

AGRI-FOOD ALLIANCES WHICH WORK:
COOPERATING TO COMPETE

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EXECUTIVE BRIEF

Darrell Toma, MSc, PAg, CMC
Toma & Bouma Management Consultants
780-413-9262; 780-463-7330 fax; dtoma@junctionnet.com

201, 4220-98 Street, Edmonton, AB T6E 6A1
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Agri-Food Alliances Which Work

“Globalization is a fact of life. In international markets we must compete and cooperate”
Shoichiro Toyoda Chairman Toyota Motor, in Transform Your Supply Chain

This paper summarizes ways in which agriculture and food businesses work together for mutual benefit. These case studies are known to the author. Alliances can take several forms- from vertical coordination of a supply chain to a flexible business network to cooperative ventures. The paper highlights three main parts:

North American and global food market trends;
Examples of alliances and co-ops; and
How to implement an alliance successfully to meet a trend.

Definitions of Alliances

The following six alliance case studies are discussed to show the different approaches an alliance form can take and also to indicate different levels of success. We have been involved in creating a number of these and see common threads of concern and complements. The cases below include some supply chains (vertical alliances) and some network alliances. The purposes of each varies and provides different lessons learned. Alliances have a process through which they evolve and grow or perish. It is important to learn how to grow.

A supply chain is a vertical strategic alliance, involving three or more independent supply links (segments) which agree to work together to better serve consumers. These value (or supply) chains are needed to compete and address industry wide problems such as food safety and product differentiation. They can increase information flows and help better respond to consumer's needs. Europe, the USA and others are actively implementing these approaches (Toma & Bouma, Value Chains as a Strategy, Agriculture and Food Council, Leduc AB, Canada, 1998). Some authors indicate: "In future, companies won't compete, supply chains will compete".

A flexible network alliance is a "hub and spoke" strategy, having a central administrative office to manage operations and communications, but distributed independent businesses and resource groups. The hub coordinates many activities of multiple players, facilitates new events and drives the central objective of the alliance. Further, the network alliance strategy is very useful to Canada, as its large geographic area can still be well connected in a virtual manner, allowing collaboration and sharing of resources. This approach has proven very successful and is a tool for many small dispersed organizations to "cooperate to compete". This strategy has helped small and medium businesses to be successful and grow. Alliances can be opportunistic or strategic in approach.

Six Alliance Case Studies: The six cases discussed are:

hulless barley in western Canada- creating a new market;
Warburton wheat chain- sourcing Canadian wheat for England;
Aginfolink- proposed beef ID trace back system- for food safety and security;
Alberta vegetable cooperatives- two marketing co-ops;

CEMAC- a food distribution alliance in Montreal selling into Florida/ Cuba;
Olds College Innovation Centre- a network for applied research and training.

From these actual case studies the common threads are:

a development process is needed, along with adequate time for industry partners to assess and “buy-in”;
an independent third party can significantly accelerate the development process;
moving from a concept to a plan to action needs to be championed and managed;
a phased approach with go/ no go decision points/ business plan reduces risk of failure;
alliances may take different forms-a supply chain, a flexible network and a co-operative form- but all must be market-driven, open to ideas and responsive;
alliances can take a vertical or horizontal approach depending on the strategy;
a process of renewal/ feedback to alliance members is important for continued success.

From my experience in 20 years of consulting, two keys to success emerge:

1. having sincere interested industry people involved and
2. having a good “coach”, leader, mediator, neutral third party to lead the process - both keys are critical.

My experience as a hockey coach comes in often as we deal with difficult issues and discuss roles, goals, structure and tasks. These points are not often discussed in the literature, but are very important.

A. North American and Global Trends

“Change is not one big thing. Change occurs as the result of many, many small things and many many big things”. Stephen Kaufman, in Change Makers.

Trends drive markets. Trends help identify opportunities. Trends can be established, monitored and used in planning. A number of relevant trends are important to note to help you prepare the correct business strategy. These trends are ones we have seen in our consulting projects and are discussed in an overview style, as each is a topic deserving more attention.

