Facing Change in the Red Meat Industry: Are Agricultural Co-operatives the Way Forward?

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Abstract

This paper reports the findings of the ongoing research project, funded by EPSRC, Northwest Food Alliance and Red Meat Industry Forum. The current focus of the research is upon business relationship optimism in various UK red meat supply chains (beef, lamb and pig). This paper discusses the difficulties of understanding the competitive dynamics at play within quite distinct UK red meat supply chains and highlights the significance of change within the broader industry. The 'Power Regimes Methodology' enables the researchers to better understand this complex environment and provides a more critical analysis of the present and future role of co-operatives as one possible way of adapting to the increasingly competitive market environment within the UK red meat industry.

Key Words: Sustainable Farming, Collaboration, Agricultural Co-operatives

Introduction

The UK red meat industry is undergoing a period of unparalleled change. It has therefore, never been more important for UK red meat supply chain participants to understand the impact of these structural changes to their individual business and to the industry as a whole. This paper aims to first, highlight the significance of these structural changes, second to discuss the key drivers within the UK red meat industry and finally to investigate, through the presentation of a UK based case, the potential role of co-operatives as one possible way of adapting to this changing environment.

A 'Power Regimes Methodology' has formed the basis of analysis to provide a more detailed commercial understanding of relationships within red meat supply chains, thus, enabling a more robust picture of the unique demand and supply and power characteristics of these chains to be formulated. The methodology has given the researchers a clearer insight into some of the underlying factors, which have contributed towards several well publicised failed attempts to establish co-operatives in the UK red meat sector (particularly within the beef and lamb industry). This paper will however, focus on one case: an unsuccessful attempt to develop the 'All Wales Livestock Marketing Co-operative'.

The Current Debate

Prior to, and increasingly since the completion of the DEFRA 'Report of the Policy Commission on the Future of Farming and food (2002) (Curry Commission), practitioners and academics have debated the need for supply chain co-ordination and co-operation for the development of sustainable farming in the Red Meat sector (Curry (2002), Hind (1994), Hendrikse (1998), Draper (1997)). Although there has been limited consensus for a cohesive way forward, one common theme has been the establishment of co-operatives within the beef and lamb industry, mirroring the pig industry (where up to 80% of pigs are marketed through co-operatives compared to between 10% and 15% for beef and lamb- MLC data, 2005).

There has been considerable academic work detailing the scope, role, structure and potential advantages/pitfalls of agricultural co-operatives, in particular within the US (Cook 2004, 1995, Fulton, 1995, Hind, 1994, 1997, Abrahamsen 1966, and Helmberger) and Denmark (Chloupkova, 2002, Karantininis & Zago 2001, Agrell and Karantininis, 1999 & 2000). Some of the theory behind co-operatives will be briefly considered in more detail later. There are also many well-documented cases outlining the development of co-operatives in various commodity markets around the world i.e. Kiwi fruit (Moran, Blunden & Bradley, 1996, Beverland, 2001), apples, (Fitzgerald, 2003,) dairy and sheep meat (Heron et al 2001) in New Zealand, to name but a few.). There has however, been very little rigorous academic debate focussing on the advantages/pitfalls and likelihood of successfully establishing co-operatives within the UK red meat industry. With this in mind, case material will be introduced documenting an attempt to develop the 'All Welsh Livestock Marketing Co-operative'. This case considers the unique UK environment and highlights potential difficulties for developing co-operatives in the UK red meat industry.

Facing Change in the Red Meat Industry

As long ago as 1999 Marsden highlighted the need for UK red meat industry participants to prepare for change. "The gradual and uneven deregulation of the protectionist policies" has changed the emphasis within the red meat industry. He goes on to argue that there is now a need to create more effective "local and regional production and value-added chains which may be able to create positive 'defences' for rural regions against prevailing trends of globalisation and further industrialisation of markets."[1]

More recently the pace of change has accelerated considerably, with the UK red meat industry undergoing unprecedented structural change in the form of: 1) further reforms to the CAP subsidies (decoupling: farmers subsidies from 2005 will no longer be linked to production); 2) Bovine Spongiform Encephalopathy (BSE) (which has removed 30 month old

[1] Marsden, Terry et al, Cardiff University, 1999.

beasts from the supply chain and has effectively closed the beef export market for several years); 3) Foot and Mouth Disease (FMD) (which has impacted the way livestock is transported and sold, along with restricting the export market); 4) the long-term decline in consumer demand for red meat (the UK per capital meat consumption has fallen from 20.9kg in 1980 to 16.6 kg in 2002 or by three fifths over the last fifty years [2]) ; and 5) the concentration of market power in the hands of food retailers (75% of fresh and frozen beef is sold through retailers)[3]. (Simmonds, Francis, Bourlakis, Fearne, 2003).

