

Prices and  
margins  
formation in  
pork 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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## Objectives, context, organization

General method

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Decomposition of retail price into agriculture value and gross margins

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# Objectives, context, organization

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## Objectives

- ❑ Measure and explain the differences of values at every stage of the agri-food chain
- ❑ Produce informations shared by all stakeholders (about 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 direction (management) : FranceAgriMer

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# General method

1<sup>st</sup> step :

Prices and margins by product

Retail price of a food product



Prices data (cotations, public datas, ad hoc surveys) and technical coefficients (experts)

**Agricultural product**

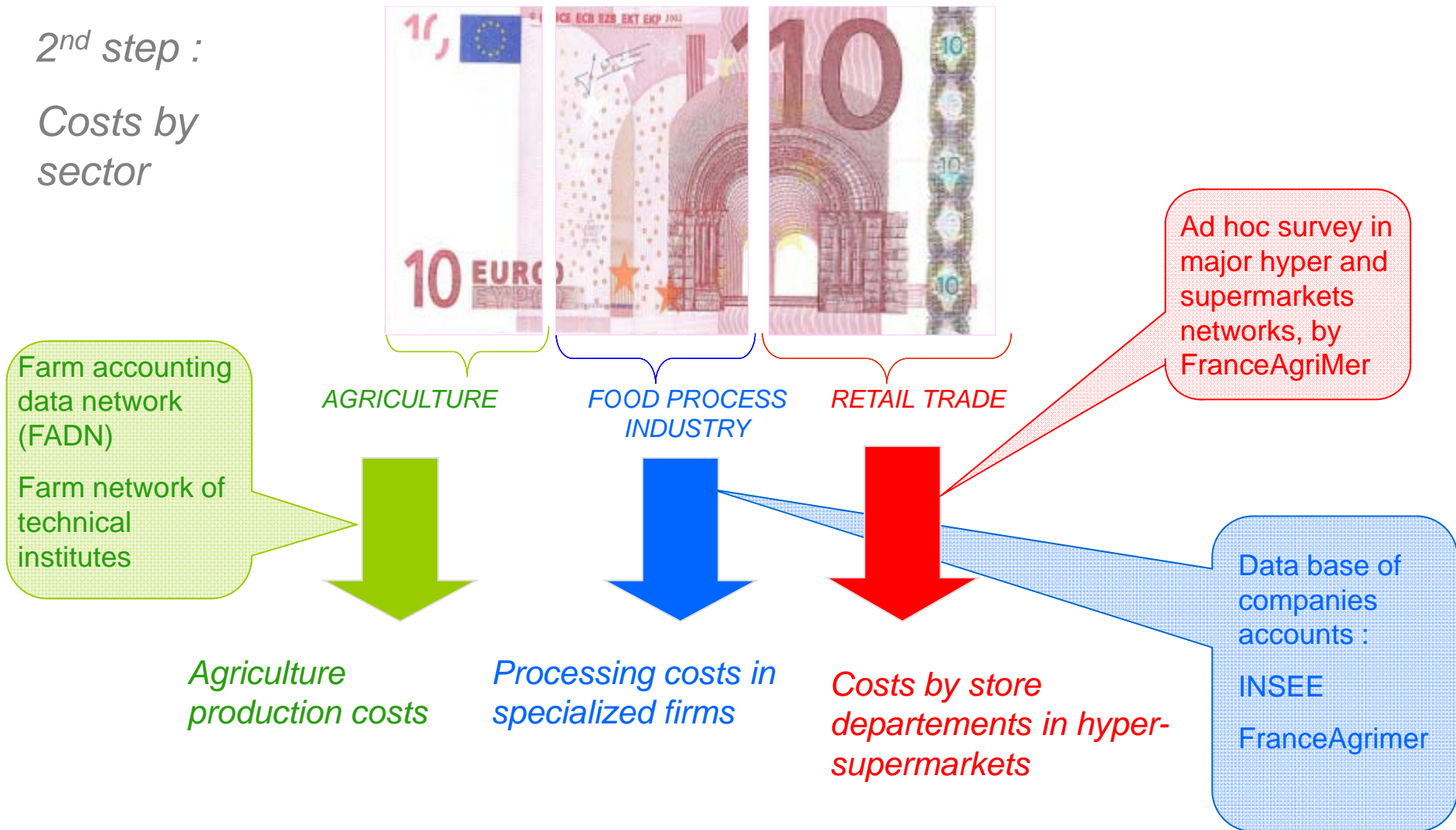
**Food process Gross margin**

**Distribution Gross margin**

# General method

2<sup>nd</sup> step :

Costs by sector



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# Methods for pork industry: 1/ products and chain model

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□ Products chain : from entry slaughterhouse to a sample of products of fresh meat an ham at retail level (total : about 40% of pork meat)

1) Pork loin (chops, roast or fillet) : processing industry sale unit, shop sale unit

2) Boiled ham (average basket of different qualities)

□ Prices:

*At retail level* : Kantar Worldpanel

*At process industry level* : ad hoc survey (Insee for FranceAgriMer)

*At agri. production level* : public cotations (FranceAgriMer), price entry to the slaughterhouse)

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# Methods for pork industry: 2/ costs

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## ❑ Agriculture

- 1) FADN : costs structure of porcine meat specialized farm, from accounting data (yearly, 2-years delay)
- 2) Technical institute (« Institut du Porc- Ifip ») : average production cost per kg of carcass in porcine meat farms (breeders-fatteners); cost including calculated compensations for non-salaried labour and capital (yearly, 1-year delay)

