Seminar Rural Development Processes

Rome, 2 – 4 February 2010

The demise of nested markets, the case of Parmesan Cheese

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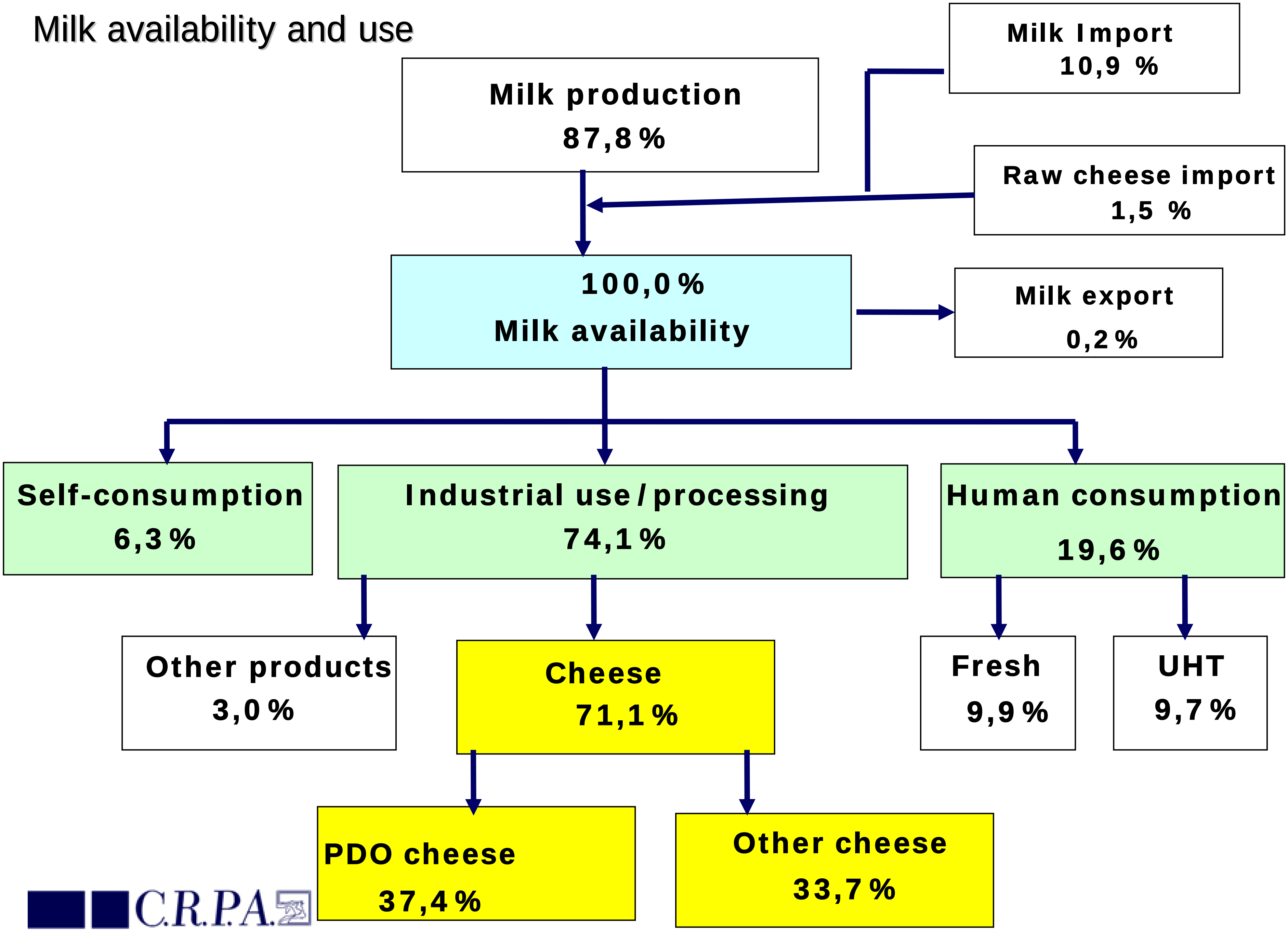
Fonte: Osservatorio Latte - ISMEA

Milk availability and final uses in Italy (.000 t)

Production	12.500	88%
Import	1.800	12%
Total availability	**14.400**	**100%**
Destinations:		
PDO cheese	5.380	37%
Other cheese	4.850	34%
Fresh and UHT milk	2.800	20%
Other products	430	3%
Self consumpt./direct sales	900	6%

Fonte: Osservatorio Latte - ISMEA

Milk availability and use



Source: Osservatorio Latte - ISMEA

PDO's shares on the whole cheese production

	Production (tonnes)	% production	% milk
Grana Padano	159,621	14.1	22.9
Parmigiano-Reggiano	**118,979**	**10.5**	**16.9**
Gorgonzola	48,481	4.3	3.9
Mozzarella Campana	29,590	2.6	1.3
Pecorino Romano	23,855	2.1	1.4
Asiago	23,616	2.1	2.0
Provolone Valpadano	12,745	1.1	1.2
Taleggio	9,196	0.8	0.7
Other PDO cheese	27,505	2.4	2.3
TOTAL PDO	**453,588**	**40.0**	**52.6**
Other cheese	680,600	60.0	47.4

Fonte: Osservatorio Latte - ISMEA

Shares on the whole PDO cheese production

	Production (tonnes)	% production	% milk
Grana Padano	159,621	35.2	43.5
Parmigiano-Reggiano	**118,979**	**26.2**	**32.1**
Gorgonzola	48,481	10.7	7.4
Mozzarella Campana	29,590	6.5	2.6
Pecorino Romano	23,855	5.3	2.7
Asiago	23,616	5.2	3.9
Provolone Valpadano	12,745	2.8	2.3
Taleggio	9,196	2.0	1.3
Other PDO cheese	27,505	6.1	4.3
TOTAL PDO	**453,588**	**100.0**	**100.0**

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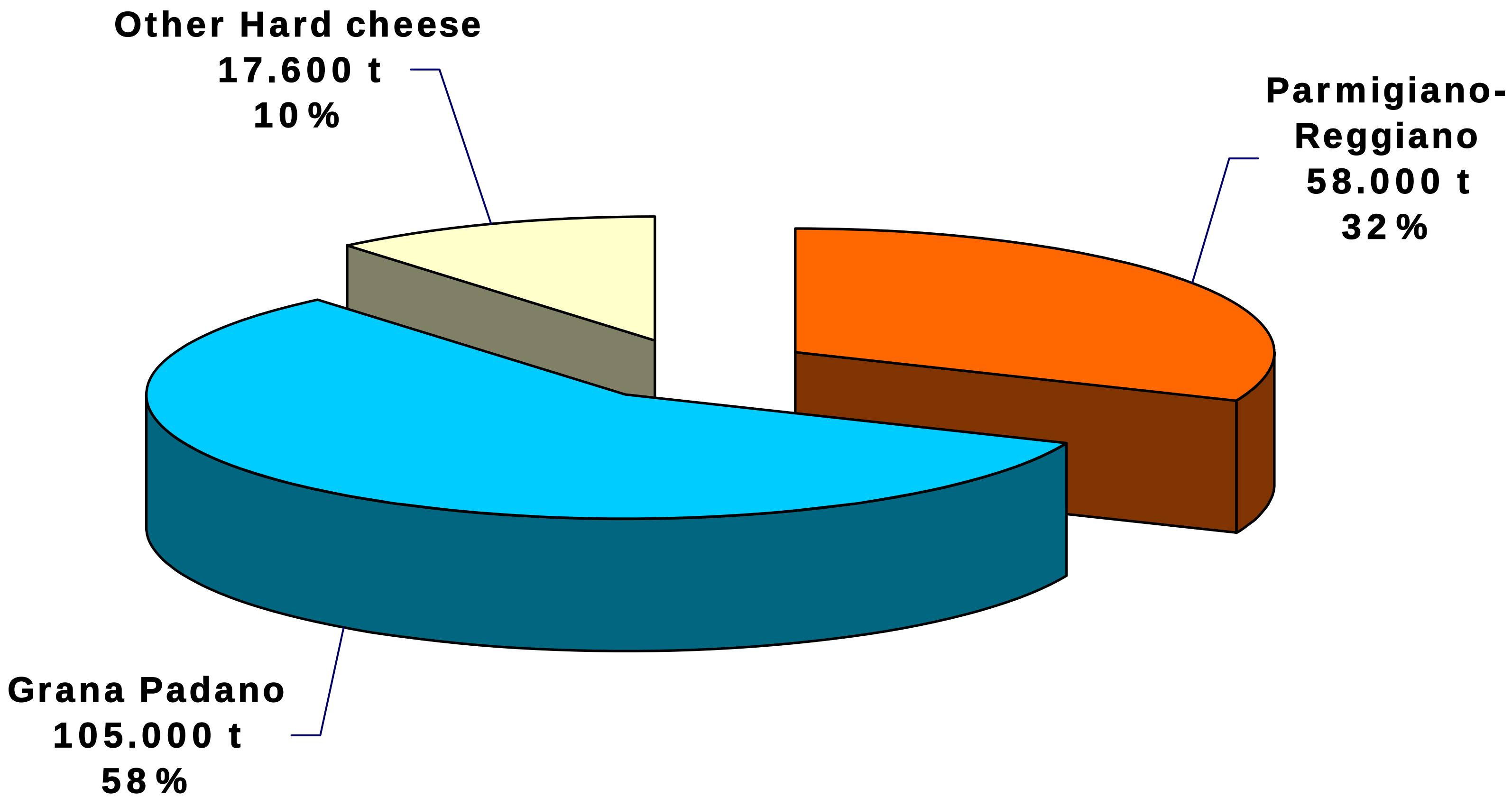
Source: Osservatorio Latte - ISMEA

