

Prices and margins formation in beef industry



Observatoire de la formation des prix et des marges des produits alimentaires



Methods and results of the French Observatory on prices and margins formation of food products

Presentation to

The Meat Market Observatory

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Contents

- ❑ Objectives, context, organization
- ❑ General method
- ❑ Methods for beef industry: 1/ products and chain model
- ❑ Method for beef industry: 2/ costs in agriculture, processing industry, retail
- ❑ Production costs in bovine meat farms
- ❑ Costs in bovine meat processing industry
- ❑ Accounts of meat departments of super and hypermarkets
- ❑ Other studies : prices transmission, transfers of value
- ❑ Conclusion, limits, improvement

Objectives, context, organization

General method

Methods for beef industry: 1/ products and chain model

Method for beef industry: 2/ costs in agriculture, processing industry, retail

Decomposition of retail price into agriculture value and gross margins

Production costs in bovine meat farms

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Conclusion, limits, improvement

Objectives, context, organization

Objectives

- ❑ Measure and explain the differences of values between the stages of the agri-food chain
- ❑ Produce informations shared by all stakeholders (about a sensitive subject), in order to improve relations in food chains

Context

- ❑ Agricultural crisis, volatility of prices : costs transmission, divergent variations of the upstream and downstream prices
- ❑ Retail trade concentration
- ❑ Legislation (2008 : “*law of modernization of economy*”, pro-competition, market-oriented ; 2010 : “*law of modernization of agriculture*” : adaptation to CAP reform and volatility...)

Organization

- ❑ Statistical and economic working project associating several organizations, not a new government service, not an Authority of control of companies
- ❑ Orientation and validation of the studies: interprofessional steering committee, independent president (academic), technical management : FranceAgriMer

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General method

1st step :

Prices and margins by product

Retail price of a food product



Agricultural product

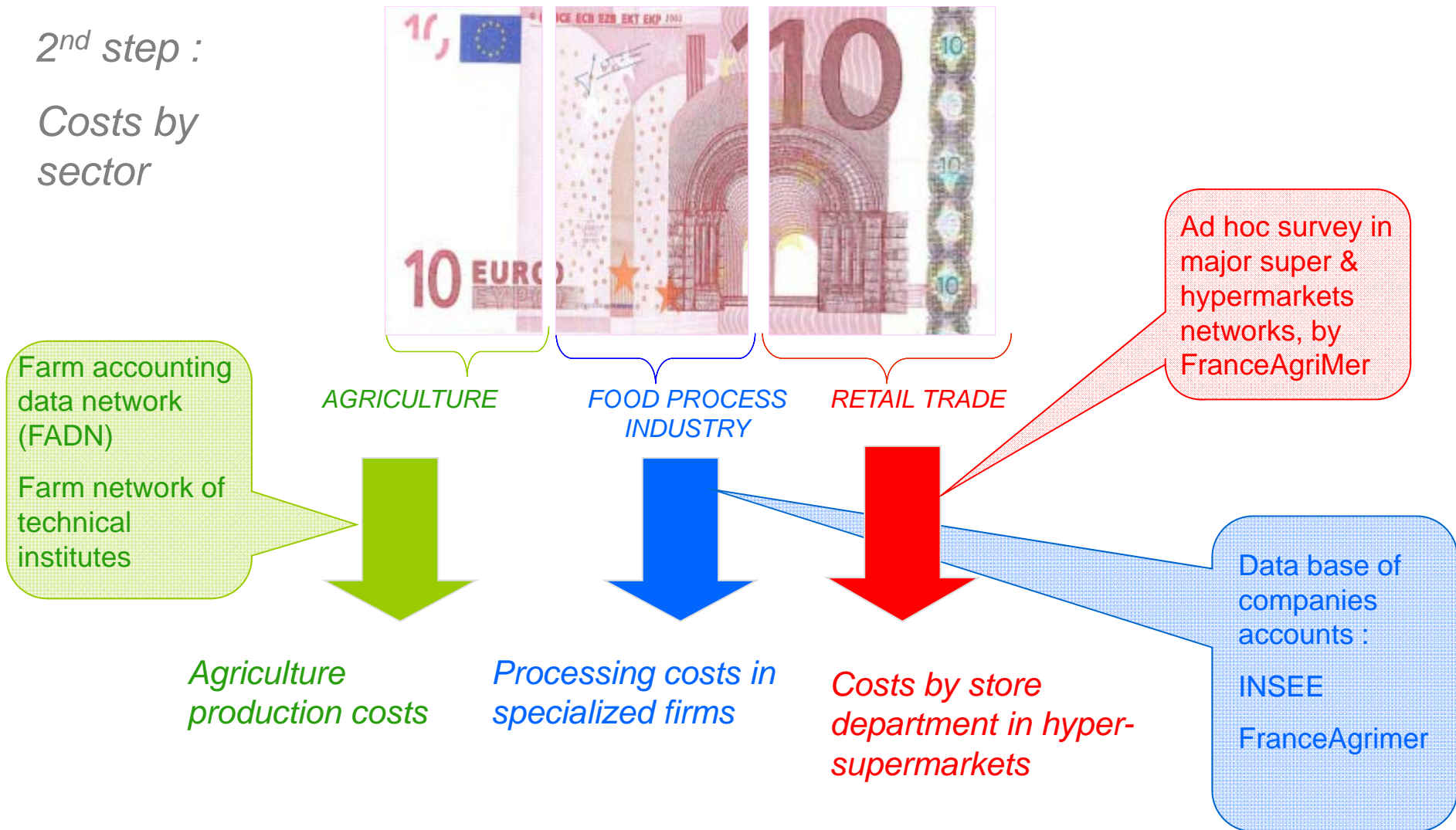
Food process Gross margin

Distribution Gross margin

General method

2nd step :

Costs by sector



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- ❑ Decomposition of retail price into agricultural value and gross margins
- ❑ Production costs in bovine meat farms
- ❑ Costs in bovine meat processing industry
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Methods for beef industry: 1/ products and chain model

□ Products chain : from entry slaughterhouse to 2 products baskets at retail level

1) Cull cow carcass (dairy breed, meat breed and average) reconstituted at retail level (hyper and supermarkets) in a basket of pieces of fresh meat (included fresh ground beef) and frozen ground meat, in fixed (anatomic) proportions

2) Basket of fresh meat (included fresh ground beef) and frozen ground meat, in seasonal proportions of the real consumer's purchases in hyper and supermarkets

NB : no result on veal for now (work in progress), small focus on ground fresh meat

□ Prices:

At retail level : Kantar Worldpanel

At process industry level : ad hoc survey (FranceAgriMer)

At agri. production level : public cotations (FranceAgriMer), price entry to the slaughterhouse (not "exit farm")