1. Global Trade is Increasing with Trade Agreements and New Markets- the aggressive approach of NAFTA, FTAA, WTO and other regional trade agreements has helped to open up agriculture trade. This is forcing nations to understand competitive advantages and comparative advantages for their internal industries. Competitiveness of businesses is still a key issue.
2. Industry Consolidation is Occurring- one strong trend is the continuation of a smaller number of global companies producing the same or more output. “Life science” companies are forming from the prior chemical and seed companies attempting to become stronger in a vertical supply chain approach. Intellectual property (IP) is gathered up from smaller technology companies and distributed via a global distribution alliance agreement. More can be expected.
3. Rise of Food Safety Concerns- with the increase in biotechnology applications and its image, the use of genetically modified organisms (GMOs) may cause consumers to fear biotech foods. Biotech companies have raised consumer fears, not expectations (Kerr, 1999). GMO’s may in fact become trade barriers, depending on the consumer reaction. (Note: conversely the rise of organic foods is the mirror industry responding to demand).
4. New Cooperative Marketing Approaches are Being Used- Alliances, supply chain development and

partnering are the way of the future. Alliances, a major theme of this paper, can be created in many ways. Collaboration for mutual benefit is key and can be a very effective strategy.

5. Gaining Market Channels is Difficult Because Retailing/ Food Service is Changing. Retailing in North America is evolving into several different store formats. Big box specialty discount stores are common and increasing (Price Clubs). Chain retail stores (Safeway, etc.) are consolidating into specific markets. Retail and food service channel access will become more difficult to locate and enter.

6. Value Added Products are Increasing in Demand - consumers want value added products, they have less time, smaller families and cook less. The time from preparation to eating is now only 15 minutes down from 1 hour in 1960 (SCI). Demographics and lifestyles are a bigger factor than ever before.

Consumers can be described as:

ready and run- they have no time;

au naturale- they seek organic products;

meat avoiders and vegetarians- they have a particular taste;

income constrained- lack resources (Toma & Bouma).

Value adding to the resource is very important but difficult to do. New approaches are needed and suggested. New programs are being designed and more innovative thinking is needed.

7. Beef Consumption has Challenges- from our experience, beef consumption in North America is stable to declining, while pork and poultry is growing. Meat consumption has several drivers which affect overall demand. An aging North American population is consuming more fruits and vegetables, and less meat. Beef consumption is under stress due to several factors, and needs new product development, more consistent sizes, more consistent marbling and other quality factors to ensure the end buyer chooses beef over other meats. Poultry continues to have a bright outlook and pork is expected to be a growth area.

8. New Functional Foods and Nutraceuticals- "Food For Health Products"- this product segment is global, but new to North America and worth over \$250 b annually. Some products are very interesting- soybeans are now being approved as good for health, just as oat bran was. This segment will challenge other products, and many opportunities exist. A regulatory gap exists in Canada.

9. People have Concerns about Environmental Pollution Due to Livestock Production- in the USA and Canada, larger concentrated populations of beef, dairy, poultry and hogs are causing concern. Much growth is expected and the conflict will need to be managed. Technical and management solutions are possible.

10. Innovation and Productivity Gaps Mean More Applied Research/ Commercialization- recently a number of countries have realized they need more innovation and an increase in productivity. Canada has been noted to have excellent research in many disciplines, but lacks in commercialization efforts. Much good science sits on the shelf. More applied research and technology transfer/ commercialization is needed.

These main trends are important to understand in some depth. Some are more important than others. However, market driven businesses take care to clear see relevant trends as one can more easily ride a trend up than fight one going down. The next section discusses the alliance cases and how groups are co-operating to compete.

More than Ever, Two main Strategies Exist

From our studies in the sector, two main strategies exist- be a low cost producer or be a niche player, in addition to the alliances one may implement. For low knowledge intensive large volume industries, a low cost strategy may work. For high knowledge intensive specialized industries, by default, they may see little competition in their niche. I know of several technology companies which only have competition from 2-3 others globally, simply due to their unique technology and approaches. It is clear, from my experience, a strategic approach is essential to creating a successful business, because of the intense competition in the food industry now and expected in the future.

1. Hulless Barley- Western Canada

1.1 History

An Alberta hulless barley chain first emerged in 1995 as a way to serve the livestock industry with a higher quality product. The chain involved three links of the grain and feed industry. It encompassed about 600 farmers and 8 feed companies and 50 other end users (farm) in the first two years. It is down significantly due to the previous marketing partner's failure. The problem commonly voiced was "we have no supplier" from the buyer's view, and "we have no market" from the producers's view. This crop contracting arrangement allowed both groups to reduce the uncertainty of a market.

