

Building partnerships in the meat supply chain

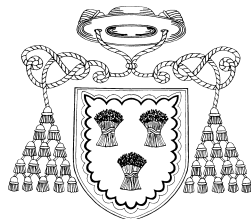
The case of the UK beef industry

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lei-dlo



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Building partnerships in the meat supply chain: the case of the UK beef industry

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This case has been written by commission of the Foundation for Agri-Chain Competence. The case study of the UK beef industry aims to illustrate why partnership schemes have developed, how they operate and some of the major problems which arise. Information was collected from a survey of over 2,000 farmers and semi-structured interviews with some of the country's largest beef processors and meat buyers from the major supermarkets.

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Foreword

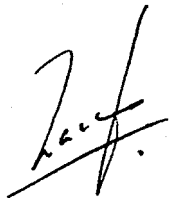
In 1993, the Interdepartmental Commission for Economy and Structure (ICES) used natural gas profits to create a fund for the stimulation of economic sectors in the Netherlands. Within this framework, on the initiative of the Ministry of Agriculture, Nature Management and Fisheries and the Wageningen Agricultural University, and in consultation with the business community and the national research institutions, the Agri Chain Competence (ACC) project was developed (1994-1998).

Much research has been conducted on supply chains in agribusiness and food industry, which has contributed to gain many new insights and knowledge. Industry, service industry, government and education can benefit from this. It is believed that the best way to disseminate results of a (ACC) project is to write cases and distribute them to anyone who is interested in pursuing co-ordination efforts in the supply chain. This contributes to the objective of the Foundation for ACC to disseminate the knowledge throughout the entire agribusiness and food industry sector. Indirectly it will contribute to increase competitiveness of this line of business.

By commission of the Foundation for ACC three cases have been written under supervision of W.A. Kolkman (LEI), namely:

- *Building partnerships in the meat supply chain: The case of the UK beef industry;*
- *Vis à la minute: Innovation in fish (in Dutch);*
- *Dynamics in the vegetable and fruit sector: A new logistic concept (in Dutch).*

The managing director,



Prof. Dr. L.C. Zachariasse

Summary

An important feature of the UK beef industry in the 1990s has been the partnerships between producers, abattoirs and supermarkets. In recent years these partnerships have extended further up the supply chain to include breeders and feed compounders. These partnerships have been difficult to establish and slow to develop - they currently account for approximately one fifth of beef production - but the momentum behind them is gathering and there is a growing acceptance that partnership arrangements are the only sustainable form of trading relationship in the long term. There have essentially been four key factors behind the drive for greater co-ordination: changing attitudes and purchasing behaviour of meat consumers, competitive strategies of supermarket chains, The 1990 Food Safety Act and BSE.

1. Introduction

The development of collaborative marketing ventures in the agri-food chain in many countries is a response to the economic pressures that are driving the evolution of the chain and encouraging greater vertical and horizontal co-ordination. To some, such vertical collaborative ventures ('linkages', 'alliances', 'value-added chains' or 'partnerships') are seen as a compromise in market organisation between the extremes of open market trading (which has characterised agricultural commodities) and complete vertical integration. To others, given the independent minded nature of any farm and agricultural businesses in countries such as the UK, they offer an alternative less rigid way of co-ordinating the market ¹.

An important feature of the UK beef industry in the 1990s has been the emergence of partnerships between producers, abattoirs and supermarkets. In recent years these partnerships have extended further up the supply chain to include breeders and feed compounders. These partnerships have been difficult to establish and slow to develop - they currently account for approximately one fifth of beef production - but the momentum behind them is gathering and there is a growing acceptance that partnership arrangements are the only sustainable form of trading relationship in the long term.

This case study of the UK beef industry aims to illustrate why partnership schemes have developed, how they operate and some of the major problems which arise. Information was collected from a survey of over 2,000 farmers and semi-structured interviews with some of the country's largest beef processors and meat buyers from the major supermarkets.

¹ For the purposes of this report, the term 'partnership' is used as an umbrella for the many different types of collaborative venture referred to in the academic literature and trade press.

2. Structure of the UK beef industry

There are currently just over 70,000 specialist beef producers in the UK, producing around 700,000 tonnes of beef and veal. There are almost 2 million specialist beef cattle (around 60% of British beef comes from the dairy herd). The average specialist beef holding has 26 suckler cows (see table 2.1).

The UK Beef sector have been severely affected by the BSE crisis, which has resulted in a marked decline in production in the face of dwindling domestic consumer confidence, the world-wide ban on beef exports and a strong pound which has attracted imports.

Table 2.1 Structure of UK beef production (1992 and 1996)

	1992	1996
No. of Producers	74,700	72,200
No. of Livestock ('000)	1,699	1,829
Average herd size	22.2	25.8
Production ('000t)	974	701
Self sufficiency (%)	108	78

Source: MLC (1991 and 1997a).

Table 2.2 Structure of UK abattoir industry (1992 and 1996)

	1992	1996
Abattoir numbers	647	488
Slaughterings ('000 cattle units)	13,205	12,962
Average throughput (cattle units)	20,410	25,562
Abattoirs killing cattle	583	423
EU approved abattoirs	83	194
Abattoirs over 50,000 cattle units per year	67	76
Market share (%) of:		
- EU approved abattoirs	55	89
- public abattoirs	1	1

Source: MLC (1997b).

The processing sector suffers from considerable excess capacity, currently estimated at around 30% (Hobbs, 1995), and the process of rationalisation is taking much longer than many industry experts would like (Palmer, 1994). There are currently over 450 abat-

toirs in total, the majority of which kill both sheep and cattle. Less than one fifth of the abattoirs are EU approved and the largest (killing over 50,000 cattle units per year) account for 76% of the market (see table 2.2). The top five abattoirs account for less than a third of total output, which is significantly lower than estimates for other sectors (46% for brewing and malting, 48% for fruit and vegetables, 66% for grain milling) (Hobbs, 1995).

In 1990, the supermarkets accounted for less than half (48%) of total retail sales of fresh meat. By 1996 their share had increased to more than two thirds (68%) (MLC, 1991 and 1997a). This trend reflects the general movement in the food market in the UK - the retail food market in the UK is highly concentrated, with the top five supermarket chains accounting for over 70% of retail consumer expenditure on food. The degree of retail concentration in meat sales is lower than for the food sector as a whole - the top five supermarkets account for just under 60% of retail meat sales - but it is clear from the market shares presented in table 2.3 that the UK meat industry is very much in the hands of the supermarkets, of whom the top five account for 60% of beef sales, 65% of pork sales and 44% of lamb sales. Overall, three players - Tesco, Sainsbury and Asda, dominate the retail meat sector. Supermarket 'own label' products dominate the fresh meat category and competition for market share is intense.

Table 2.3 Retailer market shares for fresh red meat (1997)

	Beef	Lamb	Pork
Market share (%):			
- top five multiples	60	44	65
- high street butchers	26	38	24
- other	14	18	11
Top three rankings:			
- 1.	Tesco	Sainsbury	Tesco
- 2.	Asda	Asda	Sainsbury
- 3.	Sainsbury	Tesco	Asda

Source: MLC (1997c).

Figure 2.1 illustrates the structure of the marketing chain for beef in the UK. Most livestock are purchased from farmers by abattoirs for slaughtering or processing, either directly from individual farmers, producer groups, or through auctions. Sales through dealers have declined since the end of the Second World War, whilst sales through electronic auctions are becoming an increasingly important form of vertical co-ordination following the introduction of the first electronic auction system in the UK, in 1989. A small proportion of livestock are still purchased by butchers and slaughtered by abattoirs for a fee¹, with the processing and retailing functions carried out by the butcher. Some beef enters the marketing chain as imports, in the form of carcasses or meat cuts purchased by abattoirs, secondary processors or directly by retailers and caterers.

¹ Retail butchers can no longer slaughter animals on their own premises.

The main outlets for meat processed by abattoirs are supermarkets, retail butchers, caterers, secondary processors and the export market. Some meat moves through wholesale meat markets (such as the Smithfield market in London) before it reaches retail or catering firms. However, this represents an ever-declining proportion of the meat trade. Some secondary processors (who further process cuts into higher value-added products such as meat pies or ready meals) purchase carcasses from abattoirs and process them into meat products for sale to the retail or catering trade. However, abattoirs that have integrated forwards into processing increasingly carry out this function.

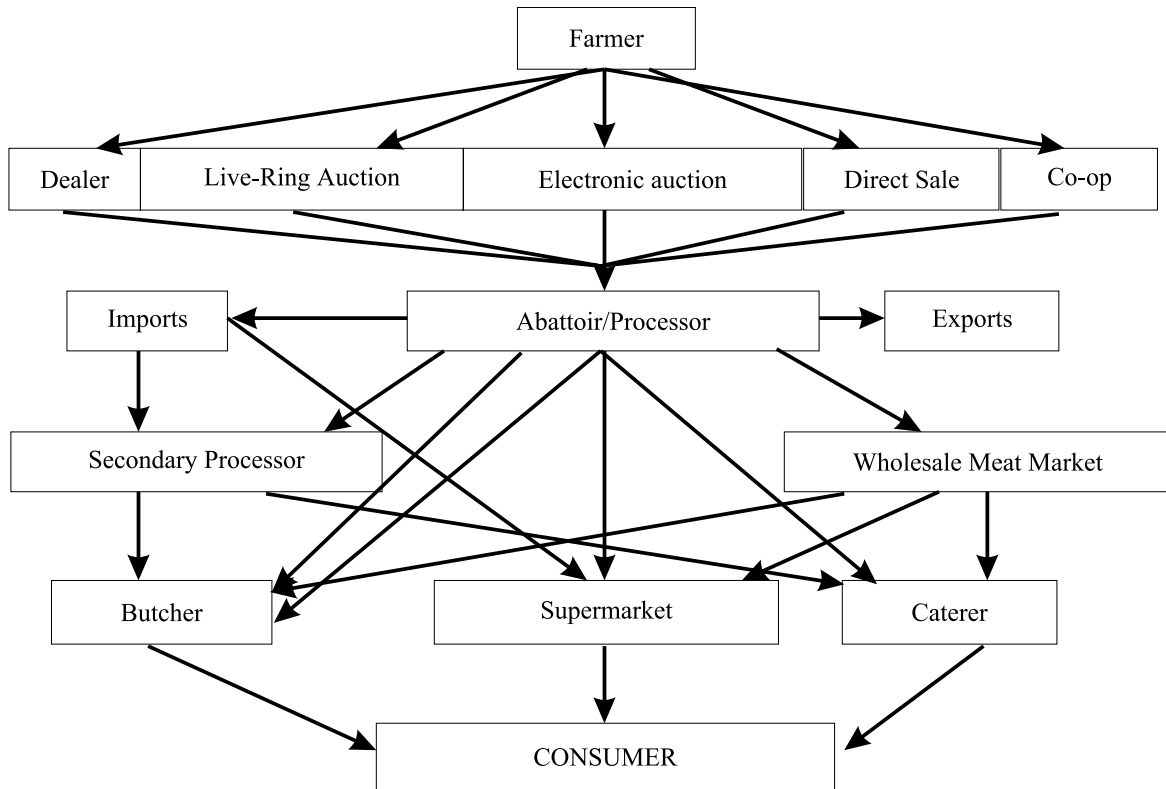


Figure 2.1 The UK Beef Marketing Chain

Supermarkets buy direct from meat processors using a centralised distribution system. Procurement decisions are made by a buyer (or team of buyers) based at the supermarket's head office. Processors do not deliver products to individual retail stores; instead, they are delivered to central warehouse facilities used by supermarkets who then distribute the products to their own stores. In this way, retailers have integrated backwards into wholesaling and distribution. In the past, there were examples of retailers being involved in meat processing and even on-farm production, but modern-day supermarkets are not integrated beyond the wholesaling function, preferring to deal with processors under contract or through strategic alliances.

