

Meat Market

January 2009

Meat products are one of the most prominent constituents of Armenian cuisine and generally comprise a significant portion of expenditure in household budgets. In line with income growth the meat consumption segment has also been experiencing upward trend, illustrating structural transformations at the same time. However, the meat market in Armenia is considered to be at rather low level of sophistication and is yet expected to experience further progress toward saturation.

MAIN INDICATORS

Annual meat consumption per capita (2003):
 Eastern European countries - 73 kg
 Former Soviet countries - 52 kg
 North&Central American countries - 109 kg

Annual meat consumption per capita Armenia(2008):
 Meat - 37,4 kg
 Beef - 15,9 kg
 Poultry - 13,2kg
 Pork - 5,8 kg
 Lamb&beef - 2,5 kg

Consumption growth stats - CAGR 2001/2008
 Meat - 6,2%
 Beef - 3,5%
 Poultry - 12,5%
 Pork - 5,4%
 Lamb&beef - 1,2%

GENERAL OUTLOOK: The total meat consumption recorded an increase of 6% CAGR, accompanied by high growth rate of disposable income (17% CAGR) within the same period of 2001-2007. The indicator of per capita meat consumption is yet fairly low even compared to the level of former Soviet countries for 2003.

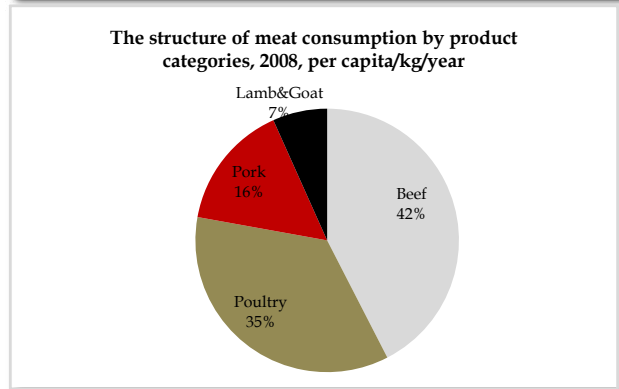
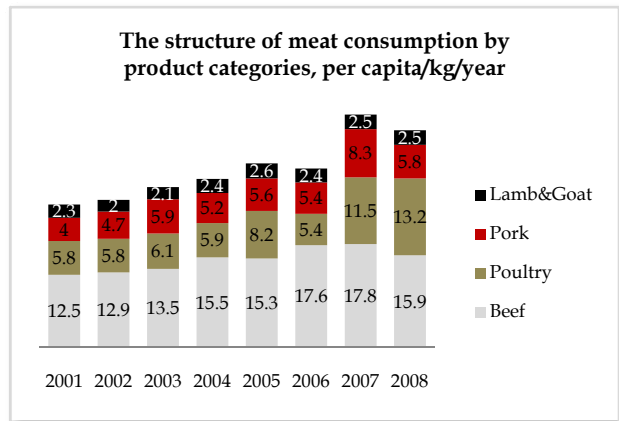
The meat market growth has been supported by the increase of consumption of all meat types.

Beef, prevailing in the meat consumption structure (42%), is largely produced domestically, both by individual farmers and micro/small sized firms. The imports are comprised of buffalo meat (mostly from India), which is consumed exclusively by the food processing industry.

Poultry meat, the second largest product group in the segment, records significant fluctuations in the consumption levels. Thus, the 34% decrease in 2006, reasoned by AI (Avian Influenza) outbreak, was recovered next year, recording up to 113% growth in 2007 and 15% in 2008. The poultry industry is highly concentrated in Armenia, with only a few local producers and several major importers operating in the sector. The average output of the major local producers exceeds 100 tons per month each. The market is dominated by imports, mainly explained by price competitiveness of imported products.

The share of fresh/chilled products in the overall poultry consumption is considerably low (only about 7%), which indicates on the insufficient level of market sophistication. The further growth of household income is considered to facilitate the consumption of higher value added products of chilled and skinless leaner meat (breast).