□ Proportions of pieces at retail trade level : Kantar Worldpanel

□ Modelling of the carcass processing (type of products for hyper and supermarkets, technical ratios...) : FranceAgriMer and meat sector organizations

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- ❑ Production costs in bovine meat farms
- ❑ Costs in bovine meat processing industry
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Methods for beef industry: 2/ costs

□ Agriculture

- 1) FADN : costs structure of bovine meat specialized farm, from accounting data (yearly, 2-years delay)
- 2) Technical institute (« Institut de l'élevage - IDELE ») : production cost per kg of animal in various system of breeding in from suckler cows bovine meat farms (breeders, breeders-fatteners, fatteners); cost including calculated compensations for non-salaried labour and capital (yearly, 1-year delay)

□ Processing industry

- 1) Costs structure in bovine meat processing industry : Insee (national statistic service) data base of companies accounting (yearly, 2 or 3-years delay),
- 2) Costs per kg of carcass processed in bovine meat processing factories : panel of enterprises, FranceAgriMer (quarterly),

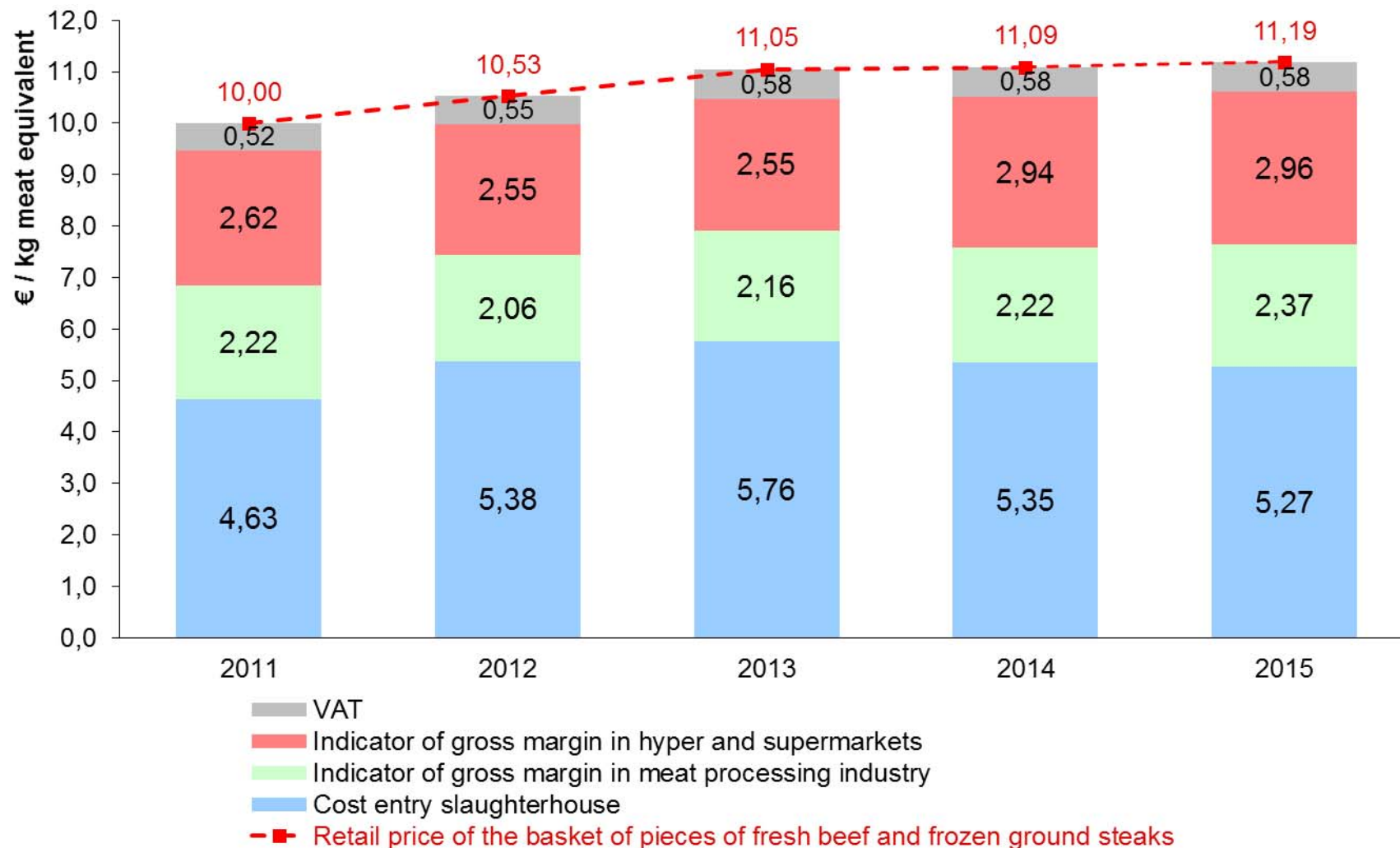
□ Super and hypermarkets chains

Accounts by department of fresh food : butcher (bovine and other fresh meat), deli, (cooked pork) poultry, dairy, fruits and veg, bakery, fish) : ad hoc survey by FranceAgriMer in 7 majors networks (yearly, 2-years delay)

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Decomposition of retail price into agr. value and gross margins

