’s vision is to accomplish this by assisting producers to excess appropriate genetics, feed, and management and to carry its pork products through to retail and into international markets. Farmland also tries to get a grip on the genetics side of the chain.

The Farmland Meats Group vision is to fulfil the ‘consumer foods’ part of the Farmland Industries mission statement: *“To be a producer-driven, customer focused and profitable agricultural supply to consumer foods co-operative system.”* Farmland provides marketing and processing functions primarily to its’ pork producers. Farmland markets processed pork products to national and retail food chains and distributors using several brand names. Farmland applies a niche strategy as opposed to some large competitors that employ a least cost approach.

## **4. CHAIN MANAGEMENT**

### **4.1 Challenges**

To continue their successful commerce, Farmland faces the following challenges:

1. to make the separate profit centres of independent hog producers and a processor competitive to fully integrated firms;
2. Farmland will have to change the way they source the majority of their slaughter hogs, more contracts should be concluded and increased vertical co-ordination is needed;
3. to increase ownership in pork production systems to 25%;
4. to increase America's Best Pork production volume to 4.5 million head per year;
5. to increase slaughter volume to 10 million head per year;
6. to match consumer needs with the raw material source, live animals;
7. realising benefits from high quality pork products by access to market distribution channels with branded products.

### **4.2 Barriers to overcome**

To be able to respond to the described challenges it is important for the industry that barriers, which impede Farmland's development, are taken away or solved. The following barriers can be described for Farmland.

The introduction of demand chain logistics will be a long way. The barrier is the retailer who is shopping around and has no commitment and buys commodity. No guarantees are asked. Quantities, low price and order based thinking makes it difficult to create preferred suppliership and conclude long term contracts.

The co-operative system makes it hard to change and adapt new strategies in a fast way. The management brings in the strategies, changes in the structure etc. Once a year a board meeting with representatives of the farmers of the local co-operative boards come together to discuss new strategies, global and domestic affairs and to make decisions. These decisions are brought back to the local co-operatives and communicated with the farmers.

A local co-operative can be involved in different products. Profits that co-operations make flow back to the farmers. Negative results instead have to be paid by Farmland Industries. This makes it difficult to gain extra capital.

### **4.3 Chain management**

To ensure maximum customer satisfaction and high efficiency within the chain effective chain management is of great importance. Some chain management activities are:

#### *Farmland System Advisory Group*

To start the dialogue between customers and producers Farmland has organised a conference in 1997. The conference brought their key customers around the world together with a group of local co-op managers and producers. It has considered as a powerful couple of days that changed the thinking of both customers and members. At the close of the conference the Farmland System Advisory Group was formed, which will continue the dialogue that began at the conference, offering ideas and recommendations to keep Farmlands' system focused on the need of the customers.

#### *Prime Timing Production Tools for Prime Pork*

The advanced Farmland top-to-bottom swine production program puts the latest techniques and technologies directly in the hands of independent producers. Among them:

1. Alliance Farm System
  - Total System Approach
  - Producer Ownership
  - Large Integrated System
2. Pig Finder

Farmland uses this electronic service to help producers buy and sell single-source, farm-fresh feeder pigs and ISO-Weaned pigs. Weekly auctions, via an electronic network link them to set of pigs from 100 to 1,000 head, without leaving the farm.
3. Farmland Foods Marketing Agreements

Pork producers need reliable markets and risk control. Farmland Foods Marketing Agreements let the producers choose return/risk ratios that make sense.

## **5. COMPETING FOR THE FUTURE**

To successfully achieve their goals, Farmland will have to combine strong leadership with innovative solutions. After nearly 50 years of talking about the consumer being the driving force in the pork market, and the need for integrated production and marketing systems, it appears the time for talking is over. Aggressive action is necessary if Farmland wants to be a major player in the future pork industry.

## *COLOPHON*

This case is one of a series of four benchmark cases on vertical co-ordination. These case descriptions are a part of the ACC pilot project 'Decanethus'. (DE = Denmark, CA = Canada, NETH = Netherlands, US = United States of America).

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Agri Chain Competence foundation (ACC)  
ir. W. Maijers & ing. M.G.N. Vernooij  
P.O. Box 15  
5240 AA ROSMALEN  
the Netherlands  
tel +31 73 521 9250  
fax +31 73 521 8260  
e-mail [acc@akk.nl](mailto:acc@akk.nl)  
[www.akk.nl](http://www.akk.nl)

Rijnconsult BV  
ir. H. Folkerts & ir. M.G.M. Peters  
P.O. Box 9100  
6880 HA VELP  
the Netherlands  
tel +31 26 3848586  
fax +31 26 3848588  
e-mail [henk.folkerts@rijnconsult.nl](mailto:henk.folkerts@rijnconsult.nl)  
[www.rijnconsult.nl](http://www.rijnconsult.nl)