The role of the meat wholesaler or distributor has diminished in importance, with abattoirs/processors delivering directly to the central distribution warehouses of supermarkets. Supermarkets organise the distribution of meat products to their individual retail stores through within-firm managerial orders.

The catering market (including hotels, restaurants, fast-food outlets such as schools and hospitals) has increased in importance in recent years and now accounts for around one third of beef consumption.

The export market was becoming increasingly important for beef prior to the worldwide export ban on British beef introduced in 1996. Prior to the ban, beef exports had grown to 242,000 tonnes in 1995. As a result of the ban, only 60,000 tonnes was exported in 1996 (MLC,1997a).

As far as domestic marketing is concerned, approximately 40% of cattle are currently sold through the traditional live-ring auction system. The proportion of cattle sold through auction markets has been steadily declining, particularly since the removal of variable premiums ¹ which directly encouraged farmers to sell their livestock through auction markets (since livestock were graded by visual inspection of the live animal). The dominant role of the supermarket, with greater emphasis on carcass quality and traceability has also driven the steady increase of dead-weight marketing.

Individual farmers can undertake direct sales to abattoirs/processors informally or under contract, or by a producer group or co-operative. Although common in other livestock sectors (i.e. pig and poultry) the sale of finished cattle under formal written contract is extremely rare in the UK. Instead, direct sales tend to take place informally, without a written contract.

Often, processors employ procurement staff to liaise with farmers. A farmer with stock ready for market will contact a procurement officer (alternatively, a procurement officer may contact farmers to see whether they have livestock for sale). The procurement officer may inspect farmer's cattle, estimating the dead-weight grades of the animals or, if the farmers are long-term regular suppliers, the farmers themselves may do this. The prevailing weekly price - often based on the previous week's price - is offered for the livestock. This may be a flat-rate price per head but is usually a price per dead-weight grade. Responsibility for arranging delivery of livestock to the abattoirs differs between companies and may rest with the farmer or the abattoir.

Once the livestock have been slaughtered, the farmer is usually paid on the basis of a dead-weight carcass grade. This could be the abattoir's private grading scheme or the EU carcass classification scheme, known as EUROP ². Farmers receive payment approximately two to three weeks after the cattle have left the farm.

Dead-weight marketing provides greater operational efficiency relative to auction markets because the stock are usually handled less and transported just once from farm to abattoir. There are no auctioneer's commission costs and price signals are generally trans-

¹ Direct support payments which were part of the CAP beef and sheep regimes during the 1980s.

² Grading is carried out by visual inspection of the carcass by a Meat Livestock Commission (MLC) meat grader stationed in the meat processing plant. Conformation is assessed on the scale E,U,R,O,P, with E representing excellent conformation, R=average and P=very poor confirmation. Fat cover of the carcass is assessed on the scale 1,2,3,4L,4H,5H, with 1 being very low fat, 4L to 4H = average and 5H=very fat.

mitted more efficiently back through the marketing chain from consumers to farmers because the dead-weight grades provide information on the preferred quality characteristics of the meat. This is the main reason that *all* forms of vertical partnership arrangement work on the basis of dead-weight sales.

Auction markets remain popular with producers, who make only limited use of formal contracts

In our farmer survey over half of the beef producers undertook some direct selling and 32% sold all of their cattle in this way. Yet, 63% of beef producers made some use of the auction market and 36% sold all of their cattle through an auction 22% of beef producers claimed to have sold some of their livestock through a verbal agreement but only 5% of beef farmers had written contracts. In addition, 11% of beef producers said they had contracts or verbal agreements which operated through a producer group or co-operative.

The main disadvantage of dead-weight marketing is the unequal bargaining power of sellers relative to buyers, since price is now the subject of one-on-one negotiation rather than being the result of a competitive bidding process among several buyers. In addition, farmers are subject to grade uncertainty. When livestock are sold liveweight, it is the buyer who runs the risk that the cattle will not grade as expected because the payment is made on the basis of a liveweight visual assessment of the animal. Dead weight selling, however, shifts the risk onto the seller, since payment is now made on the basis of the actual carcass grade. Whereas the seller has the option of to withdraw cattle from a liveweight sale if the price is not satisfactory, this option is obviously not available once the cattle have been slaughtered and a dead-weight grade assessed. Furthermore, because payment is made on a dead-weight basis, any shrinkage which occurs between the time when the cattle leave the farm and when they are finally slaughtered reduces the return to the seller. Finally, payment usually takes two to three weeks and, particularly during a period of rationalisation in the abattoir industry, farmers may fear that the buyer could go out of business before they have received payment.

The choice between liveweight or deadweight selling is a fundamental one, as a farmer considering joining a producer group or developing a partnership-type of marketing arrangement with an abattoir will be obliged to sell his/her livestock on a deadweight basis. This inevitably leads to questions about quality and price premiums for deadweight selling, the answers to which are not always clear. As figure 2.2 illustrates, the relationship between average deadweight prices and average auction prices for steer cattle is not consistent, with auction prices rising above deadweight prices at certain times. However, there are consistently higher prices paid for cattle classified in the top grades, delivering premiums of up to 8p/kg over auction prices (worth around £40 per animal). Thus, the rewards clearly exist for producers of higher quality cattle, whilst farmers who struggle to produce cattle which the market wants are likely to fair just as well (if not better) by selling their cattle through the auction system.

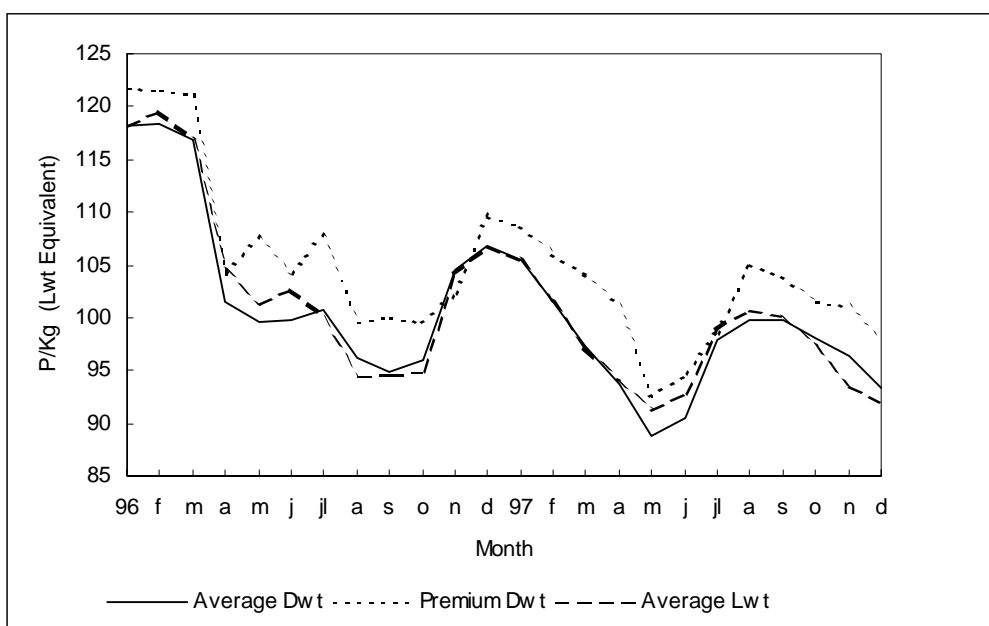


Figure 2.2 Average UK Steer Prices (January 1996-December 1997)
Source: MLC (weekly).

The resistance to dead-weight selling is understandable when we consider the difficulty which livestock farmers appear to have in meeting carcass standards demanded by the retailers. Table 2.4 shows the proportion of cattle making the target grades (E,U or R confirmation and 4L or leaner), from which it is evident that there are substantial numbers of cattle falling below the quality standards which the market requires.

Table 2.4 Beef carcass classification (1996)

Percentage of animals classified as	Steers	Heifers
Target sector	38.1	30.4
Too fat	20.7	21.6
Lean but poor confirmation	32.4	32.8
Too fat and poor confirmation	8.8	15.2

Source: MLC (1997a).

It may be argued that the difficulties which livestock producers have had in meeting the needs of their retail customers is one of the reasons for the continued operation of the auction markets on such a large scale - producers are unwilling to risk the price penalties for carcasses which fail to meet the target grade - and processors cannot afford to switch to exclusive dead-weight procurement given existing throughput requirements.

Producers recognise the need for greater co-ordination in the marketing of livestock but resist the trend towards dead-weight sales

In our survey, 16% of beef farmers producers described the current relationship with their customers as a 'partnership'. However, a third of beef farmers described their relationship as 'dominated by the retailers'. Overall, almost two thirds of respondent said they were either somewhat or very satisfied with their current marketing arrangements. However, the propensity for satisfaction was significantly greater amongst those respondents who described their trading relationship as 'a partnership' (92% somewhat or very satisfied) or 'equally beneficial' (80% somewhat or very satisfied). It is also interesting to note that only 40% of respondents who described their trading relationships to be 'dominated by the retailers' were either very or somewhat unsatisfied.

