THE NORBEST MARKETING, POOLING
AND FINANCING STUDY

A Task Force Report
for
Norbest Inc.

Prepared by
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THE TEXAS AGRICULTURAL MARKET
RESEARCH AND DEVELOPMENT CENTER

in cooperation with
Department of Agricultural Economics
The Texas Agricultural Extension Service
The Texas Agricultural Experiment Station
Texas A&M University
College Station, Texas
THE TEXAS AGRICULTURAL MARKET RESEARCH AND DEVELOPMENT CENTER

An Education and Research Service
of
The Texas Agricultural Experiment Station
and
The Texas Agricultural Extension Service

The purpose of the Center is to be of service to agricultural producers, groups and organizations, as well as processing and marketing firms in the solution of present and emerging market problems. Emphasis is given to research and educational activities designed to improve and expand the markets for food and fiber products related to Texas agriculture.

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Robert E. Branson
Coordinator
THE STUDY

This study was requested by Norbest Inc. through its president, Jack W. Tallman, and approved by its board of directors. The overall objective of this project is to analyze the feasibility of strengthening Norbest's marketing and financial program by establishing a system of marketing agreements and improved pooling for turkeys.

President Jack W. Tallman in a letter dated July 25, 1975 stated, "There are two areas that I feel Norbest needs some study and recommendations, and these areas of concern are:

1. Strengthen Norbest marketing program by:
   (a) Pooling of all, or a large portion of, member turkeys,
   (b) Requirements of a high percentage of production commitments from all member plants to allow Norbest to have a continuous marketing program and to eliminate competition between Norbest and its members,

2. Methods of increasing Norbest's equity in order to keep pace with planned growth and to provide a cushion in years of adversity."

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NATURE AND SCOPE OF THE TURKEY INDUSTRY

Essential to an understanding of the nature and scope of the turkey industry are two things. They are, understanding of:

(1) The changing and dynamic market for turkey meat products, and

(2) The national trends in turkey production and their likely location in fifteen years.

The conclusions are as follows:

TO SURVIVE, TURKEY MARKETING COOPERATIVES MUST MARKET BOTH WHOLE TURKEYS AND PROCESSED THROUGH A COORDINATED SYSTEM

The major emphasis of the turkey industry has, in the past, been to fulfill the traditional fourth quarter-holiday demand for turkey meat. Alterations that have been made in the form of the whole-eviscerated turkey (i.e., whole-eviscerated, basted, smoked, etc.) has not significantly changed the fact that most turkeys are produced to meet forth quarter demand. It has instead affected the ability of firms to differentiate their product and gain in market share. Holiday demand is not increasing. If the turkey industry had to depend only upon the traditional holiday demand, it would be a declining or stagnant industry. Expansion in demand would only come from increases in population.

There has, however, been a move by the industry to develop further processed turkey meat and differentiate it from the traditional whole-eviscerated turkey. In doing so, turkey meat has become more competitive with red meats and other poultry. The increases in consumption from 7.4 pounds per capita in 1964 to 8.8 pounds per capita in 1974 can be directly related to the marketing efforts of the industry to alter the traditional consumption pattern. In doing so, further opportunities have developed for firms to differentiate their product and expand market shares.
For Norbest to move into new areas of turkey meat marketing, the change in product mix depends on its ability to foster and adjust to changing patterns of consumer demand.

The most important considerations are:

1. **The Level of Convenience Demanded by the Consumer.**

   Because of the changing values and economic role of women in family life, the demand for convenient easy to prepare foods has been increasing. However, nutrition is a watchword for women preparing food for the family. The acceptability of convenience foods must not only satisfy the desire to reduce preparation time but also meet nutritional needs. The willingness of consumers to purchase increased convenience is also related to the cost of increased convenience relative to the income of the family.

   Most meats marketed today offer some form of convenience to the consumer. Turkeys cannot be marketed solely as a commodity if they are to meet the convenience demanded by the consumers.

2. **The Consumption Away-from-Home Market.**

   Away-from-home expenditures are presently increasing more rapidly than those for food-at-home. This is a reversal from the situation of the past two years and a return to the typical pattern of the decade ending in 1972. This year, away-from-home expenditure will account for approximately 21% of total food expenditures. Norbest must develop a specialized marketing capability to respond to the changing requirements of the away-from-home market.

3. **The Substitutability of Turkey Products for other Meats.**

   Some of the products being developed in the turkey industry, such as ham, pastrami and bologna, are substitutes for other meat products. Turkeys can compete with other meats. This process is hastened when turkey products are lower priced than the meats being substituted for and if the nutritional qualities of the turkey products are equal or superior. An intermediate term
relative shortages of red meats creates a favorable economic environment for increased turkey meat consumption not only in its natural state but in its processed form. It is during these periods of shortages of other meats that turkey products have the greatest potential for gaining market share. A portion of such gains can be expected to be retained when economic relationships return to normal. Marketing such substitute products requires a well coordinated marketing effort if economic success is to be the end result.