It is important to note that that the change in consumer demand for red meat is linked to several interrelated issues. The consumption of red meat products has been influenced by consumers' change in lifestyle, work and leisure patterns (Gunthorpe, Ingham, and Palmer 1995). Whilst there is a greater choice of food products available in the market place, the spending on red meat products has been falling even faster than the decline in total food spending (Harvey 2004). Furthermore, the outbreak of BSE and the possible link between BSE and the new vCJD has resulted in meat safety issues becoming a significant public concern in the UK (Clayton and Griffith 2003). Even though some academics have argued than the UK is undergoing a sustained recovery since the BSE crisis (Hubbard 2003), others argue that with the reputation of UK red meat products having been severely damaged, (the theory of country of origin), exports are still limited for many products and a full recovery unlikely. (Beverland and Lindgreen 2002; Cervino, Sanchez and Cubillo 2005). As a result of these changes in consumer demand, the share of red meat consumption within the total meat market is under continuous pressure, (Gunthorpe, Ingham, and Palmer 1995) having a subsequent impact on market price of red meat products and the power position of producers.

The overwhelming response to the structural changes and industry pressures outlined thus far, highlighted by many writers in this area, (Vorst, Beulens, De Wit and Beek, 1998; Fearne, 1998, 2000; Katz and Boland, 2000; Palmer, 1996.) has been to emphasise the need to increase vertical integration and collaboration within the UK red meat industry.

Although the Government's previous support for co-operatives (evident prior to 1980, with the existence of the Co-operative Development Board) has arguably been replaced by the support and promotion of developing partnerships and greater collaboration in the red meat industry, agricultural co-operatives are still viewed by many as an integral part of any plan for creating a sustainable UK red meat industry. What is less evident is any form of critical analysis detailing how to set up a co-operative within a UK context and crucially, how a co-operative will enable members to capture a greater proportion of value from a market, often dominated by powerful buyers. To help us answer these questions we must first understand the competitive dynamics at play within this industry.

The UK Red Meat Industry

Before considering the likely impact of a co-operative approach to marketing (and supply) within the red meat industry it is first necessary to understand the nature of demand and supply and the structural differences that exist between the beef, lamb and pig industries.

In 2004 UK producers finished 712,400 tonnes of beef/veal, 312,800 tonnes of lamb/mutton and 720,000 tonnes of pork (DEFRA 2005), which contributed 2.7% and 11.7% respectively to the world's beef and lamb production (OECD 2004; USDA 2005). At present the UK is approximately 68% self-sufficient for beef, 74% for lamb and 67% for pig meat (DEFRA 2005).

UK produced beef, lamb and pig meat has historically been sold in the UK at a higher price than red meat in other countries. However, the beef, lamb and pig industries do not compete in isolation, but are part of a global market. Higher prices for UK produced red meat have contributed to a significant reduction in the level of self-sufficiency, especially for pig meat and beef. There are several reason for higher prices: 1) the extensive production methods still favoured by UK producers (for beef and lamb); 2) expensive labour and raw material costs; 3) the tight quota/tariff import controls within the EU CAP (MLA 2004); 4) the distance to the UK market for the major red meat exporters, in particular beef and lamb (US, Australia/New Zealand and South America); and, 5) the high value of sterling, especially against the euro.

[2] The British Red Meat Industry- Red Book, p. 42
[3] MLC- 2002 figures.

It is also important to consider that the red meat industry is characterized by significant complexities. First, particularly within the beef industry, (to a lesser extent within the lamb and pig industries) different quality meat enters the same generic supply chain (for beef: there are purebred beast, continental-cross beasts and bull beef as a by-product from the dairy herd). Second, there is a literal explosion of various types of products (and differently valued cuts, such as sirloin versus mince) produced from one raw material (a cow, lamb or pig). Demand however is not always balanced. That is to say, customers (such as the multiple retailers) may require a higher proportion of a specific cut (i.e. sirloin, fillet e.t.c -for beef; fillets, chops, joints e.t.c- for lamb). Processors are therefore left with the problem of trying to find a market for all meat produced from a beast, including the less desirable portions. Within the industry this is known as the problem of 'carcass balance'. Finally, different quality products (for instance, premium sirloin steaks) and different types of products (fresh versus processes meat products) can be marketed by alternative methods (direct to end customer, via an agent, auction market or through a co-operative, or a combination of these), through a variety of routes to market. These routes to market include; sales through multiple retailers, independent retailers, food services, butchers and direct farm sales.

There is insufficient room here to consider these issues in detail and how they have a varied impact on the beef, lamb and pig industries. However, within the pig industry, the intensive, continuous nature of production, (directly linked to demand) has created commoditised pig meat and the existence of a significant market for further-processed products has reduced the impact of carcass balance.

