

# Industry Note

## Food & Agribusiness Research

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## 'Jamon Serrano, Lomo and Chorizo' Key dynamics in the Spanish pork industry

### Introduction

Globally, China, the US and Europe dominate the pork industry. China produces and consumes over half of all pigmeat while the other giant, the US, is also domestically self-sufficient and supplies, together with some leading European companies, the major import markets.

Within the second biggest pork market, the EU, Spain has achieved a significant position. After Germany it has the largest pig population, highest amount of slaughtering and consumption of pork. This trend is most likely to continue since Spain is considered as one of the most attractive places within the EU for expansion in pig production. The low primary production costs, the few constraints on production expansion and a strong domestic consumption market are often cited as key advantages for Spain.

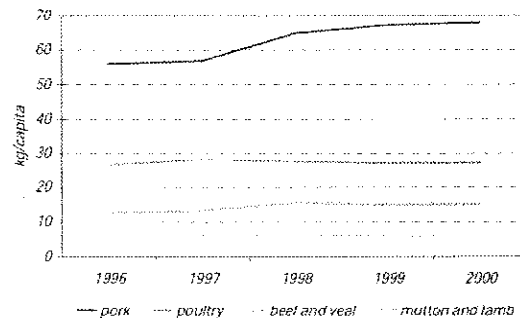


### Consumption of meat and meat products

Spaniards are keen consumers of meat and meat products. The annual per capita consumption is approximately 125 kg, the highest within Europe. A closer look at this figure reveals that this is due to the high consumption of pork, over 50% of the meat consumed. Pork consumption has risen in the last five years to more than 2.5 million tonnes (2001), with annual per capita consumption forecast to have reached 67 kg for 2001. The main reasons for this high consumption have been the low prices during 1998 and 1999, strong demand for locally and nationally processed meat products and also the positive impact of about 60 million tourists that visit Spain every year. In

addition, we see the growth of products which provide a response to new consumption trends. ...

Figure 1: Annual per capita consumption of the various meats



Source: ZMP

### Competition from other animal protein?

While in most other European countries poultry is gaining popularity at the expense of beef and sometimes pork, this is certainly not the case for Spain where poultry, mutton and beef are all much less popular than pork. Although there is nothing to suggest a dramatic change in the near future, an eye should be kept on the already high consumption of seafood (40 kg annual per capita consumption)!

### Demand is driven by...

Since the beginning of the 90s, the demand for processed pork in Spain has been increasing, with the main drivers being the growing GDP, more women working outside the home and the need for more convenience and variation in food. The Spanish processing industry has responded to these changing

consumer demands and is now supplying more and more packaged, portioned and convenience products.

**Large food retailers, traditional Spanish retailers and foodservice companies**

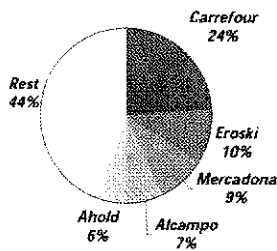
The share of meat sales by supermarkets and hypermarkets is rising, although they account for only 38% of the fresh pork market and 43% of the processed pork market. Yet, a large amount of sales still goes through the traditional butchers and local supermarkets in Spain.

Another distribution channel to the modern consumer is the growing foodservice industry, a trend attributable to the increase in the fast food segment. The expansion of big chains like McDonalds and Pizza Hut in shopping malls and airports has resulted in Spaniards spending last year over five times more on fast food than 10 years ago. In addition, growth has come from some very successful local chains like Cañas y Tapas. This industry is an excellent tool to serve tasty value added meat products to demanding consumers.

**Significant consolidation among large supermarkets**

The ongoing trend towards convenience and variety in consumer purchasing patterns has allowed the large chain stores, like El Corte Ingles and Eroski, to gain market share at the expense of smaller independents. This is resulting in the consolidation of the Spanish retail sector whose top five retailers had a market share of 56% in total food turnover in 2000.

Figure 2: Market share of top five retailers (by food sales) in Spain, 2000



Source: M+M EURODATA

Compared to other EU member states, this industry is still rather fragmented. Considering the European and also worldwide trend towards consolidation, it is to be expected that this will also occur in Spain in the near future.

**Facilitated through foreign direct investments (FDI)**

Foreign supermarket chains are also making a big push, exploring their possibilities abroad in their search for growth. The FDI in Spanish retail is growing and can largely be attributed to the French supermarkets

Carrefour and Auchan (Alcampo) and the Dutch food retailer Ahold (Superdiplo and Ahold España). In addition, we also see substantial investments by the German based Metro and Lidl. As a result of domestic consolidation and FDI, the controlling power of the large supermarkets in the value chain has increased significantly.

This development is forcing pork companies to search for growth as well in order to restore this imbalance. Campofrio has reacted to this by acquiring Navidul and OMSA in Spain. Through strengthening its position on the domestic market, it has gained a leading position in the meat processing industry and has therefor become a stronger counterparty. The much smaller meat processor Casa Tarradellas has opted for another strategy, namely adding value to its existing business through extensive product innovation and significant advertising. This all resulted in the very successful introduction of a tasty fresh pizza with a strong brand on the Spanish market.