Looking to the future, over two thirds of respondents agreed with the statement 'Greater co-operation amongst producers is essential for the future prosperity of the industry' and 83% agreed that 'Greater co-operation between buyers and sellers throughout the industry is essential for its future prosperity'. However, beef producers appear reluctant to accept that dead-weight marketing is the only effective way to achieve this, as 64% of beef producers believed that auction markets have an important role to play and only 39% of beef producers thought their role would diminish in the future. Indeed, 40% of beef producers thought the role of auction markets would remain unchanged.

3. Key drivers for the development of partnerships in the UK beef industry

3.1 Introduction

In order to understand how livestock partnerships in general, and beef partnerships in particular, have evolved in the UK it is important to understand the key drivers, some of which may not be so prevalent in other parts of the world. There have essentially been four key factors behind the drive for greater co-ordination (horizontal and vertical) in the UK livestock sector:

- changing attitudes and purchasing behaviour of meat consumers;
- competitive strategies of supermarket chains;
- the 1990 Food Safety Act;
- Bovine Spongiform Encephalopathy (BSE).

Taken together, these factors have resulted in an increase in the level of co-ordination between livestock producers and between trading partners. However, each factor has made a distinct contribution which in most instances has had a specific influence on the objectives of partnership arrangements, and in many cases, on the form of the partnership itself.

3.2 Consumer attitudes and purchasing behaviour

The UK has the lowest level of per capita consumption of red meat in Northern Europe and Spain is the only country in the European Union (EU) which has a lower level of consumption. Moreover, the downward trend in recent years is more marked in the UK than in any other country in the EU (see tables 3.1 and 3.2).

Table 3.1 UK Meat Consumption, 1992-1997 ('000 t)

	1992	1997
Beef and veal	994	839
Lamb	378	351
Pork	770	838
Bacon	422	453
Poultry	1,422	1,636

Source: MLC (1997a).

Table 2.2 *EU per capita consumption of beef and veal and lamb, 1996 (Kg/Head)*

	Beef and veal	Lamb
Belgium and Luxembourg	20.7	2.2
Denmark	19	1
Germany	15.2	1.1
Greece	20.9	13.3
Spain	12.2	6.5
France	26.5	5.2
Ireland	19.2	12.2
Italy	23.4	1.6
The Netherlands	21.8	1
Portugal	14.4	3.4
United Kingdom	14	6.3
Austria	17.8	1.2
Finland	17.2	0.2
Sweden	18.7	0.6

Source: MLC (1997a).

The decline in consumption started in the late 1970s and early 1980s and was initially driven by concerns about diet and health. Successive Government reports (NACNE, 1983, COMA, 1984) were published over this period drawing attention to the high levels of saturated fat and dietary cholesterol in red meat and explicitly advising the general public to eat less red meat.

A Model Partnership: Marks & Spencer with Northern Foods

Marks & Spencer (M&S) is one of the UK's (indeed one of the world's) most successful retailers, with an own label (St. Michael) which is recognised world-wide. Its share in the UK food market is small (approximately 5%) but it commands the high quality, premium end of the market. Northern Foods (NF) is one of the UK's largest food manufacturers (turnover in excess of £ 2 billion), specialising in supermarket own label products and with a convenience foods division which accounts for 25% of turnover. The two companies have been working together for over twenty five years and share a high level of mutual dependence (sales to M&S represent 60% of NF's convenience division, and NF produces 40% of M&S's convenience products and 20% of all their foods).

This is a value-adding partnership which works through 'centres of excellence' (people, products and technology) with food safety and quality the key elements. The companies hold joint strategy meetings twice a year (locking M&S into NF investments) and they have complementary and highly compatible organisational structures (NF has a flat organisational structure with de-centralised responsibility right down to plant level, which means M&S staff, working in a hierarchical and highly centralised organisation, can access key people in Northern Foods as and when they need to).

To date, for meat, the partnership has not extended back to the farm gate - NF still use auction markets - but this is about to change, with traceability of individual ingredients becoming increasingly important. Indeed, NF already has a partnership programme with dairy farmers for its premium liquid milk business, enabling them to offer traceability and quality assurance.

At the same time, concerns over animal welfare were beginning to grow and were reflected in the growth of vegetarianism. Then towards the end of the 1980s we saw the first major food scares - salmonella (eggs), lysteria (soft cheese) and BSE (beef) all of which served to heighten consumer concerns over food safety. Throughout this period there was the inexorable growth in consumer demand for convenience - in purchasing, preparation and final consumption.

For decades, the industry has been seeking ways of adding value to what is essentially a commodity market. This has proved technically difficult for beef and lamb, which have lagged behind pork and chicken in this regard. However, the 1980s saw the arrival of the convenience meal - ready prepared and ready cooked for the microwave. These are complex products requiring many different ingredients from multiple sources - high risk in every sense - yet they command high prices and offer attractive margins to manufacturers and retailers alike. Marks & Spencer were the first food retailer to introduce these products and their partnership with Northern Foods is often used as a role model for the rest of the industry.

The search for ways of adding value to meat products is also the key driver behind numerous initiatives by regional producer groups to establish regional brand loyalty amongst consumers within a particular region. Unfortunately, these have met with very limited success, largely because they have not received favour from the supermarkets, who have been pre-occupied with establishing store loyalty, through own-label meat products. Indeed, the importance of having the support of the retailer is evident in the example of J Sainsbury (JS) and Anglo Beef Producers (ABP), whose 'Traditional Beef' product has been successfully marketed under the JS label.

The key aspect of consumer behaviour as a key driver for livestock partnerships is the impact which it has had on the marketing environment: declining consumption of predominantly commodity type red meat products which have become increasingly regarded as unhealthy and inconvenient. Retailers sought to improve the image of a product category (fresh meat) over which they had complete control (i.e. no competition from branded products) and the early attempts to set up livestock partnerships were almost exclusively aimed to improve the image of the product (i.e. produce leaner carcasses from welfare friendly production systems) and add value wherever possible, with products such as 'Traditional Beef'.

3.3 Competition between food retailers

Whilst changing consumer purchasing behaviour was putting pressure on the industry to innovate and become more consumer-led, supermarkets were squeezing suppliers in their quest for competitive advantage. The 1980s was also the decade which saw the concentration of market power coming to rest firmly with the multiple retailers, which now dominate the UK food industry. However, growth in supermarket outlets has reached saturation point and the highly concentrated food retail sector faces a market that shows little overall growth. Thus, a fierce battle for market share has resulted, with supermarkets uncompromising in their competitive strategies.

Improved eating quality with 'Traditional Beef' - an exclusive from JS and ABP

Sainsbury is currently the UK's second largest fresh meat retailer, with over 300 stores nationwide and an annual supermarket turnover in excess of £ 10 billion. ABP is part of the Goodman International Group - one of Europe's largest meat processing companies - and is the largest meat processor in the UK, with a 10% share of the UK market. Their 'Traditional Beef' product is an excellent example of a successful partnership between retailer, processor and producers.

It all started with a technological breakthrough ...

The 1960's saw the arrival of vacuum packing, which had a huge impact on the meat industry, enabling meat to be processed more quickly and economically than ever before, by reducing bacteria counts to give a longer storage life. Despite the fact that it takes almost two weeks to remove all tensions from a carcass, the industry saw the potential for faster cooling and turnover. The result was tough and tasteless meat, which did not improve with maturation. JS sought a solution to improving eating quality and their senior meat technologist, Dr Mike Follett combined research findings from USA, New Zealand and Denmark, where there was unconnected work going on into hip suspension, electrical stimulation of the carcass, maturation on the bone and in vacuum, and the effect of good old fashioned higher temperature cooling. Individually these factors had a minor effect, but together they produced hindquarter cuts that would eat perfectly every time.

JS needed a supplier to work with *exclusively* and chose ABP, who were willing to invest in a state-of-the-art plant in Ellesmere, dedicated to JS and Traditional Beef. From the outset, demand outstripped supply and the premium product provided the essential impetus for Sainsbury's Partnership in Livestock, a tri-partite link between JS, ABP and beef producers, which had been difficult to establish but took off on the back of a successful premium priced product which offered tangible benefits for producers - a guaranteed market and a guaranteed premium.

As far as the development of partnerships is concerned, there are two key elements here: the relentless pressure to reduce prices to consumers and the emphasis on 'own label' which has led to the emergence of exclusive suppliers and competition between supply chains rather than between individual firms within supply chains. The latter has been a major factor driving tripartite partnerships between retailers, abattoirs and producers, whilst the former has been a major stumbling block in establishing producer acceptance of partnerships as the way forward.

The competition hot on the heels of Sainsbury

Two years after Sainsbury's successful launch of 'Traditional Beef' with ABP, Safeway launched a copycat product - 'Heritage Beef', produced with a rival abattoir and in the past few months Tesco, now the UK's largest supermarket (with the largest market share in beef and pork), has launched its Producer Club, to rival Sainsbury's Partnership in Livestock. Asda (No.2 in beef and lamb) has just launched what it calls its Beef Bond, tying in regional producers to develop a regional identity in their stores.

Own label products account for over one third of all foods purchased in UK supermarkets and the fresh meat category is almost exclusively own label (Supermarketing, 1998). It is important to emphasise that own label products in the UK are not aimed at price sensitive, quality-insensitive consumers. Generally, the products are seen as competing head-to-head with the major manufacturers' brands in the same quality market. This philosophy has been adopted in the fresh produce and meat categories, where own label dominate, to the extent that own label has become a key factor in the major supermarkets' attempts to differentiate themselves from the competition.

As the rationalisation of the abattoir sector continues, the race is on for retailers to find the best partners with whom to take on the competition. As a result, the within-chain confrontation which has characterised the UK meat industry for decades is being replaced by intense competition between chains. Whilst this will create opportunities for producer groups and abattoirs, it will also create growing tensions between partners, unless a way can be found to take the eyes of producers, abattoirs, retailers *and* consumers away from price as the key product characteristic.

3.4 The 1990 Food Safety Act

The 1980s saw the first attempts by retailers and processors to work more closely together and in turn to develop stronger links with livestock producers. However, the early initiatives met with limited success, particularly when retailers had earned a reputation for being opportunistic and unscrupulous in their dealings with their trading partners - accusations that have been made of processors and producers alike. A distinct lack of trust, a fiercely competitive market, considerable excess capacity in the processing sector and a deeply rooted tradition of independence amongst producers were proving major hurdles in the pursuit of greater co-ordination. What was required was a catalyst and it came from an unlikely source - the British Government - who, implementing EU Directives on food safety and hygiene standards (necessary for the establishment of the Single European Market in 1992) passed the 1990 Food Safety Act, which many observers believe has been the single most important factor contributing to the growth of partnership arrangements throughout the 1990s.

