

## Responses to Peer Reviewer Comments on the Interim Report

Comments from Reviewer E1  
Spot and Alternative Marketing Arrangements in the Livestock and Meat  
Industries:  
Parts A and B  
First Draft Report  
June 7, 2005

I have had the opportunity to examine the RTI International Report, "Spot and Alternative Marketing Arrangements in the Livestock and Meat Industries: Parts A and B." For the most part, the report is acceptable. One concern I have is the relatively small sample size but, more importantly, that no demographic information is provided about those participating in the sample. Simply saying that five packers participated doesn't say much unless we know if they are large packer, small packers, etc.

**Response: We added an explanation in Section 1 stating that we interviewed market participants across a range of sizes and geographic locations. We did not provide additional detail about the number of market participants by size because of concerns about maintaining the confidentiality of respondents. Demographic information on size and region would make it easy for someone to discern who we spoke with. In the industry surveys to be conducted later, we will be drawing a nationally representative sample and thus the results will be more representative than the results for this initial stage of the study.**

Because this part of the report is basically just describing the industries, there is really little with which to disagree. The authors have done a very good job of describing the structure of the industries, the types of exchange agreements, and then providing anecdotal evidence for the motivations to participate in various arrangements. I have not personally seen all of this information in one place before and I believe it will be very useful to readers.

Although the authors indicate that source verification is becoming more important, they provide little information about what is driving this trend and how widespread it is becoming. From the beginning I have been concerned that the study is somewhat "backward looking" in that it focuses on the various arrangements between actors in the livestock and meat chains without much regard for where the industries should be headed. I realize that the primary thrust of the study is captive supply arrangements and economic incentives for captive supplies are discussed, but principally from the point of view of reducing costs or other such efficiencies. While the cost approach is certainly an important one and always will be, the emerging issue is one of quality and I suspect something like grid pricing or contracting arrangements will not be able to fully address this issue. New arrangements in the chain need to be developed. The alliance discussion hints at this movement, but I would have liked to have seen more in this regard.

**Response: Added text to end of Section 2 describing what is driving trend in source verification. In the discussion of the industry**

interview results in Section 4, we indicated responses related to "where the industries should be headed" or "new arrangements in the chain need to be developed." We also indicate related statements from the literature. However, for the most part, we do not provide our own opinions because the study is intended to be positive rather than normative.

Two very minor comments. First, the term "concentration" is used in section 2.2 without defining it. I believe it is being defined as the CR4, but this needs to be stated. Second, Figure 2-5 is missing its legend. I realize it is a follow on to Figure 2-4, but a legend should still be included.

**Response: Added a definition of concentration (which was referring to the CR4 in the previous Section 2.2). Added the legend to the previously numbered Figure 2-5. We appreciate you pointing out the omissions.**

In general, I find this portion of the report thoroughly and competently done. I believe it will be useful to providing a foundation for discussing the results that will follow.

Comments from Reviewer E2  
Spot and Alternative Marketing Arrangements in the Livestock and Meat  
Industries:  
Parts A and B  
First Draft Report  
June 10, 2005

- 1) There appears to be a fair amount of inconsistency in terms of the coverage and breadth of discussion when one compares sections on beef to sections on pork to sections on lamb. Making the document more uniform across meat types would ease digestion of the content. Below are a number of outstanding examples:

- a. In section 1, the beef discussion comprises approximately 20 pages (pages 1-4 to pages 1-24) whereas the pork section only comprises 12 pages (pages 1-25 to 1-37). One could argue that perhaps the beef market is more complex than pork and needs more discussion, but that doesn't appear to be the case as the text as written; one section is simply more in-depth than the others.

**Response: We worked on evening out the length of the discussion across species. However, differences remain because some species require more explanation than others and the available information differs across species.**

- b. On page 2-46 a number of terms are bolded and clearly defined in the pork section (a nice feature I might add); however, noting similar is done for beef or lamb.

**Response: Added similar bolding across the discussions by species in Section 3 (previously Section 2).**

- c. On page 4-40 a great bit of detail went into describing how pork producers are paid; comparable detail could have gone into describing how fed cattle prices are determined on a grid, for example, but such detail is absent.

