TA Tomorrow's Affairs

Analysis of today
Assessment of tomorrow

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Why Meat Is Expensive in Big Cities?

Today, discount chain stores and national supermarket chains, having replaced small shops, greengrocers, butchers, sellers of dried nuts and fruits and even bakeries, have become the largest suppliers of food and beverage to households.

Due to increasing demand, these retailers with hundreds of stores around the world are the "price setters" of the food retail industry.

This dominance has become more noticeable due to the high inflation of recent years. Especially, food prices have been rising more compared to all other consumer goods.

All world leaders, including the Canadian Prime Minister Justin Trudeau, are warning the supermarket chains, urging them to push their prices down to a more reasonable level.

Astronomical price hikes, particularly in meat and meat products, have begun to become a problem in developing countries.

How meat and meat products can be sold at cheaper prices

This situation led me to collaborate with experts in a study which suggests how meat and meat products can be sold at cheaper prices in discount chain stores and national supermarket chains:

There are thousands of discount chain stores, some of which are located even in the most remote places on Earth. National supermarket chains, on the other hand, are also available in all regions of the world, yet they are fewer in number and appeal to a higher segment of consumers. The meat and meat products sold by these retailers are:

Fresh Meat: Uncooked meat packaged and offered to the consumer, with a shelf life of up to 12 days.

Processed Meat: Meat preserved by smoking or salting, curing or adding chemical preservatives, such as ham, bacon, pastrami, sausages, hot dogs, salami, etc. Their shelf life is maximum 120 days.

> The products arrive at the warehouses one day after being shipped from the factories at the earliest

Now, let's take a quick look at the process of buying and selling meat, that is the meat supply chain: National supermarket chains store the products they have purchased to the regional warehouses and from there, they ship the product to stores in the region.

The products arrive at these warehouses one day after being shipped from the factories at the earliest, and it takes approximately three to four days for them to be delivered the stores from the warehouses. The total of this duration is at least one quarter of the shelf life of fresh meat and deli meat.

Disposed goods directly affect the cost

The interesting part is that supplying meat from regional warehouses causes a large quantity of fresh meat to expire before the product is sold and consequently the products are disposed of as waste. As indicated in the analysis, this rate increases up to 10% for all fresh meats.

Disposed goods directly affect the cost, which means supermarket chains add this 10% to their costs when determining the price and cause the prices to go up at the same rate. "With regional warehouses and logistics, costs grow further" the analysis also reveals.

Supermarkets operate with a 12-day stock of fresh meat and a 21-day stock of delicatessen meat. Terms of payment determined for the producer are very long, yet the collection period from the customer is very short.

That is to say, the mismatch between the maturity of debt and that of receivables works

in favour of chain markets.

In some countries, payments for products that are converted into cash usually in 15 days are made in an average of 60 days.

According to experts, in simple terms, it is possible to launch a store with the profit made from a household's twenty-year spending and debt-receivables maturity mismatch.

> Operational inefficiency results in a loss of 2 to 4 percent of revenue, and this obviously affects prices

The side effect is that production costs increase further, naturally along with prices, because of the cash collection and deferred payment practices of supermarket chains.

As for the operational costs, the financial statements of publicly-traded sector leaders show that the operational costs during the three quarters of 2023 amounted to 12-13% of the total costs, whereas the operation costs of discount chain stores should be around 9-10%.

Apparently, operational inefficiency results in a loss of 2 to 4 percent of revenue, and this obviously affects prices.

The profit margin of large food retailers in the world is generally around 18%, while their operation costs exceed 15%. Therefore, it would be quite unlikely for them to make any reduction in their prices. However, operation costs of such retailers should actually be around 14-15%, according to experts. And that is the reason why prices are 8-10% higher.

Supermarket chains exploit both the producer and the consumer

Also, the discounts that all food retailers receive from suppliers, such as invoice discounts, sales and profit bonuses, and shelf prices, cause production costs to rise further, and enable food retailers to make higher profit margins than the profit margins recorded on their income statements.

Problems tend to arise when meat producers in a country, that is, the livestock industries, fail to meet the demand for meat. For example, for every 200 thousand tons of supply shortage, 600 thousand cattle are required.

The chain supermarket concept invented in countries experiencing low inflation tends to increase the cost of living even further and makes inflation even stickier during periods of high inflation - Emre Alkin

This shortage is met by importing livestock and slaughter animals mostly from South America. This was how the famous "Angus" spread around the world.

Considering the bottlenecks with food that the world is facing today, it seems necessary to take effective measures such as providing production incentives and removing non-tariff barriers in a balanced manner.

A powerful prescription is imperative to reviving animal husbandry, encouraging producers and ensuring efficiency at retail outlets.

However, the chain supermarket concept invented in countries experiencing low inflation tends to increase the cost of living even further and makes inflation even stickier during periods of high inflation.

Therefore, I think the first thing that governments should do is to realise that the way supermarket chains operate exploits both the producer and the consumer and create a

common ground for both parties where they can be convinced that supermarket chains do not produce anything other than profit on paper.