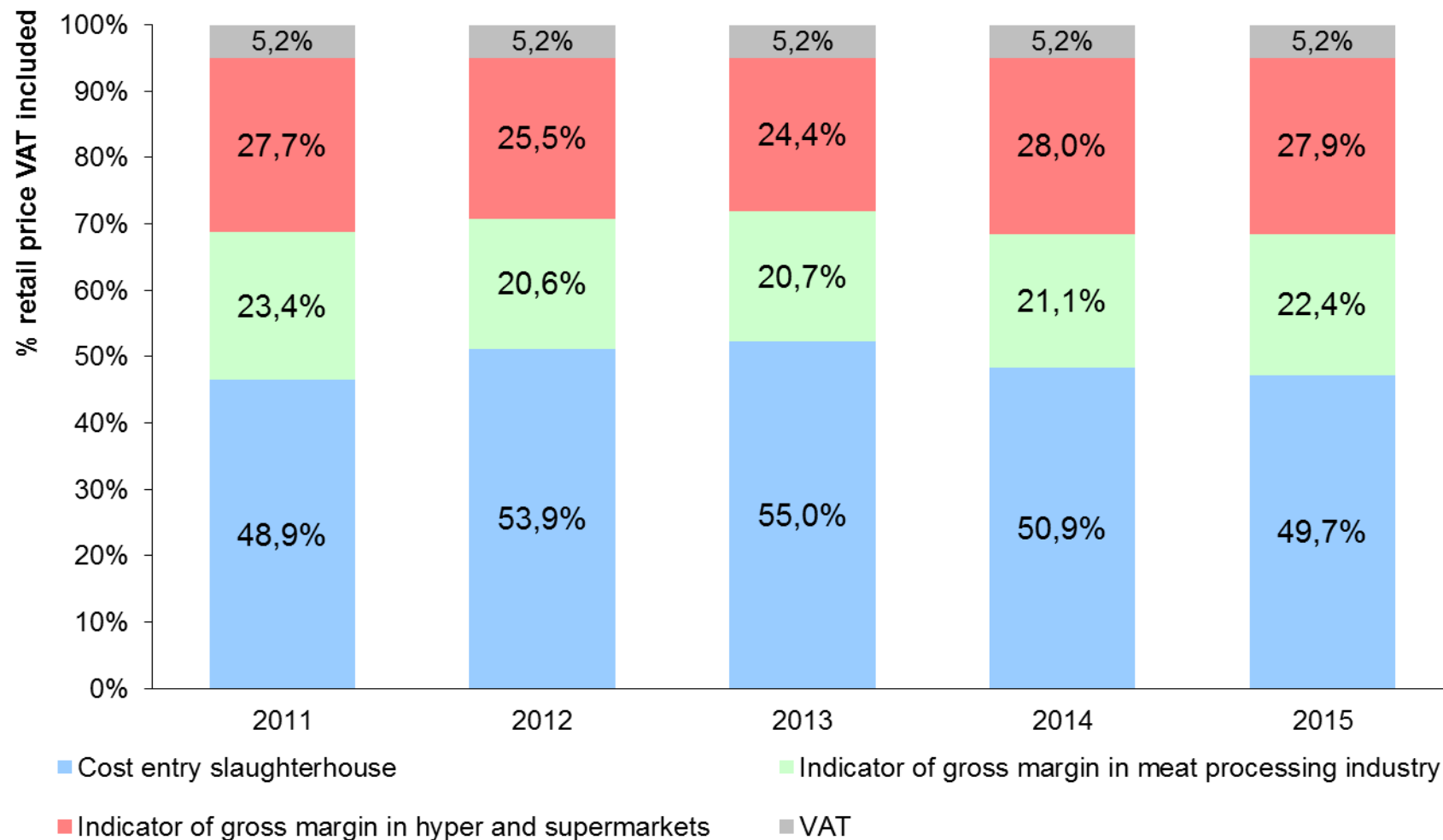
Basket of fresh beef and frozen ground meat, in seasonal proportions of the real purchases (€, yearly)



Source : OFPM, from FranceAgriMer, Kantar Worldpanel

Decomposition of retail price into agr. value and gross margins

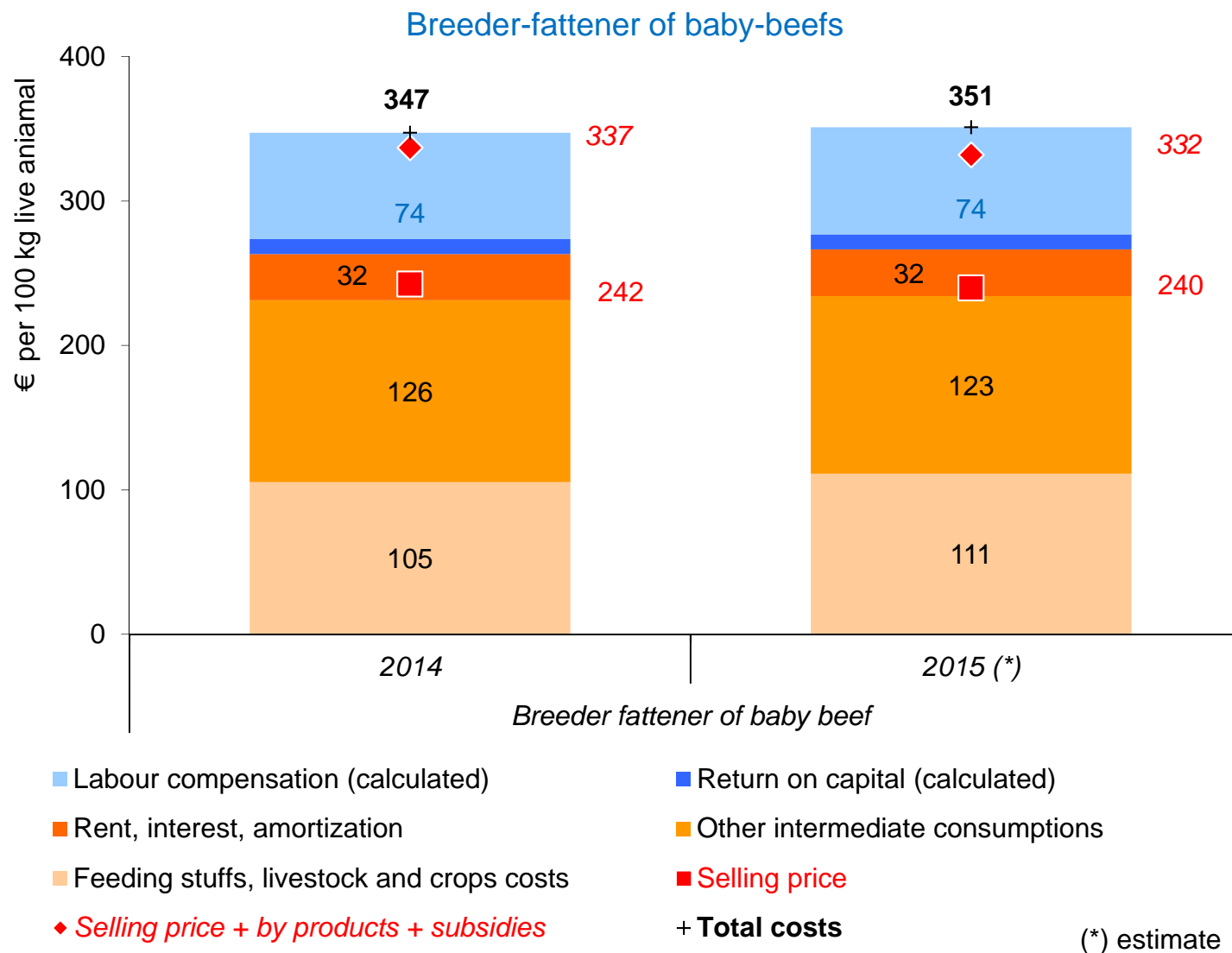
Basket of fresh beef and frozen ground meat, in seasonal proportions of the real purchases (% , yearly)