**Response: Added a sub-section on beef cattle pricing (Section 4.2.2).**

- 2) Related to the comment above, the weakest part of the report was the coverage of the wholesale/retail/foodservice sectors. For example, merely four pages were devoted to downstream industries in section 1. Major changes have happened in these sectors in recent decades that might be driving changes throughout the entire chain, yet this portion of discussion is clearly secondary. Below are some more specific comments on this point:

- a. It would seem imperative to discuss the increase in case-ready products and describe the degree of coordination that must be involved between packers and retailers to provide such products, yet I cannot find such a discussion. As I understand it, such products come to the store already priced for the final consumer; how does this happen and how is revenue shared across the packer and retailer?

**Response: Added additional discussion in Section 2.4.2 using information available from the National Meat Case Study. We were not able to find information that indicated that meat products come to the store already priced or how revenue might be shared across the packer and retailer.**

- b. Some information that might be put in section 1, say around page 1-49 is data on the trend in farm-to-retail and wholesale-to-retail price spread. The retailers and wholesalers are getting much larger shares of the retail dollar for beef, pork, and I

presume lamb than producers. This trend says something about the relative importance of players in the marketing channel and says a lot about what the final consumer is actually purchasing.

**Response: We agree that discussion and analysis of trends in retail price spreads would be interesting, but based on discussion with GIPSA on 12/9/05, this is outside the scope of the PWS. Changes in these margins must be carefully explained because multiple factors are affecting the observed trends. Our analyses will focus on the direct effects of use of alternative marketing arrangements on prices rather than on price spreads.**

- c. The report is perhaps correct that there is comparatively little research on the retail sector in agricultural economics, but there is some and it should be discussed. Also, I encourage the authors to consider expanding their literature review to the management and marketing literatures, which have a number of studies on vertical integration/coordination in food retailing. Further, section 2 inexplicably does not even contain a section on retailers and food service.

**Response: We conducted a search of the management and marketing literatures, but the studies we found are more useful for developing methodologies than for obtaining descriptive information about food retailing as it relates to alternative marketing arrangements used for meat. As we conduct Parts C, D, and E of the study, we will continue to search for these types of papers that would be relevant for the analyses.**

- d. Again, I emphasize that the retail/food service sectors deserves more emphasis because I believe behavior at this level (and this sectors' desire to better meet consumer demands) is one of the primary reasons for the changes in marketing arrangements throughout the supply chain that the entire report is attempting to describe. This is certainly true for relatively new players in food retailing like Walmart. Also, one might speculate that with the increased in private-labels, the U.S. retailing system might move more toward the European system where the retailers practically control the entire supply chain.

**Response: Added several graphs and discussion of trends in retail consumption and pricing of meat in Section 2.4.2. We describe changes in consumer demand as a driver to changes in marketing behavior in Section 2.4.2 and Section 3.2.4.**

- 3) I found section 2 to be a bit jumbled and hard to digest. I'm having some difficulty pinning down where my unease lies, but I believe it is because section 2 begins with predictions of theories that have yet to be discussed. I suggest introducing the theory and then following the theory with its predictions (e.g., discuss Coase/Williams followed by the prediction that increased asset specificity will lead to increased integration). As it currently stands, we have motivations for why a firm integrates, which is followed by theory, but shouldn't this all be related? Also, I believe the discussion on principle-agent models should be contained within the discussion of theory. One of the primary factors in principle-agent models is risk-sharing (or shifting) and this seems to be missing from the present theory (and empirical) discussion.

**Response: We substantially reorganized the previous Section 2 (now Section 3). In particular, we moved the theory of the firm section prior to the integration section. We also removed some of the less relevant information in this section. We agree the issue of risk shifting is an integral part of the incentive system (agency) theory of the firm; it does not appear prominently in the other theories of the firm.**

- 4) In the key portion of the document in section 4, a number of tables are presented showing different marketing arrangements for different stages of production/distribution. Although one important goal of this project is to describe and document alternative marketing arrangements, it would be also useful to determine the extent to which firms/industries are integrated. For example, does one identify how "integrated" an industry is? This would involve comparing behavior across tables 4-2a, 4-2b, and 4-2c. To better illustrate my point, how would I describe a fully integrated firm? There would be no "price" or "pricing method" and no "market" so, how would such a firm fit into the definitions in tables 4-2a-2c? What I'm trying to get at is that I think it might also be helpful to develop some terminology to identify how "integrated" a firm or industry is, much like the discussion on say page 2-6.

