

NEBRASKA COOPERATIVES

Cooperatives in the Value Chain: Lessons from Closed Membership Cooperatives

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Closed and open membership cooperatives provide financial benefits to their members differently. Closed cooperatives have provisions to trade member equity and provide incentives to create high-value products. This can be particularly valuable for meeting consumer preferences, such as for food safety. This article describes the design and function of a closed membership pork marketing cooperative.

Allied Producers Cooperative

Pork producers in Iowa, Kansas, Minnesota, and Nebraska formed Allied Producers Cooperative (APC) in 2006. APC organizes swine deliveries from among its members for processing. APC also monitors swine herd development among members and allocates a delivery quota requirement to each member. Profit is distributed as patronage in proportion to the number of animals marketed.

As a closed membership cooperative, equity is not invested into the cooperative through retained patronage, as in open cooperatives. Farmers must be willing to provide the required equity investment up front and in cash. The equity available from original members was insufficient to fund the entire cost of constructing the original processing facility, located in St. Joseph, MO. The cooperative formed a joint venture with other, non-cooperative, pork producers named Triumph Foods (TF). Triumph Foods owns the processing assets with APC being a partial owner and having representation on TF's board of directors. TF receives the proceeds from sales and proportionally distributes them to all partners based on number of animals provided. APC then distributes revenue; profits generated during the year by Triumph Foods sales are distributed as an additional payment to members at the end of the year. Total profits distributed to members since the beginning of operations have been in excess of \$1 billion.

Despite Allied Producers Cooperative contractual requirements, members (producers) have some flexibility in marketing decisions. Members are allocated a weekly delivery quota based on their annual delivery requirement. APC makes weekly deliveries to the TF-owned facility, which, by virtue of the APC joint venture with other pork producers, is owned indirectly by the

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members of APC. The financial benefits of membership allows individual farmers to expand their operations. Members are able to sell their output to Allied Producers Cooperative to meet their quota and still have excess production, which is sold elsewhere. In addition, Triumph Foods purchases from non-member producers as well. These purchases, made on the open market, tend to stabilize pork prices in the region and provide a pro-competitive benefit to all swine producers.

Triumph Foods wholly owned marketing subsidiary, Seaboard Foods, coordinates with its customers to identify desired quality attributes. Seaboard Foods synchronizes with TF to enumerate requirements for animal characteristics and associated production necessities. Among these requirements are descriptions of nutrition, handling, animal welfare, veterinary standards, and transportation conditions. Pork producers agree to these requirements and confirm their compliance through annual certification. On-farm contact by TF representatives verifies compliance and TF employees inspect animal shipments upon arrival at the processing facilities. Farmer members also participate in regular, on-farm training for themselves and their employees. Food safety requirements vary by country and both Allied Producers Cooperative and Triumph Foods weigh the benefits and costs of compliance.

Advantages of the Closed Cooperative Model

Closed cooperatives denominate membership shares in terms of delivery requirements. This establishes up-front capital requirements per share. The delivery requirements streamline production and help the cooperative reliably address consumer food safety concerns. The requirements also align member interests with consumer food safety preferences via financial benefits, including patronage and transferable membership shares. Finally, equity transferability may be attractive to producers with limited time horizons who want the flexibility to liquidate their investment in production when they cease farming, while still providing financial returns.