

## **MARKETING ALLIANCES-IMPLICATIONS FOR BEEF BREEDING**

**B. Ball**

National Manager Meat & Livestock Trading, Elders Limited 27 Currie St. Adelaide SA 5000.

### **Summary**

Beef breeders integrated through strategic alliances in the meat industry have secured benchmarking information on the performance of the genetics they produce in key areas of reproduction, production, feedlotting, meat processing and marketing.

Critical efficiencies across the meat chain can be derived through the collection and comparative analysis of performance data. This analysis must be undertaken utilising efficiency, meat quality/yield, and price information. By selectively isolating the use of performance information in contrast to balanced selection for production, meat quality and yield, breeders increase the risk of undermining breeding and financial improvements.

**Keywords:** Marketing, genetics, breeding, beef cattle

### **Introduction**

The beef chain has been plagued by the lack of transparency in performance and pricing information from the seedstock supplier of genetics to the end customer. This position has prevented the meat industry from achieving improvements in competitiveness against other sources of staple protein and substitute products such as poultry and pigmeat.

The structure and traditional practice of the industry have been significant features preventing the industry from achieving the gains in performance and profitability that competitor industries have achieved. Marketing in the beef industry has resulted in the product passing through many transactions prior to reaching the consumer. At each stage the buyer's interests are to pay as little as possible for the product and pass back as little, if any information, to the supplier on the performance of the product.

The system in the beef industry is in direct contrast to that of our competitors where the product in most cases is marketed once or twice from production to consumption. In addition, the suppliers and the buyer are closely linked through strategic alliances or vertical integration to provide as much transparency in product performance and pricing. The outcome of this approach has been to reduce the cost of the end product to the customer whilst increasing profitability. Profit margins have increased throughout the production, processing and marketing chain, through improved product performance and the application of technology.

The beef industry's position has been progressively eroded by the lack of application of these principles. The continued squeeze on margins at all levels in the beef industry has forced the industry to rationalise and this process is now moving the industry to adoption of vertical

integration and strategic alliances. The formation of these structures within the industry is delivering improved profitability and product performance as production, processing and marketing efficiencies are achieved.

The beef industry has developed and implemented systems for the measurement, collection and comparative analysis of performance data. The pressures for delivering improved efficiency have increased and will result in exponential gains in efficiency in the coming years.

**Current Position.** Customers on both the domestic and export markets have imposed tighter requirements on the specifications of beef product. Accordingly, suppliers have moved to meet these requirements through adoption of improved breeding, production, processing and marketing technology. The application of this technology has resulted in the measurement of performance at all levels of the marketing chain, thereby directly linking supply and demand segments.

The leaders in the industry have been quick to realise the importance of strategic alliances between adjacent segments in the market and the improved profitability that is available through vertical integration and vertical association. The goal has been to bring the customer and the supplier as close together as possible.

Horizontal integration has tended to be replaced by vertical integration. The trend is to align production with target customers and deliver that product through the most efficient group of assets available to the alliance. The conversion of a high performance beef product at least cost into the customers end product is a critical factor in achieving competitive advantage. Benchmarking has now been applied to genetics through Breed Plan, production systems, feedlots, meat processing and beef distribution systems.

*Genetics.* Breed Plan provides the basis for genetic performance benchmarking. This has seen major improvements in the selection of optimal genetics for specific production and market targets. Genetics is now available on the basis of an objective measure of its performance that has been ranked.

The recent addition of data collection for meat quality, yield and product price implications, has substantially advanced the benchmarking of genetics in delivering the results required. Elders have established Integrated Genetic Management (IGM) as a system for progeny testing genetics through breeding management programs with stud stock suppliers and breeders.

IGM provides individual animal identification, segregation of genetic lines, and the tracking of the progeny of those genetics through the production, feedlot, processor and marketing segment of the industry. This process is complex and costly to achieve in terms of establishment, however, once the systems have been developed and established the cost of providing the information is reduced per unit.

The benefits that can be achieved in identifying the correct genetics for a specific production and marketing channel are substantial to all participants in the beef chain. Product waste, inefficiency, customer satisfaction and profitability are all improved.

Genetics is the beginning of the process of producing a beef product for a customer and as such it is the correct selection of the genetics that will then govern the end results in all respects.

*Breeding*. Breeding of beef cattle has seen a distinct trend toward the cow and calf operation being provided from less productive agricultural property. This is in accordance with lower input requirements for the production system and lower overall costs of production.