Hard cheese market shares (2008)



Source: GfK/IHA

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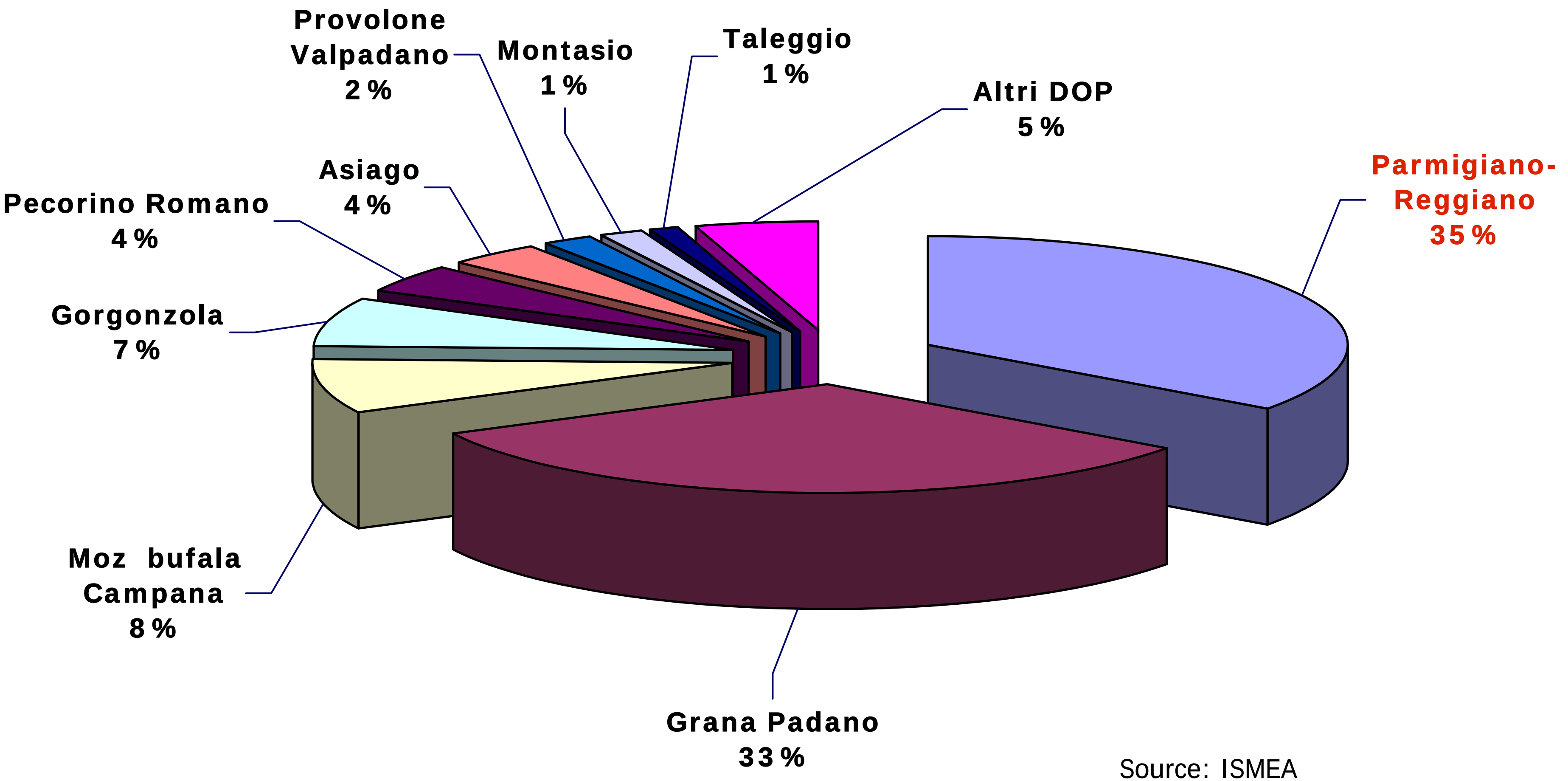
PDO cheese: value shares (wholesale market)



Source: ISMEA

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Parmigiano-Reggiano supply chain

114.000 tonns
produced by:
- 290 cooperatives dairies
- 60 private dairies
- 73 farm dairies

12 months cheese

102.000 tonns (89%)
ripened and traded
by
200 ripeners/wholesalers

(top 4 companies account for 25-30%)

24 months cheese

12.000 tonns (11%)
ripened and traded
by
cheese dairies

(wholesale market and direct sales to consumers)