## ❑ Processing industry

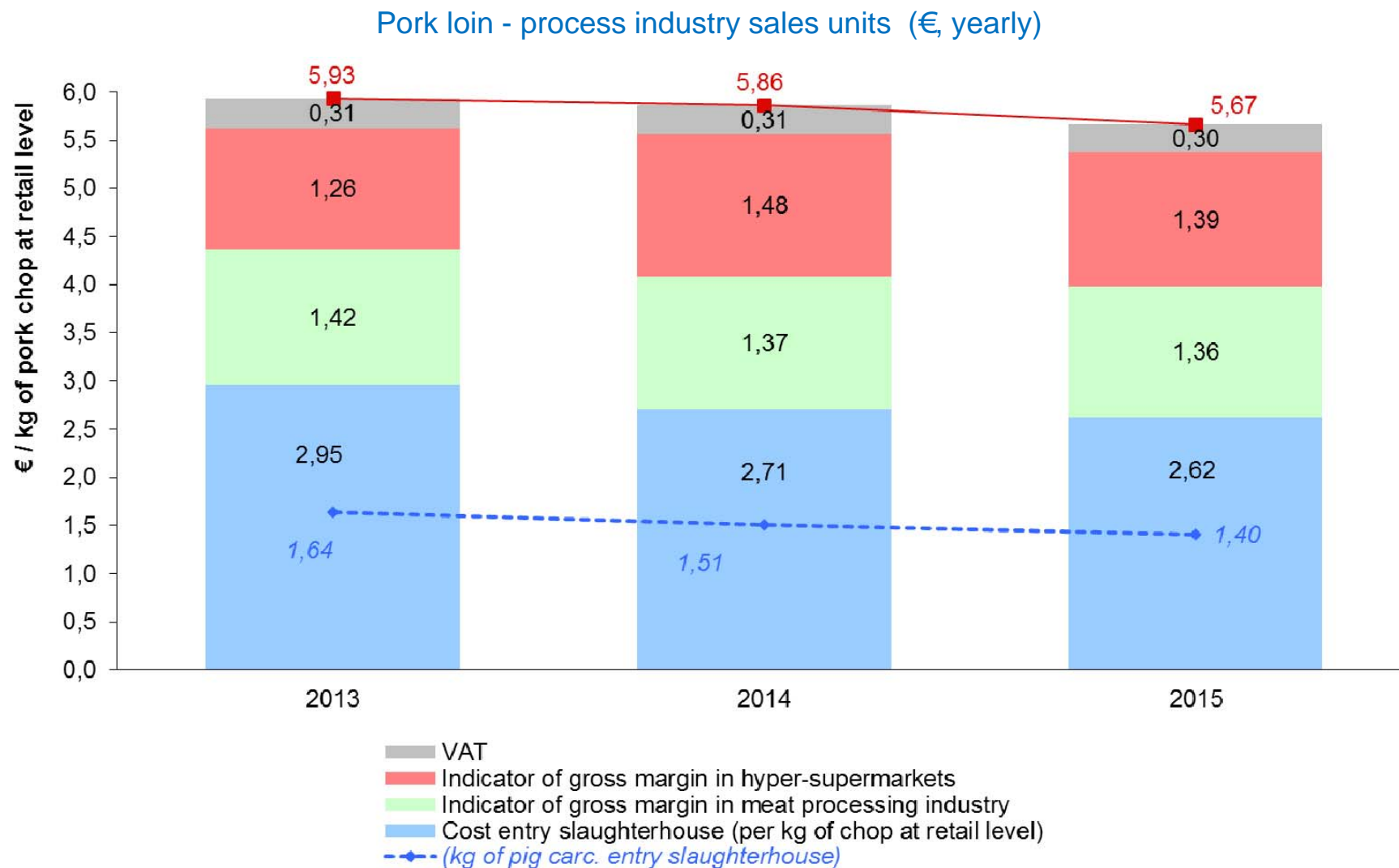
- 1) Costs structure in porcine meat 1<sup>st</sup> processing industry (slaughtering and cut) : Insee (national statistic service) data base of companies accounting (yearly, 2 or 3-years delay),
- 2) Costs per kg of carcass processed in porcine meat 1<sup>st</sup> processing factories : panel of enterprises, FranceAgriMer (quarterly),
- 3) Costs structure in porcine meat 2<sup>nd</sup> processing industry (boiled ham) : from Banque de France

## ❑ Super and hypermarkets chains

Accounts by department of fresh food : butcher (porcine 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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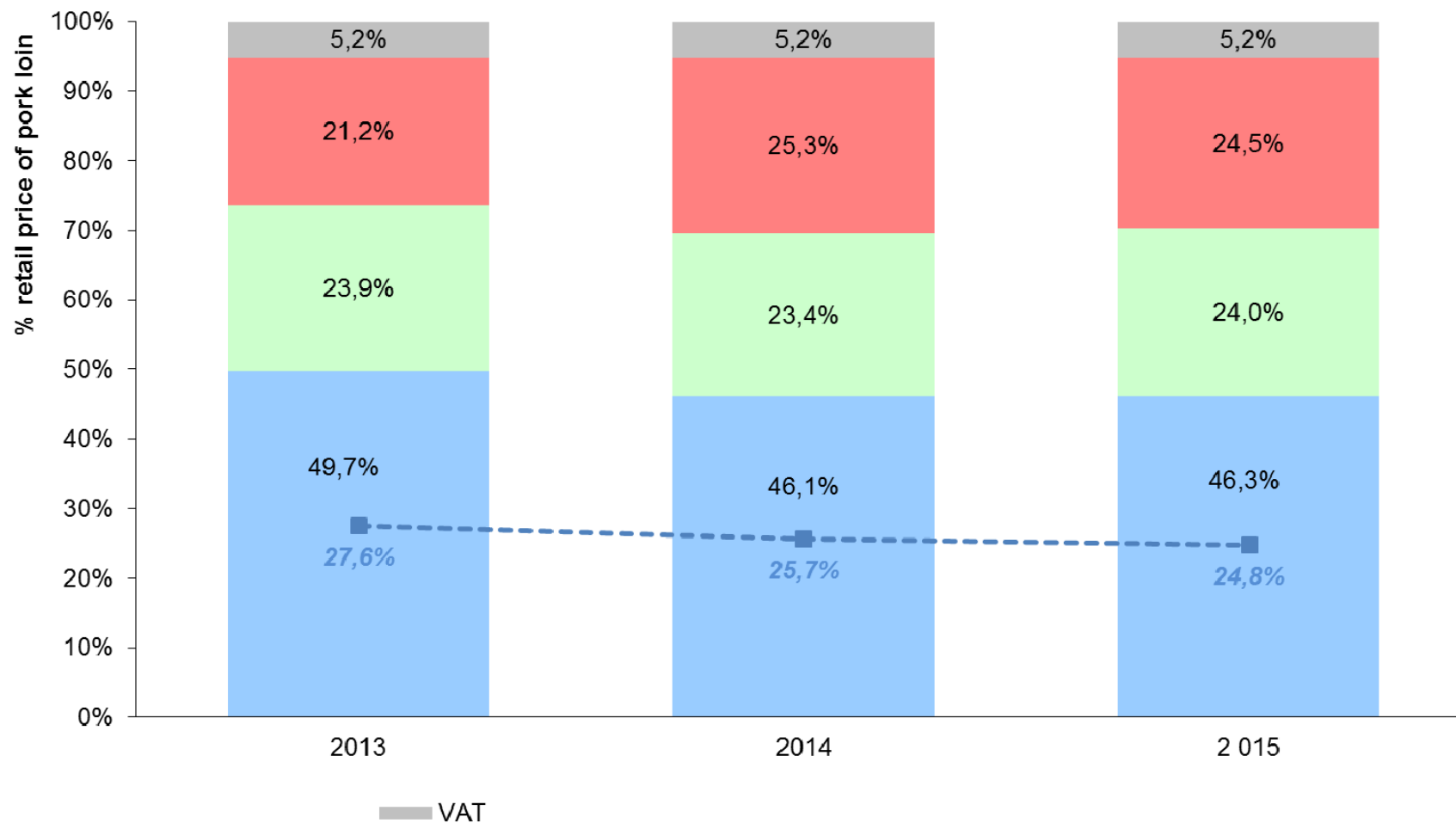
# Decomposition of retail price into agr. value and gross margins