When considering the market structure of the red meat industry there are also significant variances between the beef, lamb and pig industry. Typically UK beef (in particular suckler producers) and lamb producers are relatively small and independent enterprises. A large number of small, family-owned beef and lamb farmers utilise different breeds of beast (pure bred, continental-cross and bull beasts and different sheep breads due to the stratification system within the UK), with alternative methods of production (traditional grass-based production, semi-intensive and intensive ways of feeding for beef), in geographically and ecologically dispersed regions. Therefore, the finished beasts arrive in the market as heterogeneous types, with different grades and conformations (Harvey 2004). However, the pig industry within the UK is quite different. Significantly higher levels of consolidation (there has been a 70% reduction in the number of producers over the last 20 years), higher degrees of vertical integration and the intensive nature of production, has lead to the continuous production of homogenous (commoditised) pig meat in the UK.

Without the scope to discuss the unique market structure, and supply and demand variances between the three generic supply chains (let alone the variances between the different routes to market) in more detail, the aim of this section has been to briefly introduce the complex dynamics of the red meat industry and highlight that the beef, lamb and pig industries are structured differently and need to be further segmented to be fully understood.

Research Project and Methodology

Before discussing the power relationships that exist within the red meat industry, it is important to outline the research project and methodology. This ongoing research project (EPSRC, NW Food Alliance and RMIF funded) has gained significant support within the red meat industry. Prior to commencing the research there was the realisation that the red meat industry had been seriously affected by BSE and the recent foot and mouth disease and widespread agreement that in order for the industry to survive changes had to be made. Previous work within the industry and ongoing work by the RMIF have suggested several options for restructuring the industry (including the development of marketing and supply co-operatives). There was however, the feeling that past and current work in this field lacked a robust methodology for understanding the unique supply and demand and power characteristic of this industry.

Through the use of the Power Regimes Methodology, the aim of the project was to firstly isolate and define different UK beef, lamb and pig supply chains and then to gain a better understanding of the competitive dynamics within these supply chains. In order to achieve this goal, extensive interviews were carried out with several participants at key stages of these supply chains, including managers of marketing and supply co-operatives (past and present).

The analytical tool used is the ‘Power Matrix’, which is basically constructed around the idea that all buyer and supplier relationships are predicted on the relative utility and relative scarcity of the resources that are exchanged between the two parties (Cox, Sanderson and Watson, 2001). The ability of a specific company and/or groups of individuals (such as a co-operative) to pursue any strategy or operational delivery mechanism successfully, depends on the power circumstances it currently finds itself in. Conversely, the ability of a company (or co-operative) to pursue opportunities to leverage improvements in the future, to create a more conducive commercial and operational environment is also liked to their current and future power position. This way of thinking is critical for analysing how an individual company, group of companies (vertically or horizontally consolidated) or collection of individuals (possibly structured as a co-operative) can pursue (or not, in many cases) strategies to increase their returns from a specific exchange. A buyer can therefore be located in one of four basic power positions: Buyer Dominance (>), Interdependence (=), Independence (0) and Supplier Dominance (<). (See figure 1). These four positions are explained in more detail elsewhere (Cox et al., 2002). What is important to understand is that under particular power circumstances, specific relationship management approaches may be more appropriate than others. When a buyer is in a position of buyer dominance it is likely that they will be able to (or chose to) appropriate the greatest proportion of value from the exchange. Nowhere is this better highlighted than within the various beef, lamb and pig supply chains within the UK.

The Power Relationships within Red Meat Supply Chains

With limited space, this paper has focused on the power relationships within the generic beef and lamb supply chain. It has also not been possible to describe the power positions between all of the beef and lamb supply chain actors, shown in figure 2, in any detail. Figure 2 highlight’s different power relationships between the main actors in these supply chains (i.e. between the multiple retailer and integrated processor and say integrated processor and farmer). It is also significant to note, there are different power relationships, for the same actors, within the beef and lamb supply chains.

If we first consider the power relationship between the multiple retailers and the integrated processor for the beef and lamb supply chains we see that the relationships vary (see figure 2). The relationship between multiple retailers and integrated processors for fresh/frozen beef is best described as ***buyer dominance (>).*** The structure of power, through a combination of information asymmetry, relatively low cost of switch (for the buyer) and the importance of having a large retail customer (for the supplier, due to carcass balance) who provides high and regular demand (in a market where exports of beef are restricted) favours the buyer in this relationship. The power relationship between the multiple retailers and the integrated processor for fresh/frozen lamb, although similar to the beef supply chain (for structural reasons), does differ in several aspects. The relationship moves from ***buyer dominance (>) towards independence (0).*** A key reason for this is the existence of a healthy export market in both live and deadweight, (accounting for 23% of meat production in 2003- MLC figures), thereby reducing the dependence upon buyers such as the multiple retailers.