24 months cheese

Food industry 3%

Ho.Re.Ca. 6%

Export 22%

Small retailers 13%

Multiple retail chains 50%

Direct sales to consumers 6%

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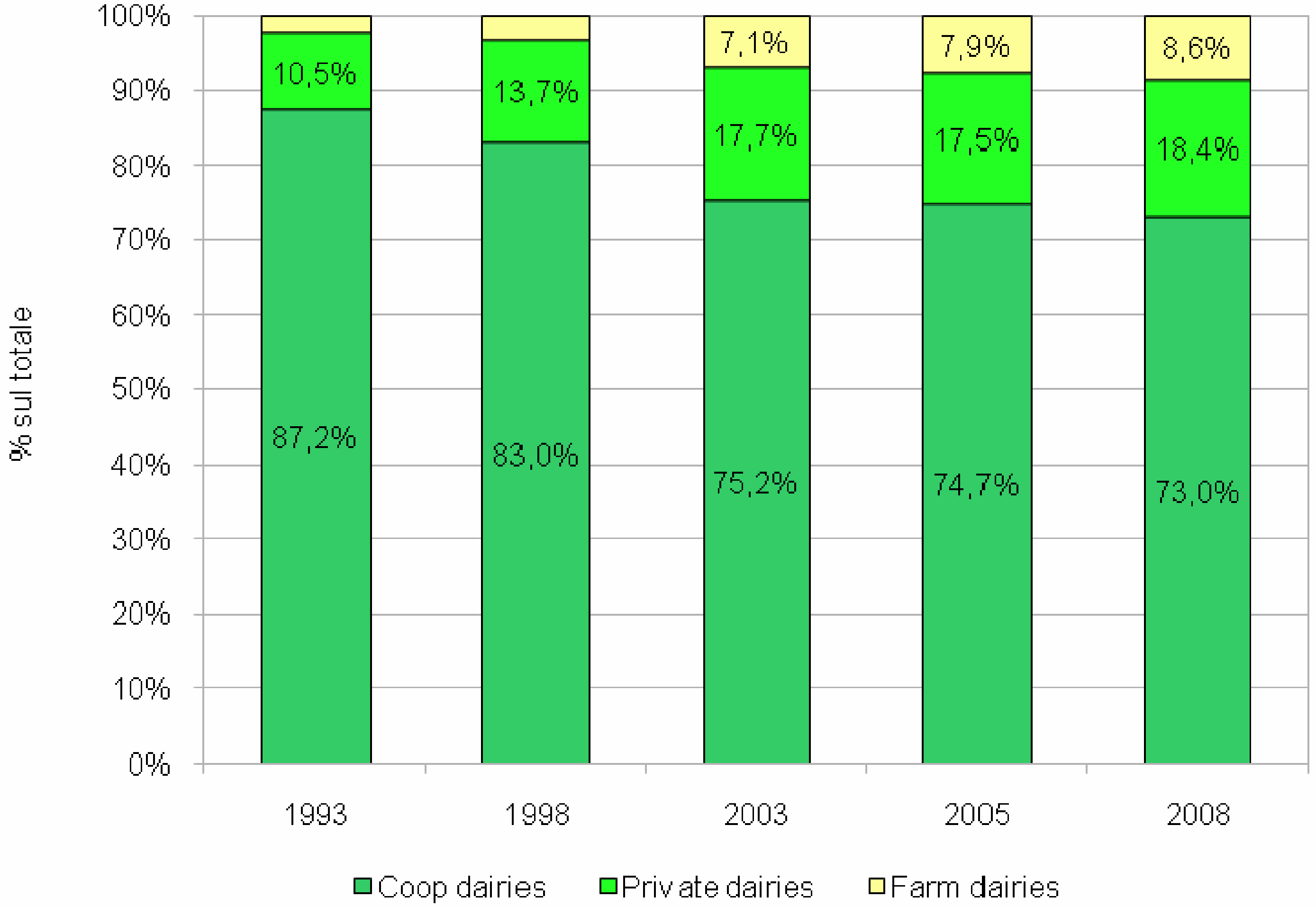
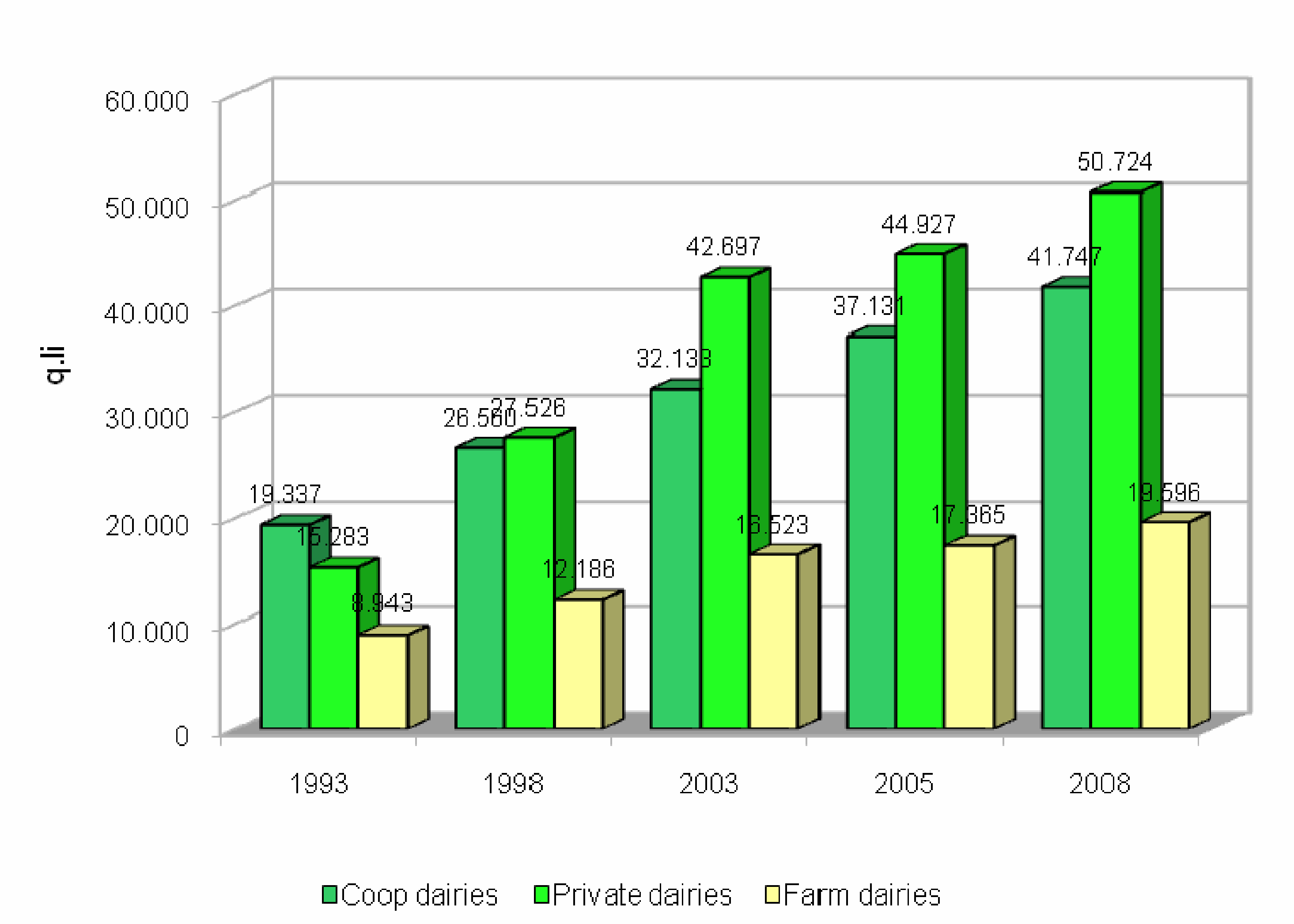
Production shares per type of business management



Average size per type of business management



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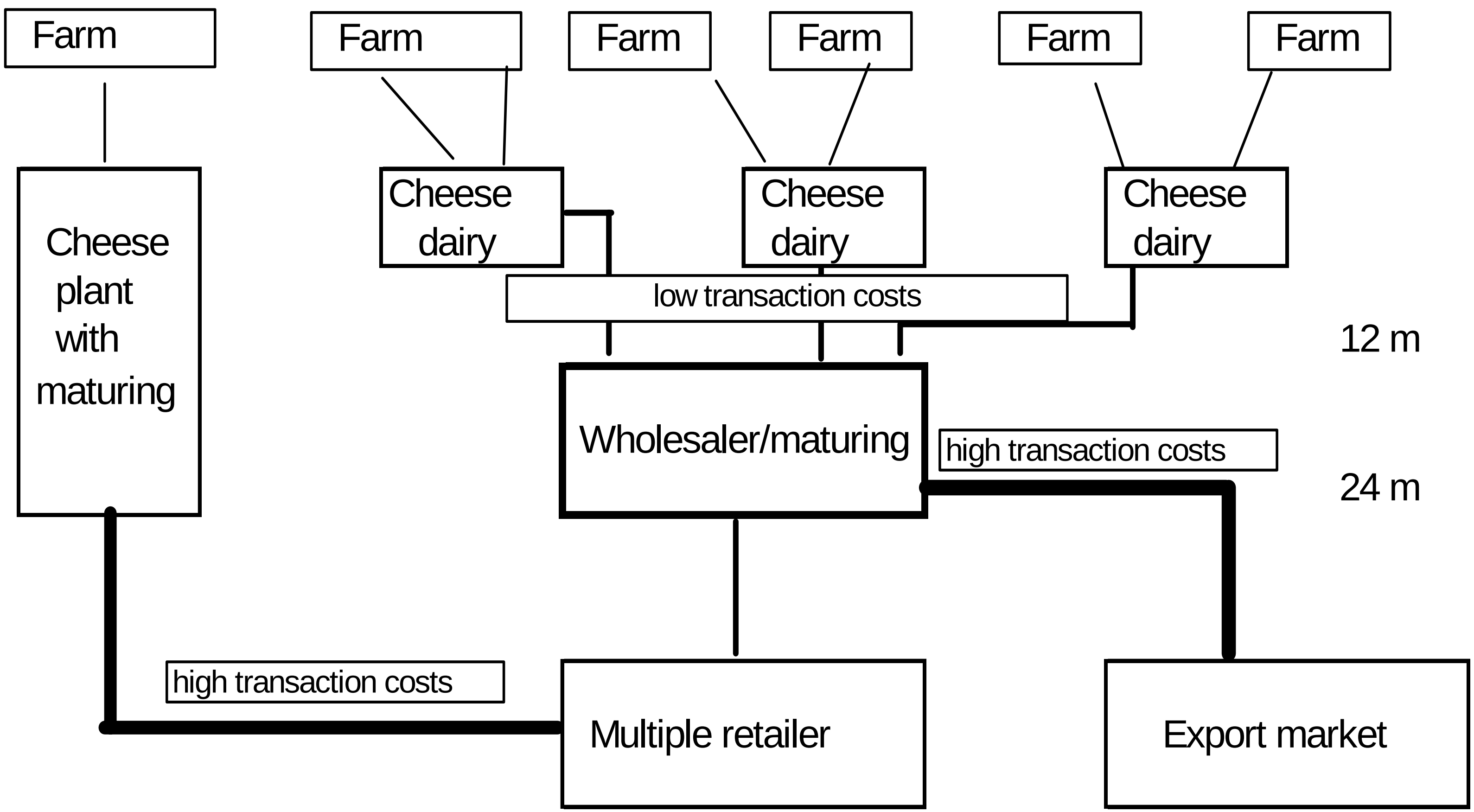
Product specification of Parmigiano-Reggiano cheese

- Milk only from a delimited area
- Feed regime of cattle does not allow use of silage
- At least 70% of roughage should come from delimited area
- Limited list of concentrates can be used
- Milk cannot be cooled below 18° C
- Only raw milk can be used for processing to cheese
- *Milk is collected twice a day*
- *Cheese is being produced 365 days a year*

Profitability 2008

	PR milk	Industrial milk	
Number of dairy cows	117	95	
Milk production per cow	7.168	8.666	
Labour productivity(kg milk/hour)	85	115	
Concentrates	15,26	13,36	12,5
Roughage	0,87	1,49	-71,3
Other variable costs	11,31	14,37	-27,1
Labour	14,05	8,09	42,4
Capital costs	16,47	14,65	11,1
Meat receipts and PAC premium	6,03	8,97	-48,8
Net production costs	51,93	42,99	17,2
Remuneration of labour (€/hour)	2,23	9,23	