To retain market share and influence it is important to understand and react properly to ever changing shifts in the population and income within the U.S. The Commerce Department, less than three years ago, published projections of population, personal income and in employment in the 50 states for 1980 and 1990. By last year, nine growth states, mostly in the South, had already exceeded their 1980 projections in population and New Mexico had surpassed the 1990 figure. By the same token, the short falls in slower growing regions has been enormous, most notable were New York and Pennsylvania.

During the 1960's the major movements were middle-class whites to the South and low income blacks to the North. Since 1970, however, growing economic activities especially in the South, Southwest, and Plains States greatly retarded the population outflow and accelerated the inflow. As a result, population growth in many areas has been extraordinary.

Norbest's Future Nationwide System of Marketing Should Take into Consideration the Movement of People to the "Sun-Belt" and Away from the Traditional Population Centers of the Northeast

The shifting population also affects future further processing plant location and marketing development efforts. Norbest should guard against excessive regional emphasis to its marketing.
MAJOR SHIFTS IN TURKEY PRODUCTION WILL BE TO THE OZARK AREA AND THE SOUTH ATLANTIC IN THE NEXT FIFTEEN YEARS.

During the 1964 to 1974 period U.S. turkey production increased from 1.8 billion to 2.4 billion live weight pounds, an increase of 36%. Associated with this increase was substantial change in producing states - Table 1.

Table 1. MAJOR PRODUCING STATES OF TURKEYS IN THE U.S.

<table>
<thead>
<tr>
<th>State</th>
<th>1964 (%)</th>
<th>1974 (%)</th>
<th>1964 to 1974 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Carolina</td>
<td>4.4</td>
<td>10.7</td>
<td>+281</td>
</tr>
<tr>
<td>Arkansas</td>
<td>3.9</td>
<td>6.1</td>
<td>+177</td>
</tr>
<tr>
<td>Virginia</td>
<td>3.0</td>
<td>4.1</td>
<td>+ 86</td>
</tr>
<tr>
<td>Texas</td>
<td>5.4</td>
<td>7.3</td>
<td>+ 82</td>
</tr>
<tr>
<td>Indiana</td>
<td>3.7</td>
<td>4.4</td>
<td>+ 65</td>
</tr>
<tr>
<td>Minnesota</td>
<td>14.2</td>
<td>15.0</td>
<td>+ 44</td>
</tr>
<tr>
<td>Missouri</td>
<td>7.2</td>
<td>7.3</td>
<td>+ 37</td>
</tr>
<tr>
<td>Utah</td>
<td>3.4</td>
<td>3.2</td>
<td>+ 27</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>4.5</td>
<td>3.7</td>
<td>+ 12</td>
</tr>
<tr>
<td>California</td>
<td>17.0</td>
<td>13.3</td>
<td>+ 6</td>
</tr>
<tr>
<td>Iowa</td>
<td>8.7</td>
<td>5.5</td>
<td>- 14</td>
</tr>
<tr>
<td>(U.S.)</td>
<td>(72)</td>
<td>(77)</td>
<td>(+36)</td>
</tr>
</tbody>
</table>

In 1974 the 11 largest turkey producing states accounted for 77% of the total U.S. production compared with 72% in 1964. North Carolina, Arkansas, Indiana, Virginia and Wisconsin made relative gains during this period while Iowa, Ohio and Utah decreased in importance. North Carolina's share increased by over six percentage points and the Ozark area, Missouri and Arkansas, increased their share from 11% to 13.5%.

In light of shifts that have taken place in location of turkey production throughout the years, it is expected that further shifts will occur in the next ten to fifteen years. To help pinpoint the likely shifts in production,
an economic model was developed first considering only production during the on-season, and then during the off-season. Production costs by state and the transportation costs to the various markets were used to show the economic forces influencing production.

From the analysis it became apparent while California and Minnesota will continue as major production centers. The new year around production will be centered in the Ozarks (Southern Missouri and parts of Arkansas) and the South Atlantic States. Over time, turkey production will tend to be centered in areas where the economic advantage for year around production will be the greatest.

The major conclusion is that if Norbest is to expand or maintain its supply base it should look to the areas where future turkey production has the greatest interregional economic advantage.

**Turkey Production and People are Both Shifting South**
WHAT DID WE FIND OUT—
ABOUT NORBEST MARKETING OPERATIONS?

NORBEST IS A LOOSELY STRUCTURED FEDERATED ORGANIZATION.

Norbest is nine integrated turkey grow-out and processing cooperatives affiliated with a marketing cooperative. The nine locals own the marketing office although they are not totally committed to it. There is not a single management system within Norbest. Norbest is not one system. The local member producers have little knowledge of or awareness of Norbest.