Source : OFPM, from FranceAgriMer, Insee Kantar Worldpanel

# Decomposition of retail price into agr. value and gross margins

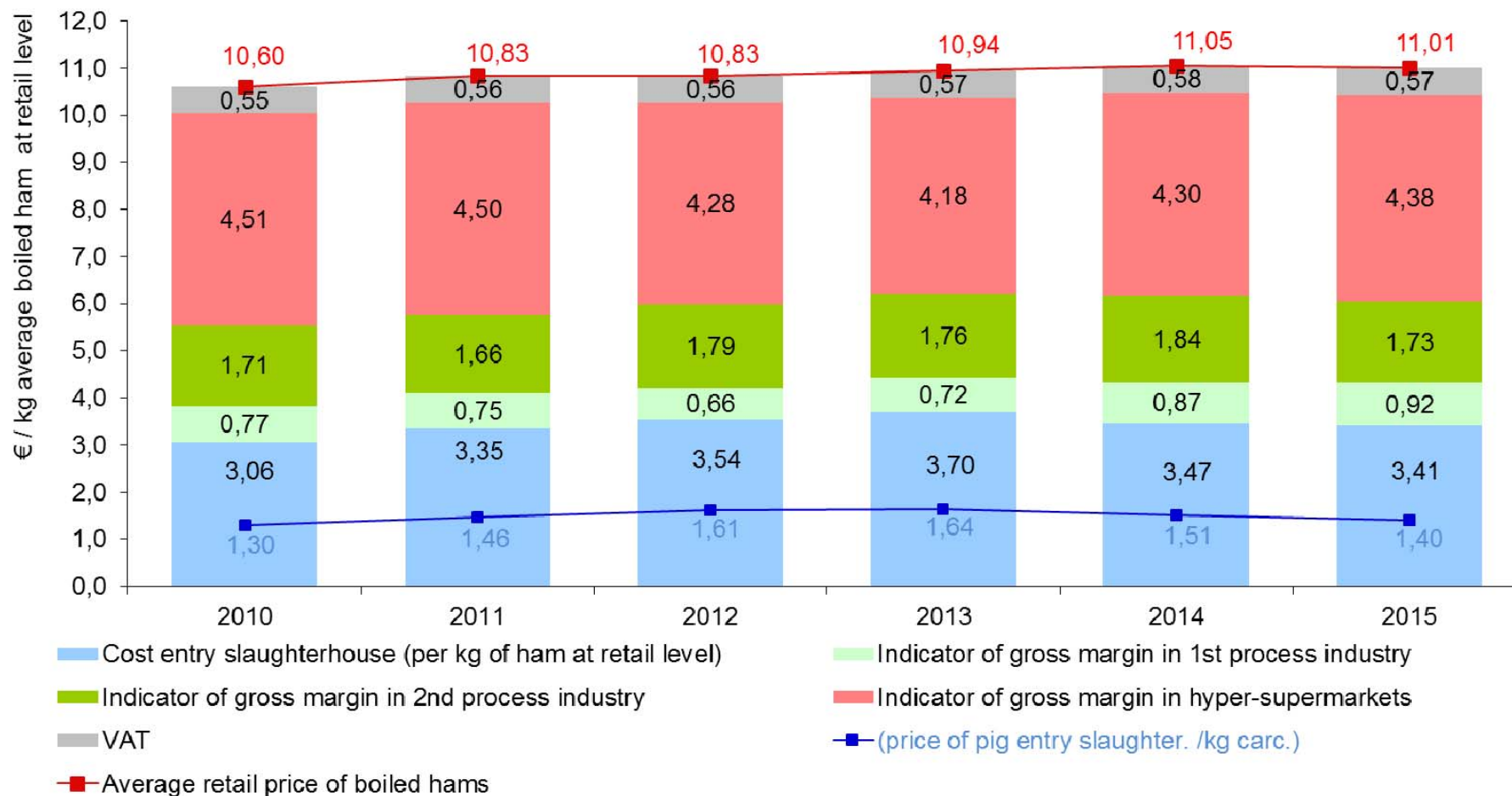
Pork loin - process industry sales units (% of retail price, yearly)



Source : OFPM, from FranceAgriMer, Insee, Kantar Worldpanel

# Decomposition of retail price into agr. value and gross margins

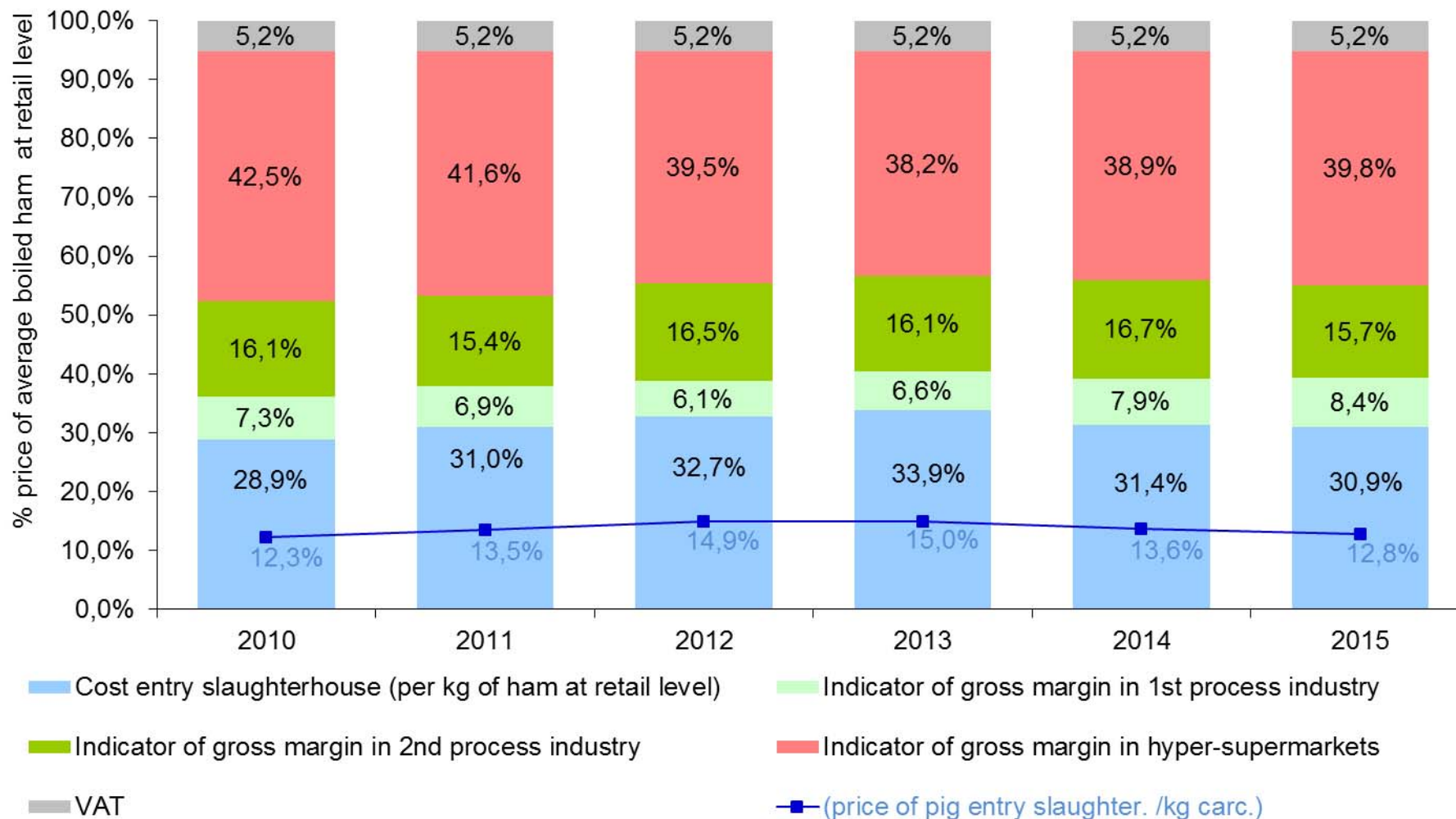
Pork boiled ham (€, yearly)



