

Agribusiness Perspectives Papers 1997/98

Paper 12 ISSN
2209-6612

STRATEGIC ALLIANCES AND THE RED MEAT INDUSTRY IN AUSTRALIA

Greg Hayes (VGC Consulting), **Bill Malcolm** (Institute of Land & Food Resources, University of Melbourne), **Alistair Watson** (Freelance Economist), **Michael O'Keeffe** (Rabobank), **Laurie Thatcher** (L.Thatcher and Associates)

This paper is the result of an investigation into the role of strategic alliances and the red meat industry in Australia conducted for the Meat Research Corporation. The paper is organized as follows:

- [1.Introduction](#)
- [1.2 Marketing Functions and Red Meat](#)
- [1.3 The Red Meat Value Chain](#)
 - [1.3.1 Changing Shares in the Meat Value Chain](#)
- [1.4 Industry Structure](#)
- [1.5 Changes in Foreign Ownership](#)
- [2.0 Strategic Alliances](#)
 - [2.1 The Role of Closer Relationships in Business](#)
 - [2.2 Vertical Alliances](#)
 - [2.3 Horizontal Alliances](#)
- [3.0 The Scope for Strategic Alliances in the Red Meat Industry](#)
 - [3.1 The Case Against Strategic Alliances](#)
 - [3.2 The Case for Strategic Alliances](#)
 - [3.3 Types of Alliances](#)
 - [3.3.1 Horizontal Alliances of Producers](#)
 - [3.3.2 Vertical Alliances](#)
- [4.0 Concluding Comments](#)

[References](#)

Tables

[Table 1. Indicative Value Chain for Domestic Sales](#)

[Table 2. Concentration in the Meat Industry](#)

[Table 3: Ten Relationship Dimensions](#)

1.1 Introduction

The environment in which businesses in the red meat industry operate is changing. World trade is becoming more open, but increasingly the terms on which access to markets is granted depends on the political and commercial alliances that are created. Food companies are extending their boundaries to gain a competitive advantage, and seeking closer relationships with their suppliers and customers. Most if not all of the forces bringing about these changes have their origins outside Australia, and are beyond the control or influence of producers or processors in the red meat industry in Australia.

In Australia the domestic market accounts for about 87 per cent of lamb production, 37 per cent of total beef production and 31 per cent of mutton production. Annual per capita consumption of beef has fluctuated, with prices, around an average of about 38 kg since 1960, while annual consumption of lamb has halved to 11 kg per capita and annual mutton consumption has decreased to about one fifth of their 1960 values. Poultry consumption per year has increased six-fold and annual pork consumption has doubled over the same period. In the domestic meat market Australia-wide, 46 per cent of red meat is sold through supermarkets and 54 per cent is sold through butcher shops. The supermarket share of red meat sales has been growing rapidly and this is introducing some different emphases in marketing of red meat. Australia-wide, consumer demand for red meat has not been growing at the same rate as that of pork and poultry and other foods. Reasons put forward for this is that red meat is considered less convenient than other foods, and is regarded as less reliable in its eating quality, with problems of inconsistency in supply. Further conjecture is that consumers perceive that red meat does not meet consumers' demands for healthy nutritional quality. Food safety 'scares' involving E. coli, BSE, salmonella and chemical residue contamination have also contributed to adverse public perceptions of red meat.

The strongest influence on prices received by Australian producers for red meat, and particularly beef, comes from international markets and exchange rates. The international trade in red meat accounts for only 10 per cent of meat production and hence international trade in red meat is subject to large year-to-year fluctuations—a 10 per cent increase in world production would almost double the volume of international trade. Australia produces about 2.3 million tonnes (carcass weight) of red meat (beef, veal, mutton and lamb), of which about 55 per cent is exported. Beef accounts for about two thirds of the export volume. The largest competitor in export markets in Asia is beef from the USA. About 60 per cent of Australian beef is exported as primal cuts or table beef, and the remaining 40 per cent is exported in a semi-processed form mainly as hamburger meat. Historically, the US has imported most of the semi-processed manufacturing meat and the primal cuts and table beef have mainly been exported to Japan and Korea. In recent years North America has accounted for about 42 per cent of total exports, and Japan for about 41 per cent. With the recent slump in exports to the US, Japan now accounts for about 40 per cent of total beef and veal exports and the US accounts for 26 per cent of these exports.

Exports of Australian red meat are predominantly sold in the lower-priced market segments, and exports to the higher-priced segments of red meat markets have grown slightly and slowly over the past decade. Even

though the traditional comparative advantage of Australia's red meat producers is in producing lower-priced manufacturing beef and mutton, in the changed business environment which prevails there may be potential for total returns from the red meat industry to be increased by some producers and processors selling more red meat in higher-value markets in addition to sales in the mainstream existing markets. A related implication of the changing business environment for the red meat industry is that in future a significant part of the higher value trade in meat could well pass through business systems relying on supply chains which are integrated through strategic alliances.

Traditionally in the Australian meat industry, firms have operated at one vertical stage in the supply chain. The boundary of the firm was limited to one stage in the meat value chain. The relationship amongst the independent firms in the meat supply chain has been competitive based on prices in open markets. Each firm along the chain tries to purchase the input at the lowest cost and to sell their output at the highest price. Firms at the same vertical stage within the chain compete with each other by varying buying price or terms in order to secure supply and by varying selling price and services, which ultimately are built into the price, to secure sales. Strategic alliances refer to closer relationships and agreements amongst independent firms within a supply chain to co-operate to achieve some strategic end. Strategic alliances are a form of business integration, without the change in ownership of assets usually associated with integration. If meat is marketed using a strategic alliance between one or more stages in the supply chain, the traditional price competition between firms in the alliance is replaced with a negotiated cooperative relationship. The input supplying firm agrees to supply product on the basis of a previously negotiated agreement concerning price, quantity and quality. A firm in a marketing alliance has decided to forgo some of its independence to sell a portion of its output wherever it chooses, in order to sell under a pre-arranged agreement. Similarly, the purchasing firm has decided to forgo some of its independence to purchase wherever it chooses at the lowest price in order to buy under a pre-arranged agreement. In effect, strategic alliances shift the boundaries of the firms. The buying firm achieves influence over the behaviour of the supplying firm, and to a lesser extent, the supplying firm gains some influence over the buying firm.

1.2 Marketing Functions and Red Meat

Red meat provides some special marketing challenges. As with other agricultural products, there are three basic functions associated with marketing:

- the exchange functions of buying and selling
- the physical functions of transport, processing, storage and distribution
- the facilitation functions of standardisation, finance, risk management and market intelligence

Much public discussion about red meat marketing concerns perceived weaknesses or inefficiencies in the mechanisms by which the exchange functions which are performed. Efficient exchange functions require an effective process by which buyers and sellers arrive at the price and other terms and conditions of sale, called price discovery. The price refers both to the product and to the marketing services that are included with the product at the point of sale. At present, the price discovery process for livestock is based on the auction system since this provides the reference point for other systems which involve informal negotiations between buyers and sellers (e.g. paddock sales), or pricing via formulae (e.g. sale on grid basis), or pricing through formal discussions in an alliance.