The Food Safety Act effectively implemented EU Directive 89/397, which required member states to draw up national legislation to ensure that:

- food would be inspected regularly at the point of production, to avoid the need for border controls between member states;
- inspection procedures would be harmonised between member states;
- there would be mutual recognition of standards within the EU;
- details of member states' food law enforcement programs would be submitted annually to the EU Commission.

In implementing the EU Directive, the UK Government took the opportunity to tackle the rising public health concerns, following the outbreaks of salmonella in eggs and Lysteria in cheese, in the late 1980s. The Act was intended to induce those involved in the

food industry to improve their handling practices by strengthening the powers of enforcement, introducing tougher penalties and increasing the legal responsibility for ensuring that food conforms to the provisions of the Act.

The major legal change was the introduction of the concept of due diligence. This means those engaged in food handling must be pro-active in their efforts to ensure that food in their possession conforms to the provisions of the Act. Previous legislation allowed buyers in the supply chain to use the so-called 'warranty' defence. This only required buyers to prove that the food was not compromised while it was under their control. This allowed a buyer to be passive about the food received in a transaction from an upstream supplier. Moreover, an invoice was deemed to be a warranty. Thus, after satisfying the court that the food was handled properly on the premises the firm simply had to supply an ordinary purchase invoice to fulfil its legal responsibility.

A processor's view on quality assurance schemes

Dave Fleetwood, General Manager, ABP Ellesmere:

'We know from our grading results that we are sourcing excellent cattle and having every animal farm assured is an important plus for our marketing. With the vagaries of the market, the media and consumer concerns about meat in general, it (farm assurance) is an on-cost, which we have to accept as an industry. At the end of the day, no farmer is worse off by just checking that his system is fully up to a standard which can be monitored.'

John Walsh, General Manager, ABP Shrewsbury:

'Farm assurance is not enough. We need quality at whatever weight or type of livestock, and then we need it 52 weeks of the year. We need farmers to appreciate that not every animal they produce is as good as they think. We have no problem with good cattle... our problems always surround arguments over poor cattle and their grading performance.'

The 1990 Food Safety Act requires buyers to take all 'reasonable steps' to ensure that the food they receive from upstream suppliers is safe. It also means that upstream firms need to monitor more carefully their food handling to satisfy their downstream customers. The critical word in the definition of due diligence is 'reasonable'. This is sufficiently vague that it has encouraged retailers to take extraordinary steps to ensure the safety of products reaching them from their suppliers. If their desire to develop own label products had encouraged them take a greater interest in what was happening upstream, the 1990 Food Safety Act compelled them to effectively take control, by instituting stringent quality assurance programs with their suppliers, with a particular emphasis on traceability. In effect, risk management took over from added value as the key driver for greater co-ordination in the meat supply chain.

Retailers drew up codes of practice, covering all aspects of animal husbandry and issued them to their suppliers. The industry responded by developing generic farm assurance schemes. The first of these was Farm Assured Scotch Livestock (FASL), set up in 1990 and this was soon followed by Farm Assured Welsh Lamb (FAWL) and Farm Assured British Beef and Lamb (FABL). All of these schemes cover the same critical factors:

- traceability;
- feeding;

- animal health;
- animal welfare;
- transport and handling.

More recently, these schemes have been extended to the abattoirs and cutting plants, providing an integrated system of quality assurance from farm through to retail store. At the outset these schemes received a luke-warm welcome from producers who were faced with an inspection fee of between £ 80 and £ 100 but no hint of a price premium. Retailers and processors were under pressure to remain price competitive but these assurance schemes provided an alternative source of competitive advantage, based on animal welfare and quality assurance.

ABP were so keen to help get the early farm assurance initiatives off the ground that they offered to pay for FABL inspections on behalf of the producer members of their livestock partnership. They saw this as a way of remaining ahead of the game, yet the corporate membership arrangement which ABP initiated resulted in the loss of integrity in the early schemes, as not all farms who were granted FABL status were actually inspected.

The Scots lead the way on Quality Assurance

The Scottish Quality Beef and Lamb Association (SQBLA) undertake accreditation for Scottish beef producers, abattoirs and retailers. Formed in 1975 with the purpose of 'differentiating Scottish beef in target markets and supporting the Scottish industry in developing sales at premium prices', SQBLA has a total budget of around £ 1.2 million. Most of this income comes direct from a Meat and Livestock Commission levy (9% of the total levy on Scottish beef and lamb producers of 50p each for cattle and 10p each for sheep). However, a further £ 75 per farm is collected by SQBLA from 6,000 farmers (accounting for about 70% of beef production) who have joined the Farm Assurance scheme.

Under the SQBLA system, farms are set minimum standards for beef production covering: origin of stock; stockmanship; housing and handling; medicines; movement; and traceability. Applicants and existing members of the scheme are visited and inspected by a Scottish Food Quality Certification inspector (an independent organisation, sub-contracted by SQBLA) on an annual basis. SQBLA also accredits slaughterhouses, run by 18 companies. This scheme, known as the Guild of Scotch Quality Meat Suppliers, raises a further £ 64,000 for SQBLA which it uses to cover inspection cost. Abattoir inspection takes place every two months, over and above mandatory government Meat Hygiene Service inspections.

The SQBLA scheme acts as a basis for other schemes, mostly very similar in nature, operated by the major retailers. Many farmers will be part of the SQBLA scheme, plus a retailer scheme, such as 'Select Farms', operated by M&S. In this way, the farmer not only has access to accredited abattoirs and retail butchers, but directly to a major chain retailer.

All of the major supermarkets now require *all* livestock to come from suppliers who are members of a recognised farm assurance scheme. The integrity of quality assurance schemes has been restored with their recent re-launch under much tighter controls and independent inspections. The impetus behind the re-launch was the BSE crisis, which surfaced in the early 1990s but erupted in 1996, with the world-wide ban on UK beef exports. This crisis may yet prove to be a watershed in the history of the British beef industry. The industry remains gripped by a battle to restore consumer confidence and it is this battle which is currently forcing the pace of co-ordination between breeders, feeders, finishers, processors and retailers.

Producers see the importance of quality assurance but don't expect price premia

In our survey, we asked livestock producers how important they thought it was to belong to a quality assurance scheme. It was encouraging to find only 12% felt it was not important and 54% felt it was either somewhat or very important. In fact, over two thirds of beef producers and 54% of sheep producers said they were members of a quality assurance scheme.

Over half of respondents felt that quality assurance schemes would make a significant contribution to restoring consumer confidence and 40% believed membership of a quality assurance scheme would help them secure a market for their livestock. However, only 29% believed that quality assurance schemes would deliver any price premiums for producers.

3.5 Bovine Spongiform Encephalopathy (BSE)

BSE was discovered to affect UK cattle in the mid-1980s. The number of confirmed cases rose to a peak in 1993 of over 1,000 new cases confirmed each week. The BSE crisis was an important health scare in its own right because it was shown to be transmissible to humans and because of the potentially long incubation period (up to 20 years). However, it was also important because of what it did for the public credibility of the main participants in the crisis - the UK Government, the supermarkets, the abattoirs, and the livestock producers.

Of these four participants, only the supermarkets appear to have largely retained the confidence of the consuming public. They reacted swiftly and decisively to the crisis as it unfolded. The UK government was widely criticised for dragging its feet on the issue prior to 1996. In the early years of the emerging crisis, the UK Government attempted to downplay the risks to humans, a miscalculation that came back to haunt it and which has affected the entire UK meat industry.

The Government set up the Spongiform Encephalopathy Advisory Committee (SEAC) in 1987, to advise on the risk to humans of the disease. In its initial report SEAC downplayed the risk of transmission of the disease from cattle to humans. Then, in 1990, a scientific surveillance unit was set up to see if there was a connection between BSE and CJD (a human disease similar in appearance to BSE). This stimulated the first major health scare, which again the Government downplayed. In 1992, as the German Government banned UK beef and numerous schools took beef off the school lunch menu, beef consumption in the UK dropped to its lowest level since 1962. Still the Government tried to convince consumers that BSE was not a risk. In 1994, calves (born well after the 1988 feed ban) were found to be infected with BSE, suggesting that BSE was transmissible through a second means (apart from feed) - to the calf through the mother's milk. This risk was initially denied but later accepted by the British Government, yet as late as early 1996 the Minister of Health was claiming there was no conceivable link between BSE and CJD.

The BSE crisis reached a turning point on March 20th, 1996, when the Ministers of Agriculture and Health made statements to the House of Commons based on advice from SEAC and the surveillance unit in Edinburgh. They reported on a new variant of CJD for

which the most likely explanation was a link to exposure to BSE. SEAC had recommended a series of measures including:

- the disposal of carcasses of all cattle aged over 30 months;
- a ban on the use of mammalian meat and bone meal in feed for all farm animals;
- more rigorous enforcement of existing controls in slaughterhouses and other meat plants.

The statements were a bombshell which led to the EU announcement one week later of a world-wide ban on UK exports of beef animals, meat and meat products. A framework for lifting the ban was agreed by EU Ministers at the Florence Summit in June 1996. The requirements were:

- implementation of a selective cull of all bovine animals (between 1989 and 1993) in the same birth cohort as BSE cases;
- legislation for the removal of feed containing meat and bonemeal from farms and feed mills;
- implementation of the over thirty months (OTM) rule in which bovine animals over 30 months at the time of slaughter must not enter the food or animal feed chains;
- improved methods of removing specified bovine material (SBM) from carcasses;
- an effective animal identification and movement recording system with office registration.

The Government had already introduced an OTM scheme on April 12th, 1996, with the reluctant backing of the farm lobby and by the end of 1996 1,125 million animals had been slaughtered under the scheme. The Government had balked at the selective cull, doubting its scientific merit, but eventually agreed to go ahead in December 1996. The remaining major requirement was the animal identification and movement recording system, with which the industry is currently preoccupied.

