



# Ag Decision Maker



## A Business Newsletter for Agriculture

Vol. 6, No. 7

May 2002



### 2002 Farm Bill Offers Opportunity to Update Acres and Yields

by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

The 2002 Farm Security and Rural Investment Act (FSRIA) extends some of the payment provisions related to feed grain and oilseed production, and adds some new provisions. The bill provides for three different types of payments:

- **Loan Deficiency Payments** or Marketing Assistance Loans will continue much as before, but with different loan rates.
- **Direct Payments** will replace AMTA, PFC, Market Loss Assistance, and Oilseed Payments.
- **Counter Cyclical Payments** are a new payment designed to offset low market prices.

2. If you do not update base acres, a soybean base will be created. You can then shift some base acres from other program crops into your soybean base.
3. If you do update base acres, you can keep your old program yields based on 1981-1985 levels, or you can update yields based on 1998-2001 levels.

The crops that are covered by the bill include corn, soybeans, oats, wheat, grain sorghum, barley, and other small grains. Hay and forages are not covered.

The methods used to determine each type of payment are summarized in the table on page 2. For more details on program acres, yields and payments refer to the enclosed Decision File.

*continued on page 2*

#### Handbook Updates

For those of you subscribing to the *Ag Decision Maker Handbook*, the following updates are included.

**Crop Planning Prices** — File A1-10 (2 pages)

**Commodity Programs for Crops** — File A1-32 (6 pages)

**Commodity Program for Dairy** — File B1-55 (2 pages)

**2002 Farmland Cash Rental Rates** — File C2-10 (13 pages)

**Historic County Cropland Rental Rates** — File C2-11 (5 pages)

Please add these files to your handbook and remove the out-of-date material.

#### Decisions

There are three basic decisions to make regarding the new commodity programs. These decisions are made separately for each tract with a different Farm Service Agency identification.

1. You can keep your current program base acres, or update your base acres to reflect 1998-2001 cropping patterns.

#### Inside . . .

- The Iowa Turkey Cooperative experience—West Liberty Foods ..... Page 2
- Building your brand with Flanker Brands ..... Page 4
- This is not your father's ol'-farm-bill! ..... Page 5

2002 Farm Bill Offers Opportunity to Update Acres and Yields, continued from page 1

**Summary of Payment Acres and Yields**

Payment	Payment Rate per bu.	Payment Acres	Payment Yield
Loan deficiency	Co. loan rate – posted co. price	Actual harvested	Actual harvested
Direct	Fixed rate	85% of old or new base	Old program yield
Counter cyclical	Target price - higher of loan rate or market price - direct rate	85% of old or new base	Old or new program yield

## The Iowa Turkey Cooperative experience— West Liberty Foods

*by Kenneth D. Rutledge, President and CEO of West Liberty Foods*

**W**est Liberty Foods has proven that a value-added cooperative owned by Iowa turkey growers can carve out a profitable niche in the marketplace. In just five years, West Liberty Foods has gone from a fledgling startup company of 425 employees to an industry leader that employs 1,350 and produces more than 120 million pounds of meat products per year.

Let's begin by reviewing the short history of the Iowa Turkey Growers Cooperative.

- In 1943 Louis Rich purchased the West Liberty Iowa Tomato Canning Plant. At that time he was operating a small plant in the Quad Cities, which he had started in 1930.
- In 1946 the plant was converted into a chicken processing facility.
- In 1948 the sons of Louis Rich, Martin and Norman, focused the company on production of turkey products. This focus is on fully cooked further processed products. Over the next several years the company introduced many new turkey products. The company became known as a turkey product innovator, introducing a full line of fully cooked turkey products.
- In 1979 Oscar Mayer purchased the "Louis Rich" company. The purchase included plants in West Liberty, Iowa., Modesto, Calif., and Newberry, S.C.
- In April of 1996, Oscar Mayer, a division of Kraft Foods, a division of General Foods, a division of Phillip Morris, announced that they were closing the West Liberty plant effective December 31, 1996.
- In May 1996, 47 Iowa turkey growers banded together to try to find a way to continue production of turkeys. Their motto became "Strive to Survive". Their task was a daunting

one. They would either find a way to continue to produce turkeys or convert their buildings to boat storage. Boat storage in Iowa is not an attractive alternative.