Throughput via the auction system has declined over recent years, though auctions will always be needed for sale of store stock and breeding stock. Trade in these intermediate inputs is fundamental to the necessary specialisation in production and management of climatic risk under Australian conditions; production conditions in which producers have little control over their eventual end product. However the

usefulness of the reference price from auctions is reduced by the uncertainties associated with the estimation of value, coupled with other factors influencing buyer behaviour which are known to buyers but not to sellers, such as the need to meet particular orders or to maintain through-put, which can make the decisions of buyers highly subjective and variable over space and time. Further, pens of animals, particularly sheep and lambs, have a wide range of animal types present but there is no objective basis for describing each animal or the pen as a whole. As a result, the auction price for the whole pen provides no information about any particular animal in the pen. It is an averaging system. The auction system generally 'clears' the market and provides evidence of scarcity or abundance, which is a valuable function. The substantial transformation process between the live animal and the final sale takes place over time and space (e.g. different carcass cuts and trim sold to different markets), this makes it difficult to generalise about the reference price coming out of auction markets. The option of monitoring actual outcomes of the process (what was sold, where and for what value?) would be theoretically possible, but extremely costly. Hence the 'prima facie' attraction of an alternative method of setting a reference price that contains more information for producers using processes of informed negotiation within an alliance.

As competition in the production sector increases, and margins are narrowed, producers seek ways to improve their returns. Thus the methods used by producers to market their livestock are changing. The large proportion of small herds in Southern Australia means that most cattle in the south are sold in small lots. In the case of sheep and lambs, around 50 per cent are sold in the paddock, another 45 per cent are sold in the sale-yards around 3 per cent are sold 'over the hooks' whilst around 1 per cent is sold through CALM. The major change since the late 1980s in selling methods for beef has been an increase in sales over the hooks, from 20 per cent to 26 per cent of all beef sold accompanied by a corresponding decline in auction sales. In 1993/94, at the national level, the distribution of sales was as follows:

53 per cent of cattle were sold at auction (including 10 per cent over scales in saleyards and about 1 per cent through CALM),

26 per cent were sold 'over the hooks,'

6 per cent were sold over scales outside the auction system,

13 per cent are sold in the paddock; and

2 per cent of cattle are sold by other methods.

(ABARE 1995)

The changes in livestock marketing that are taking place in Australia are largely motivated by two objectives. The first concerns the desire of producers and others to reduce the transaction costs associated with marketing. This has led to greater use of paddock sales, sale by description (CALM), live-weight selling and over the hooks sales. The second concerns the desire of producers and some processors that prices paid more closely reflect the value of individual animals rather than being an average value of a pen of cattle or lambs. Thus there is growing interest in marketing systems in which the product is being specified and transaction costs are reduced.

The way the physical functions associated with meat marketing are carried out has implications for consideration of strategic alliances. The physical functions involved in domestic meat marketing have traditionally been carried out by separate firms with little vertical integration occurring. There were large numbers of small abattoirs in which stock were killed and carcass sold to numerous wholesalers or to butchers who broke the carcass into cuts and sold direct to their customers. In this system little scope existed for feedback of consumer reaction along this multi-entity chain. The emergence of supermarkets with vertically integrated operations opened new opportunities for improved feedback, especially when coupled with more sophisticated mechanisms for monitoring the buying patterns of customers. In this regard, large vertically-integrated firms have a potential competitive advantage over other smaller non-integrated firms. In export meat marketing the physical functions have traditionally been carried out by firms which are vertically integrated, often in the case of foreign owned or controlled firms, extending to direct distribution in the overseas market. Existing linkages or alliances are much stronger between processors and retailers or exporters, than between producers and processors, which reflects the commercial usefulness of closer relationships. While it has been commercially valuable to have closer linkages between processors and retailers and exporters, it has been perceived to be less valuable to have closer linkages with producers. The lack of closer relationships between producers and processors reflects also the mismatches in size of operation. This mismatch in size can be countered to some extent by development of horizontal alliances of processors and of producers - a development which could offer benefits to processors (e.g. more secure throughput). Benefits to producers forming horizontal alliances may then derive from associated vertical alliances being formed.

Facilitation functions refer to the activities that are needed to enable markets to operate efficiently, including: standardisation of product or a classification into classes; provision of finance; management of price and supply risks; and provision of market information. Apart from the provision of physical facilities in the form of sale-yards, and entities such as computer aided livestock marketing (CALM), the facilitation functions associated with meat marketing are relatively undeveloped in comparison with poultry and pork. To some extent this could represent failure on the part of entities within the industry to develop the functions; to a greater extent it reflects difficulties associated with marketing a product as variable and complex as red meat.

Standardisation of product is essential for efficient marketing because it allows buyers and sellers to know precisely what they are buying or selling. Red meat is difficult to standardise, as shown by the long history of attempts to achieve grading and a descriptive language. The absence of an objectively verifiable basis for describing red meat is a major constraint to the development of a meat grading systems. Alliances may further the use of existing description language and lead to better information being utilised in price determination.

The risks in meat production and marketing are substantial. The most common form of risk management for producers has been to diversify their production which is, for instance, why most beef is produced by non-specialist beef producers. There are no well-established mechanisms for dealing with price or supply risk to any party in the chain. A small but increasing amount of red meat production is forward-contracted, but there are great difficulties associated with the process, and most producers and processors have judged so far that the benefits to either party are not large enough to warrant incurring the costs. By their nature, forward contracts always result in the perception of one party 'losing' in terms of the price they received (or paid), even though they presumably gained an offsetting benefit of risk management, the forward knowledge of the price. These reasons may explain why forward contracting has not developed to the stage of wide-spread use, although in the lamb industry there is a growing interest in forward prices which offer a base and have potential to increase if auction prices go higher. This has some attraction in terms of risk

management and the market clearing functions. Although a futures exchange for beef operated for some time it was closed apparently because the small volume of throughput made it vulnerable to manipulation.

1.3 The Red Meat Value Chain

Transport, processing, financing, distribution, selling and risk-taking are essential functions performed by businesses in the marketing chain in the process of transforming livestock into meat or meals. A characteristic of livestock is that on a single-farm basis they are mainly produced in batches rather than continuously. To convert livestock produced at intervals into a continuous stream of meat by coordinating supplies from many farm batches over a period of time involves the risk that prices will fall in the interim, so specialised risk takers, called speculators, play an important role in the marketing of meat. The complexity of livestock and meat marketing services is increased because the products are bulky and perishable. An efficient market channel enables consumers needs and wants to be met as cheaply as possible and is able to respond rapidly to changes in what consumers want and the form in which they want it. As those needs become more specialised and the range of products demanded increases, new marketing channels are developed to cater for the demand.