The BSE crisis has exposed the meat industry in general and the beef industry in particular to such detailed scrutiny that horror stories from one abattoir to another have become regular front-page news items. It also exposed a Government who chose to gamble with public health and failed. As a result it has had to go overboard in an attempt to convince the general public that the problem has been resolved. It set up the Meat Inspection Service in 1996 and gave it a mandate to raise health and safety standards in abattoirs and cutting plants. Mandatory inspections are now carried out every month by independent inspectors who assess each plant using an objective, risk-based assessment of health standards. The results of this Health Assessment Scheme (HAS) are published each month, so those who do not meet the standards are 'named and shamed' for all to see (Meat Hygiene Service, 1998). However, the real significance of the BSE crisis, in terms of its impact on vertical co-ordination, is that it shifted the emphasis away from risk management at the retail level and the need to conform to food safety legislation - due diligence and the need for retailers to put in place quality assurance and traceability systems - to the restoration of consumer confidence. Thus, the entire industry has, for the past two years, been grappling with what to do and how to do it, recognising the need to do whatever it takes to restore consumer confidence.

For its part, the Government has moved quickly to support the establishment of a fully computerised cattle passport system, equipped to trace over 24 million animal movements per annum. In January 1998, the industry launched, with the aid of a Government grant, Assured British Meats (ABM), an impartial organisation with representation from within and outside of the meat industry. ABM has the sole aim of restoring consumer confidence in British meat through an industry-wide assurance scheme which is designed to establish minimum safety standards on which retailers will not compete, but will be free to 'bolt on' their own 'quality assurance' schemes. The scheme is voluntary but ABM hope to attract 80% of British meat into the scheme over the next three years (ABM, 1998).

Producers can take initiatives: Tracesafe Ltd is a first for farmers

Tracesafe is a farmer owned and controlled private limited company which operates a unique cattle traceability and quality assurance scheme that has been in development since 1993 and operational since January 1996. The Tracesafe Cattle Management System is the first of its kind to receive the internationally recognised ISO 90012 quality assurance accreditation, covering parent selection and all stages of rearing and production through to receipt of carcass by the processor or butcher. Systems are in place to allow the history of individual cuts of meat to be traced back to the animal of origin.

Tracesafe beef is targeted at specialist retail outlets and high quality restaurants, where consumers are willing (and able) to pay a premium for the assurance of guaranteed traceability. There are currently 130 members, including breeders, breeder/finishers and finishers. Calves of any breed are supplied at 100kg, from units which comply with MAFF welfare standards. All animals are reared on natural feed. On-farm feed mixing is encouraged and all grain is supplied from a network of mills contracted to provide specially prepared rations (free from hormones, growth promoters or fishmeal) into breeding and rearing units, where independent auditing is carried out under the ISO 9002 accreditation requirements.

Tracesafe has a unique computer-controlled Birth Card system, which records the dam and sire of every calf and allows the animal to be monitored through every stage of the rearing and meat processing chain. Complete details of an animal's life, including the individual details, parentage, medication administered, the feeding of the animal and any movements are fully documented. The BSE and TB risk is eliminated as far as possible with cattle being supplied from parentage that can have either one, two or three generations free of BSE and TB, as required.

The system allows joints of meat sold to be traced back to the farm where the calf was born, and account for all activities throughout the animal's life. The brand name, Tracesafe, serves as the quality assurance stamp, to be used on all accredited carcasses. This helps to prevent fraud and acts as an endorsement of Traceability.

The BSE crisis served, amongst other things, to raise the stakes for those whose living depends on a buoyant domestic beef market and the restoration of consumer confidence in what is now, arguably, the safest beef in the world. Quality assurance and traceability are now top of the list as far as retailers are concerned - only producers who are members of a recognised quality assurance scheme are eligible for the partnership arrangements which now proliferate the industry and the race is on to develop a system to provide full traceability from breeder through to the individual cuts of meat.

The ABM initiative seeks to remove meat safety as a source of competitive advantage, yet the first retailer/processor/producer who can deliver full traceability *will* gain some 'first mover' advantage. What is most interesting is that the major multiples and the large abattoirs have yet to find an effective system for tracing products from the breeder

through to the cutting plant on a large scale. This has provided the smaller players with an opportunity to gain competitive advantage. One such player is Les Fearn, a beef farmer from the South West of England.

At the other end of the supply chain, Marks and Spencer (M&S) are probably the closest to having a system similar to that developed by Les Fearn. What distinguishes M&S from the other major food retailers is their direct link with their suppliers, something, which the larger food retailers tend to leave to the abattoir.

Traceability offers real competitive advantage with Marks & Spencers' Select Beef Scheme

Consistent high meat eating quality backed up by frequent taste panel tests is the key to this scheme. M&S run extensive taste panels which, using a detailed producer database, can be related directly back to the individual farm.

Every producer who applies for approval submits information covering housing, breeds, feed use and stockmanship. M&S claim their code of practice is superior to generic assurance schemes, such as FABL. M&S use the privatised Agricultural Development and Advisory Service (ADAS) to carry out random inspections, but initial inspections of applicants are carried out by the farm assurance officer of the local abattoir approved to process meat for the scheme. Information is then stored on a database and taste panel tests carried out to check meat quality and consistency.

Megan Lewis is Marks & Spencers' agricultural technologist and she claims 'Taste tests have shown that higher fat levels produce the best flavour. So, the requirements for the Select Beef scheme are set higher than other club schemes to take animals from higher fat classes, up to 4H. Results can then be used to compare beef produced under different regimes and if necessary we can recommend changes to a ration or husbandry to further ensure that beef produced has a consistent eating quality'

Every six months producers are asked to complete a feed declaration and details are entered on the database. Any changes that are made are then highlighted. When buying in feed, producers must have a breakdown of all ingredients to show that only approved ingredients are used. Greater consistency is achieved by sourcing all meat from steers only. The same processors approved by M&S take bull or heifer beef produced at the registered farm, but this meat is ineligible for scheme premiums.

The British Government is seeking to establish food safety as a factor on which the industry does not compete, yet these examples demonstrate the opportunities which exist for producers, processors and retailers who are willing to take commercial risks and invest in innovative systems to deliver full traceability and who are willing to respond to the needs of the market and adapt their husbandry and processing practices to improve the quality of the end product.

Summary of the key partnership drivers

There is a clear chronology in the factors that have been driving the development of livestock partnerships in the UK over the past ten years:

1. the initial impetus came from the need to address the decline in red meat consumption and provide the retailer with a source of competitive advantage based on added value;
2. fierce competition between retailers meant that price premiums were limited - partnership schemes in the main were slow to get off the ground;
3. as the market share of the major multiples grew and competition between them increased, so the emergence of dedicated supply chains, exclusive suppliers and preferred suppliers resulted in de facto partnerships, where the key incentive for suppliers is a larger share of the largest market. In return, retailers seek to source only the highest quality meat from dedicated suppliers who are members of a recognised quality assurance scheme. They also look to the abattoir to 'manage' relations with livestock producers, emphasising the service element in meat processing;
4. the emphasis on quality assurance, and more recently traceability, both of which require and facilitate greater co-ordination between producers, processors and retailers, came initially from the 1990 Food Safety Act and the 'due diligence' clause, but more recently as a result of the BSE crisis, which has served to focus the minds of all those who seek a long term future in the meat industry.

4. Key features of partnerships in the UK beef industry

4.1 Introduction

Our discussion of the key characteristics of livestock partnerships in the UK is split into two parts. The first looks at partnerships within a part of a supply chain (horizontal partnerships) and the second looks at collaboration between parts of the supply chain (vertical partnerships).

4.2 Horizontal partnerships

Horizontal partnerships have existed for centuries in the agricultural industry, in the form of producer co-operatives and generally they have three key motives:

- meeting the volume requirements of major customers and increasing bargaining strength in their dealings with major buyers and sellers;
- accelerating the pace and reducing the cost of penetrating new markets;
- sharing the costs associated with developing new products and adopting new technology.

As far as the commodity sectors are concerned, it is the first of these which has traditionally been the most important. However, as producers of commodities seek to develop their businesses and create or break into value-added markets, the risk and cost sharing motives become more important.

UK farmers have traditionally been reluctant to embrace the ethos of horizontal co-operation and traditional marketing co-operatives play only a limited role in the marketing of British beef. They currently account for approximately 5% of beef and veal sales, significantly lower than some continental countries (44% in Denmark, 30% in France, 16% in the Netherlands).

However, in recent years there has been a considerable and growing interest in producer groups (sometimes referred to as New Generation Co-operatives), which are similar to traditional co-operatives in many ways - voluntary associations with a common commercial objective - but differ because membership is restricted. Members may agree to adhere to specified production methods, such as feeding regimes, breeds and animal welfare standards. They offer a means of improving members' bargaining power relative to retail buyers, who increasingly demand consistent, reliable supplies of high-quality produce in large volumes. Any members who fail to meet these standards can be expelled from the group. Hence, producer groups may be better placed to meet the specific requirements of retailers because of their tighter control over product quality.

The development of producer groups was given a substantial boost during the early 1990s following the launch of the Group Marketing Grant Scheme (GMGS) in 1992. The Government's stated belief was that '...farmers should now come together to organise their marketing through larger and more professionally managed structures'. The grant scheme provided management grants (as opposed to capital investment grants) to help groups of producers improve the marketing of their agricultural produce. Between 1992 and 1994 120 grant applications were received (48 from the livestock sector) and 91 grants were approved (37 from the livestock sector). In June 1994, the GMGS was replaced by the Marketing Development Scheme (MDS) which provided management grants of up to £ 150,000 per project. The eligibility requirements were widened so that individual groups of producers, processors and industry-wide organisations such as trade associations could apply. Traditional producer groups represented just over 50% of applications, with processors accounting for just under 30%.

How grant aid gave a boost to ABP's partnership group

ABP struggled in the early days to attract producer members to their tri-partite partnership with Sainsbury, despite the bonus of £ 6 per animal which ABP and Sainsbury funded jointly. However, the Government recognised the considerable potential of schemes like these and awarded ABP a grant of £ 102,000 spread over three years, to improve the communication of the scheme to beef producers and thereby attract new members. The grant was small in the context of the establishment costs that ABP undertook, but its impact was significant, enabling ABP to employ staff to work specifically on building up the membership base. Indeed, senior management at ABP believe that the MDS grant made a substantial contribution to the establishment of a critical mass of producer members at a time when traceability, animal welfare and quality assurance were becoming major issues within the industry.