Market relationships in supply chain of Parmesan cheese



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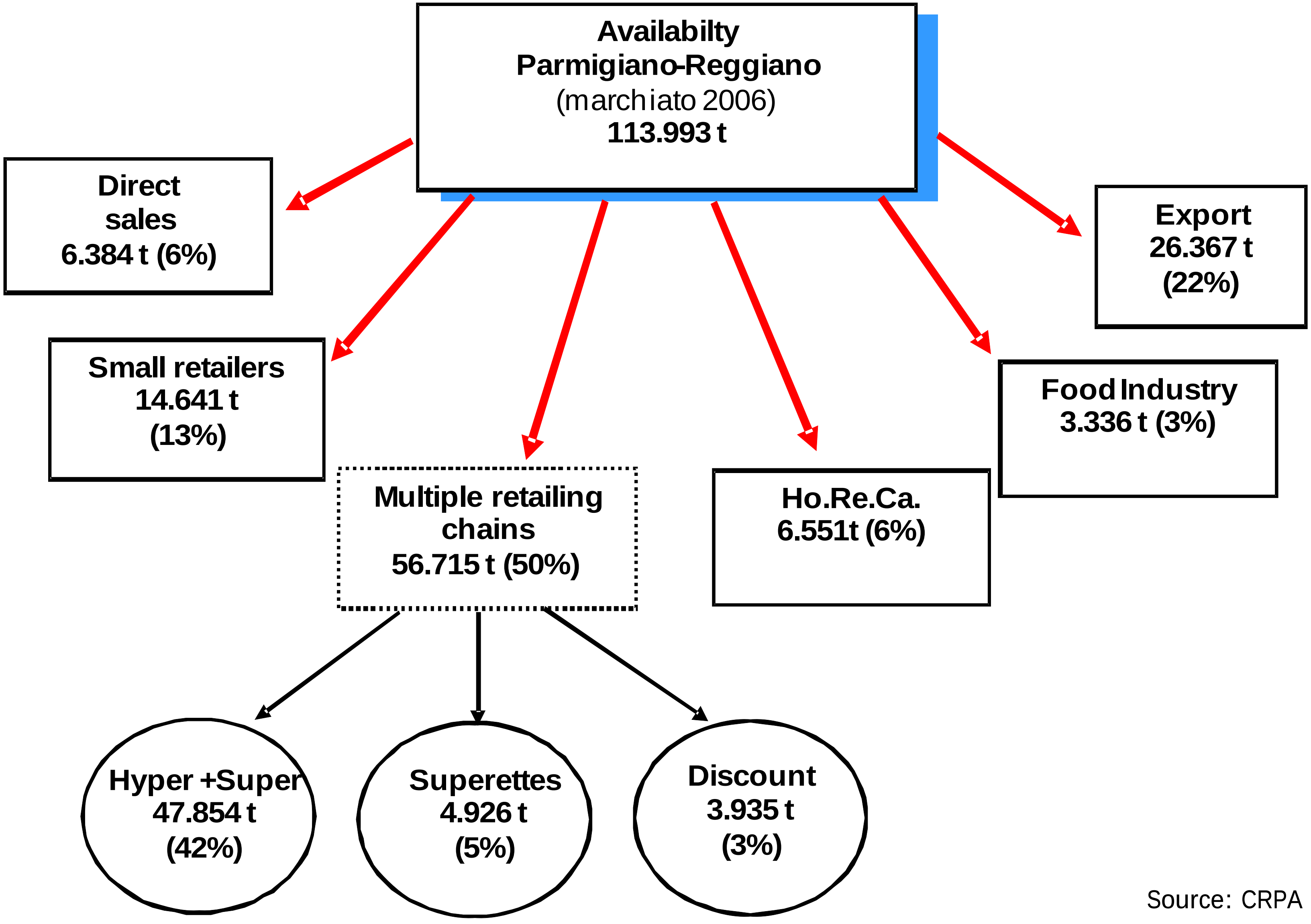
Availabilty
Parmigiano-Reggiano
(marchiato 2006)
113.993 t
Direct
sales
6.384 t (6%)
Small retailers
14.641 t
(13%)
Multiple retailing
chains
56.715 t (50%)
Ho.Re.Ca.
6.551t (6%)
Food Industry
3.336 t (3%)
Export
26.367 t
(22%)
Hyper +Super
47.854 t
(42%)
Superettes
4.926 t
(5%)
Discount
3.935 t
(3%)

Source: CRPA

Domestic demand
(Jan-Oct 2008-2009)

	2009	2008	Var
PARMIGIANO-REGGIANO	47.169	46.830	0,7%
AREA NORD OVEST	14.910	14.775	0,9%
AREA NORD EST	9.099	9.255	-1,7%
AREA CENTRO	12.521	12.085	3,6%
AREA SUD + ISOLE	10.639	10.715	-0,7%
IPER+SUPER	32.603	31.545	3,4%
SELF SERVICE	2.755	3.157	-12,7%
DISCOUNT	2.541	2.583	-1,6%
NEGOZI TRAD-SPEC	5.779	5.936	-2,6%
AMBULANTE + ALTRI	3.491	3.609	-3,3%

Source: IHA / GfK

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Export of Parmesan and Grana Padano cheese -2008

	Parmigiano-Reggiano	Grana Padano	Totale
Francia	2.765	1.990	4.755
Germania	4.809	6.749	11.558
Regno Unito	3.077	1.497	4.574
Spagna	292	1.971	2.263
Altri paesi UE	2.950	7.815	10.765
Unione Europea	**13.893**	**20.022**	**33.915**
Svizzera	622	4.922	5.544
Stati Uniti	5.245	5.134	10.379
Canada	1.092	1.703	2.795
Giappone	633	516	1.149
Altri paesi	990	3.717	4.707
Totale mondo	**22.476**	**36.013**	**58.489**
Quota %	38,4	61,6	

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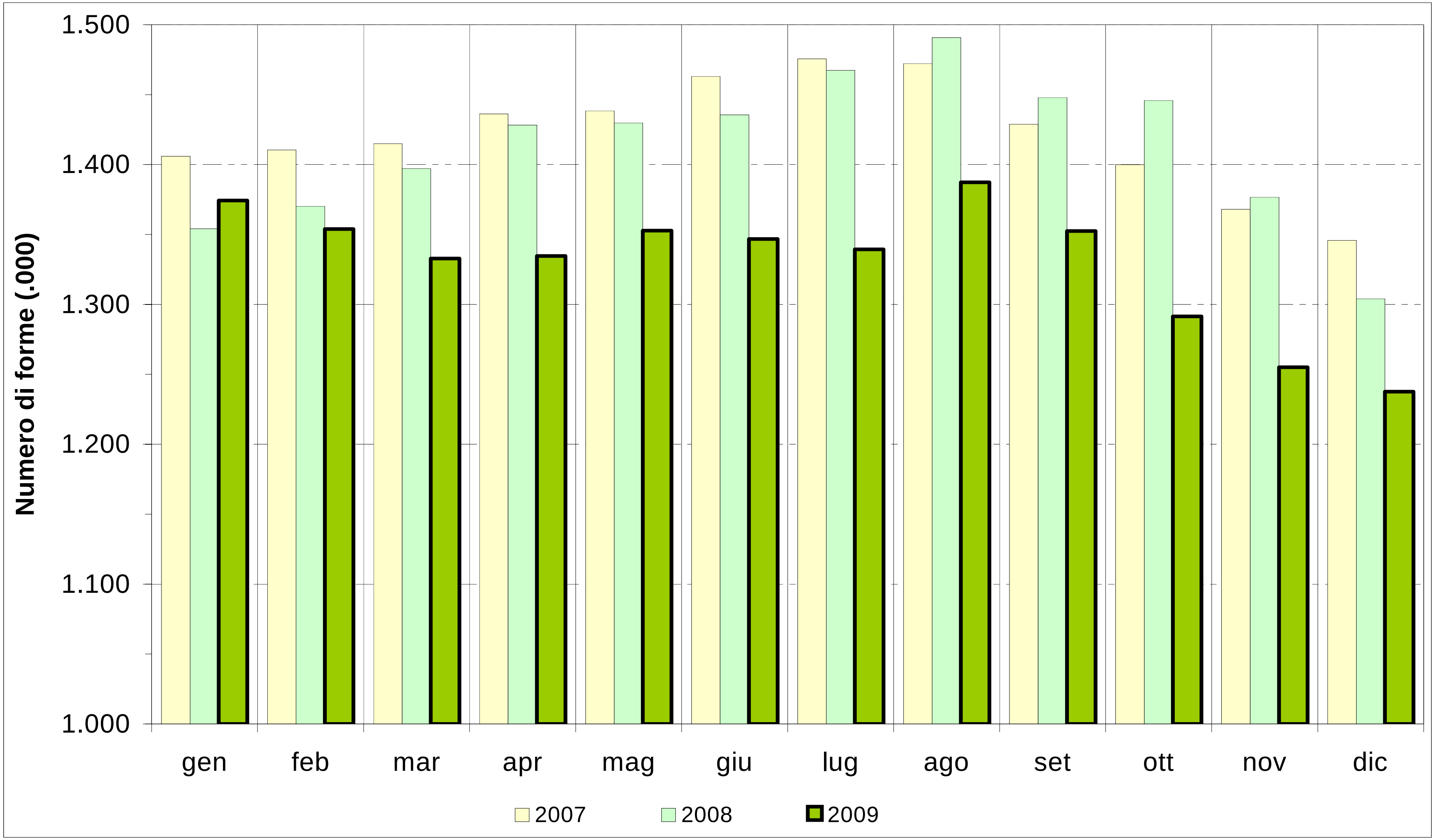
Source: CRPA on individual company data and ISTAT