Within the Norbest complex the emphasis is on independence rather than unity. Some members, it is felt, belong to Norbest rather than some other organization because it provides marketing functions without requiring that they give up much independence. From their perspective Norbest interferes less in the "locals" operation than any other alternative marketing system available to it.

Norbest is an organization not a system. It is a loose federation, not a tightly coordinated, unified, controlled system. It does not operate as one body. It resembles a baseball team without a manager.

Consequently, decisions made at the local level dominate the Norbest marketing office. Norbest marketing decisions are made only after members and locals make their decisions. Norbest is expected to adjust to critical decisions made at the local level. Norbest marketing decisions are residual decisions. They follow local decisions.
Under such circumstances, Norbest marketing cannot be efficient or successful. It cannot work to the maximum benefit of growers. Locals' decisions prevent Norbest marketing decisions from being geared to the market. As a result, a total marketing concept cannot be consummated.

The loosely structured federated organization that is now Norbest cannot fulfill the expectations of producers or locals. Those elements of decision making that are critical to successful marketing are largely vested in locals and producers.

There is serious question if Norbest can survive as a loosely federated organization. Norbest is competing with highly centralized integrated firms with management control throughout its operations. Realistically, Norbest has two choices: (1) to centralize and further integrate production and processing into marketing or, (2) to franchise its brand to its locals who then would do their own marketing. The current loose federated system cannot survive! It is highly unlikely that local franchising is a feasible alternative.

**MARKETING IS NOT SUFFICIENTLY CENTRAL TO NORBEST'S ORGANIZATION AND OPERATION.**

Because of the loose nature of the Norbest organization marketing is not sufficiently central to its operations. The prime role of Norbest is marketing. At the time of our interview, marketing was a small segment of the total business. There was little marketing information, inadequate understanding of what marketing was or the need for a marketing concept in the firm. Marketing was especially lacking as a guiding force in the whole turkey operation.

We got the feeling that marketing was not the central attraction in Norbest, nor was everything else built around marketing. Norbest's
further processing operation was marketing dominated. Even here, additional marketing orientation can be achieved. Many of the mistakes of the past can be attributed to a lack of market orientation.

Norbest can best be characterized as a sales organization rather than a marketing organization.

Sales is something that is done after the product is produced. Selling concentrates on the needs of the seller. It focuses upon the product. The end result of selling hopefully is to convert the product into money and profit through volume.

On the other hand, marketing starts the production process. Marketing concentrates on the needs of the consumer rather than the needs of the seller. Marketing emphasizes customer and services rather than turkeys. From a marketing standpoint, your business is not what your product is but rather what your product does.

Today's Norbest is sales centered. Norbest cannot engage in marketing management because it does not have control of supply flow. Consequently, the operations are geared to sales when supplies become available. This makes market development impossible and even rules out forward commitment to buyers that could result in more profitable trade.

Members, managers and staff of locals apparently are not willing to give up sufficient decision making authority to establish and carry out a market management program.

Norbest is oriented inward toward product rather than outward toward markets.

The traditional view, "Let's produce it first, and worry about marketing afterwards" still seems to prevail. Overriding concerns
at the local level deals with poult, feed and bird health. These activities, while important, are in most cases carried out without sufficient relationship to the market.

We were told "The local plants make all the production decisions Norbest only sells them." The production--processing--marketing steps are not under one management control. The predominant control today is production oriented.

**Norbest Has No Formal Long-Range Planning for Either the Organization or Marketing.**

Since Norbest is production oriented and loosely federated, meaningful long range planning could not be done. In fact, there is no long range marketing plan or corporate plan. Too much of Norbest operations reflect spur of the moment decisions rather than deliberate execution of a plan. With neither supplies nor equity capital predictable, long range planning has been viewed as a futile exercise.

There were also differences between staff members in how they viewed the future. While there was some agreement as to objectives, there were differences in the kind and amount of resources necessary for Norbest to operate successfully in the future. Views on opportunities also differed. We noted lack of systematic thinking ahead, loose coordination of Norbest's marketing efforts, inadequate performance standards and inadequate interaction of staff members in their respective responsibilities. The long range plan, carefully administered, could correct these matters.
THE PROMOTIONAL BUDGET IS SMALL AND NOT INTEGRATED INTO THE MARKETING PLAN.

While Norbest has relied largely on its own brand, it has provided very little promotional support to it. Without adequate promotional support, Norbest may be driven to more private labeling. There is a tendency to view promotion independent of the marketing goals, opportunities, and operations. The small promotional effort is not sufficiently integrated into the administration of the marketing plan. Without sufficient promotion Norbest will lose consumer recognition and acceptance.

THE NORBEST PRODUCTS NOT SUFFICIENTLY DIFFERENTIATED TO COMMAND MARKETING PREMIUM.