The second important dyadic power relationship, which we will touch upon briefly, is the relationship between the integrated processor and the farmer. The power relationship between the integrated processor and the beef farmers fluctuates between ***buyer dominance (>), interdependence (=) and supplier dominance (<)***. The relative power of beef farmers changes dependent upon the supply scarcity. When particular quality beef is in shortage, then farmers, for a short period of time may be able to earn higher than average returns. There can also be long-term, independent relationships between some farmers and processors, whereby above normal market prices are offered in return for a greater level of guaranteed supply (without the existence of a contract). When there is sufficient supply, farmers tend to become price-takers and processors will take advantage of this. Whilst this short-term thinking (from both the processors and farmers) is rationally opportunistic, it prohibits longer-term collaborative relationships.

The power relationship between the integrated processor and the lamb farmers is subtly different from beef farmers and fluctuates between ***interdependence (=), independence (0) and supplier dominance (<)***. There is more choice open to lamb farmers in terms of route to market. At present they have the option to sell through agents, auction markets or direct to processors. Unlike beef, a significant proportion (47.6% in 2003 (54.1% pre- foot and mouth) of finished stock is sold through the auction market (compared to 20.2% in 2003 (39.1% pre-foot and mouth) for beef- MLC figures). Farmers can also sell direct to end customers (domestic and sometimes export). Although there is still a limited number of ultimate customers (the processors), there is a higher degree of competition for their produce. This act's to reduce the power of processors and at times of supply shortage, lamb farmers are in a more powerful position (**supplier dominance (<)**). However, due to the seasonality of supply and ability of processors to import (although this is typically restricted by reverse seasonality within the Southern Hemisphere) the power relationship is often either **interdependent or (=) independent (0)**.

This brief power analysis of the beef and lamb industry leads us to believe that there should not be just one way to view the red meat industry. It is also not accurate to make the assumption that restructuring the beef and lamb industry, possibly along the lines of the pig industry (whereby marketing groups account for between 70-75% of direct sales, compared to between 10 – 15% for beef and lamb- MLC figures), with higher levels of integration, consolidation and cooperation, with the establishment of farmer-owned marketing co-operatives, will necessary change the power positions in favour of the producers and enable members to leverage higher returns. This will be considered in more detail when we look at the case material.

The Development of Agricultural Co-operatives in the UK

Faced by high levels of consolidation upstream and downstream to the agri-sector, wherein farmers will typically be 'small' when compared to their trading partners, co-operatives are viewed as one possible way of protecting producers' business and commercial viability (Chloupkova, 2002). It would seem therefore, that the benefits of agricultural co-operatives, such as providing a way of enhancing the welfare for small producers through the development of common facilities and the potential to improve the terms of trade through collective bargaining are relevant in the UK red meat sector context. Indeed, as Chloupkova (2002) argues; farmers "driven by this economic force for survival" have tended to join together in order achieve a greater bargaining position. Indeed, the Curry Commission (2002) recommended the formation of two agencies; the Food Chain Centre (FCC) and the English Farming and Food Partnership (EFFP) to focus on collaboration and the development of UK co-operatives.

Although the role of agricultural co-operatives is well documented by practitioners and academics around the world and cooperation is often a fundamental driver of people's culture that enhances both economic and social life within rural areas, according to some writers in the field, there is little real consensus on how to adequately define cooperation (Chloupkova, 2002).

It is therefore necessary to first define cooperation. According to the International Co-operative Society (ICA), a co-operative can be defined as a group of people who join together in a common undertaking in accord with the six principles that are as follows:

(i) Membership is open and voluntary.
(ii) There is democratic control, usually on the basis on one man, one vote.
(iii) Interest on share capital is limited.
(iv) Distribution of surplus proportionally, according to the level of transactions.
(v) Co-operatives devote some part of their surplus to education
(vi) Co-operatives cooperate among themselves. (Chloupkova, 2002)

It is also necessary to define collaboration separately. According to the EFFP "the concept of farmers working collaboratively includes a wide range of business models. This stretches from, formal collaborative arrangements between neighbouring farmers; through separate legal entities owned by farmers (often referred to as farmer controlled business or FCB's); to strategic alliances and joint ventures within the food chain between FCB's and their suppliers and customers."[4]

Unfortunately there is insufficient room to consider the academic debate surrounding agricultural co-operatives in detail. According to Cook, research within the field can be traced back to as early as 1940s and has subsequently developed over the last thirty years into a

[4] EFFP, Farming & Food- collaborating for profit, May 2004, pp. 4.

broad debate. Cook discusses three major theoretical co-operative approaches, notably: the "co-operative as a firm", "collaborative as a coalition" and "co-operative as a nexus of contracts". (Cook, Chaddad and Iliopoulos 2004). New approaches such as agency theory, behavioural theories of the firm, transaction cost theory, contestable market theory, and property rights theory began to emerge in the 1980's (Staatz 1989). Since 1990, the three major schools of thought in agricultural co-operatives research have continued to evolve. (DEFRA 2002a; Fulton and Adamowicz, 1993; Hendrikse 1998; Hind 1994, 1997, 1999; Karantininis and Zago 2001; Sexton 1990, 1993).