Source : OFPM, from FranceAgriMer, Kantar Worldpanel

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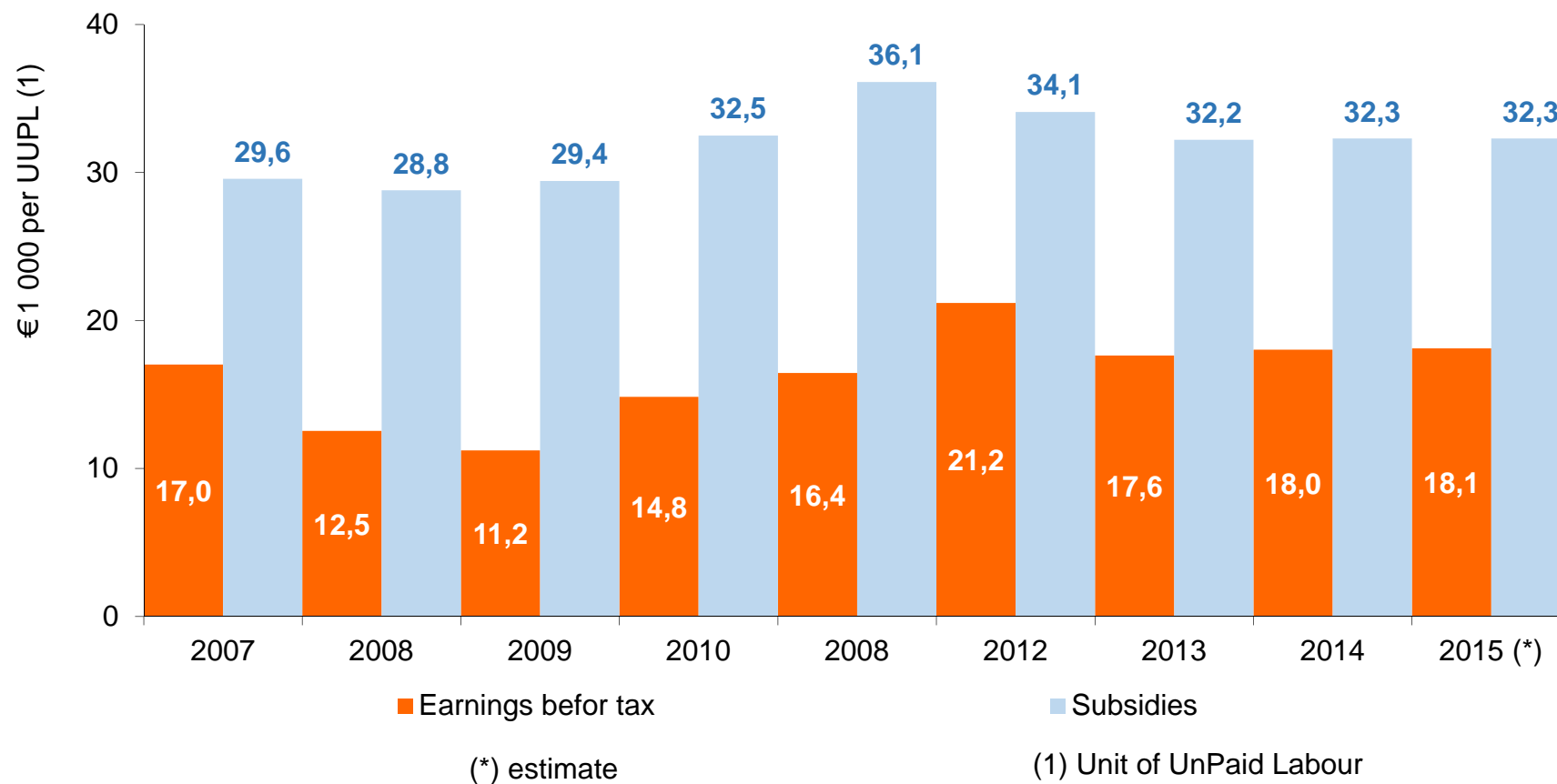
Production costs in bovine meat farms



Source : Institut de l'Elevage (Idele) for OFPM

Production costs in bovine meat farms

Average income before tax per unit of unpaid labour in french specialized bovine meat farms

