

The German pork sector – from pig production to retail

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Between the moment when the pigs leave the farm and the retailing of pork products, French and German sectors show different price levels. The price received by pig producers appears higher in Germany, while retail prices seem particularly lower.

A study was carried out by IFIP to validate these assessments and put forward explanations regarding the German pork sector's organisation and functioning.

The analysis highlights noteworthy characteristics in the organisation and functioning of the German pork sector and the relationships between producers, manufacturers and retailers. This article sums up the main points.

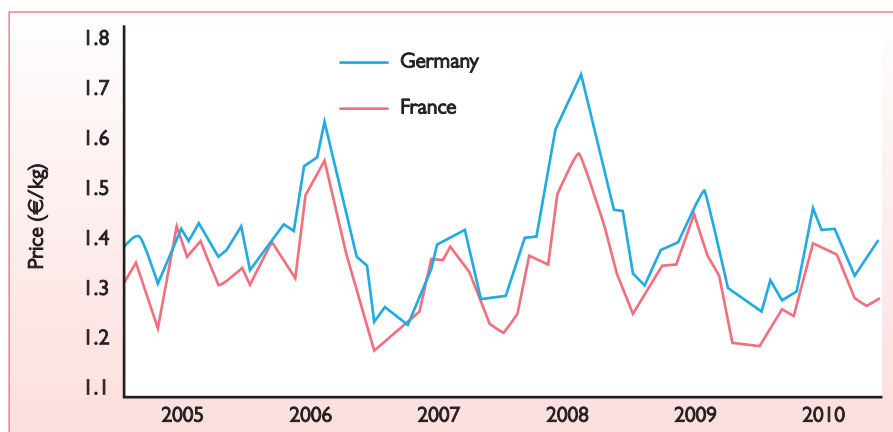
Different price levels

Marked by a parallel evolution between the two countries, the pig price received by producers was on average 7cts €/kg higher in Germany from 2005-2010 (Fig. 1).

Between 2003 and 2010, pork products' retail prices were in yearly average around 30% lower in Germany than in France. The situation in 2010 is illustrated in Table 1.

With more than 54kg per head in 2009, pork is the first meat consumed in Germany. This is one of the highest levels

Fig. 1. Pig prices in France and Germany (€/kg).



	Germany	France	Difference (%)
Fresh pork	5.02	6.40	+ 27
Pork processed products	7.40	9.41	+ 27

Table 1. Retail prices 2010, pork fresh and processed products (€/kg).

among European countries. Pork consumption in Germany was stable throughout the last decade.

Pre-packed products showed a strong development to the detriment of 'over-the-counter' sales, which, nevertheless, represents a high market share for fresh meat, due to the importance of small traditional retail circuits. Pork meat therefore benefits from a sustained demand in the German market, even though meat consumption may face a downward trend in years to come, as in other Western European countries.

Product composition

In Germany, the main cuts from the pork carcass are used for fresh meat (about 40%) and processed products (about 60%).

The consumption of processed pork products in Germany is historically and culturally dominated by a very large range of products in casings, made of a mix of various minced lean and fat pieces of meat. Fresh minced meat products are also very common.

The predominance of these 'würste' products facilitates the optimal use of the different parts of the pork carcass, by offering

manufacturers more flexibility and opportunities for substitution as regards the anatomical origin of the raw meat they use.

Moreover, some product categories which present similarities in names and use between Germany and France in reality show considerable differences of composition and manufacturing process – resulting in very different retail prices. Cured ham is one of the most obvious examples.

A concentrated sector

Meat manufacturing is the first of the food industrial sectors in Germany, in terms of turnover. Slaughtering and cutting activities are very concentrated and dominated by powerful leaders.

Four top companies share 60% of the pig slaughtering and the 10 biggest firms process more than a million pigs each year. The trend for concentration should keep on intensifying in the coming years.

The meat processing sector is less concentrated, composed of many 'specialised' companies providing the large range of processed meat products consumed in Germany.

However, two groups dominate the market. In addition to flexibility in the marketing of pork cuts due to the varied composition of processed products, the German fresh meat industry has taken advantage of the strong development of pre-packaged products, notably in great demand by hard discounters.

Massive investments have been made in automation and mass production assembly lines, to supply hard discount's demand for standardised, fixed-weight items.

Companies have thus the possibility to benefit from economies of scale. The competitiveness of German slaughtering and cutting top firms is also caused by lower labour costs in comparison to rival countries, due to the significant use of foreigners working

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under wage conditions greatly influenced by the legislation of their own countries.

By keeping up an intense investment policy to increase their productivity, the slaughtering firms maintain a high level of demand for pigs, in order to run their lines at maximum capacity. It creates a 'supply competition' that keeps pig prices dynamic, which benefits pig producers, in a very liberal market.