Evolution of stocks



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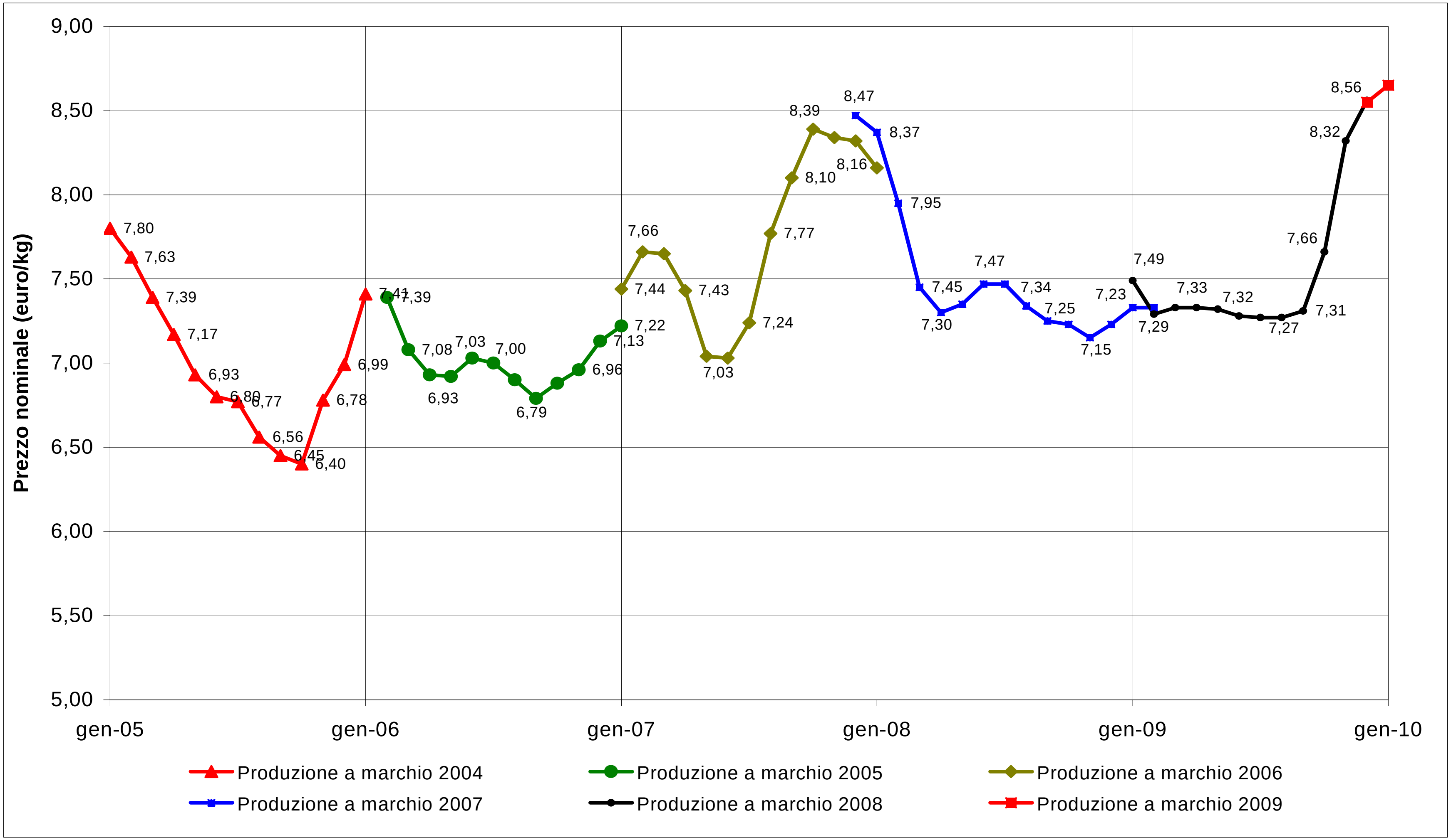
Price development of PR cheese



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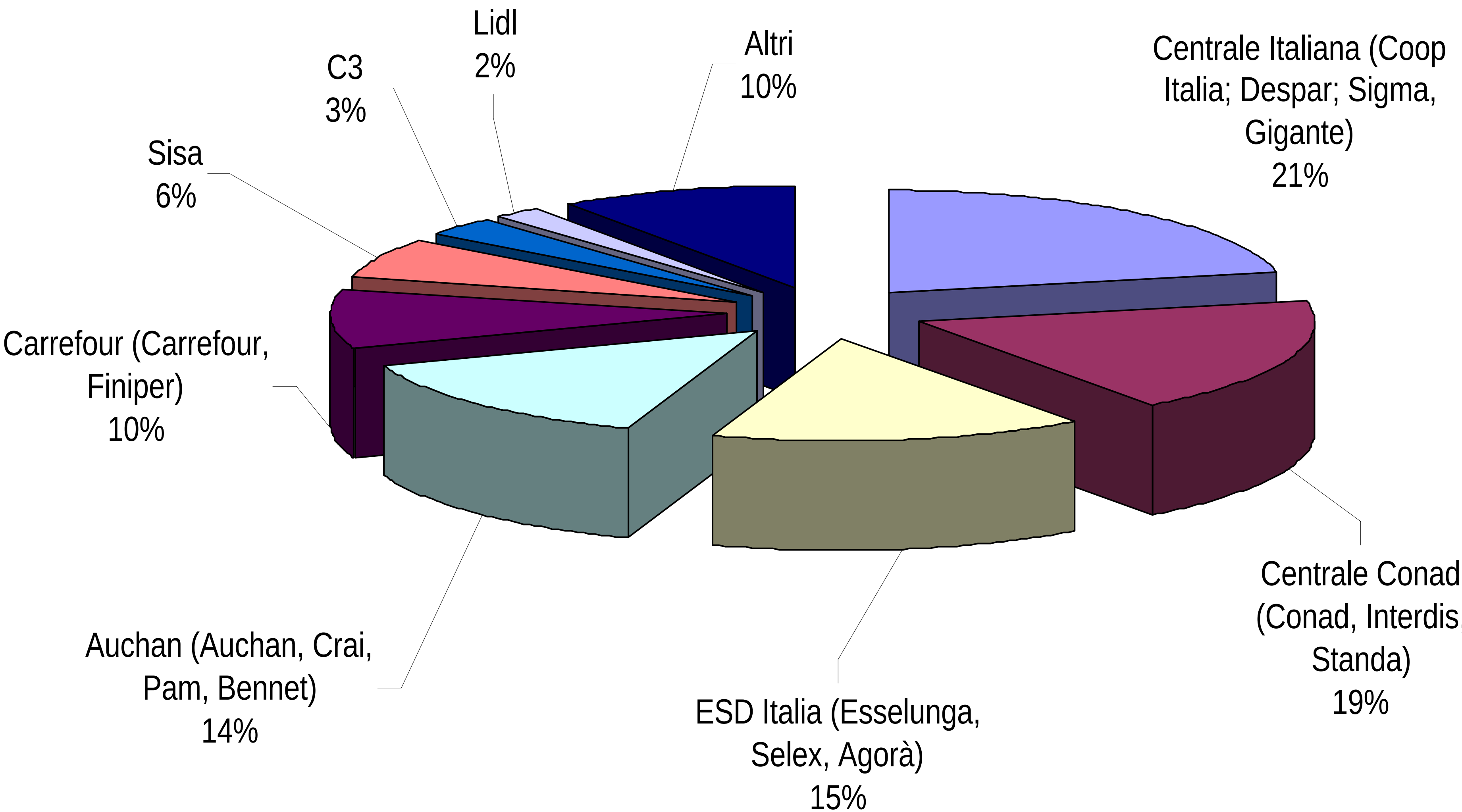
Discount policy of multiple retailers on Parmesan cheese