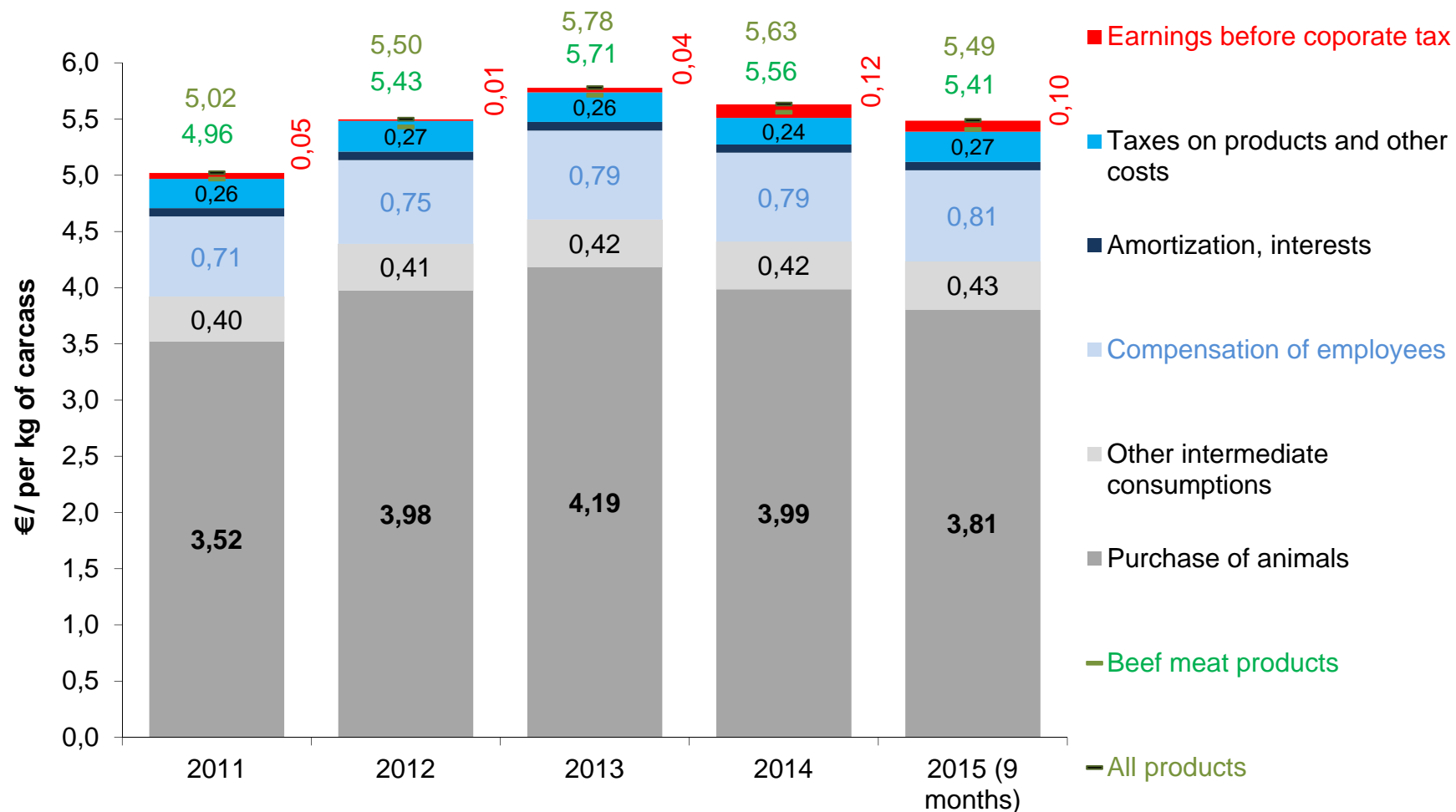


Source : French Farm accounting data network (FADN), OFPM

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Costs in beef meat processing industry

Costs in beef processing industry per kg of carcass



Source : FranceAgriMer, panel of companies, for OFPM

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Accounts of meat departments of super and hypermarkets

Methods and limits

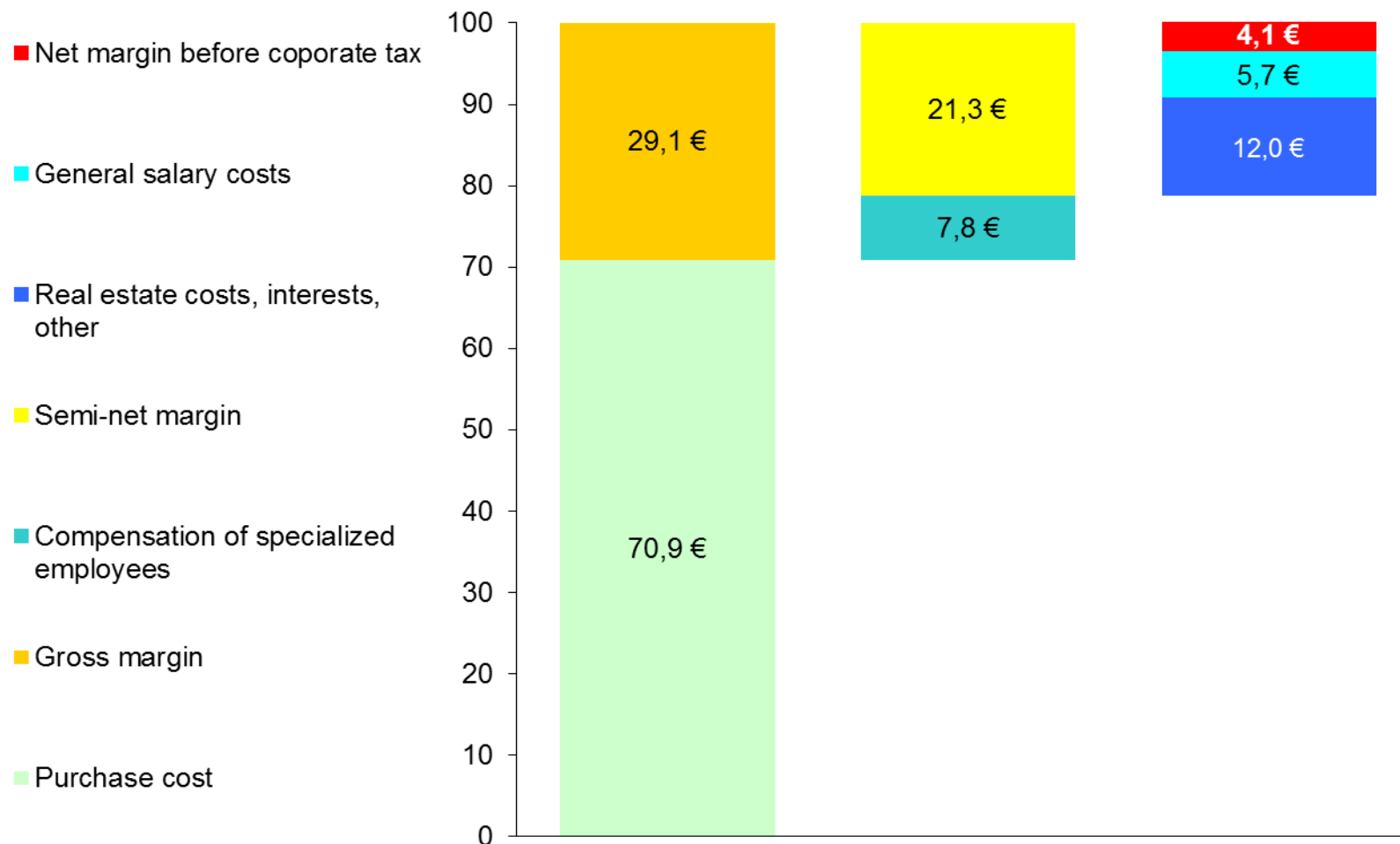
- ❑ Perimeter of the costs and receipts : retail shops + central purchasing service, not all group :
- sales of products in retail shops (hyper and supermarkets);
- purchase of products by central purchasing service;
- costs in the shops : intermediate consumptions, employees, ..., etc. *including services provided by others companies of the group (real estate, logistic...), generating profits for the group*
- costs in the central purchasing services (*idem*)

The « net margin » is not a consolidated profit of the group

- ❑ Survey in the management of 7 french major supermarkets and hypermarkets chains
- ❑ Distribution of general costs between departements : companies reporting or keys (sales, surface, ...).