There is also an active debate concerning the most effective structure of co-operatives. Despite the previous theoretical definition of a co-operative (ICA), in real-life situations co-operatives can be characterised by uncertainty and by a number of independent agents with differing short and long-term interest and co-operatives are not necessarily open to all. (Chloupkova, 2002). This is an important consideration as highlighted later, within the case material. Some writers feel that open membership co-operatives, whereby all producers are encouraged to join, may be at a disadvantage relative to closed-membership ones. The reason for this, it is argued, is because the decision of producers to join a co-operative is typically determined by the profits that the co-operative makes. When disparate efficiency levels characterise farmers in an industry, the co-operative should provide incentives to the more efficient farmers, otherwise it will end up attracting only the less efficient. (Karantininis and Zago 2001; Cook, Chaddad and Iliopoulos, 2004)

Regardless of exact structure a co-operative takes, (whether open or closed membership) the current normative thinking within the UK red meat industry, born from the findings within the DEFRA 'Report of the Policy Commission on the Future of Farming and food (2002) (Curry Commission) and further supported by the work of the Food Chain Centre and English Farming and Food Partnership (EFFP) (both set up following the recommendations of the Curry Commission) is that: '*the best way for a small farm business to get the benefits of being a large farm business is to collaborate with others. We strongly believe that the security of a profitable production base in England depends on a much greater level of collaboration than we have seen historically. Well-facilitated collaboration can give small farmers access to professional marketing and technical advice. It can also put them in a better negotiating position when dealing with large customers or suppliers. Success or failure depends on a range of factors, and there is not a single model that will work in every case. English farmers' competitors for market share are often large co-operatives from other countries'* (Policy Commission 2002)

The Food Chain Centre (with its focus on collaboration and lean thinking) in partnership with the RMIF, has overseen ten projects focusing on efficiency improvements across British agricultural sectors, including dairy, cereals, fresh produce and red meat. The EFFP has also dedicated considerable resources and expertise, with the mission to "strengthen the profitability, competitiveness and sustainability of England's farming, food and related farm-based industries"[5]. According to the EFFP "collaboration should be used as a key strategy to improve the long term profitability and sustainability of businesses within the farming and food sector."[6]

The work of the Food Chain Centre and EFFP has provided detailed case material highlighting the benefits of collaboration (Asda, Dalehead and British Quality Pigs, McDonalds and Blade Farming e.t.c (FCC) and Danish Crown, Ocean Spray Cranberries Inc, Anglia Farmers Ltd, Grainfarmers PLC, to name but a few (EFFP)) However, as has already been argued, there is very little detailed empirical evidence of the potential for and impact of collaboration or the establishment of co-operatives within a UK context, and more specifically within the UK red meat industry. Therefore, as has been demonstrated throughout this paper there needs to be a robust analysis (using 'The Power Regimes Methodology') of the specific economic and supply chain dynamics of the market in which a co-operative (be it requisite and/or marketing) operates. This analysis is necessary to fully understand how to effectively structure a co-operative, to determine it's likelihood of success and finally to access if this new structure will fundamentally change the power circumstances within the supply chain; power circumstances which enable some players in the food chain to earn good margins and other not. The next section of this paper will now consider a case within the UK red meat industry, highlighting an attempt to establish a marketing co-operative in Wales.

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[5] EFFP, Farming & Food- collaborating for profit, May 2004, pp. 3.
[6] Ibid, pp. 7.

Case Study: The Proposal to Develop an All Wales Livestock Marketing Co-operative

Livestock Marketing in the UK

In recent years in the livestock and meat industry in England, co-operatives and farmer owned groups have been most active in the primary livestock procurement/marketing role. This is seen by many of their members as being of great importance in providing a semblance of 'countervailing power' against the concentration of market power amongst the large supermarkets. In their heyday in 1998 it was estimated by the MLC that these groups accounted for 17% of beef and 13 % of sheep sales, but their activities have suffered in recent years from the more integrated development of the large abattoir/supermarket supply chains (with the club approach begun by ***Sainsbury*** in the early 1990's). Today such groups account for an estimated 10 to 15% of deadweight cattle and sheep sales.

The most prominent of the primary livestock marketing groups in the cattle and sheep sector in England are today: Meadow Valley Livestock (now Meadow Quality), Parkland Livestock, North Country Primestock, Cornwall Quality Livestock, Wessex Quality Meat Producers, Eastern Quality Lamb, South East Primestock Producers, West Midland Farmers, Anglia Quality Livestock, Countryside Farmers. There is also Organic Farmers Livestock Marketing.