**Response: As we conduct the analyses, we will identify whether it is feasible based on the available data to develop a method of determining how integrated an industry is. We might be able to use data from the industry surveys and transactions data collection to develop this terminology. However, as confirmed by GIPSA on 12/9/05, the PWS does not include development of this terminology. Thus, the extent to which we are able to develop this terminology will depend on whether it contributes to the analyses required in the PWS.**

Other minor comments

- a. Page 1-4 indicates that 10 industry survey questionnaires were sent, but page 3-6 indicates a different number; which is it? Also, while I realize the goal of these surveys was to collect preliminary information, it would be helpful to know to what extent they are representative of the industries in question.

**Response: We are administering 10 industry survey questionnaires to a nationally representative sample of establishments later in the study. All of the results presented in the report are based on the industry discussions. We added text to clarify this in Section 1.**

- b. In the discussion of changes happening in the beef sector on page 1-7, it might be helpful to discuss the beef index here (I realize it is discussed later in the text, but the mention here might be helpful). Also, on this page, some mention of changing consumer demand is relevant such as demand for "natural" products, Akins, etc.

**Response: We added additional discussion of the beef index in Section 2 (previously Section 1) and of changing consumer demand for beef.**

- c. In a vein similar to the comment above, there seems to be a lot of redundancy across sections that added unneeded length to the document.

**Response: We worked on reducing the redundancy, but we retained some of it for easier reading in case some readers are only interested in reading information on one species.**

- d. The discussion on page 1-13 seems out of place; the preceding discussion was progressing down the supply chain from feedlots to packers and then the discussion abruptly went back to cow-calf.

**Response: We moved the discussion of spring calving to immediately follow the discussion of fall calving. The discussion then proceeds down the supply chain from that point.**

- e. Page 2-19; to what extent do lower prices for contract-cattle result from risk shifting from feedlots to packers?  
**Response: Will address in later parts of the study when the transactions data are available and we are able to apply methodologies that can address this question quantitatively.**

Comments from Reviewer E3  
Spot and Alternative Marketing Arrangements in the Livestock and Meat  
Industries:  
Parts A and B  
First Draft Report  
June 13, 2005

REVIEW COMMENTS

1. The material seems well-written and is very easy to follow. It is not "too simple" for those involved in the industry nor is it "too complicated" for those without experience in the industry. If I were to design a textbook for a livestock marketing class, it would read like the sections I reviewed. As I did not completely read the report, it would be premature to comment on the completeness for that purpose but it does appear complete for the task at hand.

**Response: We appreciate the positive feedback.**

2. Figures and tables are exceptionally well designed. They are easy to follow and well summarize the material presented in the text. Generally I get impatient when material is presented in the text and otherwise (e.g., in a table or side-bar comment box). For this report, it is really nice.

**Response: Please note our intent is to present the material for a broad range of audiences and thus we used side-bars and table and figure captions for use by different types of audiences.**

3. There are a few editorial problems that I assume an editor will catch. Here are a few examples. They are just examples and do not require a response (especially if I am wrong).

- Page 1-6, third paragraph. Would be useful to have date on last sentence (e.g., "as of May 2005) although of course the date on the report implicitly provides this.

**Response: Added date.**

- Page 1-8, second paragraph. NAIS not previously defined ("animal identification" mentioned in previous paragraph).

**Response: Spelled out NAIS on first use.**

- Page 4-31, define "RTE" as ready to eat in table 4-7.

**Response: Spelled out RTE in the table.**

4. There are a few subject matter issues (i.e., material that is incorrect or could be more clearly worded). As above, these are not all identified and do not require a response. I would strongly suggest having a subject-matter expert (i.e., one individual for each species) who is not involved in the project review the material really carefully. I looked over the beef material and there was at least one important error that one of the principals would have no doubt caught if taking a look at the material with a fresh eye. I might suggest you offer them a stipend to serve in this subject matter editorial role.