Alliances between breeders and growers, or an integrated approach to breeding and finishing cattle has also occurred in recent times. This has delivered improvements in record keeping and the passing of production efficiency data from one segment to another as the cattle move through the system. The trend now is for beef buyers, whether they be end-use customers, meat processors or feedlots to move back down the marketing chain to secure consistent reliable supply. This trend has delivered increased transparency in the system between buyer and seller, with consequent improvements in overall efficiency and profitability to both segments.

There are cases where customers have assisted alliance partners in improving performance and profitability by advising on use of selected genetics, production systems or distribution systems. Under these circumstances the buyers interests are served through a more consistent product at lower cost whilst the supplier has also delivered higher gross margins.

The breeding industry is continuing to rationalise and there are indications that contract breeding by suppliers of genetics, production, feedlot, processor and end-use customer sectors will increase.

*Production*. As with breeding, production of beef cattle has tended to become concentrated. The grow out phase in weaner cattle is now targeted to more productive agricultural areas. Under these conditions, the weaner may be grown out to customer specifications in the shortest possible time at the lowest cost. Customer requirements and returns per unit area have been the driving forces behind this trend.

Producers have increased their activity in forming alliances with suppliers of selected lines of cattle and target dedicated customers through strategic alliances to secure optimal performance. In many cases this has resulted in vertical integration back into the breeding area through acquiring additional land for these purposes. The security of having supply "locked into" a dedicated customer program enables breeders to invest in improving efficiency within their operations.

Despite this trend, benchmarking information on the cost and performance of production is still limited. There are signs that comparative analysis is increasing, particularly within geographical regions within specific categories of stock. This has mainly occurred in the pastoral regions of Australia.

*Feedlots.* This has been a rapidly expanding segment of the Australian beef industry in the last decade. This trend has occurred due to customer demand for specific product quality supplied consistently over a 12 month period on both the domestic and export markets.

The formation of alliances and establishment of integration has been extensive in this segment of the market. This has been undertaken by producers, processors and beef customers/trading groups.

Feedlots like meat processing plants have provided the beef industry with a significant advantage in collection and sharing of performance and price information up and down the chain. In any alliance situation where product is produced under standard condition in an intensive way, it offers a focal point for selection for improvement.

This process together with the increasing demands for a tightly specified product have resulted in pressure being applied to all levels of cattle production, breeding and genetic selection. The variation in performance is substantial for all criteria. This information is now being utilised by all segments of the industry to improve breeding to specification.

Suppliers and customers have progressively modified their utilisation of feedlots depending upon seasonal and market conditions.

*Meat Processing.* Over capacity in the meat processing sector in Australia has been further rationalised in the 1990's. The major trend has been the establishment of vertically integrated feedlot, meat processing and customer operations. This trend is likely to continue and also move further back into the production and breeding system.

The collection and benchmarking of product and asset performance data has been exponential in this area. However, the use of the information has mainly been restricted to the specific operations, rather than across industry comparisons. In addition, the provision of benchmarking information to adjacent segments of the market has been somewhat limited to only suppliers or customers of the specific operations.

The information which is passed from these integrated operations on product performance also varies in its extent. Breeders supplying one operation may be provided with a complete set of information pertaining to individual animals on meat quality and yield from slaughter to boning and packing, and only receive slaughter floor information from another.

This process has been a significant inhibitor of performance improvement across the industry.

The trend, however, would suggest that provision of information both back to suppliers and forward to customers will increase as financial pressure continues to drive operators to achieve competitive rates of return on employed capital.

*Beef Customers.* Customers on domestic and export markets continue to pursue security in the supply channel for beef. This is being achieved via integration back into meat processing, feedlotting and production, as well as through strategic alliances and vertical associations.

There has been considerable foreign investment in the beef sector in Australia by our trading partners. This investment in most cases has been substantially undermined through a lack of committed supply from the production sector.

Customers have now come to realise that security of demand and price is needed if suppliers are to commit quality and volume to customers. Suppliers in many cases will be required to make substantial changes to their operations in order to meet customers specific requirements.

The commitment by a customer and supplier to a contractual basis of marketing provide the foundation on which to then identify other alliance partners for the provision of remaining services. These services may include supply of specified genetics, breeding, growing, feedlotting, meat processing and tertiary level value added processing and packaging. These trends are now becoming evident and being driven from the customer segment of the market.

Beef marketing systems in the 90's will require commitments from suppliers as to the integrity and safety of the product. Selected customers are now receiving feedforward of performance details and specifications of individual animals that were processed to derive the product supplied. These systems must be able to be audited by independent third parties and meet the quality assurance standards that have been agreed by the alliance partners. Under these circumstances customers have adequate confidence in the product to pay price premiums and commit long term to the product suppliers.