In Table 1 below is shown the relative contributions to value-adding of stages in the meat marketing chain using indicative estimates of costs associated with individual stages in the transformation. These estimates are indicative only, because in reality the breakdown of marketing costs between different marketing functions varies greatly between firms and products and markets and through time. The precise activities, products and costs of each firm are unique. The estimates shown in Table 1 will vary for any particular meat processing firm depending on many factors, including (but not only):

- type of livestock
- market destination
- type of retail cut
- processing technology
- extent of integration between marketing/processing stages
- mix of by-products produced
- time of year
- level of market demand for meat and by-products.

Table 1. Indicative Value Chain for Domestic Sales

Representative marketing costs and revenues for domestic meat:

Costs	Component Percentage of Total Costs %
Farm Sector	
Purchase of livestock at salesyards/direct cost of purchase	65 %
Total	65 %
Abattoir Sector	
Freight to abattoir	1.5%

Labour	4.5%
Overheads	1%
Materials	1%
Meat Inspection	0.5%
AMLC	0.5%
Services	1.5%
Transport to wholesaler	2.5%
Total	12%
Wholesale Sector	
Boning labour	4.5%
Overheads	1.5%
Materials	1.5%
Services	1.5%
Cold store	1%
Transport to retailer	2%
Total	12%
Retail / End User Sector	
Labour	6%
Overheads	3%
Services	1%
Materials	1%
Total	11%
Gross Revenue	
Meat cuts	92%
By-products	
Skin/hides	7%
Offal	1%
Rendered products	1%
Total	100%

The value chain for meat exported to the US is substantially different. The farm sector cost for livestock purchase is the same, around 65-70 per cent, processing is 20-25 per cent and transport to CIF around 8-10 per cent.

1.3.1 Changing Shares in the Meat Value Chain

One of the consequences of changes in consumer demand for meat is that there will be changes in the distribution of costs along the value chain representing changes in inputs such as packaging, further processing or advertising. The retail price for red meat is set by consumer demands and is therefore influenced by the cost of possible substitutes. The consumer purchases a bundle of attributes when buying meat-some of these attributes such as taste, tenderness, colour have been provided by the producer-other attributes such as packaging, further processing, convenience, advertising etc are provided by the processor and retailer. There are costs associated with the provision of each of these attributes and those providing the attributes will not continue in that business unless it is more profitable for them to do so than become involved in any other activity. Over time, consumers have tended to buy meat that is processed further and thus they have increased their purchases of the attributes that are added after the farm gate.

The farm-gate price is set by the retail price less the cost of services involved in converting the farm-gate product (livestock) into the retail product (part of a meal). In wealthy countries the demand for food increases little with an increase in income levels, but the demand for market services has tended to increase continually. If wages rise over time, the labour cost component of processing and marketing costs tend to rise too, causing marketing margins in labour intensive processing activities to rise. In consequence, as incomes in the economy rise in general, the costs along the marketing chain rise accordingly, as businesses involved in the marketing chain have to compete with businesses in other parts of the economy for their supply of labour. A result of all the above-mentioned effects is that marketing margins rise over time, and the producer's share of the dollar spent on meat at the retail level declines.

Increases in the size of marketing margins over time do not provide any indication of efficiency or inefficiency in marketing, nor indicate whether producers are being adversely affected or exploited. Rather, the marketing margin reveals the extent to which consumers are purchasing marketing services beyond the farm-gate. The best indicator of both efficiency and exploitation in the marketing chain is the degree of competition in the provision of marketing services. If there is open competition then there will be continued turnover of firms-new firms will enter the industry from time to time and existing firms will go out of business. Another indication of competition is that the prices paid by operators at any one point in the value chain are similar after accounting for differences in product quality, form, location and utility. On these sorts of criteria, there is circumstantial evidence of strong competition at all levels of the meat industry-farms, feedlots, livestock marketing, processing, distribution, exporting and retailing.

1.4 Industry Structure

Change in the demand for red meat, in the markets for Australian production, and in the prices received, have helped shape the structure, performance and profitability of the red meat industry in Australia. One of the impacts of changes in demand, markets and prices (along with pressures for improved efficiency) has been for smaller firms at all stages of the value chain to become less able to compete and for many to leave the industry. As a result, the red meat industry in Australia (and throughout the world) is becoming more concentrated-fewer firms accounting for more output, and a few large firms accounting for a large share of total output. As Table 2 shows, it is difficult to measure changes in concentration over time because the data needed are generally not available. Nonetheless, there is evidence that the trend is towards increasing concentration in all sectors, not just meat processing.

The Australian Bureau of Statistics reported that the number of establishments with meat cattle declined 57% from 77,012 in 1974/75 to around 30,000 in the mid 1990's. Over a similar period, the number of

export processing establishments declined from 108 to 60. Concentration in the number of beef producers is probably even greater than this because there are a large number of non-specialist producers. The ABARE estimates there are around 15,000 specialist beef producers and these producers accounted for around 60 per cent of total beef production. Though concentration in the farm sector is increasing, it is still at a low level in comparison with other industries. The meat processing sector in Australia is more concentrated than is the livestock production sector. The situation in the US warrants comparison. In 1994, the four largest processors in the US accounted for 82 per cent of beef slaughter, whereas the four largest processors in Australia accounted for 25 per cent of all meat produced. When the top-four firms control more than say 50 percent of a market, or the top-eight firms account for more than say 70 per cent of a market, concentration may have implications significant for competition.

The growth in concentration in meat processing has been rapid in the US since 1980 when the four largest firms accounted for 36 per cent of total production. Although exactly comparable data are not available for Australia, the rate of growth in concentration appears to have been much lower-in 1988 and 1996 the four largest Australian processors accounted for a similar proportion of all meat produced. A potentially adverse consequence of the rationalisation of processing facilities coupled with the mergers and takeovers of companies which increase concentration is that competition can be reduced (or even eliminated) in some areas, with the result that prices paid for livestock fall to lower levels than in other regions where there is more competition. It is difficult, if not impossible, to prove whether the current level of competition in the meat industry is in some way 'optimal' or not. This is largely an academic question since there is little that any group can do to influence the level and form of competition in the red meat or any other industry.

Table 2. Concentration in the Meat Industry

	Number of Beef Producers	Number of Processors
1974 (ABS) All meatworks		560
1974/75 (ABS) Establishments with meat cattle	77,102	
1976 (MRC) Export only		108
1986 (MRC) Export only		86
1988/89 (ABARE)	78,064	
1992/93 (ABS) Establishments with meat cattle	33,430	

1993/94 (ABARE)	72,863	
1995 (Ausmeat) All beef processors		223
1996 (MRC) Export only		62
1996 (ABS) All meatworks		300

1.5 Changes in Foreign Ownership

The meat industry in Australia has a long tradition of attracting overseas investment with most of the investment going into meat processing and relatively little direct investment in meat production. A feature of foreign ownership in both processing and production sectors has been changes in ownership in parallel with changes in markets. Historically, the major foreign owners were British companies and their investments were located in export works and cattle holdings in northern Australia. Prior to 1960 the UK accounted for more than 90 per cent of all beef exports and UK interests owned the major share of export works in Australia. By 1965, following the closure of markets in the UK and emergence of new markets in the US and Asia, the US emerged as the major market taking 80 per cent of beef exports and 50 per cent of mutton exports. This change in markets coupled with the need for expanded investment in meat processing led to a change of foreign owners without significant change in the level of foreign ownership.