The Growers found they needed to:

- Mortgage everything they owned in order to be able to continue to produce turkeys.
- Take a risk few individuals would be willing to take.
- Put together a program of financing with the US Department of Agriculture (Rural Development Agency), the State of Iowa (Department of Economic Development), Muscatine County, Muscatine Development Corporation, the City of West Liberty, Norwest Bank, and Kraft Foods, and do this in a six-month period of time.

With the help of many, many individuals and organizations they were able to pull all the parties together and a program was launched. On December 27, 1999 the facilities of Kraft Foods in Iowa were transferred to the Iowa Turkey Growers Cooperative.

### Now the real fun began.

The growers discovered that there was nothing easy about being in the processing and marketing side of the turkey business. The first turkeys were processed by the Cooperative in January 1997. A management team had been formed in November of 1996. A sales program was nonexistent. The only program in place was a commitment on Kraft's part to take a certain portion of the product from the plant.

Unfortunately the Cooperative started processing product during a time of record production and the lowest price in the history of the modern turkey business. This low market condition continued through June of 1998. To give you an idea of how serious this situation was, the normal break-even

*continued on page 3*

The Iowa Turkey Cooperative experience—West Liberty Foods, continued from page 2

level for turkey meat is in the \$1.60 range. The market reached a low of \$1.07 during the first year and a half of the Cooperative's existence.

Significant developments

During the first year and a half; however, many significant events unfolded:

- 1. Two companies closed sizable turkey plants and idled or converted them to chicken.
2. The industry began to exercise serious production restraint.
3. Supply and demand came into balance. As an old friend used to say, "The law of supply and demand will never be repealed.
4. A major player in the business decided to discontinue slaughter operations.
5. The sales and marketing programs the West Liberty Foods staff had been pursuing began to bear fruit.
6. Strategic alliances began to be put into place.
- A private label line of high-end deli products for the largest retailer in the country and for another midsize retailer was developed and began to be distributed.
- A co-manufacturing agreement of major volume levels was concluded with one of the largest food companies in the world.
- The program with Oscar Mayer was continued and strengthened beyond the initial two-year period.
- The plant began production of beef, pork, and chicken products in addition to turkey.
- The plant became the major producer of deli items for two of the largest sandwich shops in the U.S.
- The company began to receive recognition as a preferred production unit.

In January 1999, a very viable Cooperative emerges from the trying 1997 and 1998 experiences. The Cooperative continues to seek out business opportunities to insulate it from the vagaries of the commodity turkey market, even setting plans for a natural turkey product line.

In 1997, the Cooperative processed 2.9 million head of turkeys from our members. In 1999 we completed the year with over 4.5 million head of turkeys processed. During the 2000 calendar year we not

only processed 4.5 million head but also purchased the equivalent of over 1.0 million additional head in the form of deboned meat from other companies.

In 2000, the Cooperative concluded the purchase of another 50,000 square foot processing facility in Sigourney, Iowa.

Ninety percent of the products manufactured by West Liberty Foods are branded and sold by other companies and ten percent are marketed under the West Liberty Foods label.

The future opportunity for West Liberty Foods lies in selecting the appropriate partners from a co-manufacturing and private label standpoint, negotiating long term financially favorable agreements which will continue to insulate us from severe market swings, continue to seek out higher margin niche markets to blend in with the co-manufacturing/private label product and continue to improve to the most efficient production level at the plant.

If we are able to accomplish these tasks, we will provide to our grower/owners a profitable, sustainable business which can be passed down to the next generation as a financial investment worthy of their time and money. This is the key to a cooperative's long term viability and survivability.

In a recent article from a trade publication ranking the top 200 meat and poultry processors based on sales revenue, West Liberty Foods ranked #157 in 1998, #90 in 1999 and #75 in 2000. We ended F/Y 2000 at over \$135 million in revenue. We have arrived and we intend to stay a viable food production entity for the long term.

Drivers of the future

We are concentrating on three major trends that we believe will drive our business for the future and will also be applicable to any other cooperative food venture.

Brand Marketing

Brand marketing in the future will focus corporate shareholder attention on marketing of the end product and cause major food companies to look for strategic alliance partners to grow, slaughter and process product. This is already happening at West Liberty Foods. This trend has resulted in four separate co-manufacturing agreements at West Liberty Foods with four of the largest food companies in the country.

The example used as the ultimate brand-marketing program is Nike. Nike owns no production facilities.

The Iowa Turkey Cooperative experience—West Liberty Foods, continued from page 3

All of their product is co-manufactured. This trend bodes very well for the future of West Liberty Foods.