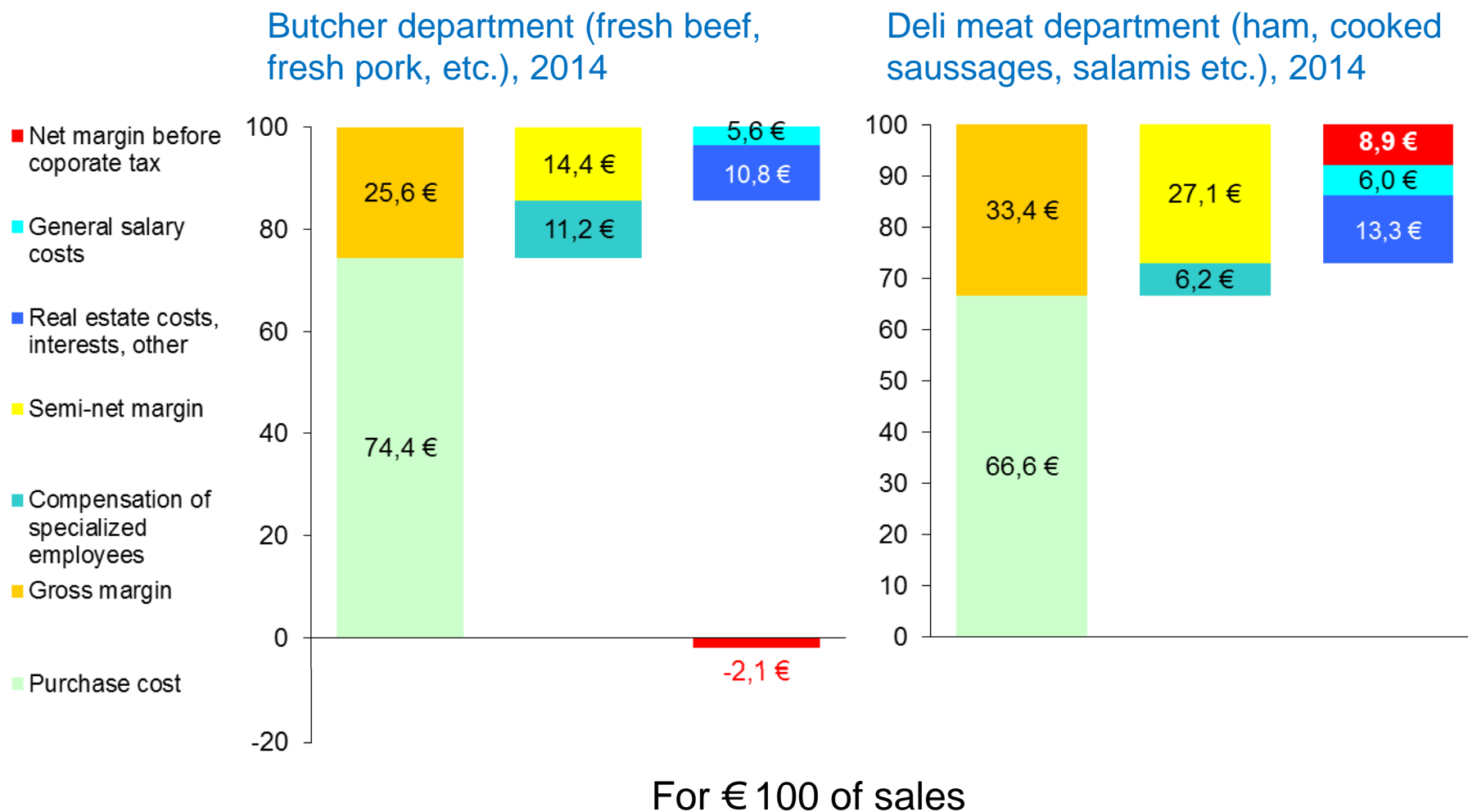
Accounts of meat departments of super and hypermarkets

Average for € 100 of sales, 2014, all meat departments (butchery, deli, poultry)



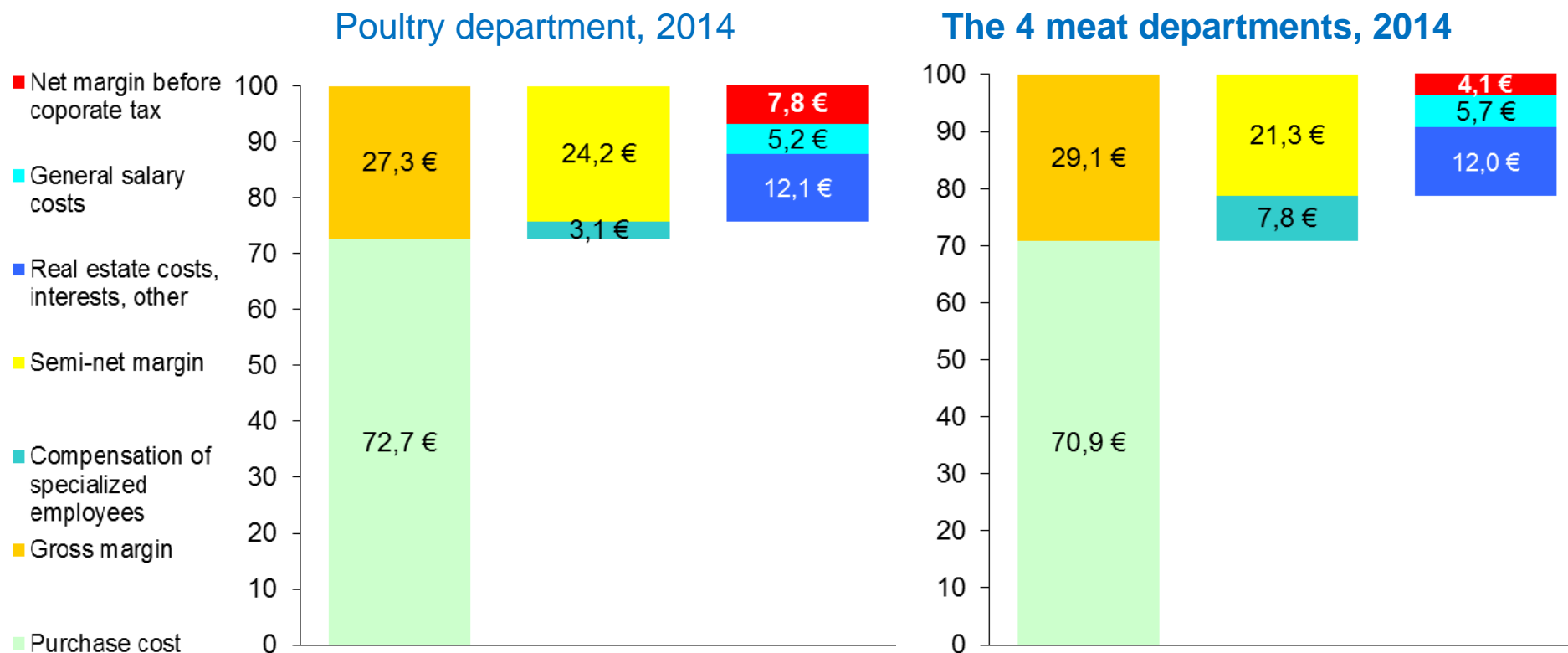
Source : OFPM, FranceArriMer : annual survey in major supermarkets and hypermarkets chains