Source : OFPM, from FranceAgriMer, Insee, Kantar Worldpanel

# Decomposition of retail price into agr. value and gross margins

Pork boiled ham (% retail price, yearly)

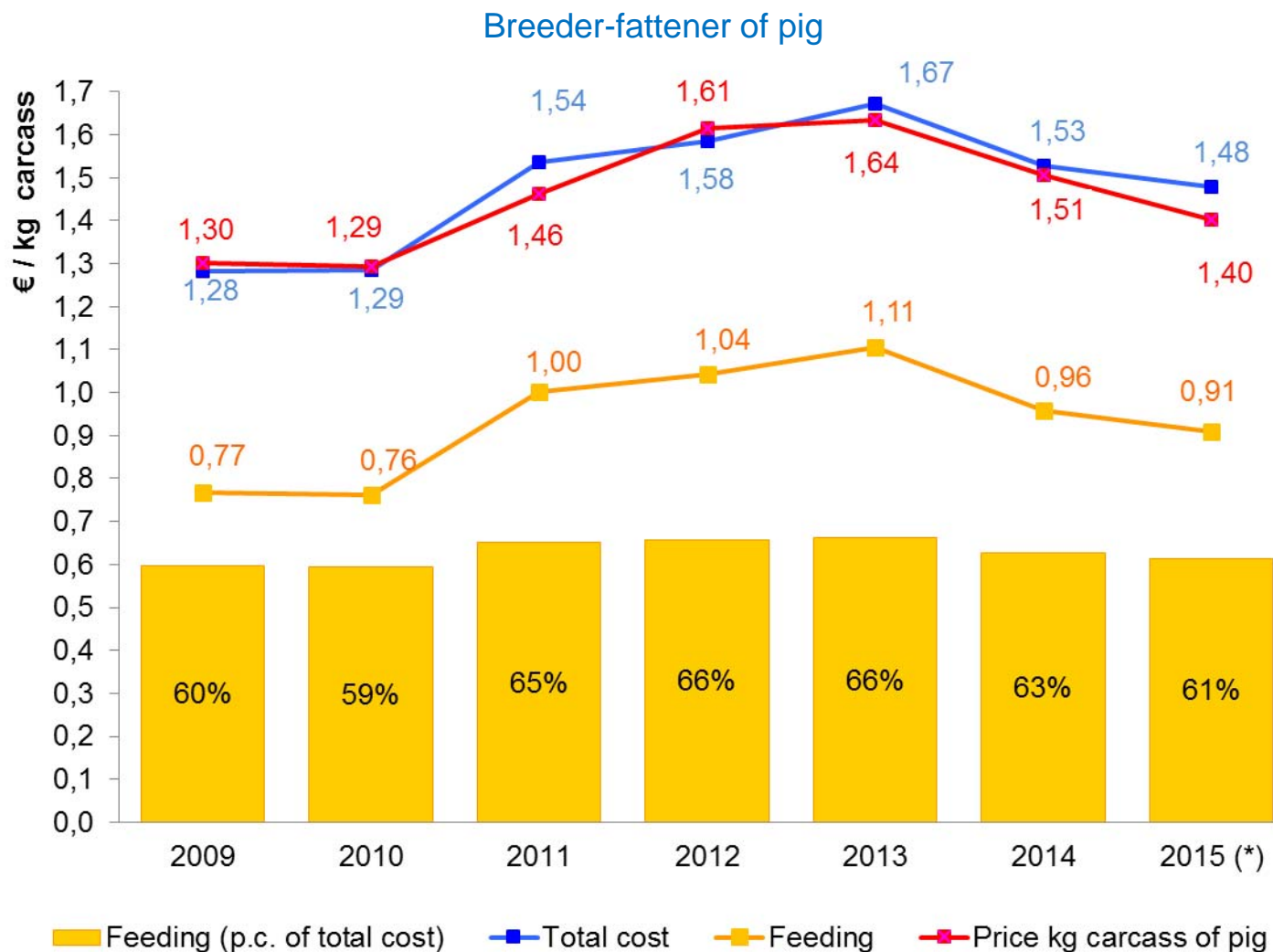


Source : OFPM, from FranceAgriMer, Insee, Kantar Worldpanel



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# Production costs in porcine meat farms