In Scotland ANM (aberdeen and northern markets), is a co-operative owned by producers, that has livestock markets, meat plants and requisites in their portfolio (although its farmer members are not necessarily loyal). There are also about 12 other livestock marketing groups in Scotland

In Wales there are number of smaller store supply groups, with the largest finished livestock group being Pembrokeshire Quality Livestock

The All Wales Livestock Marketing Co-operative

Interest concerning the establishment of a large co-operative to take an active part in marketing the livestock of Welsh farmers surfaced just pre devolution in Wales in 1998, at the time when the Welsh Agri Food Partnership (set up by the then Welsh Office Agriculture Department and the then Welsh Development Agency) was charged with preparing 'strategic action plans' for the welsh lamb and beef industry, the dairy and organic food sectors.

Strategic Goal 2, within the final 'Action Plan for the Lamb and Beef Industry' in Wales, was to – 'strengthen the added value supply chain'; as part of this it was stated that:

'The supply chain in Wales needs to be strengthened if it is to be able to deliver to meet market requirements and opportunities. The moves that supermarkets are making to take a much bigger stake in the supply chain, to ensure that the system delivers to specifications, illustrates the point. However, the consultation process identified strong feelings among Welsh farmers and other sectors of the meat industry in Wales that the strengthening of the supply chain cannot be left to the supermarkets alone, if the wider interests of the industry in Wales are to be developed most effectively.'

The Feasibility Study

In 1999 a feasibility study was commissioned to consider the 'if/how's' of developing an 'All Wales Livestock Co-operative'. This feasibility study developed the idea of an overarching livestock co-operative into a possible business model. The model was briefly one of an organisation that would in the first instant co-ordinate the sales and marketing of finished sheep from its members (cattle would be added later), but would also be involved with the improvement of the quality of its members stock and could become involved with further processing and brand development once it was established. There was always the goal in the minds of some farmers that supported the development of this concept that the ultimate goal was farmer ownership along the supply chain from production to processing.

The feasibility study also identified a number of crucial issues that needed to be addressed if the idea was to ever get from the concept to the operational stage, these were:

1. How to build producer/member loyalty.

2. How to convince farmers to buy into the concept (financially and psychologically), by showing that they would benefit in both the short and the long term.
3. How to manage the expectations of some about what was on offer e.g. the vision of some that the need was to quickly own the supply chain and control the market!
4. How to overcome the feelings that existed about the baggage of failed schemes in Wales; in particular there was still a great deal of rancor among older farmers about the collapse of ***Welsh Quality Lamb*** (a farmer owned co-operative abattoir/processing company).
5. How to overcome vested interests that at best would ‘pour cold water’ on such ideas and at worst would actively campaign against such developments.

The potential level of interest in the idea was tested through a simple survey of Welsh sheep farmers in July 1999, in which they were asked to sign a document expressing their wish to join an all Wales co-operative. 758 returns were received, representing 4.8% of the sheep holdings surveyed. This was a worryingly small response, but an analysis of the returns showed that many of those that replied were from the ‘larger’ farmers. Never-the-less it was decided to go ahead and approach support from farmers through the development of a prospectus.

The prospectus asked for farmer support and the support of some key partner companies (e.g. some of the key existing Welsh ‘requisite’ supply co-operatives, such as at the time the ***Clynderwen and Cardigan*** and the ***Wynnstay and Clwyd*** societies), through writing cheques that would pledge to buy an individual share in the new company (individual farmers and others were allowed only one share each). These were lodged with a holding bank. A target of 1000 shares was set, which if achieved, would trigger the release of a proportion of matching funds from the Welsh Agencies (through existing development schemes) to help set the company up.

Reasons for Failure

Despite the interest of many, selling the idea proved to be very difficult and attracted a major ‘anti campaign’, so that by the deadline for pledges to be received, only some 400 had been (but this included those from some important players such as the ‘requisite supply co-operatives). There were a number of important reasons, which contributed to this failure to achieve ‘critical mass’:

1. A vociferous anti campaign was led by many of the livestock auctioneering companies in Wales, who saw the ‘co-operative’ as a direct threat to their businesses; these companies attacked the proposal both at the meetings, through influencing the opinions of many of the farmers that regularly used the markets (this was prior to Foot and Mouth Disease and at that time in Wales the livestock markets still accounted for over 60% of sheep sales), and through a number of members of the Welsh Assembly who were concerned about the loss of jobs in their area if a market closed and who made many statements in the media.
2. Many farmers still believed that direct supply chain ownership was the only thing that could really have a benefit (despite the history in Wales); unfortunately at the same time that the share prospectus for the All Wales Co-op was being promoted, many Welsh Farmers were also being targeted by ***‘Farmers Fresh’*** (a Welsh based farmers group that up until then had been active in the sheep live export trade), to provide funds to purchase an abattoir at Kenilworth from which to run a lamb export business (this was supported and set up and is still operational, although it has had its own problems).
3. In retrospect many farmers found the ‘concept’, the proposed organisation and the arguments justifying it too complex to fully understand and to form a clear view; there were too many – statements of the type –‘ the following will succeed, if’ - and in the opinion of some, too many assumptions, particularly about the commercial benefit, to induce confidence.