There is a tendency for Norbest to merchandise whole turkeys as a commodity rather than a differentiated product, especially since the loss of the exclusive use of TENDER TIMER. If Norbest moves to "commodity" marketing with private labeling, then the locals are apt to market their own, which they cannot do successfully.

Product differentiation, through own label and products is critical to Norbest's long-term marketing success and growth. A centralized marketing program is essential to develop ability to command market premiums.
THE NORBEST SUPPLY GENERATING SYSTEM

Effective marketing has been aptly defined as putting the right product, of the right quality, in the right form, in the right quantity, in the right place, at the right time, at the right price. Inherent in such a definition is an orientation of the whole production and marketing process toward the needs of the market. Even with the best possible marketing organization, staff, and plan, without effective access to and control over available supplies the performance of a marketing organization will suffer. Put differently, neither the producer nor the Norbest affiliates should expect to hold Norbest accountable for how they fare financially unless Norbest has the responsibility, authority, and tools that allow it to carry out an effective marketing program.

NORBEST SUPPLY GENERATING SYSTEM PLACES SUBSTANTIAL RESTRICTIONS ON THE PERFORMANCE OF THE NORBEST MARKETING SYSTEM.

The basis of the Norbest supply generating system is giving freedom to the local affiliate and the producer concerning what, when, and how much to produce. While a producer obligation exists to market through his local and the local is obligated to market through Norbest, the timing for such marketings rests primarily at the local and the producer levels. Local management--not Norbest--is basically in the position of being responsible for how the producer fares economically. As a result of positioning of this responsibility at the local level, the critical marketing decisions--when and at what price turkeys are to be marketed--rests with the local manager.
Norbest's lack of control over when turkeys become available is one of its major problems.

To Norbest's marketing staff the problem is referred to as one of release—that of getting the local affiliate manager to release turkeys to Norbest so that they may be marketed to best advantage. While variation exists among affiliates in release policy, in even the most liberal local it is apparent that considerable producer and/or local management release discretion exists. In some locals, the release decision is an individual producer decision.

The existence of the release problem contributes to the fact that Norbest has tended to have an "order taking" or "sales" emphasis rather than a marketing emphasis. If the marketing staff is not assured that turkey would be available, why or how could it develop a marketing strategy based on anything other than sales?

Local manager and producer philosophy of Norbest selling when the local manager or producer wants Norbest to sell is inconsistent with the development of a marketing program in today's volatile turkey market. It raises serious question as to whether Norbest can survive over the intermediate and longer term.

It is clear that before the release problem can be overcome confidence must exist that Norbest can effectively perform the marketing function. There is no doubt that marketing expertise exists at all levels of the Norbest organization. The question is whether this expertise can be harnessed to maximize total producer benefits from Norbest's marketing program.
**Norbest Has Little or No Control Over Supply Generation**

In addition to the problem of release, Norbest's lacks control over timing and quantity of poult placement and/or slaughter results in a lack of control over production to meet market needs.

As in the remainder of agriculture the production decisions of Norbest's turkey producers are basically guided by last year's market performance, current costs, and their intuitive notions as to what next year's market will be. Norbest's market strategy has little or no impact upon such decisions.

Norbest's lack of control over supply generation is not by accident. Norbest producers and locals cherish their independence. At the heart of the reason for Norbest existence is the ability to maintain producer independence. Yet ways must be found to reconcile production levels with market needs.

The values that resulted in Norbest's creation are still held high. Complete centralization of production decisions represents an unacceptable alternative in the cooperative system. A reasonable compromise alternative must be found.

**Norbest Resources Devoted to Communication with Producer and Local Affiliates Are Inadequate to Have Any Real Impact on Production Decisions and/or Confidence in the Marketing Organization.**

Current Norbest producer relation activities are inadequate to gain the confidence needed to get producers to support the concept of turning marketing responsibility over to Norbest. Producers need to understand, have pride, and confidence in the Norbest concept before they can be expected to support it.
Like many federated cooperatives, Norbest's staff is too small to effectively carry out an education and member relations program. This job is particularly vital in Norbest because it is the only means, other than the pricing signal, that Norbest has to influence producer decisions to correspond with market needs.

The Norbest system relies heavily on its local managers and directors to get this vital communications job done. Too often the signal transmitted by local managers get interpreted to fit particular local objectives. Directors and managers integrate such information into their own decision process without feeling any real obligation to extend such information to other producers. Such conflicts of interest are particularly troublesome in Norbest because leading producers and managers in Norbest can profit potentially from inside information that is available by virtue of their own interest in the turkey business.

In this regard it is interesting to note that while independence is held as an important value in the Norbest operation, at the local level there exists many examples of relatively high levels of integration including such important affiliates as Maroni and Pelican Rapids. Both of the newest additions to Norbest--Huntingburg and Postville—are highly integrated operations dominated by a small number of producers.

In Norbest there exists many different arrangements under which turkeys are produced and producers are paid. Norbest has little control over these arrangements.