Source : Institut du porc (Ifip) for OFPM

# Production costs in porcine meat farms

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



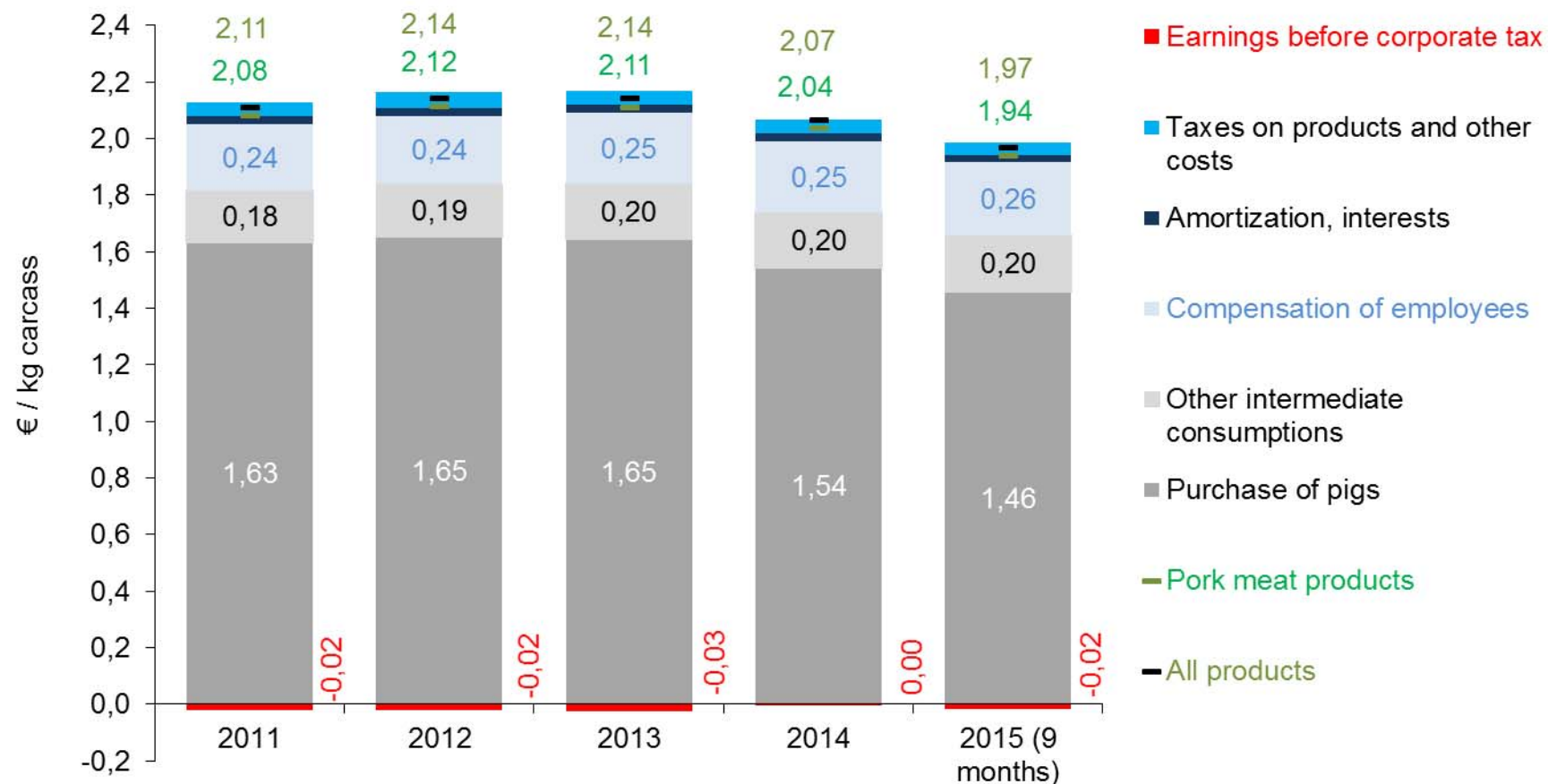
(1) Unit of UnPaid Labour

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

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# Costs in porcine meat processing industry

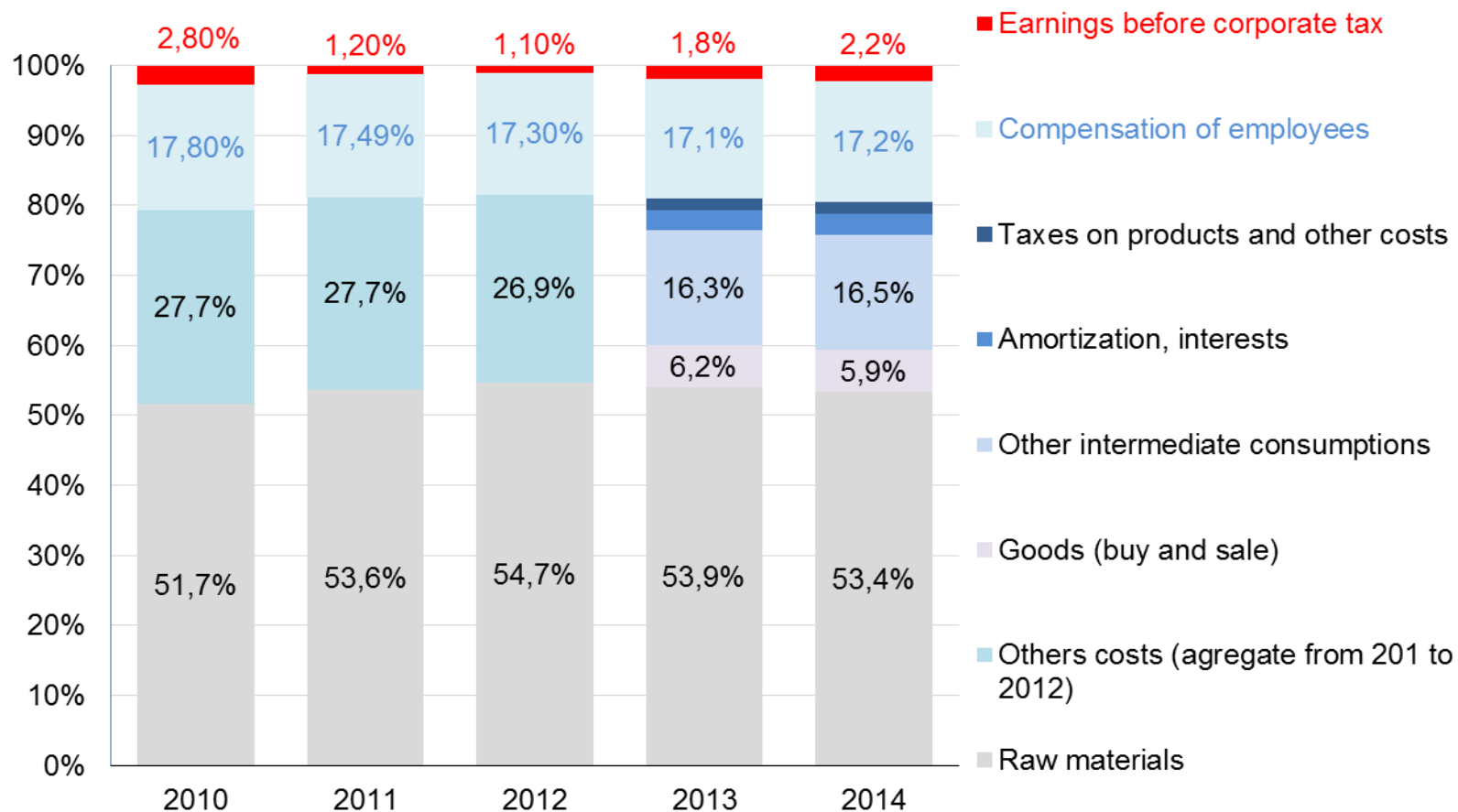
Costs in pork 1<sup>st</sup> processing industry per kg of carcass