Many of the producer groups who were awarded MDS grants have subsequently collapsed and it is no coincidence that the one of the most successful examples of horizontal co-ordination is a producer group that is managed by an abattoir! There are a number of producer groups, particularly those in Scotland, which have been quick to adopt a policy of high quality and minimal tolerance of non-specification livestock, in line with the needs of the retailers. However, they still consider themselves agents for their farmer members, defending their interests, which invariably means focusing most (if not all) of their efforts on price negotiation. In our view, the long term success of producer groups depends on their ability to change their culture and adopt an exclusively consumer/customer focus, becoming agents for the retail customer and ensuring that their members deliver consistently high quality livestock in sufficient volume and at competitive prices. With greater attention to production efficiency and possible ways of adding value, the relationship between producer group and processor or retailer is more likely to move towards margin discovery rather than price discovery. This has yet to happen in the livestock industry but there is evidence of it happening in other sectors.

Stonegate Farmers Ltd - breaking out of the commodity trap

Over the past five years, Stonegate Farmers Ltd have become the market leaders for shell eggs to the retail multiples, with a 40% market share. Its rapid growth over the past few years has been through the acquisition of companies with an egg supply base and market share, through the development of a number of supplier partnerships, through an equity based egg supplier joint venture, and as a result of the company remaining constantly alert to opportunities for innovation.

Stonegate has been willing to lead change and embrace the multiple retailers at a time when other producers, graders and packers were actively resisting them out of concern about their potential buying power. The company has a pronounced entrepreneurial approach which has led it to seek market advantage by productively joining the multiples in pioneering developments, such as the growth of a supply base for 'free range' laying, the introduction of a 'barn' production technique and most recently the development of their 'Fourgrain' egg - an egg produced by hens fed on a vegetarian diet.

Stonegate only produces a third of its own battery eggs and buys in all of its speciality eggs (i.e. free range and Fourgrain). It has a strong relationship with four of the multiples (Tesco, Sainsbury, Waitrose and Safeway). 90% of the total shell egg market is 'own label', which underlines the dominant role of the super-market in the supply chain. A buyer and a national account manager manage the interface between Stonegate and their four key retail customers, in the first instance. The 'own label' volume is allocated primarily on the basis of ability to supply, traceability, service levels, customer complaints, quality, and innovativeness, *followed by* price, quality of the supplier's organisation and people, and knowledge of the market. Stonegate, along with the other suppliers, are reviewed, formally, against these criteria on a regular basis. If the company rates well, there is a strong likelihood that it will acquire additional volume. If it rates poorly, the company will lose volume and eventually be taken out of the supply base.

Price setting takes place via the retail buyer monitoring a type of spot market that is derived from surplus volume traded by wholesalers and brokers. Where there is a persistent change in the prevailing price for a number of weeks, the buyer will negotiate a new price and the egg packer will do likewise in order to maintain margins. However, the retail buyer will not drive down prices to the point where quality or delivery service levels will be affected, as these are considered too important.

Stonegate have been more successful than other suppliers because they have consistently delivered a relatively high level of innovation in addition to meeting or exceeding the other criteria. The level of competition between the multiples is fierce and a multiple will place significant value on a partnership with a supplier that can bring new and innovative ideas to a category.

4.3 Vertical partnerships

4.3.1 Definition

Vertical partnerships are very much a contemporary phenomenon and for beef they are essentially a product of the 1990s. In the context of the agri-food industry, we define a vertical partnership as '...some arrangement between buyer and seller, entered into freely, to facilitate a mutually satisfying exchange over time, which leaves the operation and control of the two businesses substantially independent' (Hughes, 1994). There are a four key aspects of this definition:

- partnerships are entered into 'freely' - partners *do* have a choice, although the upstream options may be becoming increasingly limited;
- partnerships must offer 'mutual' benefits - these are many and varied and their distribution is one of the key problem areas;

- these benefits occur 'over time' - what distinguishes partnerships from open market 'spot trading' is the time dimension of the payback, which we generally associate with investment;
- partners remain 'substantially independent' - what distinguishes vertical partnerships from vertical integration is the lack of equity sharing and the absence of contractual obligations.

Changing the co-operative culture - from producer's agent to retailer's agent: the case of Mack Multiples in the fresh produce industry

MACK was established in 1874 as fruit and vegetable wholesaler, acting as an agent for the grower. MACK is now one of the country's largest distributors of fresh fruit, vegetables and flowers with a turnover in excess of £ 200 million, of which 80% is from the multiples. They now see themselves as the agent for the supermarket - a key cultural change that has contributed substantially to their success in recent years.

Margins are particularly tight in the fresh produce sector and MACK's success with the multiples owes much to its efficiency and ability to supply consistent quality all year round. 97% of MACK's produce is imported, so formal forward contracting with suppliers is inevitable and produce is sourced according to customer specifications by a world-wide network of buyers. Prices to farmers are flexible (retailers continue to negotiate week by week) but premiums are guaranteed for higher specifications.

MACK does not have a key customer (managing the customer portfolio is a real challenge) and its relationship with the multiples is formal, systems orientated and based on acute awareness of the cost of each operation. However, rationalisation of produce suppliers to the multiples has resulted in closer relationships with retail customers. For example, Sainsbury will issue an annual programme and work with MACK's suppliers to ensure timely delivery. The programme is updated one month in advance and firm orders received weekly. High service levels give MACK key supplier status and their comparative advantage comes from their ability to identify the cost of maintaining these service levels.

We will now consider each of these elements in turn, with reference to the experience to date in the livestock industry.

4.3.2 What choice is there?

It should be evident from the preceding discussion of the drivers for partnerships that, in practice, the choices are extremely limited, for all members of the supply chain. Producers have the choice between securing access to a volume (potentially value-added) market and the residual dumping ground of the wholesale markets, which are in terminal decline. Premiums do exist for producers able to consistently meet the exacting standards which the retailers demand and opportunities do exist to add value. For processors, the options are more varied - food service and exports provide alternative outlets for their products.

However, it is evident that the major food service establishments are taking a lead from the supermarkets in terms of their procurement policies and product specifications and export marketing is notoriously unpredictable, given the vagaries of exchange rates. Thus, for the foreseeable future, the supermarkets are likely to remain the key customers, providing the volume business without which the largest processors would struggle to survive.

Tesco aiming for 100% procurement from Producer Clubs

Chris Leane is the Meat Product Group Manager at Tesco. He told us that Tesco is aiming to obtain all of its beef, lamb and pork from its Producer Clubs. Farmers who join one of Tesco's Producer Clubs are not under contract. However, Tesco offers highly competitive prices and Club members are assured an outlet for their stock. In return, farmers are required to commit at least 50% of their stock. Prices are set in relation to the competition in the region. Tesco will match prevailing prices and offer premiums for good quality carcasses. Chris says they hope to have 100% beef club membership in the next few months, and lamb will follow by the end of 1998.

The Major obstacle is the auction system. Tesco has experienced opposition to their Club scheme from producers who think the retailers have a hidden agenda - to tie them in and then cut the price. However, the Beef Club has worked well and producers are seen to be better off, which helps to combat the opposition. Chris believes farmers need to learn that deadweight selling is more important than liveweight selling and will give them better returns. He feels they are slowly learning but the traditions of cattle and sheep farming are deeply entrenched.

Perhaps ironically, the supermarkets are also finding they have little choice but to develop longer term sustainable partnerships with their suppliers, without whom their ability to consistently provide safe, high quality and innovative fresh meat products would become seriously threatened.

4.3.3 What are the benefits and how are they distributed?

The nature and distribution of benefits associated with partnership arrangements is a complex issue and one which is invariably the source of the greatest concern for potential partners. The important thing is to have clear objectives for entering a partnership and to prioritise the desirable outcomes, remembering that partnerships are a strategic weapon, with the potential for delivering many different benefits over time. For example, at the outset a partnership might simply secure access to a particular market, with other benefits, such as price premiums following at a later stage, with the development of higher value products.

When it comes to fresh beef, M&S looks only to accredited Scottish producers

M&S only sell Scottish beef. Moreover, one company, Scotbeef, now supplies all of its fresh beef. By operating in this way, M&S, and hence M&S shoppers, can be confident about the quality and safety of the beef they are purchasing. For the farmer this emphasises the importance of belonging to the SQBLA scheme (the basis for the M&S scheme), and, in this case, the Select Farms scheme. Non-membership denies access to this section of the market.

Scotbeef is a family-run abattoir and meat packing business, originally established to supply its own retail butchers (these were sold as the supermarkets became more dominant). It operates four abattoirs and two meat packing stations and deals with pork, lamb and venison in addition to beef. Scotbeef have been supplying M&S for over 35 years, but only recently became an exclusive supplier. The main reason why Scotbeef is the sole supplier is its ability to trace beef supplies back to the farm of origin.

As far as the livestock industry in general, and the beef industry in particular, is concerned, there are five benefits which might generally be expected to result from a partnership arrangement:

- improved market access;
- improved communications;
- higher profit margins;
- greater discipline;
- higher barriers to entry.

The first benefit consists of securing access to a higher value and/or larger volume segment of the market. As we have already noted, the choices facing producers and processors are limited and guaranteed access to the shelves of one of the top five supermarkets is itself a benefit, leaving producers and processors to focus on what they do best and make maximum use of production capacity.

Knowledge is a potential source of competitive advantage and a lack of it can lead to inefficiencies in the production of raw materials, the manufacturing of processed food products and the overall functioning of the supply chain. Partnerships bring people together and invariably involve a greater degree of sharing between partners - sharing experience, sharing market information, sharing plans and sharing knowledge. For example, retailers are increasingly sharing sales data with their suppliers, enabling them to improve their production planning. They also beginning to provide their suppliers with regular feedback on taste tests and eating quality, enabling producers to modify feeding and/or breeding regimes accordingly. The input which retail partners give to the development of new products also improves the likelihood of success.

Consumers and producers benefit from M&S' Select Beef Scheme

The supply chain for M&S beef incorporates all parties, including feed suppliers and feed ingredient suppliers. Only by tracing and documenting the activities of all parties can the consumer be entirely confident that the beef they are purchasing is entirely safe, and of the very highest quality. Responsibility for traceability rests largely with Scotbeef, who inspect farms to ensure they meet the Select Farms criteria, and record the necessary data to facilitate traceability.

Amongst other things, farmers are provided with information on the eating quality of beef from their cattle. This is undertaken by Scotbeef, who organise weekly taste panels at their East Kilbride packing plant, at which beef is cooked and tasted, then scored by a panel of experts. Particularly good or bad scores are traced back to the farm to see if it can be discovered how and why a particular feed or management regime was so successful or unsuccessful.