The extremes cover the spectrum from essentially a daily spot market transaction, to a yearly pooling of all turkeys, fixed price
contracts and subcontracts. The ability of Norbest to adapt its program to accommodate many different production arrangements is viewed by many as one of its principal strengths.

*Other Poultry Marketing Organizations Have Concluded That They Cannot Afford the Luxury of a Variety of Production—Marketing Systems Over Which They Have No Control.*

They have found that a variety of production and payment systems reduce efficiency, create equity problems among producers, reduce their effectiveness in marketing and thereby make them less competitive. Most had settled on a single production-producer payment system. Others have become convinced that movement toward a single system is an essential element of their intermediate or long range plan.

**Market Risk and Uncertainty Is Increasing.**

Unpredictably wide swings in grain prices, rising energy prices, and inflation have substantially increased the risk of turkey production. Without overt industry supply management—which has not existed in the past—this increased risk and uncertainty will continue to be reflected in future turkey prices and therefore production.

Producers have three alternative means of reducing this risk, spreading it among producers, and/or transferring it to their cooperative:

1) Turkey contractors, including cooperatives, could offer producers fixed price contracts. Such contracts would assure producers so much per pound of turkey delivered. The contract would require that all feed be purchased from the contractor. All risk of turkey price fluctuation would be transferred to the cooperative. The producer would bear the risk of fluctuation in feed costs and
other production risks. It would be unwise for Norbest to make fixed price commitments of this type. The risks are too high.

2) Turkey contractors, including cooperatives, could offer producers a price-wage, resource-providing contract. Under such a contract producers would be provided all variable production inputs—poults, feed, and medical supplies—by the contractor. In return for labor, management services and capital provided the producer would be guaranteed so much per pound of finished turkey delivered with incentives for higher productivity. Delivery date and weight would be scheduled by the contractor. In such a contract most of the risk is born by the contractor. Potential gains are also largely captured by the contractor.

This type of contract is prevalent in broilers. It is difficult to predict how prevalent such contracts will become in turkeys. Much will depend on the strategies of Norbest in producing and marketing turkeys.

3) Pooling arrangements could be expanded. Pooling as used in this report refers to a producer pricing arrangement whereby all receipts from marketing are pooled, costs of operating the marketing association are subtracted and an average price to be paid producers is calculated. Price differentials can be established for different size, quality, or production location. In a true pooling system the cooperative has no profit.

Pooling arrangements spread market risks equally among all producers. Cooperative risk is reduced in as much as it is always assured of breaking even. Cooperative management is held directly accountable for how its producers fair in the marketplace. To effectively spread risks, such pooling arrangements would need to
cover a full production period. Separate holiday season and off-season pools could be established.

Long term (seasonal or yearly) pooling arrangements are receiving increased interest and use throughout agriculture. Pooling is used extensively in cooperative marketing of milk, rice, processed fruit, nuts, and cotton. Two cooperatives have recently introduced pools in wheat, corn, and soybeans.

Several reasons exist for increased producer interest in pooling: (1) Pooling combined with marketing agreements gives the cooperative full control of marketing operations. This increases the effectiveness of the cooperative in carrying out a marketing program. (2) While pooling increases cooperative responsibility, it reduces cooperative risk. The cooperatives full costs are paid before the producer price is computed. Producers are then paid an average price. (3) This price averaging has the effect of spreading risk among producers, making them less vulnerable, to price fluctuation. (4) Pooling has demonstrated the ability to increase producer returns.

Basic ingredients to a successful pooling program include a scale of operation required to be efficient and have market impact, a capable marketing staff, and commitment on the part of producers and management to make it work.

**Pooling Arrangements Exist in All Norbest Affiliates Except Postville**

The type pools that exist in the Norbest organization differ significantly from those discussed here in several respects: (1) Existing pools are local pools not Norbest-wide pools. (2) Costs of operating the local associations are not pooled. Therefore, locals
continue to operate on a for-profit basis. (3) In some locals the
decision of whether or not to pool is up to the producer. (4) What
is pooled varies among locals. In some associations, for example,
different pools exist for different size turkeys. (5) In some
associations producers can select the pool they want to enter.
(6) Short term pools (weekly or monthly) exist in several affiliates.

The need for some type of pool has already been accepted by
most of the Norbest affiliates. However, considerable difference of
opinion exists on the local level with respect to the need for longer
range (seasonal or annual) pools.
**Norbest's Financing**

Cooperatives have developed a unique flexible set of financial institutions designed to serve short, intermediate, and long term credit needs of both producers and their cooperatives. Among their uniquenesses are: (1) They are user controlled. (2) Investment is in proportion to patronage. (3) They are non-profit operations. (4) They have the capability to use the revolving fund method of finance. (5) They have the potential to finance by retain on business done with the association (capital retain) rather than margins retained within the business. It is up to cooperative management, their directors and member producers to take advantage of these uniquenesses, design, and implement the financial package that best suits their needs.