Source : FranceAgriMer, panel of companies, for OFFPM

# Costs in porcine meat processing industry

Costs in pork 2<sup>nd</sup> processing industry (for ham), % products values



Source : Banque de France

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# Accounts of meat departments of super and hypermarkets

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## Methods and limits

- ❑ Perimeter of the costs and receipts : retail shops + central purchasing services, 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*)

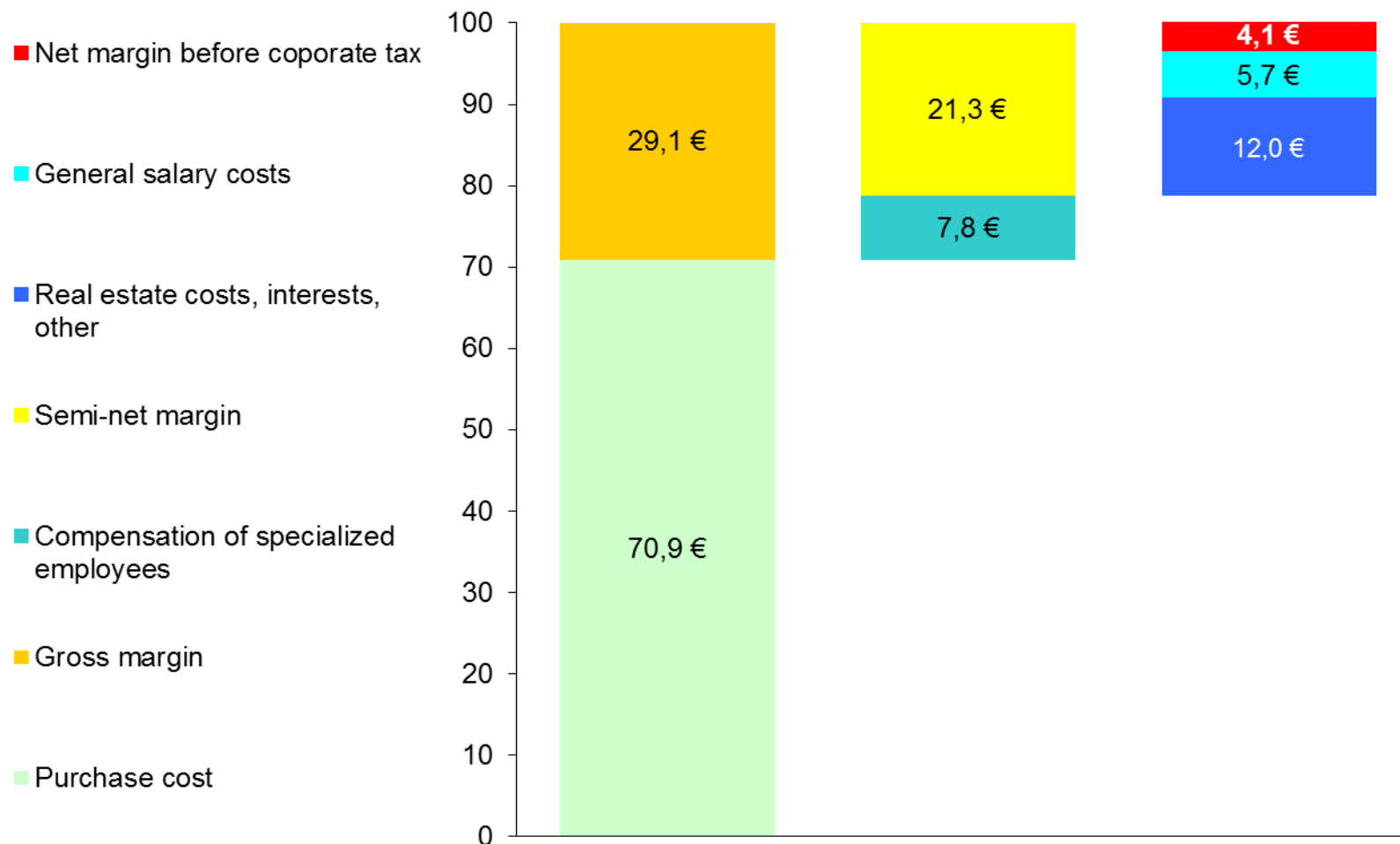
*The « net margin » is not a consolidated profit of the group*

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



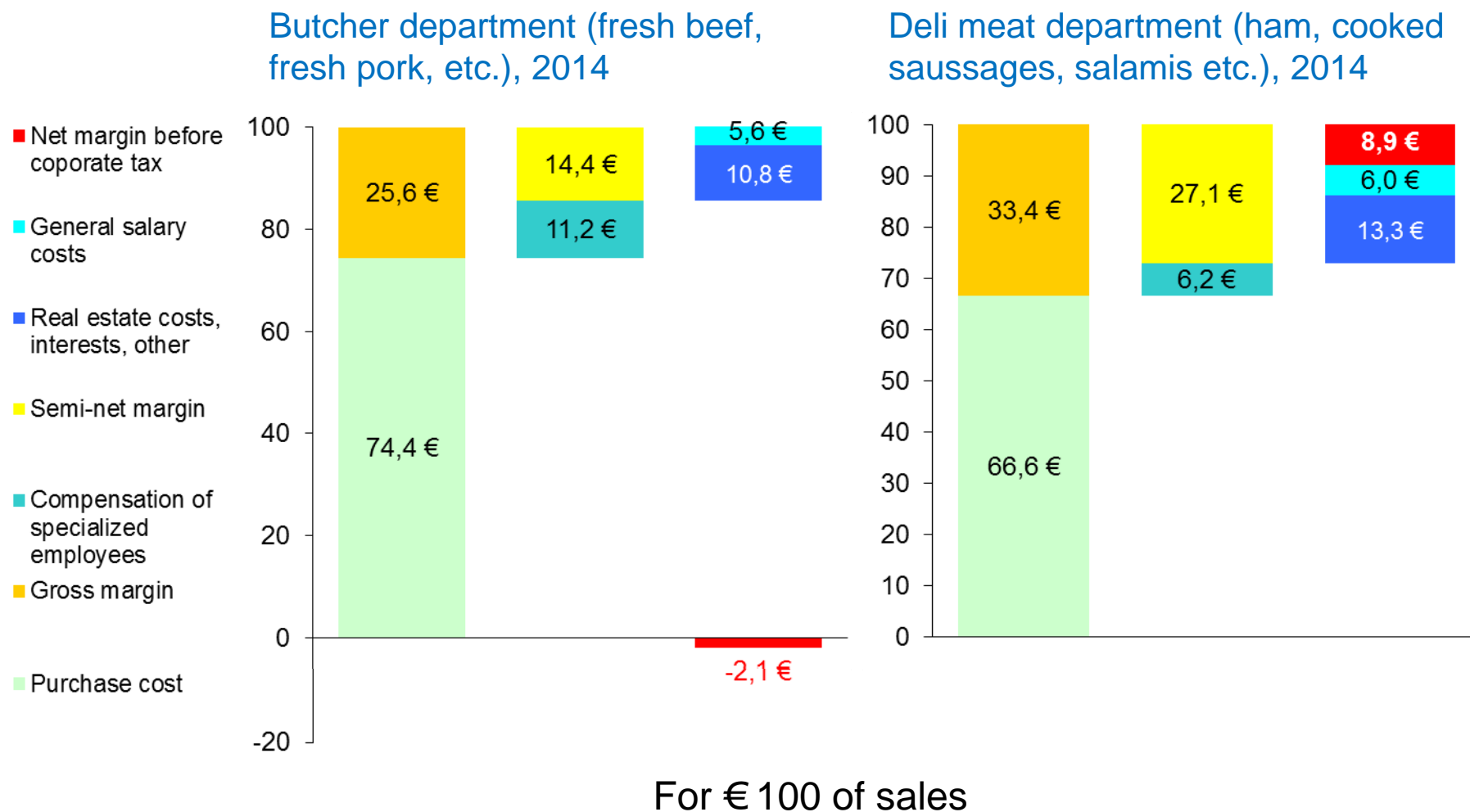
# Accounts of meat departments of super and hypermarkets