The Importance of Understanding the Concept of Power

Without a clear analytical tool to understand power, our research advocates, it was not possible to overcome many of the farmers' assumptions about the potential impact and benefits/ drawbacks of establishing a co-operative.

Subsequent analysis (see figure 2) suggests that the reservations of farmers to support the scheme could be well founded. The failure of livestock procurement co-operative such as ***FMC*** *in the 1960's to* ***North Devon Meat,*** in Scotland - ***Buchan Meats*** in the late 1970's and early 1980's, right up to 2004, which saw two more farmer owned meat processing companies fold, one in Wales; ***Cwmni Cig Arfon*** and another in the South West of England; ***Triple S Ranch/West Devon Beef*** (to name but a few), all point to a fundamental lack of understanding of power.

This point can be emphasised by introducing an important case from the pig industry. The severe problems faced by the pig industry in 1998/99 meant that many farmers in the industry were questioning the ability of even the large pig marketing groups to provide any 'counterveiling' power, in the area of price formation, against the large pig meat processors, such as the Grampian*, Malton* based company. There was in early 1999, moves to establish a federation of eleven of the existing farmer controlled groups, to establish a larger force in the marketplace to address this problem. This group was called *United Pig Meat marketing (UPM*); as a group it marketed between 70-75% of direct sales to processors and held together for a few years but was ultimately rendered inoperable by the opportunism of its members, the opportunistic re-contracting by large abattoirs and the fact that even with such scale it did not alter the power position between the co-operatives and the powerful pig meat processors. Higher returns could not be established for its members and the co-operative closed in 2002.

As figure 2 highlights the power position between the theoretical 'All Welsh Livestock Marketing Co-operative' and the processors would have, we believe, not have fundamentally been altered. One of the primary justifications for this assessment is that, even with 1000 producers each producing on average 300 lambs per year (the critical mass required within the prospective for the co-operative to receive matching funds), there is still sufficient supply, both within the UK and just as importantly, within the global environment (New Zealand) to ensure that the power positions will still fluctuate. The conception of the co-operative, we fill, would not have resulted in a lasting alteration in the power position, to one of long-term interdependence or supplier dominance, which could sustained higher returns for the co-operative members. Unfortunately there is insufficient space for these important considerations to be expanded upon in more detail.

Conclusion

The thinking behind the formation of co-operatives as one possible means of coping with change has its origins outside of the UK red meat industry and has not fully considered the national context or the impact co-operatives will have on the power positions of participants. As this paper has demonstrated, prior to arguing for the need of greater levels of cooperation, a more robust understanding of the market and of the power position between buyers and sellers must be established. For, without this understanding it is unlikely that the development of co-operatives as a means of increasing leverage and returns for producers will be realised. This is evident when we consider the failure of the United Pig Marketing co-operative (whereby 11 farmer controlled groups combined, marketing between 70-75% of UK produced pig meat) and the difficulties, highlighted within the case, ('All Welsh Livestock Marketing Co-operative.'), of establishing a co-operative. To conclude, UK co-operatives can become complex and messy structures which in reality are; difficult for members to understand; are difficult to manage; have no clear objectives; are often not answerable to normal disciplines of financial management; have often taken unjustifiable and unnecessary risks, and critically (due to the lack of an understanding of the commercial and power circumstances in existence within the chains they operate) have not resulted in the expected improved marketability of their produce.

The ongoing research is therefore important for determining when and how co-operative structures can be successful and aims to determine appropriate strategies for ring fencing acceptable profits for co-operative members.