Accounts of meat departments of super and hypermarkets



Source : OFPM

Accounts of meat departments of super and hypermarkets



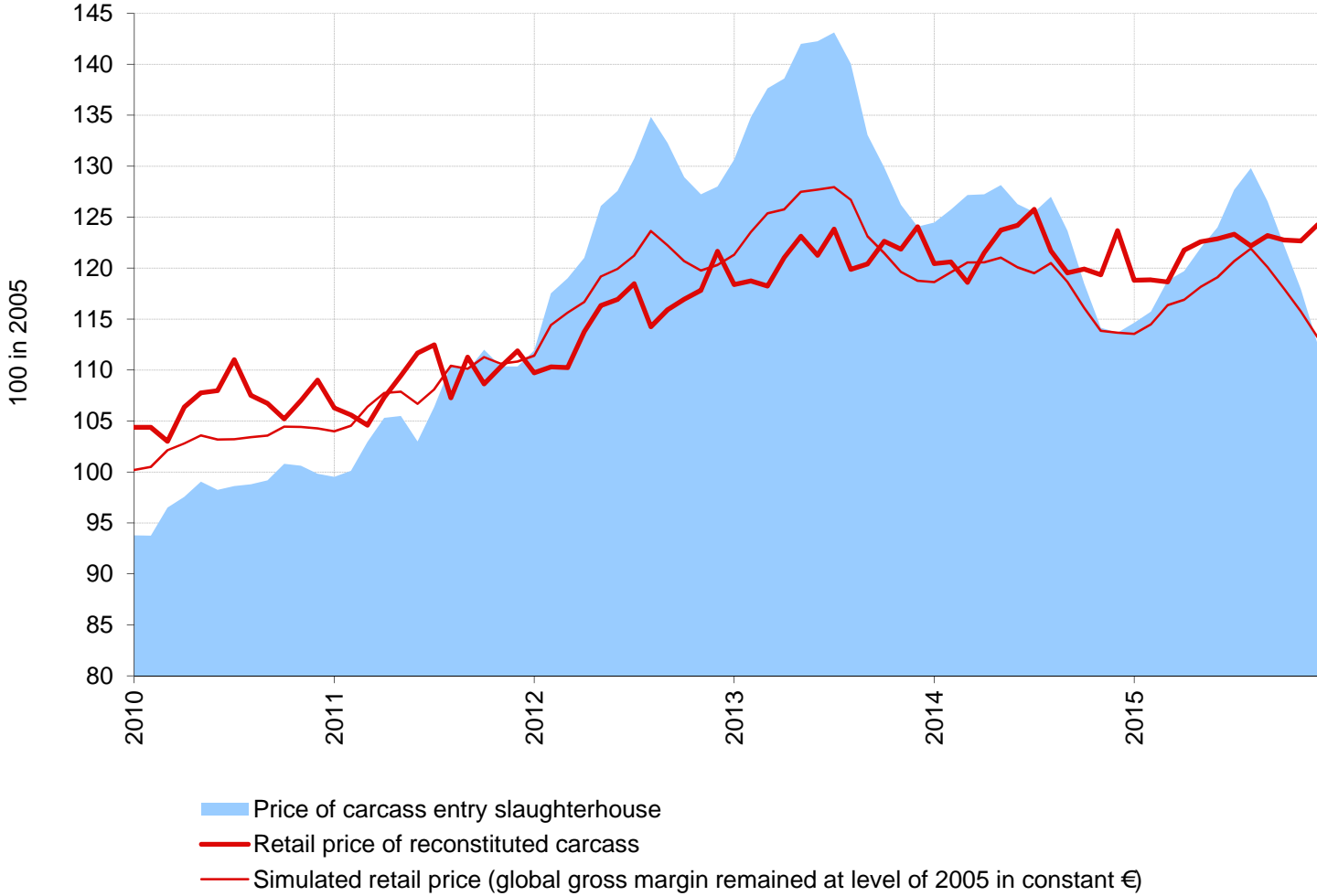
For € 100 of sales

Source : OFPM

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Other studies

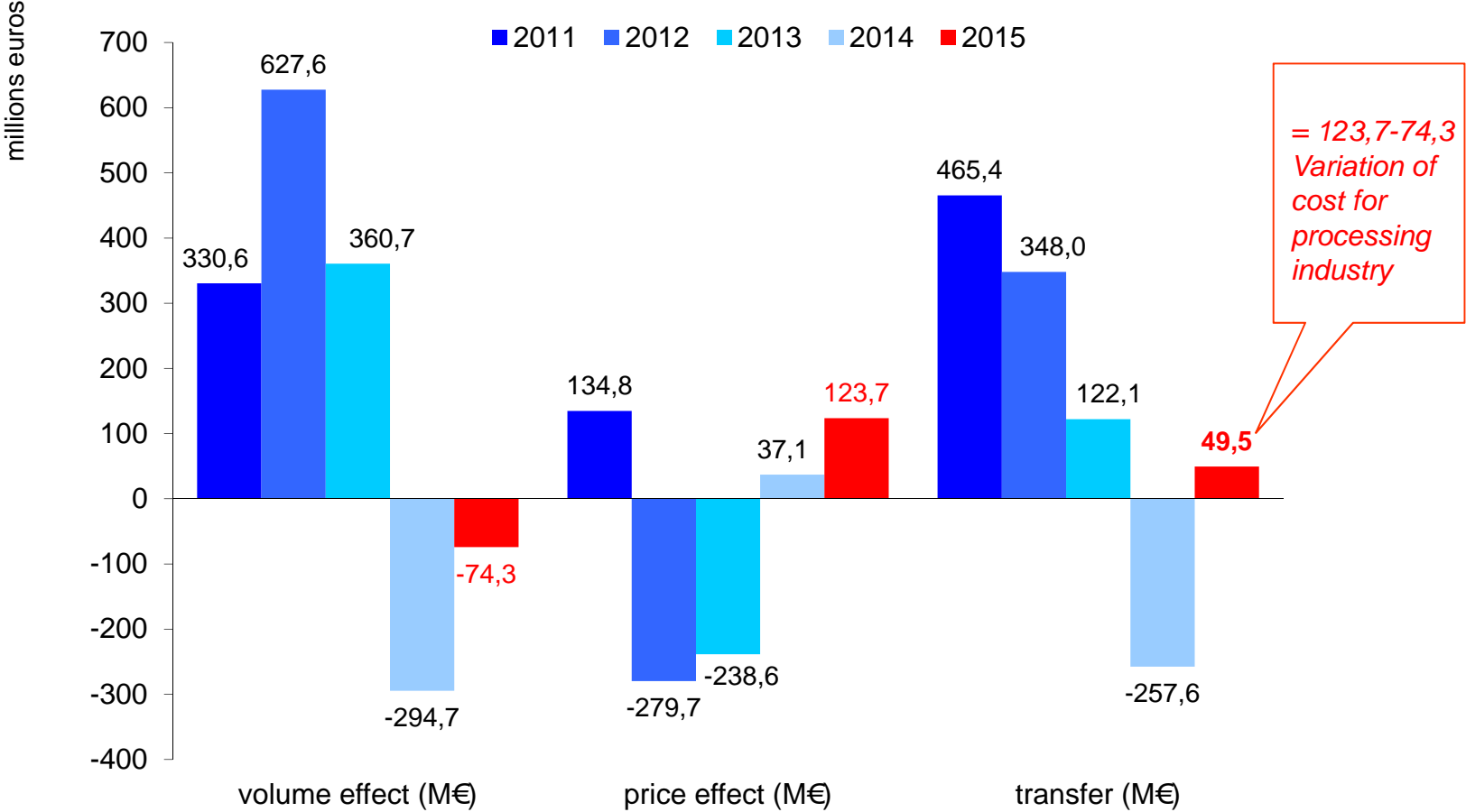
Prices transmission : from farm to retail