The major new foreign owners in meat processing have been Japanese, Chinese and Korean firms. At present, four of the five largest beef processors in Australia are foreign owned: SBA Foods (Sumikin Bussan Corporation-Japan); AMH (Con Agra); Metro Meat (China International Trust and Investment Corporation); and Nippon Meat Packers. Foreign-owned processors account for around 50 per cent of the meat processed annually by the 25 largest meat processors, and process each year 25 to 30 per cent of total Australian meat production. This is similar to the proportion of the Australian kill carried out by foreign-owned companies in the 1960s and 1970s. Compared with foreign control in other industries in Australia, where foreign ownership is often 50 per cent or more, the level in meat processing is still relatively modest. When only the export sector is considered, the foreign control in the processing sector is somewhat larger. In 1996 the Meat Research Corporation estimated that the foreign-owned meat processing works accounted for 39 per cent of the national beef and veal exports. Although there is still relatively little foreign investment in broadacre meat production in Australia, there has been extensive foreign investment into feedlotting. Foreign ownership is estimated to account for about 50 per cent of current feedlot capacity in Australia with the major investors being Japan, the US and Korea. The primary impetus for such investment is that it provides the opportunity for exporters to control a larger portion of the value chain, and thus ensure the quality and secure supply of the product.

2.0 STRATEGIC ALLIANCES

2.1 The Role of Closer Relationships in Business

The relationships needed to create additional customer value can take various forms including partnerships, alliances or joint ventures. Linkages or closer relationships between firms in a business system will not always be appropriate, however, they are appropriate in situations where they create additional net value that could not be created as efficiently in any other way. Closer relationships only make commercial sense where they contribute to the creation of more customer value than would otherwise happen. In commodity markets, where suppliers are unable to differentiate their product or service, and hence the purchase decision is predominantly price-based, closer relationships can achieve little. In these markets the total amount of value created is fixed, and so auction systems provide an appropriate mechanism for transmitting market signals and apportioning the benefits between channel participants.

In the meat industry the pressure for closer relationships or supply chain management derives from the needs of supermarkets for quality consistency, reliability of supply and to ensure safety. Consumer concerns for food safety, which is now reported in consumer surveys as their main concern, continue to provide pressure for closer relationships in the meat industry. Food safety is of value to customers, and it relies on adoption of sound procedures and being able to trace back product through the supply chain. If a retailer can demonstrate that all of their product comes from members of an alliance, and that all members of the alliance follow sound food safety precautions, this provides the retailer with a competitive advantage over others who cannot trace the origin of their products.

The attributes of agricultural products such as perishability also play a role in the nature of the linkages and relationships which develop. For example, it is no accident that alliances in the form of farmer cooperatives play a dominant role in milk processing and marketing around the world since milk is produced and marketed daily. On the other hand, the highly storable nature of grain means that closer relationships may not play a significant role in the grains industry. Although livestock slaughter can be deferred, once slaughtered, meat itself is a perishable product which means closer business relationships can have an important role in the meat industry.

Marketing activities can be characterised as being mostly about obtaining and using information. Closer business relationships provide a basis for transmission of information so they are favoured for those products where existing mechanisms for transmitting information are ineffective or particularly costly. Meat qualifies on these grounds since it involves major transformation to move from the carcass to the meat cuts and it is difficult to follow the product through the chain. This implies a role for producer groups in the marketing chain in marshalling and using information to protect or even improve their position in the market with request to other businesses in the marketing chain.

In general, closer relationships work best when the 'size' of each of the participants is similar. A common feature of integrated supply chains is that the integrator deals with a reduced number of suppliers but develops closer relationships with those suppliers. However, in the food industry, the relationship between a small number of retailers or processors and a large number of producers is a difficult one to manage. It is generally not possible to dramatically reduce the number of farmer suppliers, so managing this relationship can be an important constraint to developing the international competitiveness of some food industries. It is difficult and costly for manufacturing and retailing firms to develop close relationships with a large number of primary producers. Red meat produced extensively appears to be particularly disadvantaged in this regard in comparison to the more intensive pig and poultry industries. There is little point in closer vertical relationships between a (usually) small producer and large retailer or processor. Some horizontal coordination mechanism is required, which increases the complexity of the relationship. In the red meat industry there is a serious size imbalance between producers and processors or retailers. Unless carefully managed, such unbalanced relationships lead to continued conflict and lowered levels of trust. This suggests that an early priority for the red meat industry will be to help establish horizontal alliances as a

basis for subsequent closer vertical relationships with processors and retailers.

Closer relationships and alliances are not costless. Suppliers lose some control, and mechanisms are needed to share benefits and to keep the relationship functioning efficiently. The general theme in successful alliances is that the need of the dominant party (e.g. the retailer) for consistency and reliability of supply is greater than their incentive to act opportunistically. In successful alliances both parties have to be able to manage the transition from independence to interdependence, without going from independence to dependence. A meat-supplying firm participates in an alliance in the hope of providing increased value for the buyer, and hence can expect more secure outlets and sometimes higher prices for their production. Secondly, they participate because by doing so they can lower their own costs. One example of such cost reduction is the cost of obtaining information about what the customer (or sometimes the ultimate consumer) wants: the suppliers in an alliance can obtain clear and reliable market signals much more cheaply than they would if they were not in an alliance. Strategic alliances offer the opportunity to exploit the complementarities between firms that contribute different component parts to the production and marketing system. Ultimately, the aim of both parties is to manage risks and contain transaction costs. As in all business decisions in the marketing area, what is appropriate depends critically on the precise nature of the product in question.

Experience with alliances in other agribusiness areas has suggested that there are ten major determinants of success in alliances and these are indicated in Table 3 below.

