

# **Strategic Alliances in the Livestock Sector: Industry Perspectives and Opinions**

by

**Matthew A. Rekoweg**  
Research Assistant  
Department of Agricultural Economics  
Cornell University  
Ithaca, NY

**Michael A. Hudson**  
Associate Professor  
Department of Agricultural Economics  
Cornell University  
Ithaca, NY\*

## **Background**

The dynamic nature of the food and agribusiness sector is creating new management challenges for firms at all levels of the production-marketing continuum. New coordination strategies are emerging as firms seek to establish sustainable competitive advantages. One such advantage is to provide a variation of the increasingly diverse set of product attributes demanded by consumers. Because some of these attributes may have to be "grown" into the product at the production stage or incorporated in production inputs, coordination of activities across stages of the production-marketing continuum becomes necessary.

One strategy for coordinating these activities involves building partnerships between firms which facilitate the sharing of information. Recent advances in information technology, among other things, allow such "strategic alli-

ances" to be made to coordinate efforts along the production-marketing continuum. Firms employing this strategy achieve vertical coordination without the burdens of ownership inherent in full vertical integration.

Our current research solicits the opinions of industry experts regarding the emerging role of strategic alliances within the livestock and meat sector. Survey results will be used to assess the current perspectives of industry leaders about how information technology may be used to coordinate activities in alliances, why alliances might be formed, and who will initiate them.

Initial results based on a survey of livestock industry and agribusiness academicians suggest that experts expect strategic alliances to increase in numbers over the next ten years. Table 1 summarizes these initial results about expectations regarding strategic alliances. Tables 2a and 2b highlight experts' opinions about potential reasons

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for developing a strategic alliance in the livestock industry. Finally, Tables 3a and 3b summarize the responses regarding who will initiate strategic alliances.

### **Next Steps**

Our continued research will focus on the beef and pork subsectors with further surveys of industry participants and experts. The survey results will be analyzed to assess the current perspectives of industry leaders with regard to how information technology is being used to coordinate activity along the production-marketing continuum. Special attention will be paid to alliances which have evolved, are evolving, or are expected to evolve. Case studies will be developed to examine the motivations driving industry participants toward strategic alliances.

### **Implications**

The opinions of industry experts and participants regarding the potential for using information technology-based alliances to achieve vertical coordination will provide insight into the current and future potential of strategic alliances within the food and agribusiness sector. The nature of the livestock and meat industry and the historical role of vertical integration will make the result particularly illuminating--the examples identified within the livestock and meat sector are likely to be important forerunners of activity in other subsectors of the agribusiness system.

Table 1. Opinions Regarding Expectations of Strategic Alliances in the Livestock Sector, Survey of Academicians and Experts, November, 1992.

	STATEMENT	NOW	IN FIVE YEARS	IN TEN YEARS	MORE THAN TEN YEARS	NEVER
1.	Over 75% of producer-packer transactions are the result of strategic alliances	2%	30%	28%	30%	9%
2.	Strategic alliances are the non-price coordinating mechanism for over 50% of the production-marketing chain.	22%	24%	29%	24%	0%
3.	Formal, contractual arrangements will make up less than 30% of producer-packer linkages	40%	24%	7%	0%	29%
4.	Over 75% of livestock will be sold to packers on a carcass-merit basis under which producers are paid on the basis of some desirable attribute of the animal (such as percent of lean, freedom from antibiotics, etc.).	2%	32%	49%	17%	0%
5.	Data on individual carcasses will be supplied to 80% of producers by packers.	2%	28%	43%	19%	6%
6.	More than 60% of retail fresh meat sales will be made up of branded products.	0%	19%	38%	30%	13%
7.	Packers and processors will use retail-level scanner data to monitor consumer demand.	28%	48%	17%	7%	0%
8.	Genetic seedstock suppliers will use retail-level scanner data to monitor consumer demand.	6%	28%	36%	17%	13%
9.	Producers will use retail-level scanner data to monitor consumer demand.	7%	11%	24%	33%	26%
10.	More than half of seedstock suppliers will use data on their livestock from identity-preserved slaughtering practices to adjust their breeding programs to meet consumer demands.	4%	21%	45%	26%	4%
11.	More than half of producer-packer linkages will be information-based.	16%	35%	44%	5%	0%
12.	Packers will provide information to facilitate over 50% of producers selection of breeding stock from genetic seedstock suppliers.	0%	30%	45%	21%	4%

Source: Survey and calculations.

Table 1., Continued

	STATEMENT	NOW	IN FIVE YEARS	IN TEN YEARS	MORE THAN TEN YEARS	NEVER
13.	Databases containing livestock performance information listed by producer will be used by packers to customize slaughter selections.	13%	28%	30%	23%	6%
14.	Commercial livestock producers will have access to databases of general carcass data maintained by packers.	7%	37%	37%	13%	7%
15.	Individual producers will obtain records of their own livestock carcass results through computer linkages with packers.	11%	39%	39%	9%	2%
16.	Packer/processors will use computer databases containing the results of periodic live animal performance evaluations to make pre-slaughter recommendations to commercial producers regarding production practices.	9%	39%	41%	11%	0%
17.	Computer databases containing tests results on seedstock animals will be used by 75% of producers to select breeding stock replacements.	6%	11%	36%	38%	9%
18.	Electronic links between more than 50% of producers will be used to match existing livestock supplies to packer demands for particular animal attributes.	4%	11%	33%	46%	7%
19.	Packers will purchase livestock for at least 50% of their slaughter needs using on-line electronic data transfer to transmit order forms, invoices, and payments.	9%	28%	46%	17%	0%
20.	Electronic exchange of information on inventories and shipping schedules between producers and input suppliers will be used for more than two-thirds of transactions.	2%	15%	39%	35%	9%
21.	More than two-thirds of retailers and packer/processors will exchange electronic information on sales, inventories, orders, and shipping schedules.	4%	26%	46%	17%	7%

Source: Survey and calculations

Table 2a. Opinions Regarding Importance of Potential Reasons for Developing Strategic Alliances in the Livestock Sector, Survey of Academicians and Experts, November 1992.

	Potential Reason	Very Important				Not Important	
1.	Responding to distinct consumer-demanded product characteristics	15	19	9	3	1	0
2.	Reducing costs for the partners involved in the alliance	17	13	11	4	2	0
3.	Increasing the market share of meat products	4	16	14	9	4	0
4.	Assuring definite product outlets for the seller	2	19	19	5	1	1
5.	Fulfilling the buyer's need to assure definite product quality	18	21	7	0	1	0
6.	Effectively using available technology	4	9	15	12	6	1
7.	Establishing relationships with genetics and input suppliers to assure final product quality	8	10	16	10	3	0
8.	Reducing the antagonism that currently characterizes interactions between packers and processors	2	7	13	17	7	1

Source: Survey and calculations

Table 2b. Selection of Most Likely Reasons for Developing Strategic Alliances in the Livestock Sector, Survey of Academicians and Experts, November, 1992.

	Potential Reason	Number of Responses
1.	Responding to distinct consumer-demanded product characteristics	23
2.	Reducing costs for the partners involved in the alliance	25
3.	Increasing the market share of meat products	7
4.	Assuring definite product outlets for the seller	9
5.	Fulfilling the buyer's need to assure definite product quality	30
6.	Effectively using available technology	5
7.	Establishing relationships with genetics and input suppliers to assure final product quality	10
8.	Reducing the antagonism that currently characterizes interactions between packers and processors	8

Source: Survey and calculations

Note: Survey respondents each listed three most likely reasons for developing a strategic alliance, resulting in 117 responses.