**Private Label**

Private label food production is very different today from the old generic labeled product you used to see in the grocery store. Major retailers today want to place their store's name on upper end, high quality products. The private label business in 2000 grew at a rate of almost 10 percent. Branded product had a flat growth year. Most branded producers do not want to produce private label products, thus a continuing avenue of opportunity exists for West Liberty Foods.

**Food Safety**

Food safety is the issue of the new millennium. If you are planning to build a food production facility, you have a golden opportunity to build a state-of-the-art facility with food safety as the integral part. At West Liberty Foods we inherited an existing facility. We continue to remodel our facility to provide the safest environment for food production. An example of this is our newly completed segregated facilities for our cook side employees. This means no daily contact between raw side and cook side employees. If you expect to be chosen by major food companies and by retailers as the production facility of choice, you had better provide a reason for them to select your company.

**Building your brand with Flanker Brands**

*by Nancy Giddens, agricultural extension value-added marketing specialist, Missouri Value-added Development Center, University of Missouri; and Amanda Hofmann, student research assistant*

This article is second in a five-part series on building a brand and developing it in the marketplace. The previous article outlined the importance of branding and the process of creating a brand for a new product. This article moves ahead to developing flanker brands.

**What is a flanker brand?**

A flanker brand is a new brand introduced into the market by a company that already has an established brand in the same product category. **The new brand is designed to compete in the category without damaging the existing item's market share by targeting a different group of consumers.** This strategy, also called fighter branding or multibranding, is used to achieve a larger total market share than one product could garner alone. Companies with multiple brands in a single product category generally have the following types of products in their portfolios:

- A premium brand that offers high quality at a higher price.
- One or more "value" brands offering a slightly lower quality or a different set of benefits for a lower price.

For example, General Mills markets both Gold Medal and Robin Hood brand flours. Gold Medal serves as a premium product and commands a premium price from consumers who value quality. However, Robin Hood offers a lower-priced product with a slightly lower level of quality for those who are more heavily influenced by the price of products within a category.

**Why is flanker branding important?**

Flanker branding is important because it allows a company to attract new customers from various market segments. The main brand of a company's portfolio should target the market segment containing the most consumers. Another brand can then be positioned to convert users from other market segments by using a different set of benefits or product characteristics. For example, Proctor and Gamble's (P&G) Tide is an extremely successful laundry detergent. In order to appeal to consumers who desired a lower-cost detergent, P&G introduced Cheer, which is a slightly lower quality product offered at a value price. While Tide's sales dropped slightly with the introduction of the new brand, the combined sales of Cheer and Tide were higher than Tide's original sales alone, allowing P&G to gain a greater market share. **A company's brands should attract customers from competing brands and not each other.**

There are a number of advantages to developing a flanker brand:

- Gain more shelf space for the company, which increases retailer dependence on the company's brands.
- Capture "brand switchers" by offering several brands.
- Develop excitement within the company by monitoring sales figures of the different brands.
- Protect the company – giving a product its own unique name means it will not be readily associated with the existing brand. This reduces risk to the existing brand and/or company if the product fails.

Building your brand with Flanker Brands, continued from page 4

• Companies with a high-quality existing product can introduce lower-quality brands without diluting their high-quality brand names. For example, Farmland markets three separate brand name hams: Carando, Farmland and Ohse. Carando, a premium product with a distinctive spicy flavor is targeted toward individuals who desire high quality and authentic Italian flavor in hams. Due to these qualities, Carando commands a premium price. Farmland brand hams are more middle of the road – good quality, traditional hams targeted toward family-minded consumers who desire quality but also pay close attention to price. Finally, Ohse is a value product – its lower level of quality is reflected in its bargain price. The Farmland name only is attached to the Farmland product, leaving consumers with a separate view of each brand. They do not lose respect for the quality of the Carando or Farmland branded products because of the lower quality of the Ohse products because there is not a clear connection between the three brands.

Developing flanker brands does present challenges. Introducing a new brand is quite costly. Creating

another independent brand requires name research and substantial advertising expenditures to create name recognition and preference for the new brand.

Will Flanker Branding Work for You?

Flanker branding is not for everyone. There are a number of questions that must be answered in order to make the best decision for your situation. The most basic questions include:

- Can my existing brand be changed enough that a new brand will have unique qualities that will appeal to a separate group of consumers?
• Are these new qualities believable?
• How will the new brand impact my existing brand(s)?
• How will the new brand impact competitors' brands?
• Will the cost of product development and promotion be covered by the sales of the new brand?