At the stage of meat processing companies, many of the large diversity of products are in reality differentiated from the basis of a similar manufacturing process (mixing fat and lean pieces).

German firms are closely linked to equipment manufacturers and researchers, creating the best conditions to remain at the forefront of technological evolutions.

With regard to these elements, German meat manufacturers appear very competitive in terms of production costs.

Strong competition

The German retail sector is strongly influenced by hard discount, which creates fierce competition on prices between retailers.

On 'basic' food items, the hard discounters (especially Aldi and Lidl) play an important role in directing prices, while hypermarkets and supermarkets try to align their prices, especially for processed products. Hard discount's high market share is a significant explanation for the relatively slight increase of food prices in Germany in recent years.

'Simple' relationships

The relationships between manufacturers and retailers in Germany seem to be 'simpler' and more pragmatic than in France.

There are only a few laws controlling them. The term of 'mutual trust' is often used to define their nature.

Retailers are very strict on their choice of suppliers, but then the relationships seem to be oriented by loyalty. Retailers generally have only a few suppliers for fresh meat. This facilitates an accurate adaptation between supply and demand.

- Hard discounters have very close links with the biggest fresh meat and processed product companies that are of sufficient size to provide the massive quantities they need, in order to supply their many stores with standardised products.

- The main hypermarket and supermarket chains have invested in the industrial sector and have their own factories providing fresh meat and processed products (sold with private labels). In some cases, 100% of the fresh pork meat a retailer sells comes from its own production tool.

- Some 'exclusive' relationships, linking a supplier and a retailer also exist for fresh meat.

The large size of top slaughtering and cut-



ting companies and the significant share of exportation in their activity give them a considerable influence in their relationships with German retailers.

Suppliers are more numerous for processed meat products, due to their specialisation and the large diversity of products that exists.

Although the situation appears healthy, the German authorities wonder about a possible 'excess' of domination of the retail sector towards their suppliers.

As in France, the top six central purchasing departments hold about 75% of the food products trade.

Special offers on fresh pork

As in France, special offers on fresh pork meat play an important role in Germany to stimulate consumption, despite significant differences between the two countries.

- Special offers are generally more spread over the year in Germany, while January (and September to a lesser extent) traditionally holds a substantial position in French shops.

- Considering the same item, the gap between 'special offer' and 'regular' prices is clearly lower in Germany (generally about 20-30%) when it is commonly over 50% in France. 'Promotional' prices are higher in Germany, but 'regular' prices are lower. Month after month, average prices for fresh pork thus evolve more regularly in Germany.

Export strategies

Many German retailers give priority to 'German made' products in the domestic market. The pork sector has also adopted very ambitious exportation strategies, favoured by Germany's 'central' geographical position regarding strategic markets.

The exportations of German pork products rose spectacularly in the last 10 years. Manufacturers appear very confident about the opportunities to expand their business and conquer new markets. Strong investments have been made to improve accurate knowledge of the expectancies of potential clients.

In some cases, commercial strategies outside Germany also induce partnerships between firms. For example, the international growth of hard discount is a development opportunity for German manufacturers.

Sharing out added value

Despite the apparent 'simplicity' of the relationships between the different parties of the sector, the sharing of added value among producers, slaughtering and cutting firms, processed product manufacturers and retailers appears hard to analyse.

Producers point to the intense competition between retailers and their overwhelming domination towards upstream operators as determining factors that drive pig prices down and destabilise the situation.

Pig producers would only obtain about 20% of the global value of pork products sold at the retail stage.

The explosion of feed prices in 2010 raises the issue of repercussions on downstream operators, which seems difficult. Different experts and professionals fear that passing this sharp value increase on to retail prices would cause a drop in pork consumption, all the more as German households reduce their food expenditures year after year.

The issue of shared value is also crucial regarding the different initiatives the sector takes to offer consumers more 'ethical' products (respecting animal welfare and the environment etc).

This growing trend leads to development programmes, generally encouraged by retailers and supported by the government. The new products created, respecting strict specifications are more costly to produce. Nevertheless, despite the interest they show, consumers do not really seem ready to pay more for these products than for the 'conventional' offer that already exists.

After all, the gap between the French and German pork sectors results from different structural and organisational characteristics.

Several elements in the German sector contribute to the situation we observe.

- The major role of hard discount, that maintains fierce competition between retailers, reduces retailing costs and forces manufacturers to improve different parameters, in order to be more efficient: economies of scale induced by increased mass-production, the advantage caused by labour costs, state-of-the-art technologies, etc.

- Manufacturers' sustained quest for better optimisation of the raw material they use, such as ambitious strategies towards international markets.

- Very pragmatic relationships between retailers and their suppliers, promoting pork products processed by German firms.

- The spectacular dynamism of the whole German pork sector these last 10 years, influenced by strong domestic demand, taking advantage of cultural consumption habits. ■