- As a high quality and mass consumption product discounts on Parmesan cheese increase overall retailers shops significantly
- Discounts on Parmesan cheese arrives at over 50% of total sales in multiple retailers shops
- Discounts occur at regular frequency
- Consumers get acquainted with discounts and adjust their purchase behaviour accordingly

Purchasing groups of the multiple retailer chains (% of sales in modern retail)



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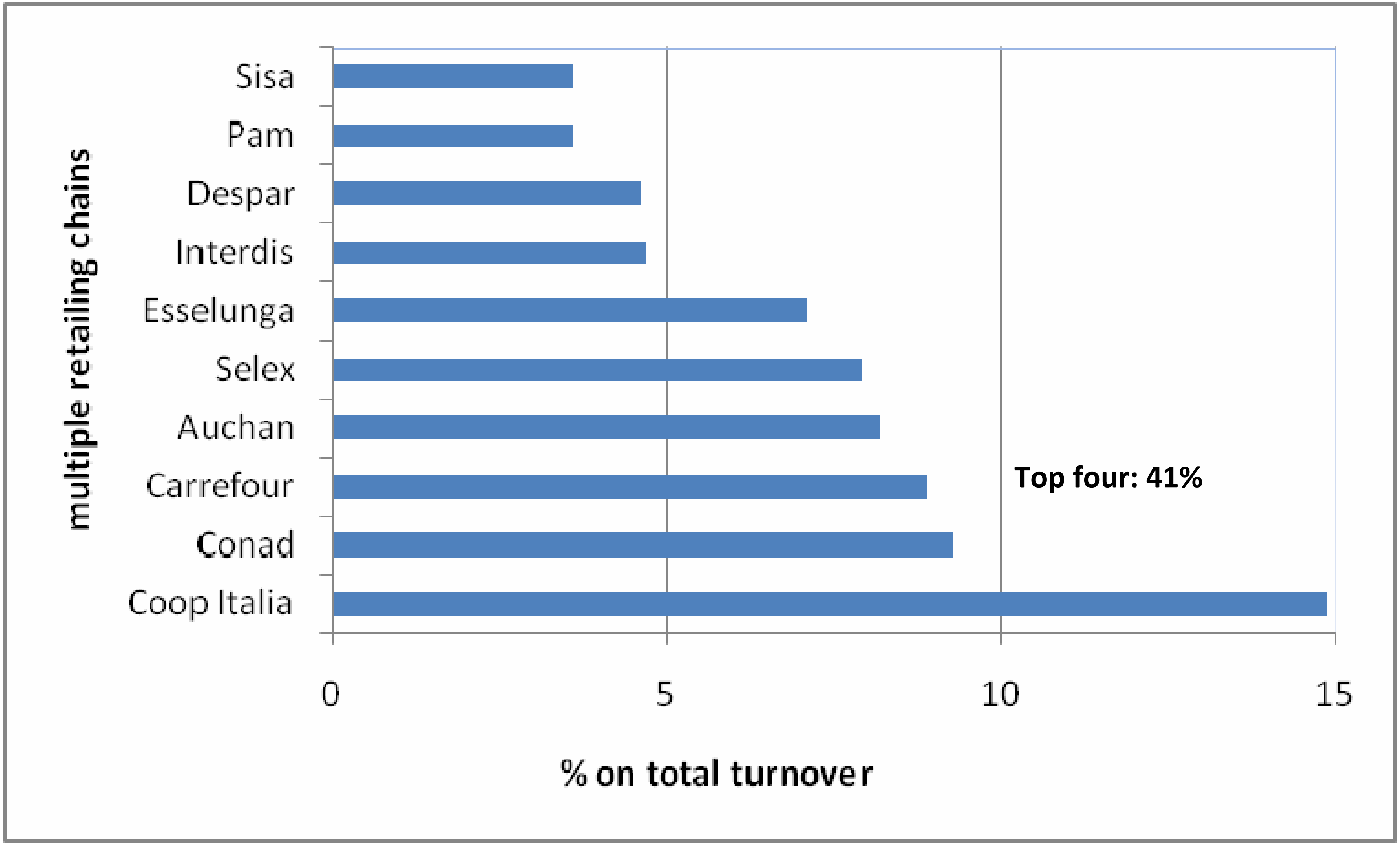
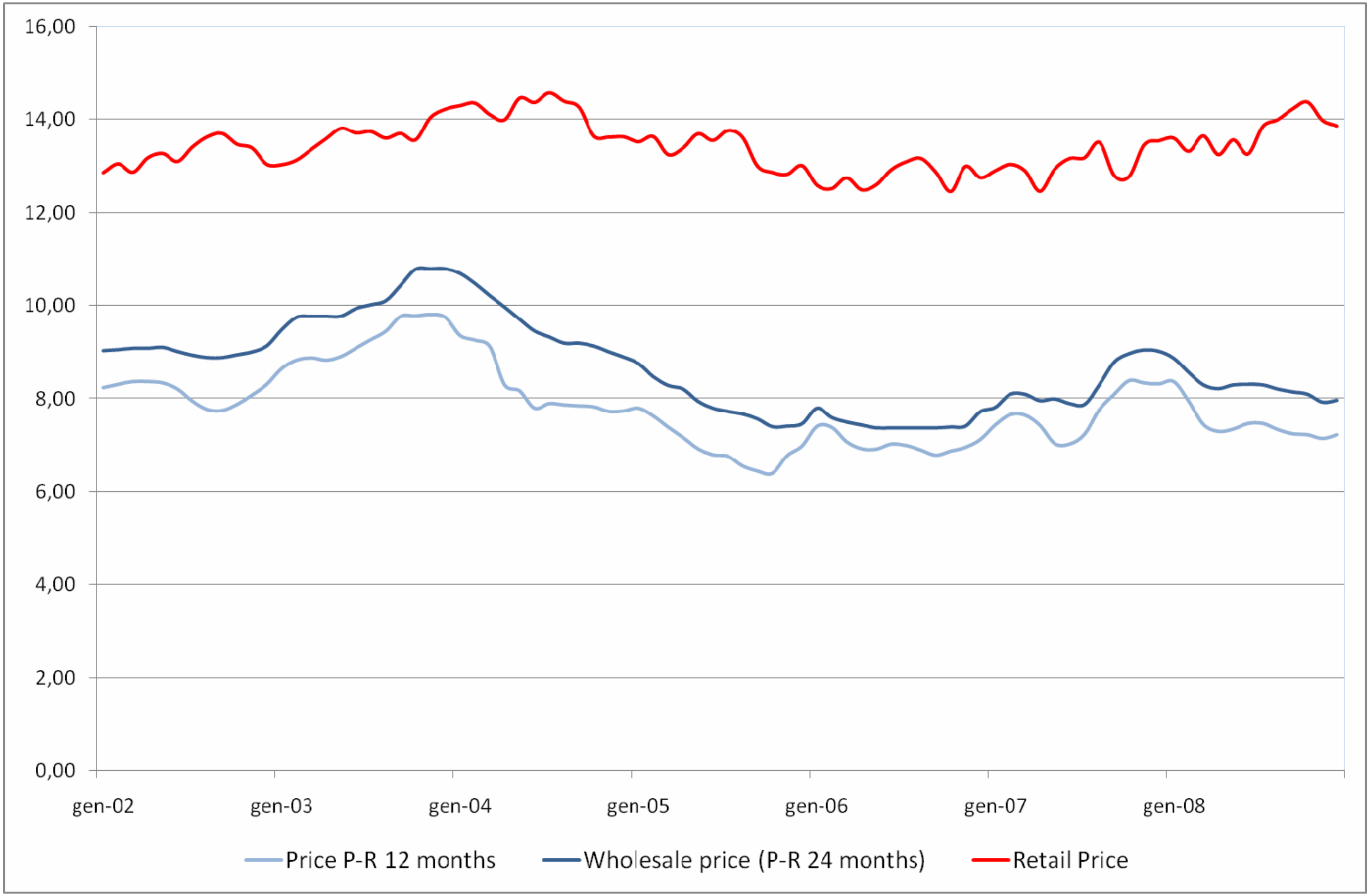
Source: ISMEA

Market concentration in multiple retailing sector



Source: ISMEA

Wholesale and retail prices (€/kg)