Although Scotbeef pays marginally higher prices for Select Farms cattle, most farmers are not participating in the scheme for this reason alone. In a similar way to the SQBLA scheme, farmers are benefiting from: a more stable market; a reliable and comfortable relationship with Scotbeef and M&S; a more stable income, helping them plan more effectively and take investment decisions more easily; information fed back to them from Scotbeef, helping them to improve their production methods; a network of contacts, all of whom exchange information and advice.

Partnerships can yield improvements on both sides of the profit equation. On the cost side, guaranteed access to a high volume market not only reduces market risk but also provides opportunities for economies of scale in the production process. Improved com-

munications should result in shorter lead times, lower stock levels and reduced waste - further potential cost savings. On the value side, better knowledge of what consumers want and how they make purchasing decisions is invaluable when seeking to identify ways of differentiating meat products. As we have seen, the retail market is fiercely competitive and retailers are very keen to introduce innovative products into what is traditionally regarded as an unadventurous category, to differentiate themselves from the competition. However, the key point here is that higher returns must be justified by *increased* value-added. The challenge for producers of raw materials and commodity foods is to actively contribute to the process of differentiation and adding value. Such suppliers are in short supply and much sought-after by retailers.

The benefits of deadweight marketing

ABP estimate the marketing costs for their Livestock Partnership amount to around £ 5 per animal, compared to costs of up to £ 20 per animal when selling through an auction market. In addition, carcasses that meet the Traditional Beef specification are guaranteed a bonus of £ 6 per animal.

The fourth key benefit that comes from entering into a partnership arrangement is the discipline that it imposes on all partners in the supply chain. Like any good medicine, the end result is often far more satisfying (and beneficial) than the consumption of the medicine itself. There are many problems with the British beef industry, at every point in the supply chain and with the functioning of the supply chain as a whole. To continue the medical analogy, the industry has become sick as a result of a production-orientated and capacity driven mentality which has, until recent years, been perpetuated by Government intervention, in the form of the Common Agricultural Policy (CAP). Arguably, livestock producers have been sheltered from the realities of the market for far too long and have lost the hard commercial edge, which is essential for survival in a fiercely competitive environment. Partnerships, either horizontal or vertical, offer a potential cure, by focusing the minds of the partners on the specific requirements of the market and imposing a discipline on the way businesses is conducted.

Finally, partnerships can provide an effective means of raising the stakes for companies seeking to enter the market. As we have already mentioned, large supermarkets with own label products become increasingly dependent on fewer, larger suppliers with the technical competence to provide scope for developing the fresh meat category. The more a supplier can do to meet the needs of their retail customers (and ultimately their final consumers) the more difficult it becomes for retailers to consider switching to alternatives. This is becoming increasingly the case as dedicated and exclusive supply chains are established throughout the food industry, in those sectors, which are dominated by own label products.

There is no doubt that opportunities exist for those who are willing to accept the challenge of working in a partnership - working together, learning together, developing new products together, expanding the market together, and together generating improved returns on investment.

Stonegate Farmers making it increasingly difficult for the competition

Developing and keeping reliable suppliers is an important basis for partnerships, particularly as the cost of entry for a potential volume supplier is prohibitive. When smaller producers and/or packers close down, their third party supply base moves to one of the larger packers who is supplying the multiples. This is due to the packer's reliability and negotiating strength arising from participation in a sound trading relationship with a number of large multiples.

Efficient Consumer Response (ECR) is beginning to take hold in the UK grocery industry and Stonegate and its trading partners are currently developing ways of co-operating so that they can share consumer data and market research to improve the value of the product sold to the consumer. They are also investigating, on a tentative basis initially, how the supplier and buyer can facilitate the co-ordination and streamlining of their respective operations so as to remove surplus costs and further increase value for the consumer. Such an analysis of each others' costs and business activities can only be undertaken where there is a business relationship based on something other than just price. ECR, in the context of Category Management, will also require even more intensive new product development. The onus will be largely on Stonegate to develop new products for specific partners - new products that will be in line with the retail partners' unique positioning and desired product mix.

4.3.4 The Strategic dimension

Considering a partnership as a form of investment helps us to focus on the important long term issues instead of the exigencies of the 'here and now'. Most successful businesses can identify strategic objectives - a long term vision of where they want to be in the future - and have a strategic plan - an idea of how they mean to get there. A partnership should be considered as part of a strategic plan, consistent with strategic objectives, which focus on the core competencies of the business and the projected shape of the market environment in the future.

As far as the beef industry in the UK is concerned the future is full of hope and promise for those business who recognise the need to restore consumer confidence and deliver consistently high quality products which consumers want, at competitive prices. However, as we have already seen, there are large sections of the industry who shy away from the realities of the market - they push their livestock through the auction market when deadweight marketing is what the customer demands and they resist the changes (i.e. quality assurance, traceability) which are essential if the industry is to move forward. These sections of the industry are often the first to decry partnerships for their failure to deliver 'fair' prices to all partners, yet to do so is to focus on the here and now rather than the future.

All of the successful livestock partnerships referred to in this report have one thing in common: an acceptance of the supermarket as the key market segment for their output in the foreseeable future and a willingness to change - locking retail customers into strategic plans and investments and doing whatever it takes to strengthen the relationship -

accepting a greater share of the risks in the delivery of safe food of the highest quality and looking to add value wherever possible.

The wisdom of locking into supermarkets, Richard Cracknell, Managing Director, ABP

'For many years we watched the growth of supermarkets, and our bet was that they would significantly reduce the sales being made by conventional butcher shops, just as they had the small corner grocer shops. So we geared our operations, and invested in plant to supply supermarkets needs, pioneering aspects of controlled atmosphere packaging in both lamb and beef in the process. We could only do this in a partnership with customers. The development of Traditional Beef and Tenderlean Lamb is the result of years of work with Sainsbury's meat team. Traditional beef is at the quality end of the business, and we are confident it will grow in volume terms'.

4.3.5 The question of dependence

This last point is probably the most controversial, in terms of how we define a vertical partnership. For example, it may be argued that independence inhibits trust building and encourages opportunistic behaviour. To some extent this is true, and it is most likely that the degree of *inter*-dependence will increase over time. However, the deeply rooted adversarial trading culture and the inherent independence of producers, combined with the fact that in most commodity sectors partnership-type trading relationships are still relatively new (certainly as far as the UK livestock industry is concerned), means that the establishment of inter-dependence is something to which partners should aspire, but not expect to happen overnight.

The 'Paradox of Power' - J.Sainsbury's Partnership in Livestock with ABP

Paradoxically, as retailers - the dominant players in the supply chain - work with their suppliers to develop differentiated products and establish brand loyalty the more reliant they become on their suppliers, who become the providers of brand integrity.

Sainsbury's partnership in livestock is the largest and most well established of the livestock partnerships in the UK. Established in 1987, it is administered entirely by Anglo Beef Producers. Their state-of-the-art plant at Ellesmere, with an annual turnover approaching £ 100 million, is dedicated to the production of 'Traditional Beef', a premium grade own-label product exclusive to Sainsbury. The partnership in livestock currently has around 500 farmer members with over 35,000 cattle (approximately 1 in 20 of the UK herd), but conditions for membership are by no means exclusive - lighter than average animals (500-600kg), full traceability and delivery direct to Ellesmere are the key distinctions. Sainsbury staff have no direct contact with producer members - even the taste tests are conducted by ABP staff at Ellesmere.

Sainsbury needs ABP to run the partnership and there are few competing processors who could do the job as well as ABP. ABP needs access to Sainsbury's meat counters and the retail options are distinctly limited, particularly as retailers are increasingly looking for exclusive access. They both need supplies of top quality beef animals produced according to industry standards with complete traceability - something that all beef producers *should* be able to deliver. For the moment, price premiums reflect the need to attract new members and hold on to existing ones, as competing schemes evolve. However, as the options open to producers diminish, with the demise of the livestock auctions, the balance of dependency will move in favour of the processor, unless producers join forces to establish a critical mass and maintain the level of inter-dependency required for the partnerships to flourish in the long term.

Moreover, in the livestock industry, most vertical partnerships involve at least three elements - retailer, processor, farmer. The first two are single businesses with distinct characteristics (large, technically efficient, heavily invested) and of which there are relatively few (the top five supermarkets account for 70% of retail meat sales and the top twenty meat processors produce around 80% of the fresh meat in the UK) but the third is typically made up of several hundreds of livestock farmers, none of whom are unique and drawn from a population of over 70,000 specialist beef producers in the UK. Inevitably, the degree of inter-dependence will be far greater between retailer and processor than between processor and farmer and in the majority of cases the retailer has little or no direct contact with farmers.

In essence, we would argue that establishing inter-dependence should be a management objective of the members of a partnership but that it is not a necessary condition for partnerships to become established. Indeed, as the members of a partnership get to know each other, they may well seek to cement the relationship with a demonstration of inter-dependence (i.e. a supplier might offer a dedicated production facility or customer might grant preferred supplier status) but alternatively, they may decide that they are incompatible (for an any number of reasons) and seek a different partner or an alternative way of marketing their produce.

The management of partnerships is a complex task which many people find difficult to come to terms with. Indeed, there are doubtless few livestock producers who would be unable to provide examples of failed partnerships or reasons for their general scepticism towards them. As most of us have learned through experience (often bitter), partnership-type relationships are often turbulent and difficult to manage. Those that endure do so because the partners work at making things better and accept that the alternative (i.e. separation or divorce) would be far worse, particularly if there is no alternative partner waiting in the wings.

5. What lessons have we learned?

What are the major lessons for beef farmers in developing successful groups and then integrating that activity with abattoirs and retailers, or for abattoirs in developing dedicated supply chains, and in linking with retailers?

Many farmers and processors are uneasy about the market power of supermarkets - just how committed or trustworthy are they in developing mutually beneficial partnerships? - is a common question.

The straightforward answer is that the large supermarkets have one eye on the stock market and can be trusted to pursue that which is in their own best interests! Clearly, developing the partnership with suppliers in a managed supply chain is difficult.

They can be difficult customers to work with and are unwilling to enter into supply contracts; why should they when they have market power on their side? But they increasingly want to develop 'preferred supplier status' with firms, develop closer relationships and enter into more lasting partnerships with greater 'commitment'. It is increasingly in their interests to remain loyal to their suppliers because of the cost involved in breaking established relationships and developing new ones.