**Norbest is Dependent on Savings for Growth Capital**

Over the years savings have not grown in proportion to the increased responsibilities and risk that Norbest has been asked to assume. These increased risk result largely from their entrance into further processing, fixed price contracting, and the fact that agricultural markets have become more volatile. As a result, Norbest's equity base has been stretched to the limit.

**Norbest's Financial Package is Inadequate to Revolve on a Timely Basis**

Norbest relies entirely on savings for its equity capital. Norbest is currently revolving equities that are 16 years old. The present value of current equities put into Norbest is nearly zero.
In addition, ownership of Norbest is not in proportion to the volume of business currently being done with Norbest.

**Norbest's Equity Base is Inadequate to Assume More Producer or Local Affiliate Risk**

Financial relationships in the Norbest balance sheet are a minimum to support present operations and risks born by Norbest. Expansion of fixed price contracting or other risk ventures such as taking title to turkeys at an earlier stage in the production marketing process under the present operational and financial arrangements would require a larger equity capital base.

**Norbest's Equity Base is Inadequate to Acquire New Facilities**

Over time the prospect that Norbest will need to invest in additional facilities looms as a distinct possibility if it is to implement expanded and more effective marketing. Today's equity capital base would be inadequate to make such investments.

**Norbest's Capital Growth Objectives are Inadequate—Savings are Inadequate to Reach such Objectives**

Norbest's capital growth objectives call for retaining $200,000 per year out of net margins. The remaining margin is used to pay off oldest equities. In 1975 margins were inadequate to reach this $200,000 goal. Capital growth in Norbest does not appear to be a deliberate process based on the responsibilities, marketing plans, and risks of Norbest.
Norbest does not have a Long Range Plan by which it can project future capital needs.

Capital formation is a planning function. Without a long range plan it is impossible to project future capital needs, to establish capital growth objectives, and thus to determine capital needs in a particular year.
WHAT DOES ALL THIS MEAN?

Three main conclusions fall out of the previous analysis of the Norbest organization:

(1) While Norbest is charged with marketing it does not have the authority nor all the tools needed to carry out an effective marketing program.

(2) While Norbest is charged with marketing it does not have control over supplies. It therefore cannot realize its full marketing potential; nor can it maximize producer returns in turkey production and marketing.

(3) Norbest has inadequate equity capital—not necessarily in terms of today's operation, but in terms of the functions producers might logically expect Norbest to perform.

WHAT DIFFERENCE DOES IT MAKE?

It makes a lot of difference! It could easily mean the difference between the ability of Norbest to compete or not compete. The survival of Norbest and the turkey industry as we know it could be at stake! At a minimum it will affect whether the members of Norbest receive top dollar for their turkeys.
What is the basis for such strong statements? The fact is that the turkey industry has changed very substantially in the past few years. Contractual arrangements are becoming increasingly prevalent. Piece-wage resource-providing contracts are becoming more prevalent. Vertical integration by large scale turkey processors and feed suppliers are increasing. Markets for turkeys are becoming more competitive. Growth areas are largely in the off-season and in further processed products. Seventy percent of the whole turkeys sold are private labeled.

These are not trends that are confined to the turkey industry. They have gone even further in broilers, fruits, vegetables, and nuts. After studying these trends occurring across the food industry a cross-section of nationally recognized agricultural economists concluded that if forces currently in motion continue agriculture will increasingly become concentrated in the hands of large agri-business corporations.

Is the situation, therefore, hopeless? Does this mean that the family type turkey growers, who own birds and the feed that goes into them, are finished? No! But to compete changes will need to be made. To survive these family type producers must belong to bigger marketing organizations. They must put those organizations in position to compete in the market place. Producers must turn over to their marketing organization sufficient marketing decision making authority to accomplish this objective. The following recommendations are considered a minimum to insure the survival of Norbest and its producers.
Recommendations: Marketing

Organize Norbest Around Marketing and Make All Other Departments Complementary to It

Norbest is a marketing organization. Its performance is measured by what it does in marketing. All staff and all activities must contribute to Norbest's performance in marketing. All staff must be marketing conscious. Each staff member must be oriented in marketing. Each staff member must be able to make decisions which are consistent with the marketing goal. In short, Norbest needs to develop a total marketing concept that involves everyone.

Norbest should integrate programs and decisions around marketing, achieve the acceptance of a common goal—to maximize producer return by satisfying consumer needs, and to communicate this objective to all staff, including locals and producers.

Centralize All Marketing Related Activities in the Marketing Department

The marketing department should be responsible for carrying out the following marketing activities:

Merchandising Activities:

Selling - Making sales, identifying prospective customers, stimulating demand and providing information and service to buyers.

Assembly - Bring under Norbest control the production of locals and put in position for marketing decisions.