**Response: We addressed this issue by having subject matter experts on the study team review the draft report, by reviewing and addressing internal GIPSA comments, and by reviewing and addressing the external peer reviewer comments.**

Some examples:

- Page 1-6, first paragraph. To add perhaps... Another incentive is that vertical coordination and alternative marketing arrangements may reduce transaction costs.

**Response: Added this incentive to the discussion.**

- Page 1-10, first full paragraph, last sentence. Should this read "... is generally **not** accepted by ..." (bold simply added to differentiate suggestion from current text)

**Response: Made this correction. Thanks for pointing it out.**

- Page 1-11, first full paragraph. I believe the term used (intermuscular fat) is incorrect. You seem to be talking about intramuscular fat (marbling, the "good stuff"). Also check the wording (e.g., within rather than with). This sort of error will create credibility issues. Again, I suggest a subject-matter expert review the sections for each species.

**Response: Made this correction. This was an oversight.**

5. The glossary seems fairly complete and is a useful addition - nice work!

**Response: If you find any definitions that need further clarification for the next study report, please let us know.**

6. Do you anywhere (e.g., in literature review) talk about why grading systems differ (if so, good!)? For example, why quality grade is important in beef but not pork or poultry at this time? Would be good background for the lay reader.

**Response: Section 2 includes a discussion of grading systems for beef that was in the previous Section 1. We added a discussion of the differences in use of grading systems for pork and lambs in their respective sub-sections in Section 2.**

7. Section 3

- Perhaps add a paragraph that explains any "time consideration" comments directed to survey respondents (e.g., if you asked them to talk about current practices with a snapshot view; when you asked them about intentions, did you specify a timeframe?). This may be covered in Appendix B although I did not see the information with a quick glance.

**Response: Added text to Section 1 to indicate that we asked interview respondents about current practices but in some cases discussed past practices to better understand motivations for current practices.**

- Section 3, page 3-7. Perhaps add some detail on how transcribed results were aggregated.

**Response: Added text to Section 1 to explain that responses were aggregated electronically and then summarized qualitatively.**

8. Section 4.

- Did you encounter the situation with your limited sample size (recognizing that you will add respondents in future surveys) where one group in the marketing channel identified a particular output marketing arrangement that they next group in the channel did not identify as a purchasing method used?

**Response: We did not find this to occur but will be better able to address this when the survey data become available later.**

- Presentation of the reasons for the use of various marketing arrangements is very nice!

**Response: Please note that the reasons may be revised as we obtain information through the data collection efforts during the second stage of the study.**

- On page 4-9 (and elsewhere for other species), is the factor of discounts for not meeting the specifications of the contract included as part of another factor?

**Response: We believe this is part of the factor "does not require managing complex and costly contracts." When we conduct the industry surveys, respondents can indicate this response or write in that they cannot or do not meet the specifications of the contract in the space for other responses.**

- On page 4-25, an important point you make given the nature of this project is that no one said they participated in an alternative market arrangement because they had to. Would lack of a cash market (e.g., no other viable alternatives) constituent having to participate in an alternative? To me, it would and I wonder if this idea would be folded into other responses (such as they get a higher price from alternative arrangements). There will always be a cash market at some price, the price simply may not be viable. If this is possible, the statement first noted may be a bit strong. On a related note, did you discuss (perhaps in the literature review) the potential impacts of moving away from cash markets (i.e., thin markets)?

**Response: Will address later when survey data are available (respondents could indicate that one of the reasons they use alternative marketing arrangements is because they "allow for market access" or respondents could write in that they have no alternative in the space for other responses). In the literature review (Section 3) and results section (Section 4), we describe perceived impacts of thin markets.**

- On page 4-26 (and elsewhere). How did you identify the "most common type of arrangement"? If from your interviews, given your limited sample size, you might consider not making this statement yet. If from data (e.g., from MPR), perhaps remind the reader of the source when you indicate the results.

**Response: Added words to indicate that the stated results are what "appears to be" the most common type of arrangement. Although the sample size is limited, we tried to identify recurring themes across the interview results.**

- Page 4-27, last bullet. What does it mean that "Alternative arrangements appear to have almost no element of price risk management"?

**Response: Reworded this statement to indicate that different types of alternative arrangements offer varying levels price risk management.**

- Nice summaries of what "could be" with comment that "what is" will be forthcoming.