STRATEGIC ALLIANCES IN BEEF: CONCEPTS AND DESIGN

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Alliances between participants in the beef industry have developed rapidly during the past 10 years. Industry surveys reveal alliances are expected to grow larger in number and become a more dominant part of the beef sector over the next 10 years. This research centers on providing design specific information to managers and decision makers involved with creating alliance organizations, thereby improving the likelihood of future alliance success. A conceptual framework was created to better understand the process of alliance formation. Each participant in the alliance first prioritizes economic motivations for joining, creates unique governance structure designs reflecting motivations, and then assesses results to decide on future participation. Simulations were performed using empirical data from a private beef alliance to analyze various margin sharing and premium allocation designs. Cattle owners were found to prefer equal margin sharing, while packers would prefer to accept a transfer of cattle owner margins rather than share packing margins with owners. Premiums were found to be substantial for cattle grading higher than a Choice YG3 quality level. Premiums averaged $12/head, $8/head, and $4/head when 75%, 50%, and 25% of cattle qualified for premium lines, respectively. Premium rights were found to be good substitutes for equal margin sharing agreements, allowing packers to accept equal margin sharing agreements while maintaining an equivalent level of return from premium rights. Marginal rates of substitution between changes in premium rights and changes in equal margin sharing levels are identified, allowing for more informed negotiations between cattle owners and packers.