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Lessons from the turkey industry

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Introduction

The turkey industry may have some lessons for the pork industry, as there are many similarities between the two. I will attempt to outline some of the issues as they are being addressed by the turkey sector.

Poultry is the livestock sector that has experienced the greatest success in increasing productive efficiency, whether in terms of live cost or output per worker. It is also the only sector that has grown market share and per capita consumption over the past 30 years. This is generally attributed to continuously lowering the true price to the consumer, development of products that meet changing lifestyles, and successful marketing programs. All these accomplishments are likely related to the large degree of vertical integration in the poultry industry.

The turkey industry has, in fact, seen the greatest degree of industrialization and concentration of any livestock species. This high degree of integration has allowed processors to continually lower the cost to the consumer by removing inefficiencies and has allowed them to procure the consistent bird needed for processed products.

Per capita consumption has grown as turkey was successfully positioned as not just a thanksgiving meal but as a year-round alternative meat. A number of successful value-added products, such as ground turkey, have met the consumer's need for convenience, taste, and health. Health concerns, particularly strong in the 1980s, favored turkey consumption over traditional fare such as beef and pork, as many consumers saw turkey as a lower fat choice than the red meats. The industry also benefited from export growth of non-value-added meat cuts, which were often used as a lower-cost alternative to pork.

In the mid 1990s, the turkey industry over-produced in response to this growing consumption and record of consistent profitability. Health concerns seem to have abated in the population, contributing to stalled consumption growth. Widespread industry losses resulted due to low product and high input prices in 1995 and 1996. Currently, the industry is recovering profitability due to cutbacks in production, lower input prices, and continuing development of new value-added products.

Industry similarities

Consolidation is a strong trend within the turkey industry. In 1997, the five largest companies slaughtered 48% of all turkeys, and the 20 largest companies slaughtered 96% or virtually all the turkeys produced in the United States. This trend is widely predicted to continue in both our industries.

Integration—both traditional vertical integration (where the processor owns the farms, feed mills, and processing) and alignments, where growers commit to one processor—is the rule in the turkey industry. Virtually every turkey in the U.S. is owned by, or under contract to, a specific processor before it is placed. Although it is questionable whether pork will undergo this degree of integration, it is likely that the trend will be towards integration and alignments with a single processor.

Consumption growth has stalled for the turkey industry. In 1997 it was essentially the same as in 1991, at about 18 pounds per capita. Pork was also flat during this period at approximately 50 pounds per capita.

Exports and the degree of direct foreign market participation are becoming major determinants of the profitability of a given year. Occurrences overseas are often the key factor in our grain input prices.

Overproduction and low turkey prices are currently a major problem. According to USDA statistics, turkey production expanded 19% while consumption expanded only 9% during the 1990s. The pork industry is also struggling with overproduction and the resulting low prices.

Our industries are both laboring under a hostile climate for expansion from our neighbors and regulators.

Lessons

The following are some lessons we have learned in the turkey industry.

Define where you want to go (where the consumer wants you to go)

The Turkey Store Company has a defined vision to be the number one brand of poultry in the world. We want con-

sumers to think of The Turkey Store when they think of great tasting food. We have documented general critical success factors, which we believe are required to achieve our vision (for example: “to be the leading innovator in marketing and product development”). Then we measure our progress against specific evidence of success (for example: “one third of profits come from products developed in the last five years”).

Develop a brand to gain pricing premiums and allow the business to grow with consistent profits.

In a true commodity business, only a few of the lowest cost players will profit consistently. Generally, this requires extreme size versus others in the industry and the margins are still likely to be low and volatile. You also won't be in charge of your destiny as you don't deal with the consumer directly or generate consumer loyalty. Being “least cost” is dogma in agriculture but, as the old saying goes, you better not be the lowest cost buggy whip maker as a long-term business strategy. At The Turkey Store Company, we are only number eight in size but believe number one in profitability due mainly to having the leading brand of fresh turkey. Our primary business focus has been on the consumer and the brand, with production generated only to meet sales projections. This doesn't mean that being least cost is not important, just that it is not the primary strategy for the company.