Product Planning - All product development must involve the marketing department. It can help identify those product characteristics that conform to buyers needs, wants, and desires. It should make the decision on what products are marketed.
Standardization and Grading - Establishing the physical standards
to which further processed products must conform, based on
market assessment, and grading of whole birds according to
established specifications.

PHYSICAL DISTRIBUTION ACTIVITIES:

Storage - The holding and management of inventories.

Transportation - The movement of turkey and turkey products
from points of origin to markets.

Channels - Select the distribution network through which products
pass on their way to the final buyer.

SUPPORTING ACTIVITIES:

Obtaining and Analyzing Marketing Information - Acquire knowledge
and appraisal of size, location and characteristics of different
markets for the products, the nature of present and prospective
customers making up various market segments, their needs and
wants, their buying habits and preferences; competitors strengths,
weaknesses, activities and plans; and trends in market supply and
demand.

Marketing Financing - Manage the trade credit arrangements that
assist and simplify ownership transfer.

Marketing Risk Bearing - Minimize the risk of inventory handling,
distribution and supply and demand changes.

It shares with top management other inpinging decisions such as
pricing and product development.
DEVELOP A FIVE-YEAR PLAN WITH DETAILED ANNUAL MARKETING PLANS

The marketing plan might include:

1. The product mix which sets forth the mix of whole birds and further processed products, the modification, additions, timing, and the effort needed to meet Norbest's sales target price and volume objectives.

2. The sales force plan which outlines goals of effective personal selling effort, territorial reorganization, size of the sales force, scale of future compensation, and future incentive programs.

3. Advertising and sales promotion plan which outlines future advertising strategy and tactics including allocations between product, territory, and customer.

4. Distribution channels plan which outlines location of distribution centers and how they shall be organized and managed.

5. Pricing plan which outlines the principles and objectives to guide pricing.

6. Marketing research plan which outlines the major future projects to study markets, the performance of Norbest within those markets and opportunities for increasing effectiveness of the Norbest marketing effort.

7. Physical distribution plan which outlines the efficiency of stocking and moving Norbest products to customers.

8. Production research and development plan which outlines the general objectives and the investments by Norbest in new product development.

9. Market reorganization plan which outlines the anticipated changes in the organization of the marketing department, its information and communication system and its overall performance.
The long range marketing plan will be developed by the director of marketing utilizing the entire marketing staff and submitted to the general manager for his input and approval. Then the long range plan is submitted annually to the board of directors for their review, input, and approval.

We recommend a six step planning process in the following progression:

1. **Diagnosis**
   Where is Norbest now and why?

2. **Prognosis**
   Where is Norbest heading?

3. **Objectives**
   Where should Norbest be heading?

4. **Strategy**
   What is the best way to get there?

5. **Tactics**
   What specifically should be undertaken, by whom, and when?

6. **Control**
   What should be watched to indicate whether Norbest is succeeding?

Norbest should strive for growth, predictability of costs and performance and ability to adapt to short and long run changes in product and demand.

**STAFF MARKETING DEPARTMENT WITH SKILLED MARKETING PEOPLE**

The top management of the marketing department especially must be skilled in marketing which means that the person has a wide latitude of skills—not just skills in sales. While it is not
necessary for each marketing staff member to have a full range of skills, it is important that the staff, as a whole, has competence in all of the marketing skills. There is need for specialists. It is critical that the marketing staff has the authority as well as responsibility to conduct business to the producers member's advantage in regard to long range pooling and full commitment.

Norbest should take steps to develop a balanced relationship between authority and responsibility. While Norbest has been held responsible for how members fare, it has not been granted the authority.

**Integrate the Promotional Efforts and Expenditures into the Total Marketing Program**

Promotion is a marketing task. It should be integrated into the total marketing program in order to bring about better budgeting and timing and also to achieve more consistency in the firm's marketing communications to the buyer.

**Expansion in Further Processing Depends Upon Norbest's Current Performance and Marketing Potential For Processed Turkey Products**

While further processing has not been profitable to Norbest, the market potential for processed turkey products is promising and critical to Norbest's future. It is the major opportunity for building year-around demand for turkeys.

The continuation of the marketing of further processed products is not only critical to Norbest's current economic condition, but may also determine its ability to market whole turkeys in the future.


RECOMMENDATIONS: ORGANIZATIONS

NORBEST ORGANIZATION AND OPERATION WILL NEED TO MOVE TOWARD A TIGHTER CENTRALIZED SYSTEM

This can be achieved either through:

A) Contracts. Marketing agreements which transfer product title to Norbest upon processing can accomplish this goal.

B) Ownership. Norbest would own the local processing plants and take title to live turkeys upon delivery.

C) Management contracts. The manager of the locals would be on Norbest's payroll and make decisions consistent with Norbest management and goals.

