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## West Liberty Foods

*Ken Rutledge,  
President & CEO*

### Operation

West Liberty Foods, headquartered in West Liberty, Iowa, processes and further processes turkey, chicken, pork and beef.

West Liberty Foods was founded in 1996 by the Iowa Turkey Growers Cooperative (consisting of 47 area turkey growers), and is organized and operated on a cooperative basis as a processor and distributor of value-added protein products. The Turkey Grower's Cooperative and its members participate in every aspect of turkey production, from growing operations to the processing of approximately 20,000 large toms each day.

The Cooperative members are located throughout the state of Iowa. The past three years West Liberty Foods has focused greatly on diversifying into other meats, realizing that one of their key strengths is in cooking and packaging (Paul Hill, Chairman of the board, West Liberty Foods annual report).

### Motivation

The 47 growers started this value-added business after Kraft Foods announced it would close their local processing facility at the end of 1996.

The growers had the option of finding a solution or letting their turkey barns sit idle. In May of 1996, the growers banded together, determined to find a solution. The growers found they needed to 1) mortgage everything they owned in order to be able to continue to produce



turkeys; 2) take a risk few individuals would be willing to take; and 3) put together a program of financing with the US Department of Agriculture (Rural Development), 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.

According to West Liberty Foods President and CEO, Ken Rutledge, the facilities of Kraft Foods in Iowa were transferred to the Iowa Turkey Growers Cooperative in December of 1996. That was possible with the help of many, many individuals and organizations who were willing to assist the group in their project. Today, West Liberty Foods employs approximately 1500 employees at three separate processing facilities. Those facilities are located in West Liberty, Sigourney and Mt. Pleasant, Iowa.

### **Business Development**

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 sale 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. Low market prices were prevalent, (reaching a low of \$1.07) during the first year and a half of the Cooperative's existence. The normal break-even level for turkey meat is in the \$1.60 range.

Annual sales growth in 1999 was 32.5 percent but return on equity was a negative 135.1 percent. Sales growth in 2000 was at 44.6 percent and return on equity was 250.7 percent. 2001 sales growth was at 20.4 percent and return on equity was at 73.5%. The latest sales growth for West Liberty Foods was at 5.7 percent in 2002, and return on equity was at 22.9 percent.

Member's equity in 1998 was (\$3,903,000) and in 2002, the member's equity grew to nearly \$9.6 million. Net sales in 1998 were over \$62 million and in 2002 net sales grew to nearly \$153 million.



### **Critical Steps**

During that first year and a half, many significant events unfolded:

- Two companies closed sizable turkey plants and idled or converted them to chicken.
- The industry began to exercise serious production restraint.
- Supply and demand came into balance.
- A major player in the business decided to discontinue slaughter operations.

- The sales and marketing programs the West Liberty Foods staff had been pursuing began to bear fruit.
- 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 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 United States.
  - The company began to receive recognition as a preferred production unit.

### **Market Access**

January 1999 found the Cooperative emerging from their trying experience into a very viable force in the protein production and processing business. In 1997, the Cooperative processed 2.9 million head of turkeys from their members. In 1999 that grew to over 4.5 million, and in 2000, they processed 4.5 million of their own turkeys and purchased the equivalent of over 1.0 million additional head in the form of deboned meat from other companies. In 2002, West Liberty Foods continued its growth, processing 4.8 million head of their own turkeys and purchasing the equivalent of over 2.0 million additional head in the form of deboned meat from others.

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.

### **Unexpected Problems**

Historically low commodity turkey prices at the beginning of the Cooperative's operation were averted by diligently striving to find business models that have proven to be successful. Those models involve appropriate partnerships, effective sales strategies, co-manufacturing, brand marketing, private labeling and an emphasis on food safety.

### **Success or Failure**

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 the Cooperative from severe market swings, continue to seek out higher 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 able to accomplish those tasks, West Liberty Foods president and CEO Ken Rutledge said, "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."

### **Industry/Market Changes**

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 product line. They have found their successes in their partnerships in co-manufacturing and private labeling.

The cooperative has found three major trends that they believe will drive their business for the future and those are also applicable to any other cooperative food venture. Those three areas are brand marketing, private labeling and food safety.

### **Lessons Learned**

The financial performance of the Iowa Turkey Growers Cooperative (ITGC) was initially very dependent on the commodity marketplace for turkey products with nearly 80 percent of revenues related to those items sold in the open commodity markets. Those markets fell to historically low levels during the first 18 months of the ITGC's operations and had an extremely negative impact on the ITGC's financial performance. Today the product mix has reversed and approximately 80 percent of revenues are related to value-added non-commodity priced contracts. This transformation in product mix, along with other improvements in operations and controls, has been responsible for the financial turnaround of the ITGC. With continued growth in value-added non-commodity sales, management expects the ITGC to remain a profitable entity well into the future.

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