Barbequed or roasted **pork** is a popular meal in Armenia, ensuring the high consumption level of this meat type (16% in total). However, the sector operates



at quite unsatisfactory level of business sophistication. Dominated by small local family farms and microenterprises (70-80%), which use outdated technologies, lack marketing skills and fail to build effective distribution systems, the pork meat segment is far from modernization. Food chain retailers are encountering problems with assuring a steady supply of pork meat, hence, are willing to contract larger producers with attractive and more secured supply terms. These market factors signal the need for emergence of large, effective players and are considered to attract the attention of incumbent companies to re-focus on pork meat production.

Other meat types, such as **lamb, sheep, fish**, as well as bird meat of **turkey and duck** are traditionally strange to Armenian daily diet and comprise a negligible share of overall meat consumption locally.

CONSUMPTION SPECIFICS: The local consumers have an inherent preference towards the locally produced meat products, largely based on the perception that they are healthier than imported products. Armenian consumers are proved to believe that local producers don't use hormones for simulating growth of animals, which is largely used by foreign producers. The local production also generally has better taste characteristics than the imported analogues.

However, the segments of food service and processing generally have differing preferences. Particularly, the emerging fried chicken fast food chains are becoming major consumers of poultry meat, which largely rely on imported products due to price considerations.

While analyzing the strength of substitution effect among the different types of meat, beef and poultry are turned to be mostly intertwined in consumption preferences. Other meat types, such as pork, fish, lamb and sheep rarely substitute any other product category.

PRICING PATTERNS: On average, the locally produced chicken prices exceed the prices of imported popular brands. Local consumer perception over higher quality of domestic production supports such price structure, which, however, allows the imported products to capture significant market share based on price-sensitive consumer segments.

The poultry meat is the cheapest meat product in the Armenian market, the price of which remained relatively stable during the last 5 years. Due to the strong pressure of cheap imported products on the retail prices for both frozen and chilled chicken, the opportunities for further price increase by the local producers is quite limited. Pork is the most expensive meat product in Armenia. The sharp increase of prices in this subsegment in 2008 was driven by contraction in supply as a result of "hog cholera" outbreak and the significant decrease of pig livestock (by 40%), as a result. It is anticipated that pork meat price will come down after recovery of the livestock in 1-2 years.

The fish market has been experiencing the most rapid pace of price increment, with the average annual growth rate of 38% during 2003-2008. The upward trend of prices, reasoned by the abrupt limitations on fish supply from Sevan Lake, is expected to level off in upcoming years by the stabilization of supply-demand balance in the market.

CRISIS IMPLICATIONS: The economic recession is expected to have a certain impact on the meat sector in the coming year, which might not be as crucial as for other markets. However, a downtrend is already observed in the sector. This is

largely characteristic to all main food sectors. Some shift towards lower-end segment product groups is assumed to take place. In particular, the overall market is assumed to reshuffle slightly in favor of more affordable broiler products, the consumption of which has grown by 15% in 2008, while pork, fish and other more expensive meat types decreased in the overall consumption). The further reshuffling within each product category – between the local production and more affordable and generally lower quality imported products – would be logical to expect. However, due to recent Government initiatives focused on strengthening the local producers, the price competitiveness of the imported products might decrease (anticipated tax increases for the imports). This would result in the market remaining relatively stable in the short-term. In general, the uncertainty caused by the crisis is assumed to even increase the food consumption budgets of the households, whereas the more long-term non-food products have already started to experience the recession downtrends.

LONG-TERM DEVELOPMENT: The logic of the meat market development worldwide reveals that several meat products, especially from pork and other red meat have the tendency of decreasing consumption over a long-term period due to increasing health awareness of population. However, meat consumption increases more rapidly in countries with GNI per capita less than 10,000 USD, with corresponding low level of market sophistication and awareness of contemporary health concerns.

Armenia, with comparably low levels of all types of meat consumption, is yet expected to experience a prominent uphill development in long-term period. Alongside with market maturity, the accumulated best practice of the segment is expected to lever the level of sophistication of both business processes and consumption patterns. The emergence of strong players in the market, with heavy investments in the modernization of production facilities and the effectiveness of overall business processes is a prerequisite for the market's further development.

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