Table 3: Ten Relationship Dimensions

Relationship variables	Views held by potential partners in the alliance
1. Customer value creation	We can create more value by working together than by working independently
2. Core competencies	Our competencies are complementary and are of real relevance to our target markets
3. Goal compatibility	The goals of our two organisations are well aligned and are unlikely to be in conflict in the future
4. Shared strategic information	Both parties do, and will continue to share strategic information
5. Investments	Both parties are prepared to invest specifically into this relationship
6. Dependency	Both parties are interdependent and aim to further grow the interdependent bonds between the two organisations
7. Alternatives	Finding an alternative of equal quality would be difficult
8. Sharing of benefits	We are comfortable that the benefits of this relationship will be shared equitably
9. Opportunism	We are confident that the other party would not act opportunistically, even if they had the opportunity to do so

10. Cultural fit	Both parties have similar values on how customer value will be created
------------------	--

2.2 Vertical Alliances

Strategic alliances designed to provide increased vertical coordination are becoming more common in agriculture generally because they are better-suited to the changing market situation. In the US, Barry (1995) identified seven key factors as the basis for this trend, as follows:

- Consumers' needs have become more specific and the customers more demanding.
- Consumers' preferences have become more specific than traditional price signals in open markets can convey, so retailers use vertical coordination to ensure that product specification meets consumers' demands.
- Some industries such as poultry and pork have developed technologies that provide greater control over product specifications and thus help retailers meet consumers' needs include: reproduction, nutrition, health management, product measurement and biotechnology.
- Information about consumers' needs and product attributes has become more important and more valuable and hence more closely guarded.
- Increased competition and increased capital costs associated with larger firms has provided impetus for further improvements in efficiency and especially for greater utilisation of processing capacity through improved security of supply.
- Risk management is becoming one of the key determinants of profitability in the modern business environment where markets are more dynamic, capital investments are greater, margins are smaller than those of the past, and vertical coordination offers a means to reduce these risks for both processors and producers.
- Producers faced with the need for additional capital expenditure find it easier to raise funds if they have more secure marketing arrangements in place in the form of contracts or closer relationships, and some processors may find that provision of finance to suppliers within a strategic alliance is a cost-effective means of securing supply (Barry 1995).

2.3 Horizontal Alliances

Horizontal alliances are a natural corollary of vertical coordination since they provide the means for producers to collaborate with other producers to expand their marketable output, so that they can offer significant volumes to processors and others along the value chain. Horizontal alliances are often promoted as a means to improve marketing power and thus offset the power of large, vertically coordinated processors and retailers. This view needs to be tempered with the realisation that such alliances will have no effect on the balance of power unless they create additional value for their customers, for example, by reducing the transaction costs associated with obtaining supply or by improving the quality of product supplied. As well, horizontal alliances have traditionally had a role in members learning about new technology and providing opportunities to compare and contrast business performances of members. Production-based alliances have had a tendency to eventually focus on marketing as another way of increasing profitability of members.

3. THE SCOPE FOR STRATEGIC ALLIANCES IN THE RED MEAT INDUSTRY

Closer business relationships can have some possible adverse effects on economic and marketing efficiency, as discussed below.

3.1 The Case Against Strategic Alliances

[Changes in Market Power](#)

[Effect on Concentration](#)

[Opportunities for price discrimination](#)

[Interference with price discovery](#)

[Loss of control to foreign owners](#)

[Other Consequences](#)

Changes in Market Power

Vertical, strategic alliances require suppliers to move from a position of independence to one of interdependence on the lead firm within the alliance. Through a variety of contractual mechanisms, suppliers agree to supply product under negotiated conditions. They are no longer free to supply other markets, and they may be obliged to change their production practices in various ways. If the supplier is of a similar size to the lead firm, there is no shift in market power because the lead firm needs the supplier just as much as the supplier needs the lead firm. However, this is not the situation in the red meat industry where even the smallest processor or retailer likely to be involved in an alliance will have a throughput that is many times larger than the throughput of the largest supplier. It appears, therefore, that such strategic alliances would tend to shift market power away from producers into the hands of the lead firm.

If the lead firm is large and has relatively little competition from other firms it could exploit its power (and any technical efficiency or scale economies that arose from its scale) to obtain an even larger proportion of total supply. (Alternatively, it might collude with a few other large firms to create an oligopsony). At some point its power might be such that it could effectively control the market and set prices. At the extreme this could lead to a misallocation of resources through reduced pricing efficiency-artificially low livestock prices would lead to a shift out of livestock production even though this was theoretically the most economical use of the land. In practice, it may not progress this far, but if it did, producers would effectively be transferring profit to the lead firm. So, in theory, strategic vertical alliances involving a large integrator and many relatively small suppliers creates the opportunity for exploitation of those suppliers and all other suppliers through the price setting effect of a large alliance. In practice, it has generally been found that such exploitation has not taken place since commercial reasons always limit such behaviour because it would ultimately lead to the loss of supply.

Effect on Concentration

The benefits of supply integration that are made possible by use of strategic alliances are generally more likely to be captured by large retailers or exporters than by smaller ones. Since strategic alliances are only established when all parties to the alliance can gain an advantage from their formation, it is likely that larger firms will use strategic alliances more than smaller firms. To the extent that strategic alliances confer a comparative advantage to larger operators, they can be seen as encouraging the big to get bigger and the small to be squeezed out. This will lead to increasing concentration in downstream processing and marketing or in any segment where the strategic alliances confer a particular advantage.

Strategic alliances are not a pre-condition for industry concentration since trends towards concentration started well before there was any vertical coordination. However, strategic alliances could accelerate the process of concentration if such alliances were to particularly suit larger firms. What is not clear is whether industry would be any less concentrated if strategic alliances were in some way prevented from forming. As noted earlier, the level of downstream concentration of the Australian meat industry is not presently a matter for concern, and while strategic alliances could lead to more rapid concentration in downstream processing and marketing, this is unlikely to reach levels which would be of concern to suppliers.

Opportunities for price discrimination

A common concern is that strategic alliances will transfer market power to the large firms which will use this power to discriminate in their dealings with suppliers operating outside alliances. Such price discrimination would mean that they offer different payments for the same products but from different suppliers. For example, if a buyer is operating in an area where there is no effective competition, they may offer less for supplies than they would offer in another region (with comparable transport costs) where there is more competition. (This example shows that it is very difficult to measure price discrimination in the red meat industry because of the difficulty in ensuring that the price is being offered for an identical bundle of attributes of the product).

There has been consolidation of meat processing plants in Australia in recent times. Concurrently there has been growth in the number and size of feedlots that are close to processing plants and contracts between processors and lot feeders are increasingly common. Such structural changes suggest price discrimination between different markets in different regions may be possible, arising from different degrees of competition possibly existing at different locations. This practice is discriminatory against someone who has little market information on which to make a choice about accepting the price offered. Williams and Bewley (1993) in a study of price integration between Rockhampton, Townsville and Toowoomba saleyards concluded that the strength of price integration between markets was a declining function of distance from the dominant centre. That is, the differential in prices paid in different markets was likely to be greater in markets more remote from the main market. It is a well recognised phenomenon that prime stock markets separated by long distances are linked less directly than markets in close proximity. This is, in part, because the high costs and risks with transporting prime stock over long distances can mean that markets widely separated can have prices which diverge from one another for some time. Such divergence may be warranted by market conditions and may not be large enough to permit profitable trade between regions.

No unambiguous conclusion can be drawn from evidence about price differentials between markets and the degree of concentration. As concentration increases the price differentials between markets might become greater if the remaining firms were less efficient than those they replaced, or price differentials might become less if the remaining firms were more efficient than those they replaced.

Interference with price discovery

The price discovery process relies on maintenance of throughput via the public auction system, and hence any change in marketing arrangements that reduces the volume sold in this manner will interfere with price discovery. Although it can be argued that the volume by-passing the public auction system because of strategic alliances is likely to be small, the product that bypasses the public system will also tend to be the higher value product. This will mean that publicly available information about prices refer to the less valuable product and this could be used to drive down the price paid for all product, including eventually

the product that is sold within an alliance. Thus a possibility is that strategic alliances could interfere with the price discovery process, particularly for the higher value cuts.