Box 1: The market power in the Spanish pork chain is concentrated downstream

The persistent over-supply caused farm-gate prices to plummet in 1998 and 1999, to 45% of what they were in 1997, yet wholesale and retail prices dropped by only 10% or 11%. This indicates that the market power is concentrated at the end of the value chain. Supermarkets are able to maintain relatively stable prices for their consumers and realise a higher margin in this way. Some meat processors have been able to create a market for their end products and thereby charge a constant price to retailers.

**Consumer concerns**

Traditionally price and availability have been the overriding concerns of retailers. However, at the moment quality is becoming more and more a topic during negotiations between retailers and their meat suppliers. Following the incidence of BSE in particular and the outbreak of swine fever in Spain, consumers demand safety and quality besides price, taste and variety. The industry is responding to this by introducing new tracking and tracing systems, while there are also some regional initiatives to implement a 'quality brand' guaranteeing that the product is healthy and safe.

**Strong brands in the further processing industry**

As already mentioned, Spain is known for its traditionally high demand for further processed meat products like Jamon serrano, Lomo and Chorizo. This has been one of the driving forces behind the strong brands of a few meat companies, like Campofrio and El Pozo.

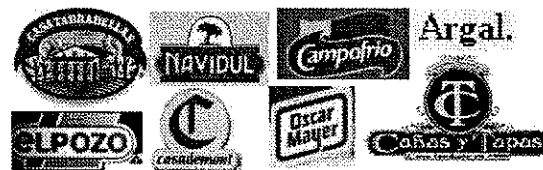
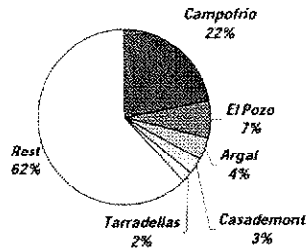


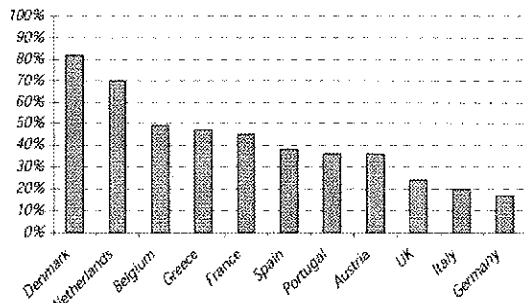
Figure 3: Market share of top five further processors in Spain, 2000



Source: Rabobank International, PVE

The top five meat processors have a market share of 38%, a level of concentration that serves as an average for Europe. In Denmark and the Netherlands, the level of concentration is much higher due to the dominance of some big companies like Danish Crown's Tulip International and the Dutch Meatpoint. Besides dominant national players, we see some companies that are active in several countries and therefore have a significant market share. A good example in this is Sara Lee, active in the Netherlands, Belgium, France and Portugal with a few strong brands (d'Aoste, Nobre). Sara Lee used to be active in Spain as well, through its former company Argal.

Figure 4: Concentration of top five further processors in selected EU countries, 2000



Source: Rabobank International, PVE

#### More integration between slaughterhouses and processing industry

The need for the meat processing industry to support their strong brands means that these companies are also concentrating on expanding their slaughter capacity in order to secure their input. The converse is also true - slaughterhouses are trying to add more value to their basic cuts by penetrating in the more profitable further processing segment.

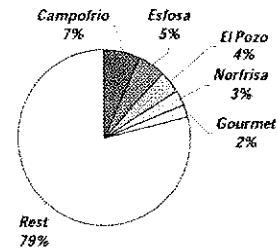
Vertical integration is becoming more important in coordinating supply and demand and in controlling the quality and safety of end products. These developments are leading to increased integration of the various players in the value chain. A clear example in this is

IngaFood, the joint venture between the Dutch based Nutreco and Campofrio's OMSA. The first is responsible for breeding, feeding and slaughtering while the latter has its expertise in adding value, branding and selling.

#### A highly fragmented slaughter industry

Probably since there is more integration between the slaughterhouses and the processing companies, the wave of concentration has not really taken place in the Spanish slaughter industry. Another reason must be that most of these relatively small slaughterhouses are family owned. The level of concentration has been the same for past four years. In this period, the only deals that have led to a slightly more consolidated industry have been those acquisitions by Campofrio. Nevertheless, the Spanish sector is still the least concentrated in Europe, with the top five slaughterhouses accounting for only 21% of total slaughter.

Figure 5: Market share of top five slaughterhouses in Spain, 2000



Source: Rabobank International, PVE

#### In a nutshell...

- Spain is the second largest pork producer in the EU
- Spain has the highest annual per capita consumption of meat (125 kg) and pork represents over 50%
- Meat sold through foodservice and large retailers is growing at the expense of traditional butchers
- Food retail: ongoing domestic consolidation and investments by big foreign food retailers
- The importance of foodservice is increasing to due the well known fast food chains but also very successful local chains
- Strong brands in fresh and processed pork
- Strong demand for locally and nationally processed products
- Already more integration between producers, slaughterers and processors
- Spain has the most fragmented slaughter industry in the EU

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