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



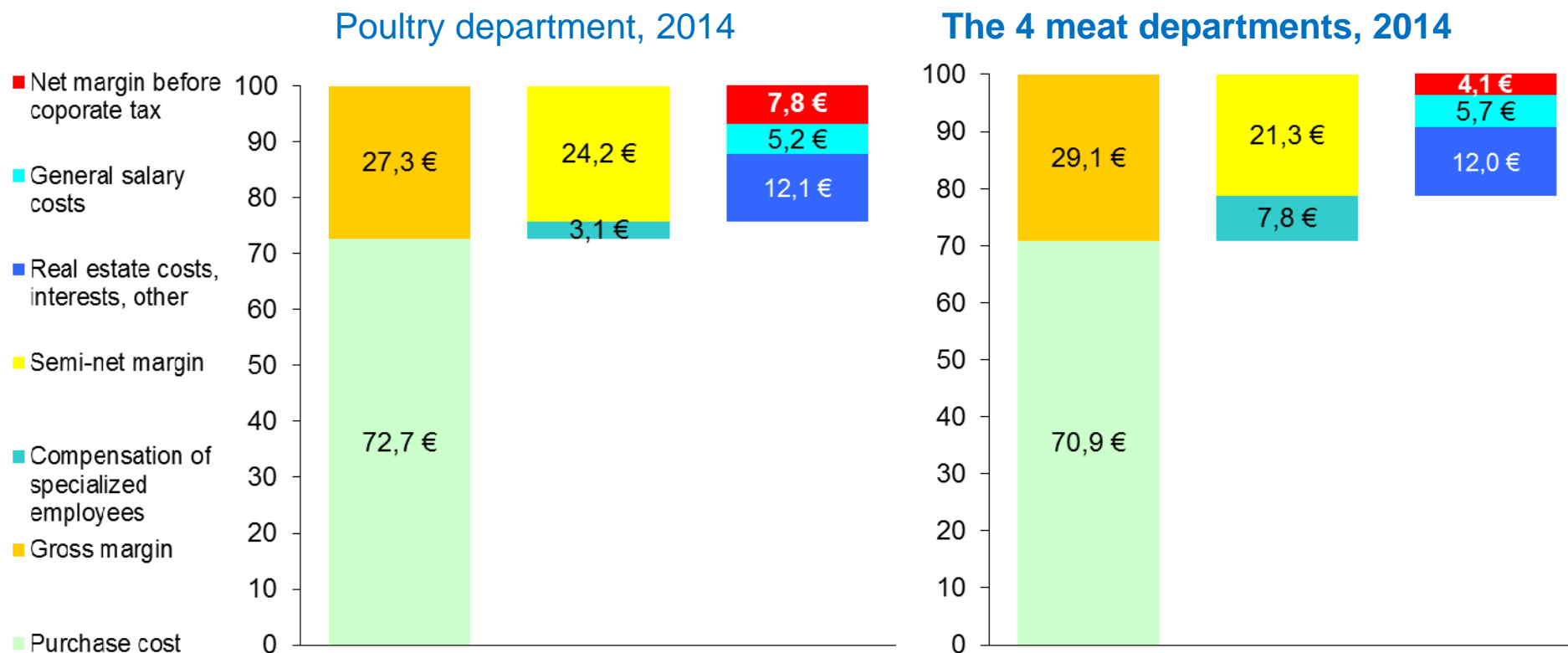
Source : OFPM, FranceArriMer : annual survey in major supermarkets and hypermarkets chains