Loss of control to foreign owners

Strategic alliances could serve to strengthen the position of foreign operators of meatworks and thus provide additional opportunity for transfer pricing. If foreign-owned meat companies entered into a high proportion of the alliances it would provide them with additional means to influence the prices paid for livestock by all operators. It is possible that Australian-owned meat companies would not be interested in establishing strategic alliances because they were less able to capture the benefits from such alliances than foreign-owned companies. Any subsequent effort by Australian companies to regain control could be effectively thwarted by the foreign-owned companies if they continued to control access to the most profitable overseas markets. Up till now, the foreign-owned companies operating in the Australian meat industry have shown little interest in strategic alliances but they have been more involved in direct purchase of feeder stock. No analysis has been carried out to assess the impact of these companies buying operations nor to investigate the extent to which transfer pricing has been taking place. There is no evidence at this stage that foreign-owned companies are using strategic alliances to gain greater control of the supply. The situation could be easily monitored.

Other Consequences

Opponents of strategic alliances argue that they weaken the position of producers by making them dependent on processors or retailers with whom they have reached an agreement. Although the alliance may have commenced on the expectation of mutual benefit there is no guarantee that it will provide benefits into the medium term. If producers have raised additional finance on the basis of the contracts entered into as part of the alliance, they may be unable to leave the alliance without jeopardising the financial arrangements. Strategic alliances are better suited to larger operations and some suggest that strategic alliances will mean that family farms will be placed under greater threat from 'corporate farms'. An alternative view is that strategic alliances may offer family farms scope to 'act big' even if they are not big and hence improve their longer term prospects. Strategic alliances are but one force among many which inevitably lead to larger farms over time in industrialised economies.

3.2 The Case for Strategic Alliances

[Impact on Alliance Participants](#)

[Improved Risk Management](#)

[Product Identification](#)

[Quality Assurance](#)

[Limited Risks](#)

[Likely Impact of Alliances on Price Discovery](#)

[Limited Impact of Alliances on Balance of Power](#)

[Minimal Impact on those outside Alliances](#)

Impact on Alliance Participants

The use of strategic alliances by the red meat industry can improve the competitiveness of participants and

the industry overall. First it is likely that producers will increasingly become involved in horizontal alliances. Horizontal alliances are likely to foster an increased emphasis on marketing with a greater focus on customers. Members will become more fully aware of what customers want and be in a position to focus more precisely their efforts on producing these products. This will influence the production and marketing practices of individual operators and the group as a whole. Those changes in production and marketing practices will help participants become more competitive. Furthermore, some horizontal alliances will choose to be associated with and participate in vertical alliances.

Some vertical alliances will be through the whole chain. Some vertical alliances will be more limited in scope-from processor to horizontal alliance or from wholesaler/marketing agent to paddock. The participation of producers in vertical strategic alliances can help improve their competitiveness by developing a better appreciation of customer needs and improving the efficiency of overall red meat production-more production meeting specifications and hence less downgrading; more product sold per participant; and, in some situations, more product sold at higher value. Strategic alliances could provide a relatively low cost means of putting the producer in contact with the customer or, in some cases, the final consumer. The feedback provided through such an alliance is unlikely to be available from any other source. This is because although it may be technically possible to provide feedback when product is provided through the existing chain, the cost of tracking the product through the system would almost certainly be greater than the benefit that it could provide to any producer.

Apart from the direct value of the information available about customer requirements and the extent to which product meets those requirements, closer relationships between producers, processors and retailers have the potential to provide all participants with a better understanding of the red meat industry which may lead at least to improved trust and at best to further efficiencies along the chain.

Improved Risk Management

Strategic alliances offer the prospect of reducing the cost of dealing with risk for both producers, processors and marketers. Risks would not be eliminated but could be reduced in a range of ways as suggested below:

- By providing producers with a more secure and certain forward price for their output they allow the producers to budget more accurately and to embark on other efficiency enhancements.
- By securing a specified level of supply at a certain forward price processors would be more assured of throughput and could invest in other efficiency enhancements in their works, forward contract sales to reduce their own price risks, and schedule throughput more efficiently.
- By securing a specified level of supply at a certain forward price retailers or exporters would be assured of throughput and could invest in other efficiency enhancements in their stores, develop more secure marketing programs, and promote the particular brands or types of meat supplied by the alliance.
- Strategic alliances could reduce price risks to producers and price and supply risks to processors, retailers and exporters. These reduced risks could be expected to generate other efficiency improvements by reducing uncertainty.

Product Identification

The introduction of improved identification of product qualities has proved extremely difficult in the meat

industry in part because of the prohibitively high costs of attempting to maintain some level of product identity through the value chain. Strategic alliances can reduce the product identity problem provided that the product handled by the processor or retailer is predominantly obtained from a small number of strategic alliances. Under alliances, producers supplying livestock with higher potential retail value or lower transformation costs have a better chance of being rewarded providing greater customer value.

Quality Assurance

Strategic alliances may prove to be one of the most effective ways of demonstrating to customers that particular QA procedures have been followed. As consumers' concerns about food quality and safety become more common, QA systems will increasingly become a basis for product differentiation. Strategic alliances will similarly be useful in demonstrating particular attributes of product such as 'animal friendly', 'environment friendly' or 'antibiotic free' production technologies. Strategic alliances could facilitate the introduction of QA systems and ensure that those participating obtained full benefit from their participation.

Limited Risks

The risks associated with greater use of strategic alliances appear very limited. Nearly all the concerns raised by opponents relates to through-chain vertical strategic alliances. These will only have limited scope in the red meat industry in the foreseeable future; they will probably be restricted to the higher value segments of red meat markets, where the costs of establishing and maintaining the alliance can be offset by the substantial additional customer value that can be created. While this segment is important and will be a valuable addition to the red meat industry, it is still only likely to account for a small part of the total industry.

Likely Impact of Alliances on Price Discovery

Provided that industry ensures at least the continuation of current market reporting services (and ideally, with improvement in the services) strategic alliances would have little or no significant adverse effects on the production segment as a result of effects on the price discovery process. At present, the price discovery process for red meat is almost entirely based on reports from the public auction system. This system does not provide clear market signals linking price with specific meat quality and yield characteristics except in the most general sense (live weight, fat cover, age and sex). Both systems are based on averages. Hence the current price discovery process is largely ineffectual in providing practical short or longer term price signals to producers concerning the value of individual types of livestock. The retail and export prices are the real benchmarks for price discovery and those producers in alliances will receive prices that are based on those prices less the costs of transformation. The costs of transformation can be disclosed to alliance members through 'open book accounting'.