A flanker branding strategy can be very effective if implemented appropriately. The next article in this series will examine another type of branding – product line extensions.

This is not your father's ol'-farm-bill!

by Daryll E. Ray, Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and Director, UT's Agricultural Policy Analysis Center. (865)974-7407; dray@utk.edu; http://www.agpolicy.org.

Many of you will remember the advertising jingle, "This is not your father's Oldsmobile." Well, with apologies to General Motors and despite what I read in the press about the 2002 Farm Bill beating a hasty retreat from the free market reforms that have been in the works since 1985 and were fully implemented in the 1996 Farm Bill, I keep hearing this jingle running through my head, "This is not your father's ol'-farm-bill."

Neither is it, as some wags would have it, "Back to the Future: Part Ag." Michael J. Fox need not apply for a starring role because there is little in this farm bill that reflects traditional farm policy.

Those who would call the 2002 Farm Bill "Freedom to Farm on Steroids," "Super Freedom to Farm," or "Freedom to Farm Plus" are much closer to the truth. The legislation that was recently signed into law by the president is clearly the offspring of Freedom to Farm and bears little resemblance to the traditional farm programs of the 1930s through the 1970s.

Some analysts seem to be suggesting that because the 2002 Farm Bill includes high government costs and large payments to farmers it is a return to what they call "the failed policies of the past." High government costs are not an essential feature of the traditional farm programs that have roots going back to the 1930s.

Rather, the essential features of traditional farm programs are:

- supply control mechanisms;
• price supports with an accompanying stock inventory mechanism; and
• more recently, a structured buffer stock program designed to stabilize prices both on the bottom and on the top.

Even though the 2002 Farm Bill uses some terms from these types of programs it does not depend on any of these traditional policy mechanisms.

Instead of these traditional policy instruments, the 2002 Farm Bill is firmly rooted in the policies that

This is not your father's ol'-farm-bill, continued from page 5

began with the 1985 Farm Bill and reached their zenith in Freedom to Farm:

- dependence upon market mechanisms to manage supply and demand;
- income support; and
- a mechanism to allow prices to drop as low as they want to go.

Some would say the 2002 farm legislation is a "return to the failed farm policies of the MOST RECENT past."

After all, the 2002 Farm Bill relies solely on market mechanisms and hoped-for growth in export markets to balance out supply and demand for major agricultural crops. A look at the baseline numbers used by the Congressional Budget Office (CBO) to project the costs of the legislation makes it clear that proponents are depending upon significant growth in export markets fueled by the increasing growth of a middle class in developing nations, especially those in Asia. It was this same hoped-for growth in the Chinese middle class that fueled the unfulfilled expectations for Freedom to Farm. There is little to indicate that the results will be any different this time around.

Likewise, the direct payments (old AMTA) and counter-cyclical payments are clearly oriented toward supporting farm income rather than commodity prices. The direct payments are based on historic production levels and can be received by farmers whether or not they plant anything. The target

prices or counter-cyclical payments again are designed to support farm income and bear no resemblance whatever to the target prices of old. This time around the target price is a variable rate "extra" AMTA payment program that replaces annual legislative action on emergency payments with a pre-authorized sliding scale mechanism to disperse the emergency payments. Again, note that farmers do not have to produce the crop in question to receive the payments.

Some have contended that the reason the free market mechanisms do not work to adjust supply is the level of these income support payments. They argued for lower loan rates asserting that if these prices are too high they interfere with market signals, encouraging over-production.

We believe that lower loan rates (and lower "decoupled" payments, since it all tends to be viewed the same by farmers) might reduce crop production slightly, but production would remain at near current levels since farmers have little incentive or inclination to voluntarily reduce their acreage.

The new legislation also continues the use of Loan Deficiency Payments (LDPs) which provides no limit as to how far commodity prices can fall.

The commodity portion of the 2002 Farm Bill contains none of the marks of a traditional farm bill that one could characterize as "your father's ol'-farm-bill." Rather, doesn't it seem more like a "Son-of-Pat" (Roberts) Freedom to Farm II piece of legislation?

**... and justice for all**

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write USDA,

Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964. Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Stanley R. Johnson, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.

**Permission to copy**

Permission is given to reprint ISU Extension materials contained in this publication via copy machine or other copy technology, so long as the source (Ag Decision Maker Iowa State University Extension ) is clearly identifiable and the appropriate author is properly credited.