Source: GfK/IHA, CFP-R, CCIAA Parma

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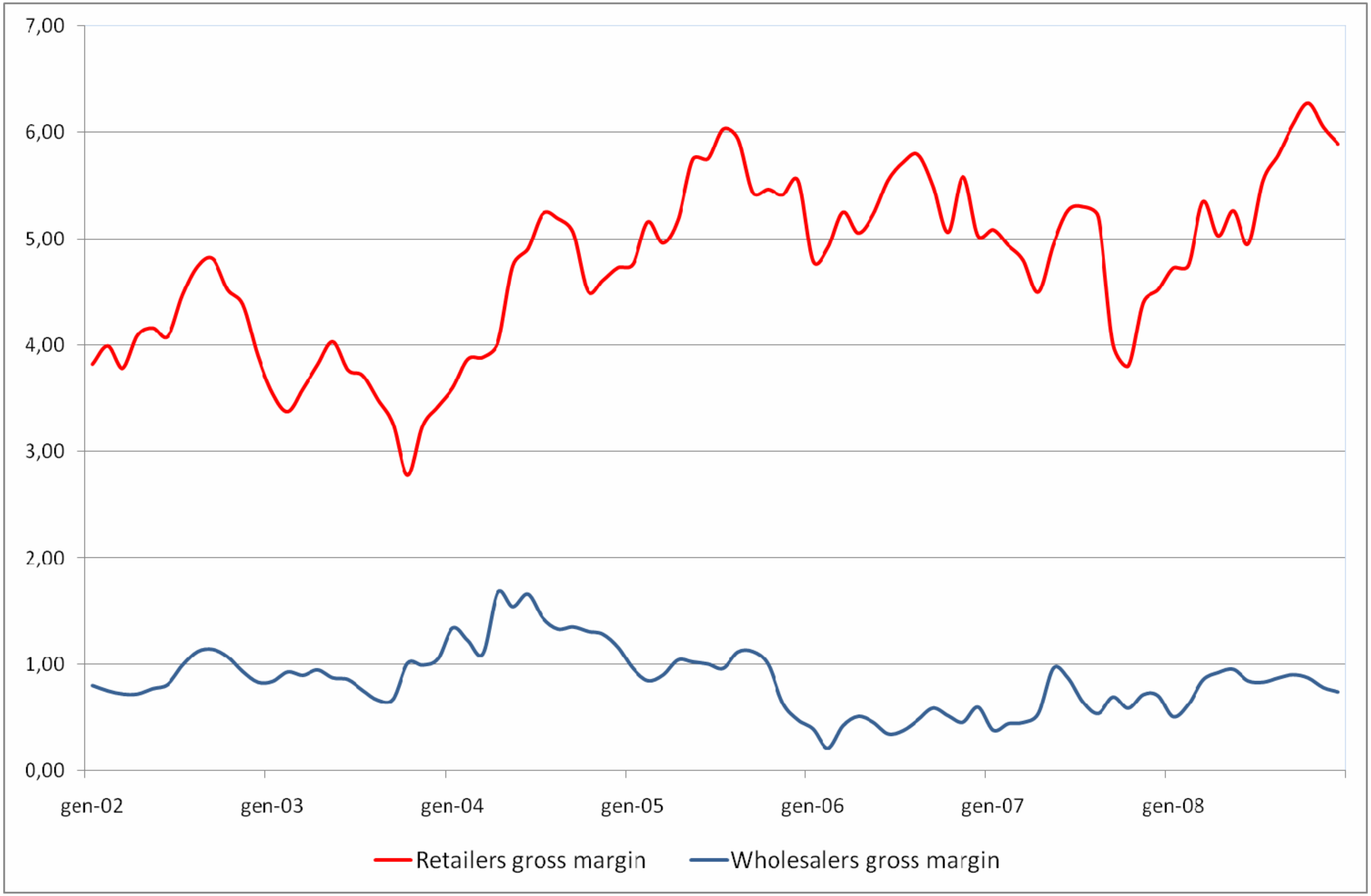
Retailers and ripeners gross margins (€/kg)



Source: GfK/IHA, CFP-R, CCIAA Parma

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Retailers and ripeners gross margins

	2002-2005	2006-2009
P-R 12 months	8,15	7,47
Wholesale price (P-R 24 months)	9,16	8,15
Retail price	13,59	13,32
Wholesaler gross margin	1,01	0,68
	12,4%	9,0%
Retailer gross margin	4,43	5,17
	48,3%	63,5%

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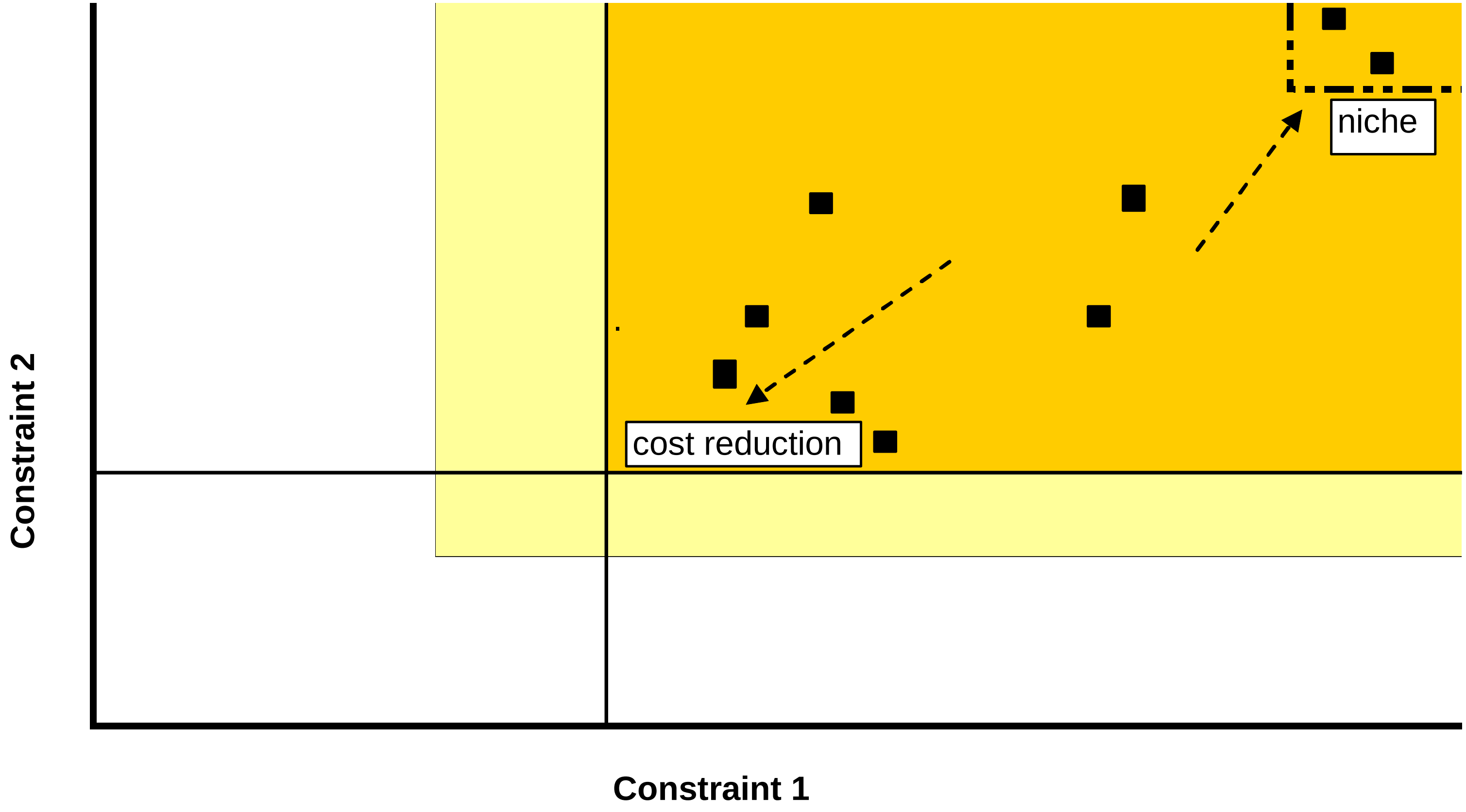
Effect of retailers price discounts on PR quality