Most producers who choose to become involved in alliances will initially sell only part of their output through that channel and will therefore be able to compare prices and values from different channels. Once they have developed trust in the alliance they may sell greater proportions of their output through the alliance. For those producers remaining outside alliances, the volume of product that is likely to be diverted from the public auction system to private trade through any sort of alliance is envisaged to be relatively minor compared to the situation in the US where at least 18 per cent is traded in this way. Even in the US where a relatively large proportion of throughput is supplied outside the public auction system, detailed studies have been unable to demonstrate that this has led to adverse effects on the production sector. Nonetheless, it needs to be acknowledged that many producers are concerned about the effects of non-

public market transactions on price discovery and price formation. The price difference in the US between cattle procured under marketing agreement and spot markets has been about one per cent. An expansion of the use of horizontal alliances and particular of those extending members' control further down the chain, such as through custom feeding and processing, would significantly assist the price discovery process. Horizontal alliances can increase market lot sizes and reduce transaction costs thus attracting more bids from buyers. This can provide better market intelligence information and further strengthen the position of sellers in horizontal alliances.

Limited Impact of Alliances on Balance of Power

Strategic alliances inevitably have an impact on the balance of power between those involved in particular alliances. It is difficult to establish cause and effect relationships in relation to changes in the balance of power of different sectors in the value chain. There is no reliable basis available to determine whether there has been any shift in the balance of power or profit share amongst the various segments of the red meat industry in the recent past. Livestock production is subject to very large fluctuations in response to seasonal conditions, markets and profitability of alternative enterprises. Profits from feed-lotting vary with changes in livestock prices, grain prices and international market prices. Meat processing profits also fluctuate widely with intermittent periods of high throughput and high profits followed by periods of low activity with low profits. Profitability in the meat processing industry depends largely on market prices for livestock and meat, on capital costs and capacity utilisation, and to a lesser extent on non-capital inputs to the processing works. The balance of power depends to a large extent on industry structure but this in turn depends on a wide range of factors.

Minimal Impact on those outside Alliances

Those producers who do not participate in strategic alliances are not likely to be adversely affected, compared to the situation that would apply if there were no alliances. The reasons for this conclusion are that at least for the next few years most red meat will be marketed outside alliances and hence non-participants will be the overwhelming majority of producers. Although alliances are expected to deliver more value for customers and greater profits for participants inside alliances, they are not likely to have any impact on the prices of meat traded outside alliances. Although alliances may help increase the supply and demand for high quality red meat, there would be insignificant effects on the prices for these or other red meat products. Hence producers operating outside alliances would not be affected by changes in price or demand. However any producers who make no changes in their production and marketing practices over time are likely to become progressively less competitive, regardless of whether or not alliances are established and operated.

3.3 Types of Alliances

A range of alliances are likely to develop in response to market forces.

3.3.1 Horizontal Alliances of Producers

There is already a strong level of interest in horizontal alliances amongst producers. The motivation ranges from well-planned strategies to improve customer focus through to a general desire to attempt to operate on a bigger scale and thus offset what is seen to be a problem of being a weak seller. Horizontal alliances are the starting point for more ambitious and complex vertical alliances. Without first forming a horizontal alliance it will be unlikely that many producers will be able to become involved in any closer links with the

customer or ultimate consumer of their products. Processors or retailers will generally not be interested in dealing with individual producers or going to the trouble and expense of creating producer groups and would prefer to deal with horizontal alliances provided they were properly constituted and directed. Horizontal alliances are likely to require professional marketing assistance, and this may be obtained through the use of existing service providers including agents or consultants.

3.3.2 Vertical Alliances

[Producer Group-Agent](#)

[Producer Group-Feedlotter and / or Processor](#)

[Processor Group-Retailer or Exporter](#)

[Producer Groups-Retailer or exporter](#)

The range of vertical alliances considered likely is presented below along with an indication of their particular features. In addition to the specific benefits listed against each, all vertical alliances would provide customer value in the form of ease of trace-back for quality control purposes and varying levels of reduced transaction costs associated with obtaining supplies of the desired livestock.

Producer Group-Agent

The simplest vertical alliance is one between a producer group and an agent. The culture of distrust and the tendency for agents to follow traditional marketing methods has generally limited their incidence. The customer for these alliances would be the processor or feedlotter. The additional customer value that they would create would include greater security of supply of specified stock. The benefits likely to flow to members of such alliances include:

Improved understanding of customer's needs;

Lower selling costs through negotiated rates;

Scope for value based marketing;

Increased throughput and greater security for agent;

More secure market outlets for stock meeting specification and hence reduced risks for producers.

Producer Group-Feedlotter and / or Processor

Well-established producer groups (or a network of producer groups) may form an alliance with a feedlotter or a processor to supply stock meeting their specification. The customer for these alliances would be the exporter or retailer. The additional customer value that they would create would include greater security of supply of specified stock, and opportunities for differentiation of the product on the basis of region or

quality assurance process, etc.

The benefits likely to flow to members of such alliances include:

Improved understanding of partners (producers, feedlot operators and processors) and customer's needs;

Improved feedback on the match between carcass attributes and customer requirements;

Opportunity to negotiate basis for value based marketing;

Lower selling costs through reduced number of transactions;

Greater security of throughput for processor and feedlot operator;

More secure market outlets for stock meeting specification and hence reduced risks for producers.

In view of the more substantial costs involved in establishing and operating such alliances it would be important to raise a significant proportion of the working capital required directly from participants early in the formation stage.

Processor Group-Retailer or Exporter

It is possible that some independent meat processors may be interested in forming an alliance involving other processors and a retailer or exporter. Some existing exporters or new entrants may see such an alliance as providing a lower risk and lower cost entry into a new market area or as a means to reduce some costs that are currently being incurred. The customer for these alliances would be the final consumer or the overseas importer. The additional customer value that they would create would include greater security of supply from diversified sources thus reducing risk of season and location; lower transaction costs associated with obtaining supplies from decentralised distribution arrangements with many processors; opportunities for further product differentiation.

The benefits likely to flow to members of such alliances include:

Improved understanding of consumers' or importers' needs;

Lower marketing costs;

Opportunity for specialisation of function-processors specialise on processing and marketing left to specialists;

Producer Groups-Retailer or exporter

Large and well-established producer groups or a network of producer groups may decide to enter into a through-chain alliance with a retailer or exporter as a means of improving their longer term business prospects by getting closer to their ultimate customer. This would require the group to maintain ownership of the carcass through the processing stage and to use a service works for processing and boning. The customer for these alliances would be the final consumer or the overseas importer. The additional customer value that they would create would include greater security of supply and reduced seasonality through dealing with larger supply group; and lower transaction costs associated with obtaining supplies from fewer suppliers.

The benefits likely to flow to members of such alliances include:

Improved understanding of consumer's or importers' needs;

Improved feedback on the match between carcass attributes and customer requirements;

Scope for additional returns as a result of additional value added through processing;

Lower marketing costs through single sale direct to retailer or exporter instead of two sales;

Greater opportunity to improve security of supply and to reduce seasonality of supply for retailers or exporters.

