



AUSTRALIAN PORK LIMITED
AuctionsPlus: Online Saleyard Pilot Report

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Report Summary

Australian Pork Limited (APL) commissioned AuctionsPlus, a regulated online saleyard to investigate the current pig industry, market and sales channels to see whether an alternative to physical saleyards and unregulated online platforms could be found using the AuctionsPlus platform. The investigation intended to:

- Examine the technical feasibility of the AuctionsPlus platform for selling pigs
- Examine the interest in the market for using AuctionsPlus as an alternative selling mechanism
- Conduct 6 pilot sales in Victoria, to prove both the technical feasibility, and market interest of the platform
- Provide a report including an assessment of the trial and any recommendations

Following the conclusion of the trial, APL would be in an informed position about whether there was feasibility in the use of a regulated online sales platform that would reduce biosecurity issues and provide an alternative sales option for producers.

This report includes findings from stakeholder engagement with producers, agents and buyers and a summary of a two-sided market and evaluating a digital marketplace. Results of this investigation highlight a lack of producer and buyer support for an online auction facility. This is primarily due to the unique characteristics of pig trading, the decreasing number of commercial producers seeking auctions and the general unsuitability of intensive, meat producing livestock to a digital marketplace.

AuctionsPlus concluded that conducting pilot auctions would not yield any further information about producer or buyer intentions than the stakeholder engagement found. Moreover, AuctionsPlus were not able to find livestock agents or assessors who were qualified and interested to operate the pilot auctions.

1. How AuctionsPlus works

AuctionsPlus has grown and thrived in the livestock sector by operating on a national scale, allowing buyers and sellers across Australia to complete livestock transactions. There are several steps that facilitate an effective and worthwhile auction.

Firstly, for a producer to sell online, their stock must be assessed by an AuctionsPlus accredited assessor. This assessor will come out to the property to conduct an independent assessment of the stock. This includes the assessor gathering information on the stock history, breeding, dentition, accreditations/certifications, grazing conditions, health & vet treatments, weights & fat scores, pregnancy status and assessing for any faults that could detrimental to the price of the animals. This will also involve the assessor drafting 'lines to market' specifications, or batching truck loads or weights to attract buyer attention. Once the assessment has been completed and uploaded onto the system, it is then advertised to a national register of buyers.

Once a national register has been established, lots are allocated to weekly auctions. Due to the national scale that the platform operates on, potential buyers participating on a lot can include a re-stocker, feedlot or abattoir. If the reserve set for a particular lot is not met, the highest bidder has the option to meet the reserve or negotiate with the agent. Once the sale has been made, the agent will then organise with the buyer for payment and delivery of the stock.

2. How traditional pig sales differentiate from AuctionsPlus

A two-sided market place allows producers to connect directly with buyers for the product. The producer or service provider offers a product, sets a price and the buyer decides whether they believe that product or service is of value. Pricing is adjusted according to supply and demand.

The crucial component for a two-sided market to work, is that there needs to be input from both the producers and the buyers. There also needs to be a wide enough base of buyers to support producers continuing to offer their product or service. If there is no support or demand from either side, then there is no market.

The pig industry is a traditionally closed market, with most trades undertaken through a direct transaction between producer and buyer, without an auction system. There is also a small number (~2%) of pigs that are transacted through physical saleyards or offered on un-monitored online platforms such as Facebook and Gumtree.

The dominance and comparative shortage of buyers means that there is limited competition in the market and pig sales are therefore mainly controlled by the buyer. Producers who seek regular, stable businesses foster relationships between the producer and the buyer, often through contracts and arrangements. Many of the buyers represent abattoirs or wholesalers and have a sophisticated forecasting model to ensure they have adequate supply

for their customers at the best price for their businesses. Some abattoirs will only process pigs above a certain volume from particular producers. In summary, as there is a sufficient supply of good quality pigs for wholesalers. This means there is no incentive to risk the quality and biosecurity concerns that may arise in buying small number of pigs from multiple producers to meet volumes.

3. Evaluating a digital marketplace

The following table sets out a detailed evaluation of the AuctionsPlus marketplace and perceived issues with selling pigs via the platform.