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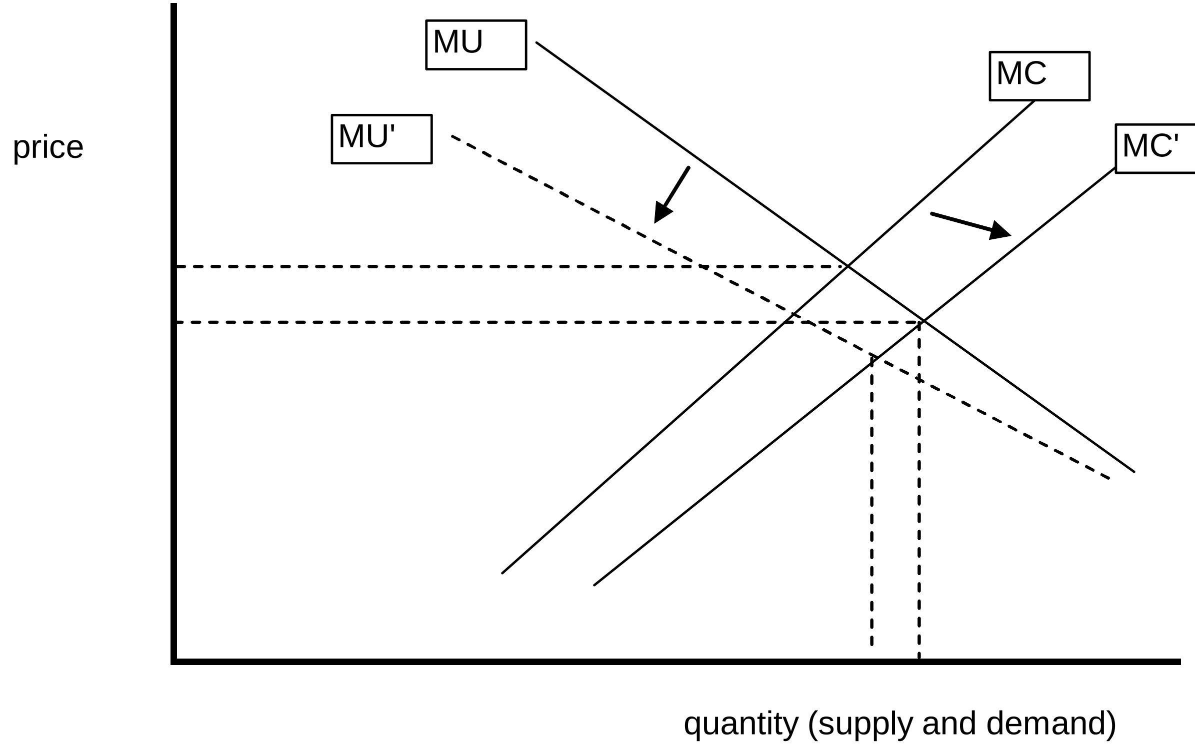
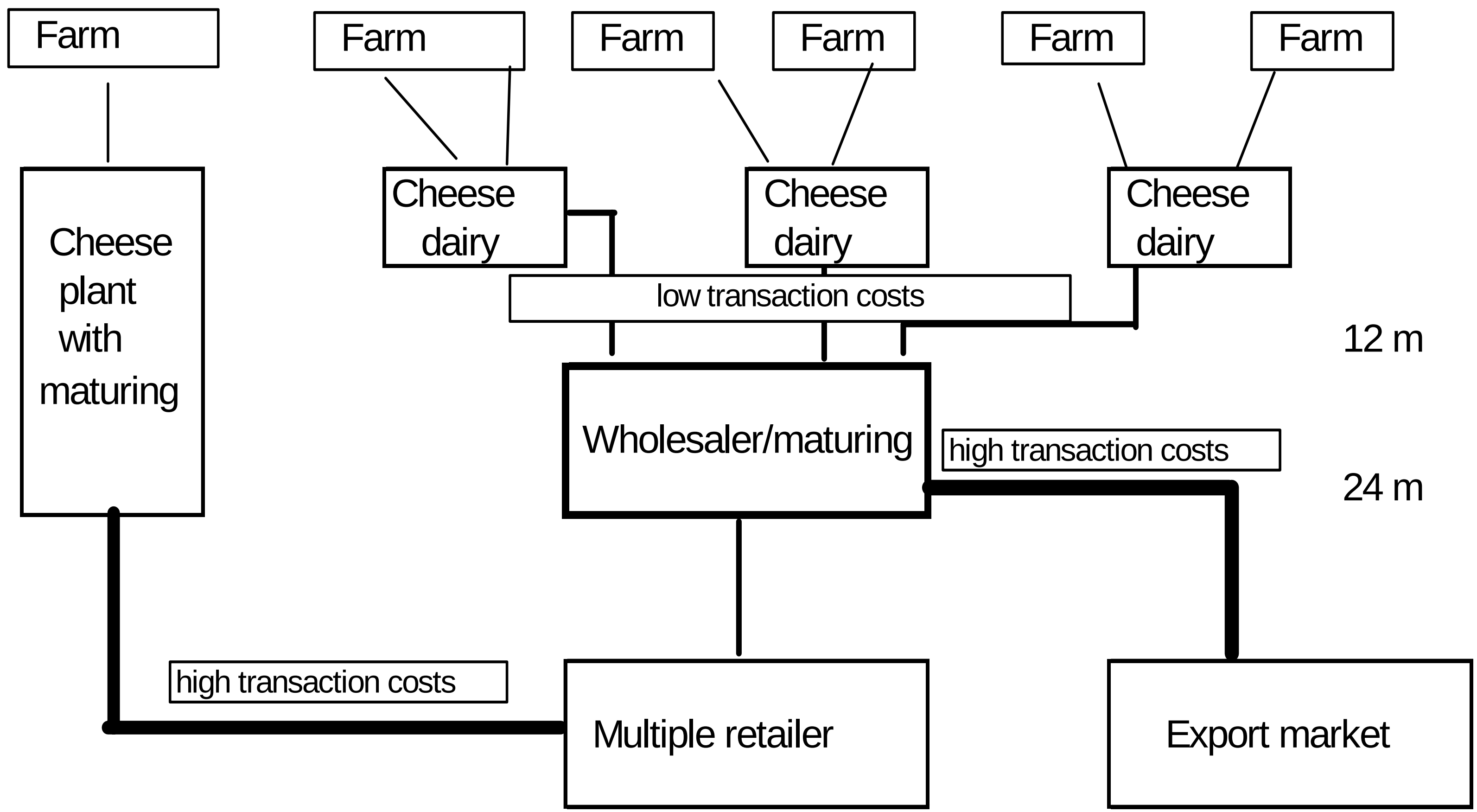
Effect of retailers price discount on consumers' willingness to pay



Market relationships in supply chain of Parmesan cheese



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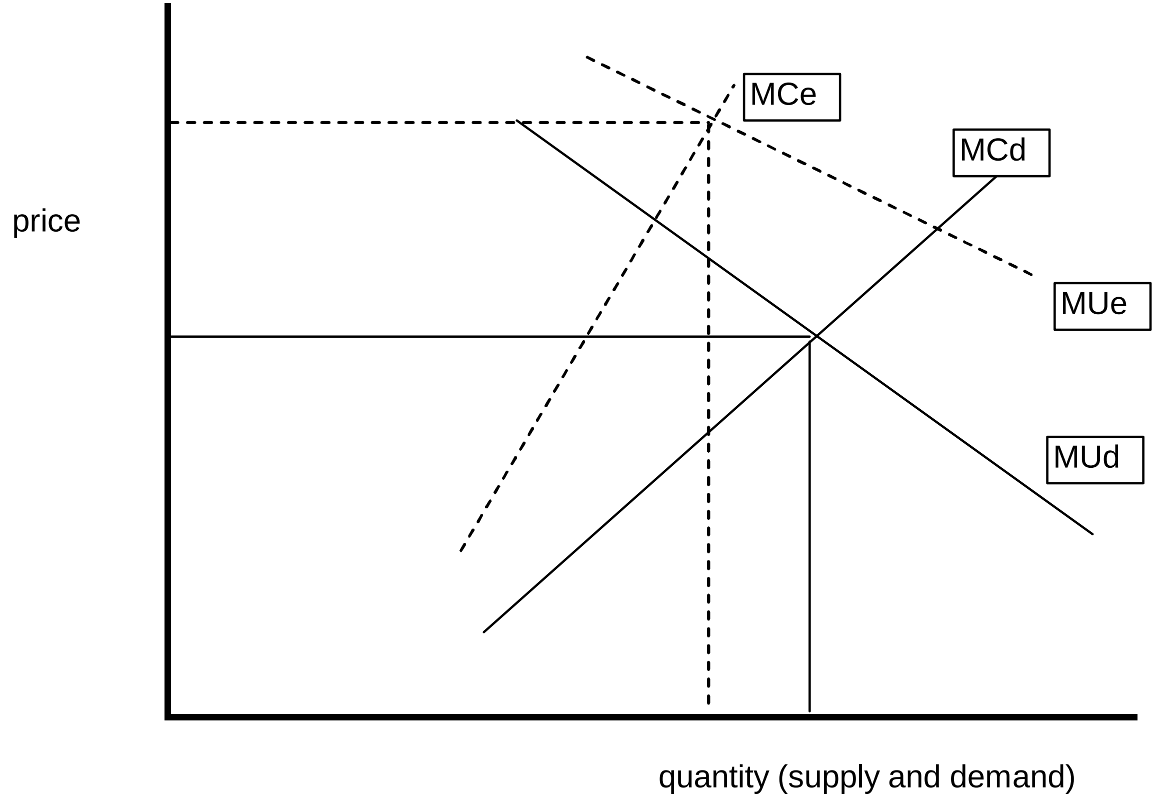
Market price of domestic and export market



Future strategies

- Further enhancement of exports sales by lowering transaction costs – financial contribution of Consortium to individual company export programmes
- Packing of PR cheese within the delimited area – change in product specification
- Strengthening of market segmentation - use of quality labels of Consortium from voluntary to obligatory (reduction of information asymmetry)
- Political pressure together with other PDOs in the EU to obtain possibility of production control

Thank you for your attention

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