This form of alliance would be one of the most challenging because it would require that producers develop a range of new skills.

4.0 CONCLUDING COMMENTS

It is likely that the competitiveness of parts of the red meat industry would be improved by expanded use of strategic alliances between different segments of the value chain. The case in support of use of strategic alliances in the red meat industry is stronger than the case against such alliances. Information is the key. The best defence against exploitation or other forms of abuse of market power and anti-competitiveness is to ensure that all sectors of the industry have access to reliable and comprehensive market information. Alliances do not pose any significant threat to producers well-being provided that relevant market information is publicly available outside alliances.

Price discovery processes for the industry will not be adversely affected by greater use of strategic alliances, and the present rather ineffective system could be improved if strategic alliances were to serve as a vehicle for introducing more precisely defined products and pricing. Further development of alliances is not expected to shift market power to processors and retailers to any greater degree than would apply if the formation of alliances did not happen. To the extent that horizontal alliances are developed, market power which might otherwise be lost could be retained by producers, or some power could shift towards

producers. Concerns about industry concentration are not warranted given the limited extent of concentration to date and the fact that no adverse effects from concentration have been shown in the USA where it is already at a much higher level.

Alliances will only develop and remain active where they deliver additional net value to customers and greater long term net profits for all participants. Alliances between producers and processors are much more likely to deliver additional net value to customers, and therefore to be sustainable, if the producers are organised in a horizontal alliance. These alliances will function side-by-side with the traditional marketing channels and will not interfere with the operations of other channels that will continue to account for the majority of red meat sales. Alliances will be developed all along the value chain and most alliances will not be through-chain but will involve only part of the chain.

Alliances will be most likely to form with minimal outside support in situations where there is already a high level of industry concentration in the industry segments of both partners. Alliances between individual producers and processors and/or retailers will be the most difficult to establish and will remain rare. Alliances between groups of producers in horizontal alliances and processors and/or retailers will be much more easily formed and will constitute the first step towards improved marketing. Alliances do not occur spontaneously but require careful planning and interaction between partners. Individual businesses involved in an alliance will not channel their entire product through the one alliance until they have developed sufficient trust in the alliance. The increased use of product branding will spread to the meat industry and this will provide a focus for the development of further alliances. Many of these alliances will extend from producer to retailer or food service outlet.

The ultimate purpose of all strategic alliances will be strictly commercial and therefore, in principle, the benefits from the development of such alliances will largely be private. As such, there would be no justification in using industry levies and Government funds to develop alliances that could be expected to develop without assistance. The only aspects of alliances that may appear to warrant public support would be those designed to:

- enable research into forms of alliances that might provide greatest overall benefit to industry;

- develop better strategies for generating trust between the participants in the alliance;

- enable research into 'tools' that could be used in conjunction with strategic alliances to improve efficiency eg tools for value based marketing;

- provide information that would ensure that all parties (particularly producers) were aware of the potential benefits from alliances;

- help demonstrate the practicality of alliances and thus encourage their wider use by providing support for establishment of a range of alliances including horizontal alliances amongst producers and vertical alliances that may not all extend all the way to the final consumer;

address any area of market failure associated with the further development of alliances

The red meat industry in Australia is subject to periodic prosperity and desperation. Strategic alliances, while doing little to change the effects of the fundamental natural and economic forces which shape outcomes in Australian agriculture, offer the prospect for some businesses in the red meat industry to achieve some of the competitive advantage which is necessary to remaining in business.

REFERENCES

ABARE (1996), *The Australian Beef Industry*.

Ausmeat Feedback, (1994), *Australia's Largest Producers*, January/February.

Ausmeat Feedback, (1994), *The Top 20 Lot-feeders*, November/December.

Ausmeat Feedback, (1996), *The Top 25 Processors*, July/August.

Australian Meat and Livestock Corporation, (1996), *Reform for the Future*, Report of the Steering Committee.

Barry, P. J., (1995), Industrialization of US Agriculture: Policy, Research and Education Needs, *Agricultural and Resource Economics Review*, Vol.24:1

Boehlje, M., Akridge, P. and Downey, G., (1995), Restructuring Agribusiness for the 21st century. *Agribusiness International Journal*, Vol.11:6.

Centre for International Economics, (1994), *The Role of Government in New Industry Development*, Occasional Paper No 94/2.

Collis, D.J. and Montgomery, C.A., (1995), Competing on Resources: Strategy in the 1990s. *Harvard Business Review*, July/August.

Coopers and Lybrand, (1996). *AMLC, MRC, MIC Review of Operations*, Overview Report.

Drabenstott, M., (1994), Industrialization: Steady Current or Tidal Wave, *Choices*, Fourth Quarter.

Goldberg, R.A., (1993), New International Linkages in the US Food System, *Choices*, Fourth Quarter.

Hoppe, R., (1996), Changes in Farm Organization, USDA Economic Research Service.

Industry Commission, (1994), *Meat Processing*, Report No.38.

Johnson, J., (1996), *Adaptive Management Strategies-Responding to the Risks of Farming*, USDA Economic Research Service.

Macarthur Consulting, (1996), *Review of the Trading Systems Key Program (Marketing)*, Report to the Meat Research Corporation.

Martinez, S., (1996), *From Farmers to Consumers: Vertical Coordination in the Food Industry*, USDA Economic Research Service.

Meat Research Corporation, 1996, *Marketlink II Key Program Business Plan Consumer-Driven Marketing Partnerships*.

Neff, S.A., (1996), *Globalization of the Processed Foods Market*, USDA Economic Research Service.

O'Keeffe, M., (1995). *ABC Foods: The Competitiveness of an Agricultural Marketing Co-operative. Australasian Agribusiness Review*. Vol. 3:1.

O'Keeffe, M., (1994), *Vertical Coordination in Agribusiness: A Literature Review*, A Report for the RIRDC.

Schroder, W. and Mavondo, F., (1995), *The Industrialisation of Agriculture: Overseas Experience and Implications for Australia*, *Australasian Agribusiness Review*, Vol 3:1.

USDA, (1996), *Concentration in Agriculture*, A Report of the USDA Advisory Committee on Agricultural Concentration.

USDA, (1992), *Concentration in the Red Meat Packing Industry*, Report Prepared for Grain Inspection, Packers and Stockyards Administration.

Williams C. and Bewley R., (1993), *Price Arbitrage between Queensland Cattle Auctions*, *Australian Journal of Agricultural Economics* Vol 37:1, pp33-56.

Watson, A S.,(1996). *Principles of Grain Marketing: Some Lessons from Australian Experience*, ACIAR Technical Report No. 38.

Watson, A S., (1996), *Some Issues in the Evaluation of Meat Promotion*, Report Prepared for AMLC

Date Created: 04 June 2005

Last Modified:

Authorised By: Assoc. Prof. Bill Malcolm, Agriculture and Food Systems

Maintainer: Nanette Esparon, Agriculture and Food Systems

Email: webmaster@landfood.unimelb.edu.au

[Agribusiness](#)
[Association of Australia](#)