Initially the chain started in response to the need by feed companies to source a more specific product to use in feeding rations for livestock producers. The initial chain driver was Palliser Grain, with Progressive Seeds, of Lacombe, AB. Palliser was interested in developing a market for hulless barley as a feed, and Progressive Seeds saw an opportunity for hulless barley seed sales. Together these two partnered to develop the market in Alberta. Palliser was known as the hulless barley supplier.

1.2 Lessons Learned

This is a great example of a market driven chain being formed to meet customer needs. The identification of the opportunity was by an industry insider, who had the ability and experience to develop it with other partners. The actual product niche is small enough to likely prevent the larger grain companies from entering the market. The chain could be sustainable with strong partners but currently it needs to be rebuilt. Hulless barley appears to be an unstable product area still as the alternative crops are competing for producers interest, depending on crop economics. The concept can be applied to other special niche crops and products.

2.0 Warburton's (UK) Wheat Chain With Manitoba Wheat Farmers

2.1 Overview

Warburton's Ltd. buys bread quality wheat from Canada for a high end bread market in the UK. Warburton's bread now is consistently priced higher than most bread products because it is viewed as a much higher quality product by UK consumers. The chain is about five years old and operates with a Canadian supply partner who assembles specific product under contract with farmers through two grain companies. A critical success factor was identity preserved contracts which are ensured through use of certified seed, production records and independent grain grading.

2.2 Lessons Learned

This case is an interesting one to note as the Canadian grain industry is very regulated. Given this, a market driven response for developing a niche by assembling a specific supply of wheat has emerged. The market partner wants Canadian products of a very specific type and in fact undertook extensive research to help ensure its position in the UK market as the high end bread supplier. This approach has some good lessons and we are likely to see more of these in the future.

3.0 Aginfolink- Beef ID System

3.1 History

Aginfolink is a new computer based system of managing cattle inventories in a value chain approach. The Electronic Identification (EID) system is proprietary to a global private company which operates in

the USA, Australia and Canada. It allows for use of current hardware/ software at the farm and feedlot. The system entails ear tagging of beef cattle and following the individual animal from farm through to packer. This tag is tamper evident. A number of related micro computer based programs are used to collect and monitor data- eg. daily gain, medical information and days to kill. The EID system is being expanded in the USA, South America, Australia and now in Canada. A pilot beef supply chain project is proposed as current ear tag technology is not satisfactory for scanning, is not precise and is labor intensive at kill/ chill plants. For traceability and food safety, 100% accuracy in carcass identification is ideally needed, together with a cost-effective technology in a supply chain approach. The pilot will involve from 1000 to 5000 cattle, several feedlots, a bank, processor and third party data manager.

3.2 Lessons Learned

This pilot is in the start up stages of defining the shared vision and objectives, partners and broad goals for the new alliance. The early lessons show a market need must exist and a long term project with mutual benefits is essential. A phased approach is critical. One of the things to recognize is what we don't know. This information gap is filled in with appropriate consultation time and information products.

4.0 Alberta Vegetable Co-ops

4.1 History

Alberta has a small population (3 m) and has a small greenhouse industry and field vegetable production area. Most of the products are supplied from California, Mexico and Arizona. However, two grower co-ops have developed and supply cucumbers and tomatoes into retail markets. Alberta has about 65 acres of greenhouses in vegetable production. Two main production groups exist in the province. Most of the greenhouse cucumber production is located in Medicine Hat and is marketed through the Red Hat Co-op as a supply chain. The Co-op has located here due to a ready supply of natural gas for heating, long sunlight hours and transportation access to a food distribution hub (Calgary). Further the Co-op has a full-time marketing and sales staff who sell all product on behalf of the members. A second main group, Pik n Pak, has production marketed through Sunfresh Farms in Edmonton, which serves Edmonton and Calgary. The industry has clustered around two production areas for different reasons, but is successful because they have agreed not to directly compete and each has its own production- assembly- warehousing- marketing function. This supply chain approach has created a sustained marketable volume of product and a core of producers. It now has a critical mass of production, knowledge and marketing which makes it a viable competitor to imported products. Retailers appreciate the opportunity to offer local product which can be fresher and more readily available when other supplies may be short.