D) Diversification. Norbest takes on a related line of products which makes it less dependent upon turkeys. It can capitalize further on company know-how to serve turkey customers and reduce the risk of one-line dependency.

E) Franchise the Norbest brand. The nine locals would purchase or lease the Norbest label, market production directly with own staff, and terminate the Norbest marketing operations as it now exists.

This study recommends that Norbest Board of Directors adopt a system of marketing agreements which transfers product title to Norbest upon processing. Later, one or more of the above alternatives may need to be adopted to keep Norbest competitive.
RECOMMENDATIONS: SUPPLY GENERATION

Norbest should be given the responsibility for how the producer fares economically. To be given this responsibility, it must also be given the authority and the tools to effectively perform the marketing functions discussed in the previous recommendations.

The comparative advantage of producers and locals is in production not marketing. Norbest's local affiliates are individually too small to carry on their own marketing program. Norbest's hands are currently tied behind its back without having control over supplies. In return for that control, Norbest management must assume the full responsibility for generating returns that allow its producers to compete.

NORBEST SHOULD ADOPT A PROGRAM OF FULL COMMITMENT THAT GIVES NORBEST FULL CONTROL OVER SUPPLIES

Ideally such control would extend to the type and quantity of poults placed. Norbest would under such a system be given control over placement, weight, and timing of slaughter. Today's markets are sufficiently sensitive that Norbest needs to be in a position to make prior commitments to buyers as to the number, size, and form of turkey marketed. It needs to be able to tailor the production to the needs of the market. This can only be done if Norbest is given control over the turkeys at an earlier stage in the production-marketing process.

The achievement of such an ideal system probably could not gain the acceptance of producers in the current Norbest system. If this is the case, at a minimum Norbest should be given title to the
turkeys at the time of slaughter. This should be accomplished through modification of the existing Norbest with locals.

AS PART OF A FULL COMMITMENT MARKETING AGREEMENT PROGRAM, THERE SHOULD BE ESTABLISHED A NORBEST-WIDE POOLING SYSTEM

We recommend that two pools be established each year—one for holiday season production and the other for off-season production. In each pool all costs incurred by Norbest from the time it takes title to the turkeys would be born by Norbest. These costs would be subtracted from the gross receipts from turkey marketing.

Each local would be paid its share of the gross value for turkeys supplied to Norbest with adjustments for size and quality of turkeys received from the local as well as location of the local. Location adjustments have initially typically been made on a historical price relationship basis. Locals would, in turn, subtract their costs from the gross receipts received from Norbest. They would pay producers an average price based on the quantity delivered with adjustments for quality and weight.

At the time Norbest takes title to the turkeys (slaughter) it would pay the producer an advance on turkeys delivered. The size of advance would be determined by the Norbest Board in consultation with management and its lending agencies.

NORBEST SHOULD EXPAND ITS COMMUNICATIONS WITH PRODUCERS

The key to successful implementation of the recommendations concerning full commitment and pooling is grassroots producer understanding of Norbest and the need for changes in the Norbest system. In the near term this educational program should communicate
to producers a basic understanding of the requirements for effective turkey marketing, how well Norbest's current organization meets those requirements, and needed changes in the Norbest production-marketing system.

In the longer term, if these recommendations are implemented it will need to concentrate its efforts on explaining to producers the basics of Norbest's marketing plan, tailoring Norbest's production base to market needs, and communicating to producers Norbest's progress in meeting its established short and longer range goals. It should be apparent from these recommendations that Norbest headquarters is going to have to play a larger role in communicating with producers in the system extending to the local level.

**Norbest should investigate the opportunities to expand its production in the Ozarks and Southern States**

Economic forces in terms of shifts in population, production, and costs tend to favor increased production in the South. Norbest needs to be in a position to take advantage of these trends. Expanded production in the South would insure that the overall costs of production and marketing in the Norbest system are no higher than the costs of other major turkey producers and marketing firms. Norbest should carefully investigate production cost structures and population trends in the South with the objective of identifying opportunities for fostering new production capacity.
Recommendations: Finance

Norbest should implement a retain system for capital growth

Capital retains amounting to a certain percent of sales or a certain amount per pound of turkeys marketed offer the best opportunity for bringing Norbest's financial position in line with present and future capital needs. A capital retain system is an essential aspect of a pooling system inasmuch as all savings automatically accrue to the producer when the pool is closed. Even without a pooling system it would be recommended that a certain percentage of sales be retained for equity capital growth.

Determination of the appropriate capital retain is a function of the Norbest Board after consideration of its short and longer term growth objectives, the distribution or risk between Norbest, its affiliates and producers, and its revolving objectives.

Norbest should develop a long range financial plan

The development of a long term financial plan is one component of the planning process. Before such a plan can be developed basic organization questions discussed in this report will need to be addressed. Financial planning should not be an end in itself but a component of the development of a total business plan. In an organization such as Norbest, the marketing plan ends up being central to the planning process.