



Unpacking the Paradox of Profit Margins in the U.S. Meat Processing Industry

Econ 458

Group 9

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Presentation Outline

- Background
- Puzzle
- Reason 1: Supply
- Reason 2: Demand
- Future Direction



Meat Processing Industry

- The meat processing industry is an industry that transforms livestock into various consumer meat products through slaughtering, butchering, and value-added processes like curing and smoking (MarketLine (2023)).
- Meat processing meets the global demand for food supply through packaging, distribution and marketing.

**Traditional technologies in the meat processing industry focus on the following: extending the shelf life of meat products through refrigeration, freezing, curing, smoking, drying, heat treatment, and specialized packaging.*



Main Players and Profitability in Meat processing Industry

- Tyson Foods, Cargill, JBS USA, Hormel Foods, National Beef Packing Company, and WH Group are pivotal in shaping the US market dynamics.
- Within the U.S. beef packing sector specifically, the four largest players are Tyson Foods, holding a market share of 23.6%, Cargill Meat Solutions with 22.0%, JBS USA with 14.6%, and National Beef Packing Company with 11.4%, collectively forming a significant portion of the industry's landscape (Bolotova (2022)).

Net Profit Margin for 3 Dominating Firms in U.S. Meat Industry

Years	<i>Tyson Food</i>	<i>WH Group</i>	<i>Hormel Food</i>
2010	1.56%	\	5.56%
2011	2.50%	\	6.00%
2012	1.73%	\	5.85%
2013	2.10%	\	5.95%
2014	2.53%	4.24%	6.36%
2015	2.90%	3.09%	7.01%
2016	4.52%	4.82%	8.76%
2017	5.36%	4.93%	9.35%
2018	6.57%	4.47%	10.19%
2019	4.81%	5.25%	10.24%
2020	4.47%	4.00%	9.75%
2021	6.00%	4.16%	8.61%
2022	6.57%	4.58%	7.85%
Average	3.86%	4.40%	7.75%

Puzzle

Why does the meat processing industry known for its concentration report such low profit margins?



Highly concentrated, but hard cost control

- Major players (Tyson, Kraft Heinz) do not operate their own feedlots, heavy reliance on **independent producers** and **feeders** prevents them from controlling costs
- Concentration has little effect on costs in the physical farming industry
- Other factors (feed costs, environmental events, etc.)

Costs depend on broader market forces, leading to the meat processing industry being unstable, unpredictable, and difficult to reduce.



Demand Analysis

Varied Strategies by Key Players:

- **Demand sources:**

grocery retailers, **wholesalers**, meat distributors, military commissaries, food processing companies, **restaurant chains**, live markets, and international exporters

- **Different strategies:**

- Cargill focuses on business clients like McDonald's.
- Tyson Foods has a diversified approach and generates significant revenue from consumer products distributed by wholesalers like Walmart and Target.





Demand Analysis



Industry Structure and Trends in Retail Market Concentration:

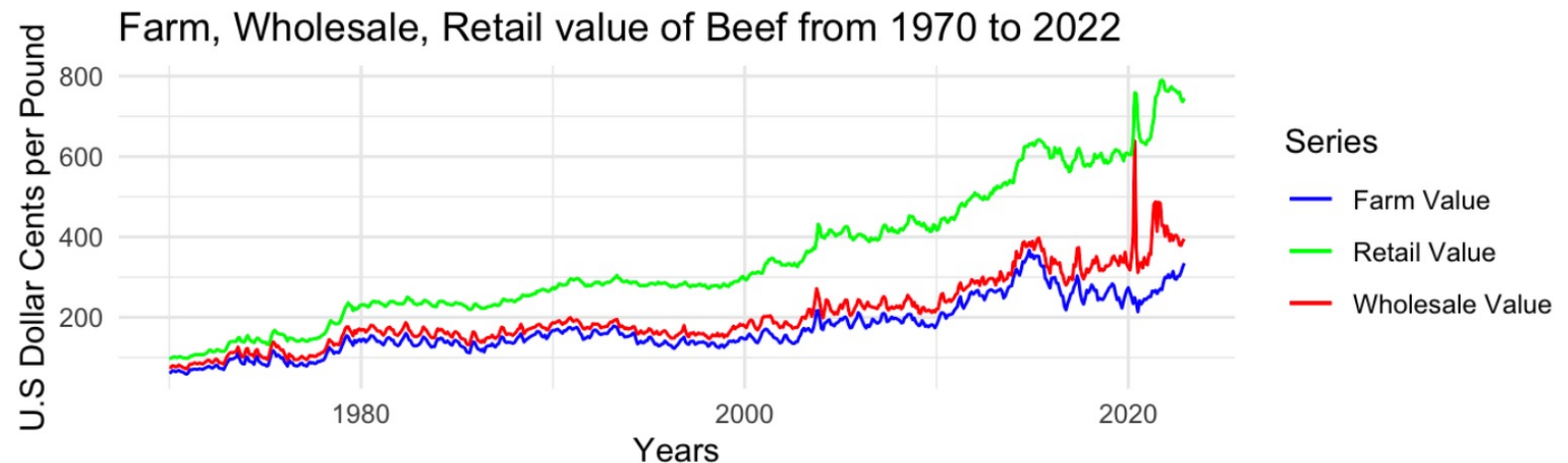
- The retail grocery stores have seen an increase in market concentration over the last thirty years.
- The four-firm concentration ratio in urban markets rose from 51.4% in 1970 to 74.4% by 1998.
- Large foodservice providers have distinct market needs compared to small providers, who often rely on supermarkets or wholesale retailers.

Demand Analysis



Implications of Market Consolidation

- Growing concentration enhances retailers' ability to influence product positioning and negotiate lower prices.
- Increased demand-side concentration has also put pressure on margins, with increased consolidation among retailers putting downward pressure on retail prices and compressing margins for meat processors.



Future Direction



Biden's Policy on Meat Industry

- **Targeting Industry Consolidation:**
cutting meat prices
- **Proposed Solutions:**
subsidizing smaller meat packers and implementing antitrust laws
- **Our Economic Skepticism:**

Based on our research, highly concentrated meat processing industry does not give the meat packers strong market power to drive up the meat price.

Consolidation in the meat packing industry seems to be unavoidable due to the large economies of scale effect in this industry.



Future Direction

Broader Industry Implications



- **Parallel Traits in Other Industries:** Agricultural, pharmaceutical, and oil tanker sectors also show market consolidation with limited profit margins.
- **Impact of Demand-Side Entities:** Powerful demand-side entities like grocery chains, healthcare providers, and oil companies influence profitability despite supply-side consolidation.
- **Policy Implications:** Lessons from the meat industry can guide policy strategies in these sectors.



Citation

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Thank you!







Appendix I: The development of Meat Processing industry