Whether it is farmers with farmers in groups, farmers/groups with abattoirs and all with supermarkets the key to developing effective business linkages are the three C's (Palmer, 1997):

- *Commitment* - to the idea;
 - *Communication* - of the purpose;
 - *Continuity* - of efforts.
-
- to remain independent but work together 'synergising' their strengths, partners need to share a common vision of how to work together to meet their volume and quality requirements;
 - they need to develop a relationship within which no partner feels under threat. This usually means that it needs to be built on the premise that all will benefit, all will be winners, that the reputation of each will be enhanced. Most of the partnerships documented in this report are based on trust and mutual understanding - there is a distinct absence of formal contracts. The relationships are co-operative rather than confrontational - rather than fighting over prices at the margin, partners are assisting one another in delivering a high quality and safe product to the consumer;
 - any alliance needs to ensure that the organisational cultures do not clash, that managers (especially buyers and sellers), do not look upon the arrangements as a managerial/career threat. By their very nature, the success of any alliance in building beneficial collaborative activity is very dependent on the personal relations of the individuals involved;

- partners need to resist the temptation to revert to short term opportunistic trading that breaks the actual or spirit of the agreement. The commercial relationship needs to be strong enough to withstand the rigours of the marketplace and produce long term benefits that are greater than the short term opportunistic ones;
- collaborative partnerships are as varied as the people involved and can develop in many different ways and they must be allowed to evolve and grow to the benefit of both partners. Controlling them can be difficult and needs a web of interpersonal connections and the best use needs to be made of the advantages that modern technology can give through EDI;
- the 'learning organisation' is a concept that management theorists (e.g. Senge, 1990) developed during the 1990s to institutionalise learning in major corporations (i.e. to ensure that big companies did not keep repeating the same mistakes). This concept can be extended throughout the supply chain and, in an era of supply chain-based competition, the 'learning chain' (with IT/EDI providing the lubrication) will be the long-term winner.

Developing this work in practice in the livestock sector in Britain is another matter. Those actively working in this area would probably agree that to say that the different sectors of the marketing chain have an 'attitude problem' when it comes to working together, is an understatement. There is often downright distrust between firms in different sectors of the market that have experienced years of working (buying and selling) with an 'open-adversarial' commodity market.

In the livestock industry, it is arguably this problem of redefining the 'transactional relationship' that is most important to the success of any 'collaborative' venture. Getting agreement and commitment from parties in existing relationships which are often, price-wise, extremely confrontational, can be a severe hindrance to building better alliances. Such issues are also reflected in other food sectors.

A key factor in this problem is perhaps that, all too often in the development of a collaborative scheme, making the move to some type of 'cost plus' or 'value-related' longer term contractual arrangement is seen as an important, almost natural step, necessary to cement the relationship. But in practice, moving away from the old 'open pricing-adversarial' transaction system, typified by opportunistic spot market selling/buying is not easy to achieve.

To date there has been little investigation into the 'politics' of combining/blending a new partnership with a bargaining relationship (common to all sectors of farming/processing) and the need for new ideas in this area is one of the most frequent requests made by farmers.

Given the background of such adversarial relationships, if one aim of collaboration is to break away from the open market and develop new forms of exchange and agreement, this will only be done by the partners building a better sense of 'value' in the alliance. At the very least, there needs to be greater co-operation and sharing of information to develop producer/processor knowledge of the costs, returns and value-added involved. Producers of commodity-type raw materials have little justification in claiming a greater share of the returns which result from investment downstream, by processors and

retailers. Any increase in producer returns can only be justified by adding value and this invariably involves increased costs. The key for producers is therefore to ensure that any increase in costs is *only* associated with value adding activity, producing higher value products for which the (justified) price premium exceeds the increased costs.

The implication of this is that as well as the benefit, the producers must also be willing to bear some of the costs (and risks) that the processor faces. This is not as radical a move as it would seem. For example, for years in the pig sector in Denmark (a sector that is vertically integrated and co-operatively owned) producers have been paid on the basis of the value of the live animal/carcass, adjusted by the returns that the meat/product ultimately achieves in the final market. Including a value based marketing/processing element into collaborative 'contracts' would go a long way to achieving a real sectoral partnership between farmers and processors.

Tesco's Producer Group - The shape of things to come

Tesco's Producer Group was launched in 1996. The group enables Tesco to ensure that all of the meat it sells comes from animals which can be traced back to the farm where they were born and which have been reared to the highest possible standards. The nation-wide Producer Group is made up of three established Producer Clubs, run by Tesco beef and lamb processors, each with their own committee made up of farmers, senior representatives of the National Farmers Union (NFU) and representatives from the processors and Tesco. A full time Producer Club Management has been employed by Tesco to co-ordinate the activities of the clubs and liaise with other industry bodies such as the MLC and NFU.

Tesco claim that the main benefit to producers is a guaranteed market for livestock sold through the Club - Club livestock is always given priority. The key to the success of the Producer Group is a good flow of communication throughout the supply chain. Information is fed back to the farmer on stock selection, analysis of grades and marketing advice. Membership of the Tesco Producer Group guarantees prompt payment terms in addition to savings on reduced transport rates.

The Meat Company's view: Alan McNaughton Macintosh Donald

Part of the Grampian Country Food Group, Macintosh Donald is the only supplier for Tesco in Scotland and the partnership with Tesco has given the company great opportunities. The company did supply other retailers but now only deal with Tesco and a few independent butchers - Tesco accept the need to have other customers, but only if they are smaller retailers and on separate sites! The company is currently running at full capacity - an exception in an industry with substantial excess capacity. In conjunction with Tesco they are planning to invest in a new line and chilling facilities. They know that if they are not interested in moving forward with Tesco then the retailer will look for other suppliers.

The Producer Clubs are seen as a way of establishing loyalty in the supply chain. There are no firm contracts but 'gentleman's agreements' and they currently have 110 members in their group. The SQBLA Farm Assurance Scheme is the basic requirement and each farm is audited independently. Not all the producers' lambs have to be sold through the Club but if they continually fall short of specification then they are struck off the list. Alan believes that partnership arrangements like these bring a closeness to the supply chain and can deliver just what the market wants.

The major problem, he says, is that farmers are stubborn and resent being dictated to. Although this attitude is slowly changing, the majority still do not see the abattoir as their customer but rather an outlet for their stock. Few are willing to comply with the short lead times and tight specifications.

6. Conclusions

Many of the features of the livestock partnerships reported in this study are specific to the UK - the degree of retailer dominance, the impact of BSE and the proliferation of legislation on food safety. However, there are three important features of livestock partnerships in the UK which we feel apply to most sectors of the food industry in most developed countries:

- the 'Paradox of Power' - as the power of food retailers increases along with their interest in own label products, so they become increasingly dependent on fewer and fewer larger suppliers who can deliver safe products of consistently high quality on a large scale at competitive prices and who have the potential (and desire) to innovate and add value to commodity orientated categories like fresh meat;
- the 'Learning Chain' - competition between firms within supply chains is being replaced by competition between supply chains themselves, as retailers seek to establish competitive advantage by creating closer (and increasingly exclusive) links with their upstream trading partners. As we have seen, developing these links is no easy task and those who are first to overcome the hurdles stand to gain some first-mover advantage. Moreover, in the longer term, the most successful chains will be those with the commitment and ability to learn from their mistakes and put things right - focus on the benefits and plan for the hurdles;
- in seeking to exploit the opportunities which partnerships provide, considerable care needs to be given to the treatment of costs and prices. Those people operating at the start of the supply chain - the producers of raw materials - need to accept the fact that the financial benefits which come from partnerships will invariably be distributed in relation to distribution of value added. It is clearly more difficult for producers of commodities to add value than it is for the manufacturers of branded products, but rather than bemoaning the fact, producers must invest and innovate in products and services which justify a higher return. Successful partnerships should deliver cost savings and higher value but it is essential that *all* members of the partnership are actively engaged in finding ways to achieve them.

The simple collaborative message is that farmers should develop links with other sectors of the marketing chain, in order to supply the right and consistent quantity and quality of 'differentiated product'. Building an integrated supply chain partnership requires producers, abattoirs and retailers to work together as never before and this in practice is far from easy to achieve, particularly as livestock farming units in many parts of the country are too small to motivate themselves to working in this way.

Many farmers need the co-ordination and discipline of a 'group' structure, to make them aware of the needs of their customers and how to organise to supply them. In effect,

farmers 'outsource' to such groups the specialist marketing activity to achieve economies of scale and specialisation.

The difficulty in getting over this group message should not be underestimated, especially in a livestock marketing system that maintains a commodity market mentality. Individual producers (and processors) can feel isolated within the chain and powerless to change it. A manifestation of this is the short term marketing opportunism that can wreck 'partnerships'! In the past in the livestock sector collaborative activity in Britain (which usually meant 'co-operation) has had a chequered history.

Despite such difficulties, livestock marketing groups are now beginning to establish collaborative relationships with processors to develop their business and reduce the opportunistic risk of the open market. Producers involved in this inevitably want to develop more profitable outlets with more stable returns and a reduction in marketing responsibility, to which they are prepared to commit resource to supply better products to a standard quality.

What these collaborative relationships should lead to in the long term, if they are to succeed, is a process of 'margin discovery', with farmers learning about the processing/retail side of the industry (and vice versa) and the need to develop more market discipline. Eventually, the greater control of the supply chain achievable through such alliances should, in the longer term, allow both parties to benefit through the improvement in the overall market, and the creation of 'value added' chains.

In general terms, so far existing producer groups in the cattle and sheep sectors in Britain, with the odd exception, have been slower to respond to or initiate collaborative developments than abattoirs. This is not surprising, as the abattoirs have been coming under greater pressure from the supermarkets to ensure product integrity and consistent quality in a more managed supply chain.

Given the competitive pressures, dissatisfaction with existing market systems and concern about the future, the search will continue in the livestock sector, for new ways of doing things - building better supply managed chains - through greater integration and collaboration.

What is clear is that there are no easy marketing answers. Partnerships, in certain circumstances, may offer no improvement in returns to producers over the 'open market'. The development of partnerships requires hard work, commitment and a fair degree of trust in the long term intentions of partners. No one can guarantee the success of collaborative ventures, particularly if they are not robust enough to stand up to the rigours of the market place - improved returns can only come from improved value to the final consumer and this is difficult to deliver with beef. However, it may be argued that products like 'Traditional Beef' and partnership schemes like those which have been developed by the UK's most successful retailers hold the key to the restoration of consumer confidence in British beef, the development of value added products and the long term profitability of the British beef industry.

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