4.2 Lessons Learned

This industry is competitive in a North American market. Canada and Alberta import large supplies of product throughout the year, and these niche players continue to grow due to a co-operative spirit lead by internal board members and champions. The alliance has a clear definition of functions- with a separate marketing function and an open communication process among members on market needs. More can be done.

5.0 CEMAC- Cooperative Export Marketing Alliance of Canada

5.1 History

CEMAC was started about 6 years ago as a business marketing network alliance to enter export markets and meet the market need. From other research completed (eg. Manufacturing Networks, University of Alberta, 1993; Industrial Collaboration in the Pacific Northwest, Foundation Forum 1993) networks having a hub and many alliance partners (3+) have shown a huge benefit. In Danish research, networks have helped small and medium sized businesses to compete globally, share resources, create new products and sales and reduce costs. Each outcome depends on the objective of the network.

This food alliance is truly market driven. The champion, recognized early that Florida has 35 million

people, is a cruise ship loading point and has about 3 million Canadian tourists annually. The vision was to supply Canadian food into a highly concentrated market niche with a US retail partner. This vision has been achieved. CEMAC is a non-profit entity with members paying an annual fee of \$2,000 US and a small percent of sales for certain services.

5.2 Results and the Future

The early years were difficult in attracting members and locating a strong market partner. The process took several years to develop, but now CEMAC has members with combined revenues of over \$8 billion of sales. Members include Quebec Liquor Board, E.D.Smith, S & M Water, Saskatchewan Wild Rice, Cordon Bleu, Vincor, Nova Scotia Gold Apples, Nabisco and many others. Results to date are phenomenal and the organization is sustaining itself. CEMAC has enough food manufacturing members with listed products in Publix that regular orders are now flowing. Members, which are both small and large, are now achieving sales in the USA for the first time ever because of the unique approach. CEMAC is now servicing Cuba with containers of products and a global expansion plan is underway. The core strategy is sound- "we try to make sales- someone has to". Trade shows have not proven (and likely will not given the buying trend-see above) to be as effective as this food manufacturer's alliance.

5.4 Lessons Learned- A number of important lessons appear:

1. A national food alliance can develop specific export niche markets;
2. A central business manager and champion is needed to drive the message for the group benefit and make sales;
4. A focus on one geographic market, can yield results for an alliance;
5. A clear process, budget and business plan helps minimize risks of failure.

6.0 Olds College Innovation Centre- Applied Research and Training Alliance

6.1 History

Olds College Centre for Innovation is a new approach to assisting agri-business and resource industries to create new products, new technologies and successfully act to capture more market opportunities. Through the presence of the Centre, scientific staff and students from Olds College and other institutions will be able to enhance their learning opportunities and applied research projects with industry partners in Alberta. Olds College is over 86 years old and is the premier training college in Canada, with over 1300 full time and 6000 part time students. Many industry partners come to the College for conducting applied research projects, including Imperial Oil, Shell, Cargill Foods, IBP Packers, Troval Foods, Alberta Newsprint, Sunpine Forest Products, John Deer and New Holland. However, a lack of capacity exists to help in technology transfer and commercialization efforts.

6.2 The New Innovation Centre - An Applied Research Alliance Design

This Centre is new and in the process of start up. The Centre will comprise a new central office "administrative hub" with new laboratories and equipment at the Olds College (north of Calgary). The Centre will be directed by an 11 person senior level board, with Olds College, industry and public sector representatives. The financial plan for a five year program, based on public and private sector consortium funding, totals \$17 million. Plans include fund raising and fee for service from the private sector, totaling about 40% of the project needs for a five year program. This level of private support is high for a "public good" organization (typically 15%-30%). The Centre plans to be a leader for a broader innovation network thrust in the province, comprised of scientific and industry collaborators for industry and educational benefits. Collaboration in research projects within the theme focus areas is planned.

The two core programs offered by the Centre will include:

- innovation learning for agri-business program; and
- applied research and commercialization program.

Focus areas for the programs include:

- agri-business management and technology applications;
- Climate change/ environmental management/ land information systems;
- farm machinery and equipment technologies;
- horticulture and emerging niche crops (eg. medicinals, herbs);
- livestock production and nutrient management systems; and
- precision farming- production and modeling.