Source : OFPM, from FranceAgriMer, Kantar Worldpanel, Insee

Other studies

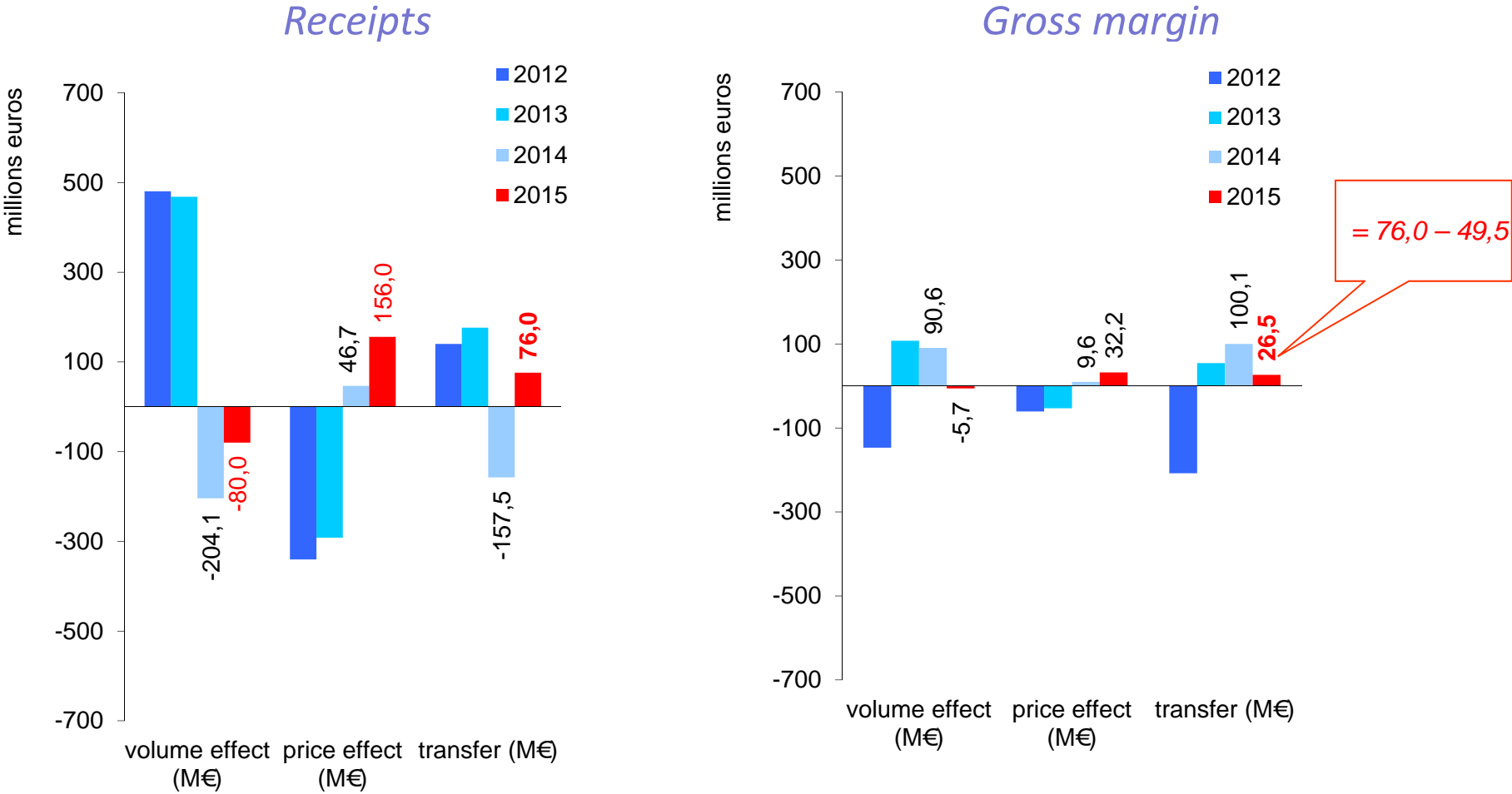
Receipts variations in production of adult bovine animals for slaughter



Source : OFPM, from FranceAgriMer, SSP

Other studies

Annual variations in beef processing industry (slaughtering and cutting)



Source : OFPM, from FranceAgriMer, SSP

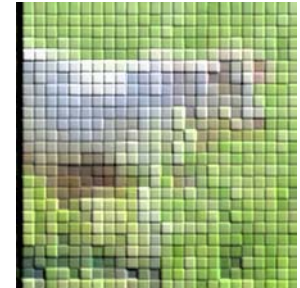
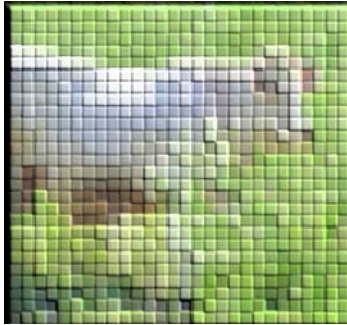
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Conclusion, limits, improvements

- Increasing retail price of the bovine meat basket, in spite of decreasing production price in 2015
- Impacts of production prices changes are cushioned by the industry of processing and the retail trade
- Improvement of 2015 beef gross margins for meat industry and retail (as in 2014, after reduction in 2012 and 2013)
- Improvement of 2015 beef net margin for meat industry (as in 2014...)...
- Net margin in meat departments of super and hypermarkets : equalization between “butchery” (negative), “poultry” and “deli” (positives)...
- Specialized beef farms : the lowest average income of the “farm France” (with sheep farming)
- Limits of method : availability of adapted data (costs of surveys vs budgetary considerations), delays to obtain data, accounting standards, business confidentiality...
- Improvements (under limits above...) : other products of bovine sector (veal)



Questions ?



Thank you