		AuctionsPlus	Pigs
1	<p>New experience vs the status quo</p> <p>Does the marketplace make a behaviour dramatically easier or more efficient?</p>	<p>AuctionsPlus enhances the current market in one respect through the fact that the business can sell 8,000 cattle in 60 minutes. The equivalent at physical saleyards would take over 8 hours.</p>	<p>There are not enough pigs to be supplied on the platform to warrant buyer interest or competition. It would not be easier for the producer to offer their stock, due to the assessment process and the predicted low number of assessors.</p>
2	<p>Economic advantage vs the status quo</p> <p>Does your marketplace produce more value than current markets?</p>	<p>By livestock staying on farm during the process and only travelling when the transaction has been made, performance is improved. Furthermore, buyers can make a more informed decision when purchasing resulting in lower costs to the producer. Finally, producers have a larger potential number of buyers that are participating on their lot, thus increasing the price.</p>	<p>Although restricted movements to saleyards would be a benefit, producers only have a short period of time to sell their pigs on AuctionsPlus, potentially affecting timing of slaughter and associated carcass discounting. Furthermore, there is a smaller buyer pool in the pig market, thus reducing competition amongst buyers to pay higher prices that would compensate for the assessment and transaction costs.</p>
3	<p>Opportunity for technology to add value</p> <p>Does your marketplace utilize a new technology to create efficiencies?</p>	<p>AuctionsPlus breaks down geographical barriers allowing producers to bid on livestock whilst not being onsite at a physical saleyard. Buyers also have more access to information about the animals. E.g. stock history, genetics, health and vet treatments.</p>	<p>These benefits would exist for selling pigs as well. However, there is not sufficient demand to differentiate sellers of smaller producers on this basis. Buyers with these specific requirements normally arrange for direct relationships with producers for a reliable volume.</p>
4	<p>High fragmentation</p> <p>Does your marketplace consolidate a fragmented market?</p>	<p>Producers have a highly competitive market to choose from when offering their livestock online.</p>	<p>The pig industry is highly concentrated, which reduces competition for buyers.</p>

		AuctionsPlus	Pigs
5	Friction of supplier sign-up Does your marketplace make it easy for suppliers to sign up?	AuctionsPlus has built a stringent yet streamlined assessor training course over a number of years.	There are currently a limited number of livestock agents with an understanding of the pig industry, and even less who would be interested in becoming accredited to assess pigs. This leaves the producer with a limited number of assessors and agents to offer their stock for sale.
6	Size of market opportunity Does your marketplace serve a large market?	The beef industry was recently valued by ABARES as \$7.47b, while the wool, mutton and lamb industry equate to a value of \$5.01b. Furthermore, beef and sheepmeat have a much higher proportion of sales at physical saleyards and auctions.	In 2015-16 the national pork industry was valued to be worth \$5.2b, whilst the Victorian contribution to that was \$480m. Despite this size, the pig industry has changed and no longer supports adequate demand for 'out of contract' pigs.
7	Expand the market Can your marketplace bring unserved customers and expand the market?	AuctionsPlus allows buyers and sellers to meet who otherwise would not be able to transact.	Whilst there is a high volume of suppliers, there is limited interest in changing the way they make a transaction or how buyers access the available pigs.
8	Frequency Does your marketplace serve a frequent need?	Online assessments, auctions and "Buy Now" buttons, allow producers to opportunity to offer their stock to a market 24/7.	Monthly auctions may not have provided adequate frequency or certainty of sales, particularly given the market sensitivity of the weight and condition of slaughter stock pigs.
9	Payment Flow Does your marketplace control the transaction?	AuctionsPlus consistently has agents/assessors advertising and offering longer payment terms than traditional saleyards can offer.	The agent handles all transactions that are made through AuctionsPlus. Without any agent support, there is no payment method that can exist.
10	Network Effects Does your marketplace leverage a network effect?	The strong agency network that has developed around AuctionsPlus has meant that agents/assessors currently have a much broader circle of buyers and sellers to offer stock to.	Due to the fact that the agent industry only touches a small proportion of the pig industry, there is a limited opportunity for a broader network to develop.

*(Source: "All Markets Are Not Created Equal: 10 Factors to Consider When Evaluating Digital Marketplaces" – Bill Gurley, November 2012)

4. Recommendations

AuctionsPlus recommends to APL not to progress with further investment nor attempt to facilitate the pilot auctions. The main reasons supporting this recommendation are:

1. A lack of buyer interest;

Buyer interest would need to improve significantly to provide the confidence and incentive to the producer to use the platform. There is no current demand from buyers and producers to change the market. The parties involved are content with continuing their direct relationships, which have been developed over time, and are not affected by assessor, agency or yarding fees.

2. A lack of agency and assessor involvement

Agency and assessor involvement are crucial point to the AuctionsPlus process and a factor in maintaining integrity of the platform. The dwindling numbers and lack of agent and assessor support, knowledge and involvement prohibits an effective auction from taking place. Without adequate education and assessment being undertaken by assessors and agents, buyers will not have the confidence to use the platform.

3. A lack of value to producers

The current AuctionsPlus platform would not add any value or make the transaction process any more efficient to the current network of producers, buyers, batchers and saleyard operators. Smaller producers who previously sold pigs through the physical saleyard system have either gone out of business or found markets through wholesalers or 'batchers'. For larger producers, there is reluctance to change due to concerns about damaging the relationships they have with buyers by trying something different. Producers are clearly not convinced that any likely profits will outweigh the risk of disrupting their predictable markets. This confirms that there is no market failure, nor any value in producers pursuing an online auction system.

4. The sensitivities of pigs as intensive livestock

The short life span, sensitivity of weight at slaughter and generally intensive production type makes the sale of pigs a very different process from the sale of extensive livestock. If the lot for sale at auction does not meet reserve, there are significant risks to the seller, likely resulting in a lower price being accepted to maintain a saleable product.



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