A very important step was communicating with various levels of agencies and people to ensure the same message was cascading down and out to all. We deliberately made specific presentations to all Ministers, a number of standing policy committees, and economic development departments. We specifically made a one week trip to Ottawa via my network of senior political and staff contacts. Our approach is now yielding more results. We quickly concluded that we needed MOUs with key organizations to further the concept. As a result, we have concluded one for \$2.5 m and are completing a master working agreement with the Department of Agriculture, Food and Rural Development. Another MOU is to be proposed with a major University and a well known technology corporation. Recently, we have been approached by others and are discussing MOUs and pilot projects. The Innovation Centre has tremendous industry linkages to offer and was specifically chosen for a pilot project with the network. This would not have occurred without our alliance approach to applied research and industry.

6.2 Lessons Learned and New Innovation Projects Achieved to Date (Jan-June 1999)

One of the early strategies recognized was to build alliances with industry and move to action quickly with projects. Many new organizations have faltered, confused the market and even failed because they become too inwardly focused, navel gaze, try to define "who we are" and ultimately lose touch with their intended clientele. Thus creating some projects early on was a key strategy as many people involved in these types of network alliances (volunteers) lose a direct connection without something tangible to participate in and work together. Projects have been deliberately created in a collaborative manner, where possible. It was recognized that the research capacity was limited and accessing new resources meant going to alliance partners for scientific and project funding support. In a one month period, a total of 8 projects for over \$1.5 million in applied research and training projects were located. Projects include: precision farming (with GIS), beef id system, spent sheep disposal, land information system and several waste management projects.

Lessons Learned

There are a number of important lessons which have been learned by the collaborators to the applied research network concept.

1. A distinct phased process with go/ no go decision points is important. It helps convince board members, funders and proponents of the alliance value and their roles.
2. A sound business plan and related communication materials are needed. To create these materials, certain funders can be approached for their deliverable.
3. A targeted communication plan is needed with various levels of people who may influence the eventual success. Often these will be bureaucrats, scientific leaders and other agencies. Each needs different information.
4. A resolute commitment by the core team is needed. A selling team is also important as few people are comfortable in asking for money. Finally, a mixture of academic and industry credentials is needed to create and maintain the momentum.
5. a sound idea at the correct time will win. People recognize innovative thinking and support it.

C. Conclusions of the Alliances Research- They Work!

"A pilot who sees from afar will not make his boat a wreck", Egyptian Philosopher, 700BC

In our experience, alliances start from a need. The term alliance means ally or friend- where can you find one in business? I believe you can, although it is often said, don't borrow or lend to a friend without knowing them well. Know your partners and their problems and interests- this is equally important for an alliance. We all serve customers and partnering is not an event- it is clearly now a trend for all industries to better serve customers.

Alliances can be opportunistic- or respond to a short term project based need. These types of alliances are common and work well. Project based consortiums assemble the resources and focus quickly on tasks and outcomes (Dutton). Members are specialized and have low cost structures, gain mutual exposure, are a way to test the waters and allow public-private partnerships to emerge. Some of the keys are: member alignment/ resources, proper marketing, clear responsibilities, compensation and management. This arrangement is fluid, virtual in nature, allows for an ebb and flow of projects and can work, although it depends heavily on strong relationships.

Alliances can also be strategic, as the above industry examples show. Further, the driving trends are clear- competition is increasing To compete, we need to understand how to work together, given we have limited resources and market contacts/ leads. Greater speed to market, scope of resources and scale of operation can be available by an alliance. Much can be accomplished if one learns how to share their knowledge to collaborate to compete.

The alliances reviewed are vertical chain approaches or horizontal "groups" of businesses and producers working together for mutual advantage. Benefits of the alliance approach are:

- higher profit margins;
- greater market access;
- improved market intelligence and partner communications;
- improved market image through agreed discipline and procedures; and
- narrowing of the competition due to a tighter strategy.

The steps to creating a successful alliance are:

- define common interests/ issues/ problems with a chain partner;
- create a strong open consultation process to identify 1-3 issues;
- write a brief, distribute it in advance and hold an industry meeting;
- consolidate the views and send them out;
- search for a pilot project and a steering committee; and
- develop a governance approach as the projects continue.

Again, the success of an alliance depends on the industry people involved and most often a neutral third party, who can "coach" as needed, lead and summarize issues/ problems and offer ways to move forward. More alliances are needed. We have assisted many to be created.

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B. Websites to Consider for Related Information

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Supply Chain Management Journal- www.mcb.co.uk/
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