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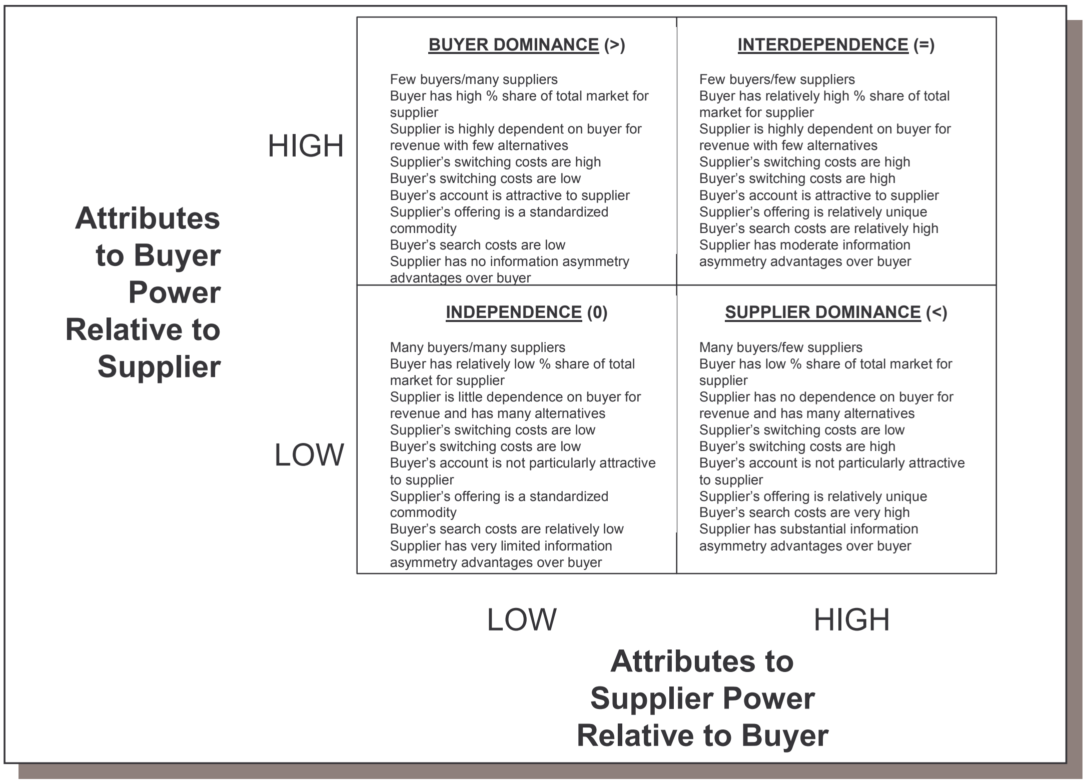
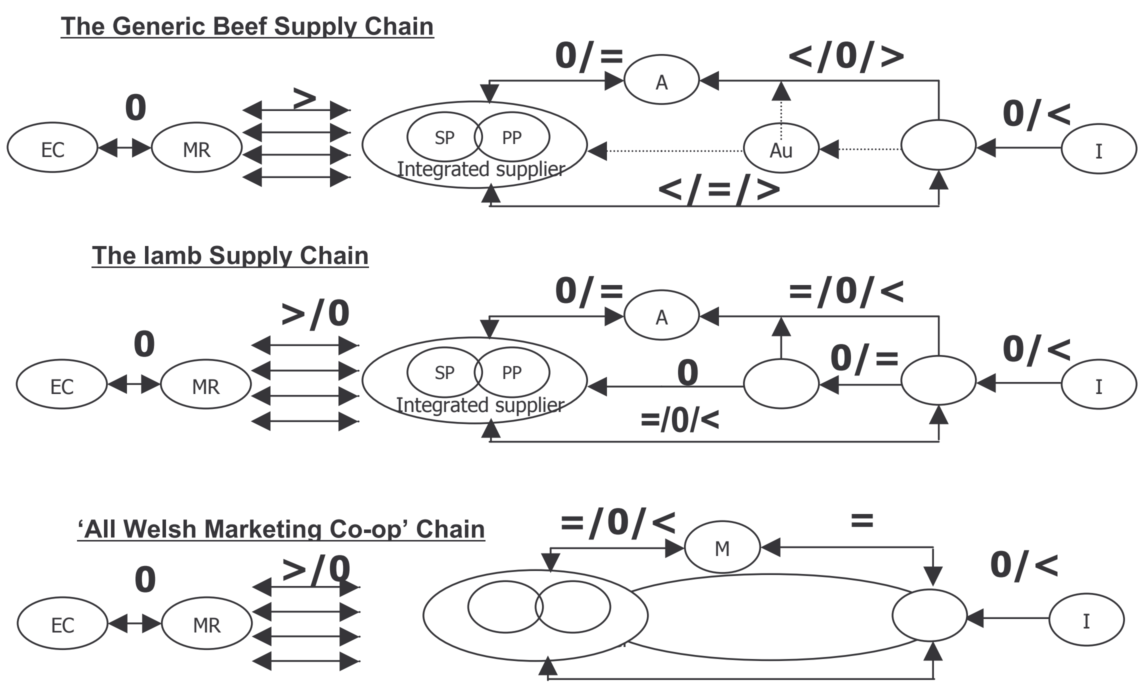
Figure 1: The Power Matrix: Attributes of Buyer and Supplier Power



 Source: Adapted from Cox, A (2001), p.14

Figure 2: Power Relationships for the beef, lamb and 'All Welsh Marketing Co-operative'



Key:

EC = End Customer MR = Multiple Retailers SP & PP = Secondary & Primary Processors
A = Agent/dealer Au = Auction F = Farmer M = Marketing Group I = Input suppliers