# Accounts of meat departments of super and hypermarkets



Source : OFPM

# Accounts of meat departments of super and hypermarkets



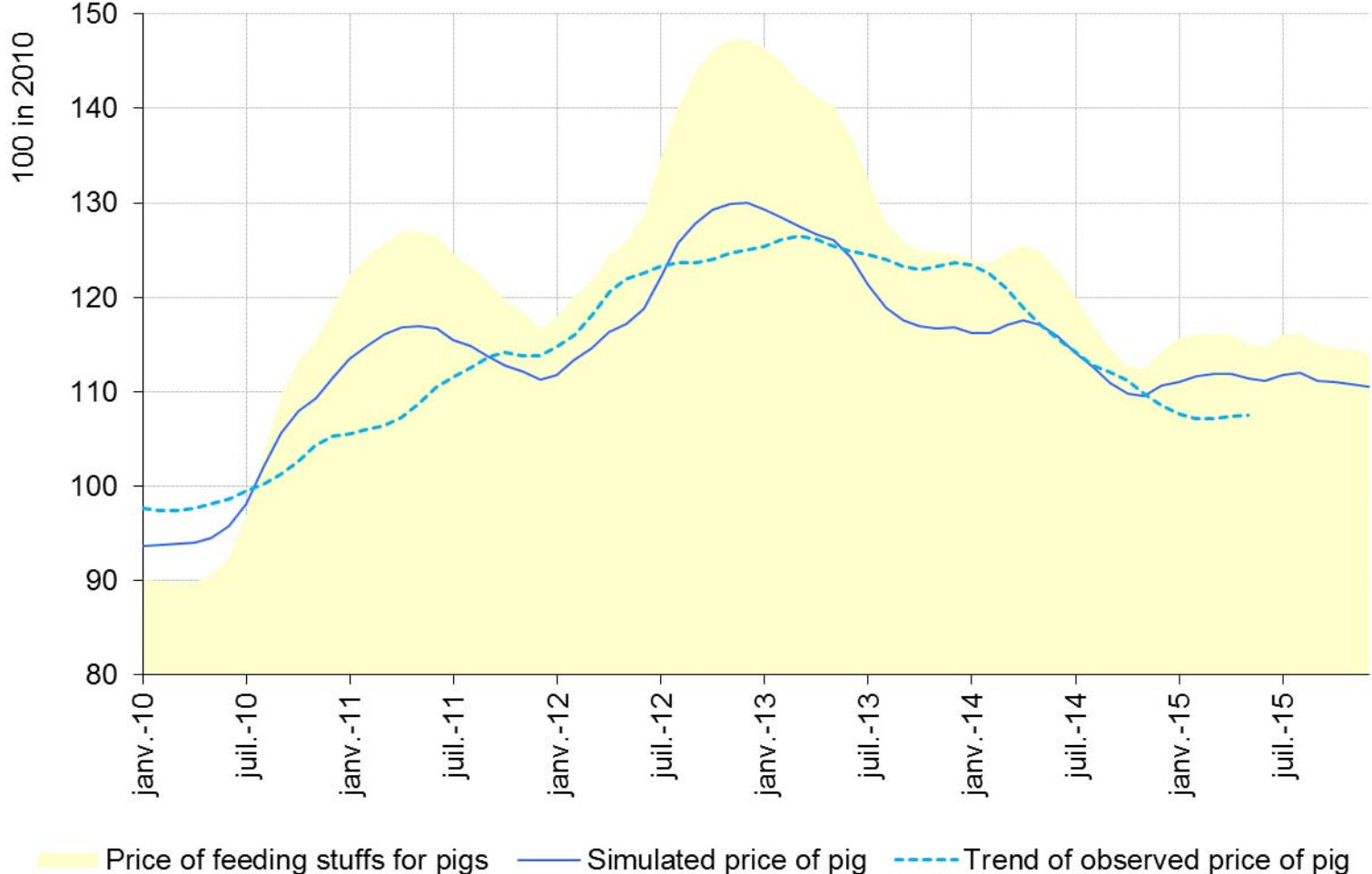
For € 100 of sales

Source : OFPM

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# Other studies

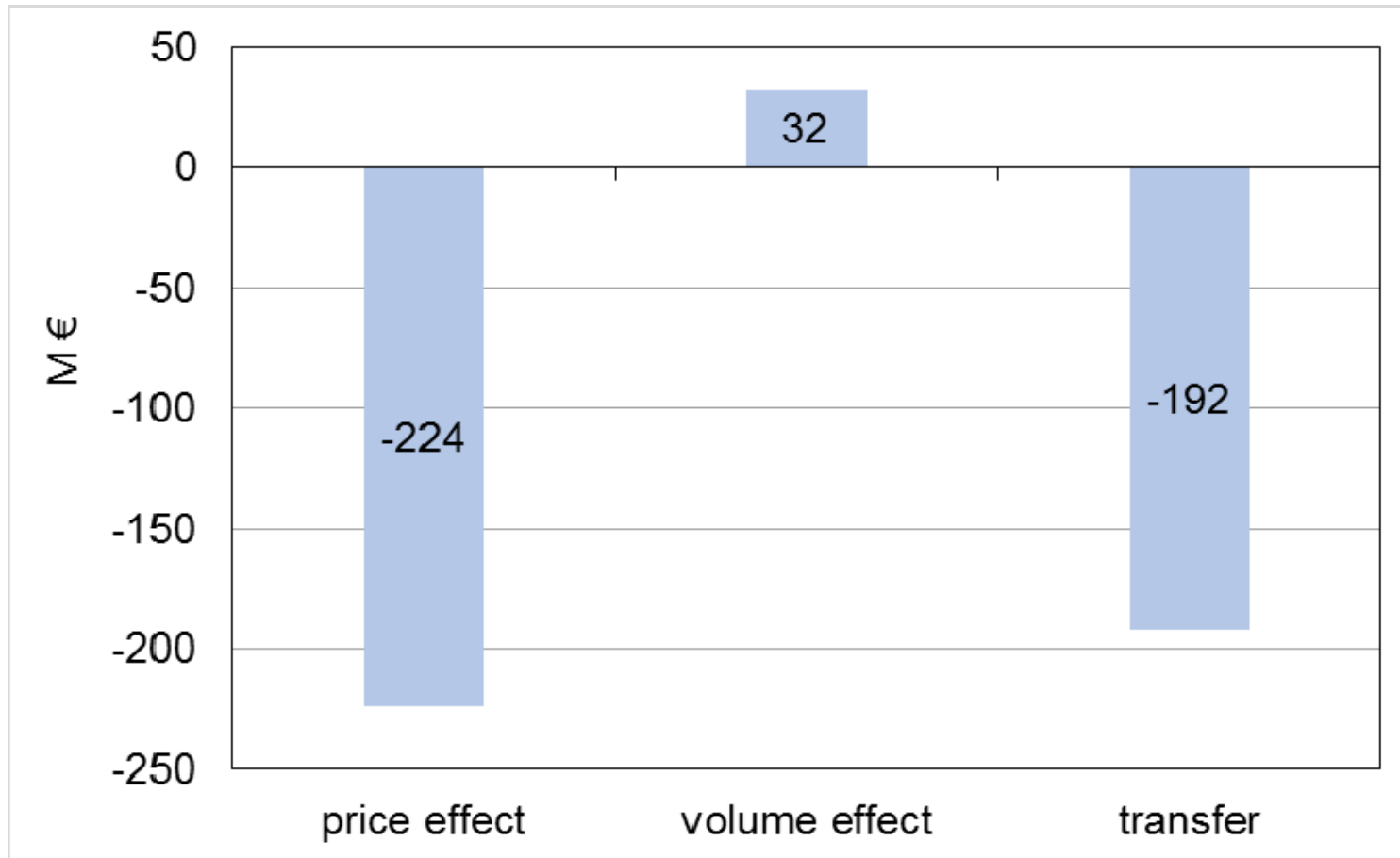
## Prices transmission : feeding stuff and pig



Source : OFPM, from FranceAgriMer, Kantar Worldpanel, Insee

# Other studies

## Receipts variations 2014-2015 in production of pigs



Source : OFPM, from FranceAgriMer, SSP

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## Conclusion, limits, improvements

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- Decreasing retail prices with decreasing production price in 2015
  - Impacts of production prices changes are cushioned by the industry of processing and the retail trade (ham)
  - Variation gross margin for meat industry : depends on products...
  - Net margin for 1<sup>st</sup> processing pork industry negative or zero since 2011...
  - Net margin in meat departments of super and hypermarkets : equalization between “butchery” (negative), “poultry” and “deli” (positives)...
- 
- 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 pork ?



*Questions ?*



*Thank you*