Recognize you are in a global marketplace.

Increasingly, returns will depend on circumstances in Russia, Asia, Latin America and Europe. Certainly everyone in livestock production recognizes that our input costs are heavily dependent on the size of foreign crops and the health of their economies. Currently 20% of our sales come from exports at The Turkey Store Company and we are operating significant fully integrated joint ventures in both Mexico and Poland. We got involved in joint ventures because other countries have lower turkey consumption and therefore have room to grow; and we believe we will have to eventually be on the ground in those countries to participate significantly in value-added branded products.

Recognize capital must generate competitive returns

There is a trend within some of the big meat companies to “deverticalize” (eliminate segments of their integration if they can partner with someone at acceptable quality and cost). Basically, they are finding better returns from marketing products versus manufacturing. This is good business, but perhaps a better approach is to ensure that by making the correct small decisions you are not forced to radically restructure your business. At our company, we expect each link of our integration to “stand alone”

and generate acceptable returns or be subject to outsourcing. The *Economic Value Added Model* is formally applied to each major area of our company, and is a powerful tool to define what activities are adding economic value. In this concept, a business unit or department is judged not just on whether it is making a profit or is “least cost”, but on whether it is adding profit after a full allocation of the company's debt (interest cost), depreciation cost, and an assumed return on any capital employed. We currently require a 14% after-tax return on any equity employed by the unit. This leads management to be careful with the asset side of their business. For example, it will take about a three year payback on any new piece of equipment with this type of return expectation.

Recognize your responsibility to neighbors and regulators

One of our corporate values is to have a mutually beneficial relationship with our neighbors, communities, and regulatory agencies. We have attempted to address this in a number of ways. We donate to local food shelves and charities, make school scholarship awards, host interns, and participate in local parades and county fairs, including buying 4-H livestock. We encourage our employees to participate in charities or civic groups and facilitate their involvement through flextime arrangement. We participate in all our industry trade groups and task forces.

In the area of farm relations, we run a few specific programs that have proved effective in maintaining good relations with our neighbors. First is in the area of farm design. Approximately eight years ago we built our last large “factory type” farm. This is the type of farm our company began with and still provides the majority of our production. These farms have nine buildings and 130,000 head of turkeys. Although carefully managed, the farms inevitably produce odors. Now our program is company-owned brood farms of two to four buildings that hold the poults and produce virtually no odors. These brood farms are supported by contract finish farms of one to two buildings owned by local farmers. These have been easy to site due to the local ownership and low odor and manure load into a single area. We also always hold an open house for the neighbors and local officials to come view the completed project. Before being built the neighbors are visited and the project is fully explained, with any concerns being answered.

In the area of manure management, we run a very formal program. It is built upon four principles:

- **We assume responsibility for correct handling**

We clean out, sell, and apply all our manure with in-house crews, even from contract farms.

- **We protect the environment**

This includes having a staff agronomist, soil tests, credit for previous manure applications, spreading at agronomic rates for nitrogen, documented set backs and slope restrictions, required incorporation, and pre-approval by regulators of any stored product.

- **We desire to be good neighbors**

This includes covered trucks, proactive visits to local town boards to seek out any issues, setbacks from homes, and not selling to crop farmers who generate complaints on the manure spread.

- **We recognize that manure is a valuable organic resource**

We sell all our manure, hold educational sessions and field days, and explain that manure reduces the use of inorganic fertilizers.

Summary

There are a number of similarities between the turkey and pork industries. The similarities include the trend towards consolidation and integration, the livestock sector's traditional commodity focus versus branding, and the tendency to "least cost" its way to profits (leading to over-production). Other similarities are the global nature of the marketplace both for inputs and outputs and the challenges faced in expansion due to the hostile climate from neighbors and regulators.

The turkey industry has been most successful when it has focused on the consumer and producing branded products that meet changing lifestyles. Global branding and production will be increasingly important, as will focusing only on what your business can do well enough to consistently generate high rates of return, outsourcing other activities. Meeting the challenge posed by our neighbors to not negatively impact their lifestyles or create issues for regulators is necessary to thrive now and in the future.

