

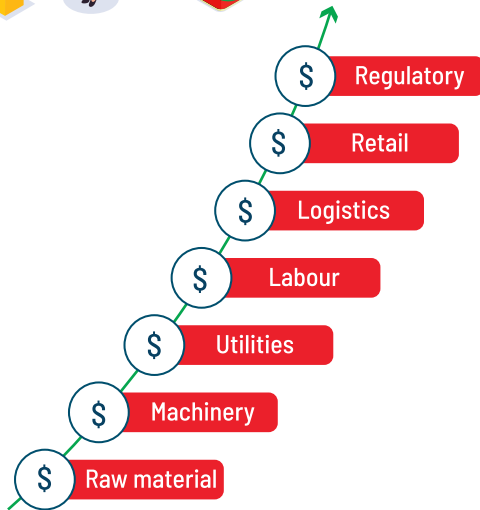
# WHY THE UAE GOVERNMENT SHOULD RELOOK AT THE FOOD PRICE MONITORING SYSTEM



Current mechanism is:

- (i) detrimental to business
- (ii) detrimental to Food Security
- (iii) not healthy for the economy

Free market dynamics are the most efficient way to prevent price fluctuations and protect consumer rights



## Costs associated with a product across the value chain

Various fundamental costs are incurred to create a product. Most important of which is input costs (raw material) that constitute 70-80% of the overall value of a product.

Using baseline price of 2018-19, key cost components have increased significantly for the food sector:

- Raw material : +40-45% ↑
- Retail : +30-50% ↑
- Freight : +175-200% ↑
- Labour : +10-30% ↑

*Note: the chart and above are not an exhaustive list of costs associated with running a food producing company in UAE*

Most important of manufacturing costs is the **input costs (raw material) that constitute 70-80% of the overall value of a product**. These costs have increased significantly due to the global supply chain disruptions caused by COVID-19 as companies and labour have not been operational over vast periods of time over the course of the last 1.5 years. Moreover, Chinese demand has skyrocketed creating severe shortages of raw material and containers – this is another driver of price increase.

The expectation is that these prices are not going to reduce in the foreseeable future and we are now entering a global commodity super-cycle that will last another 7-8 years at least.

### Consumer Pays AED 120

Back-end margin <b>AED 50</b>	Manufacturer Earns <b>AED 50</b>	Front-end Margin <b>AED 20</b>
Retailer Earnings <b>58%</b> (Back-end + Front-end)	Manufacturer Earnings <b>42%</b>	

*Figure: Illustration of reality of earnings split in retail environment; Source: FBMG Research Cell*

Therefore, pricing is a crucial aspect that determines how businesses can recover their costs and earn reasonable profits. At this end of the spectrum, retailers are prone to charge exorbitant fees from manufacturers.

Retailers earn 60-65% of the final price paid by consumers. While manufacturers retain only 35-40%, which is not sufficient for covering costs illustrated above.

**Current price change mechanism in UAE** is complex and inefficient. It is mandatory to get the approval of the Ministry of Economy for a manufacturer to change the price of goods in the market. This is an expensive and time-consuming process that largely results in non-approval and no respite.

**The outcome of this is;**

Retailers abuse the price control system to garner profits for themselves at the cost of manufacturers

UAE food manufacturers are running heavily in losses and shutting down

Good quality products are getting replaced

**Recommended guidelines for price control in UAE**

To ensure a level playing field in the UAE F&B market, government intervention is essential to curb the unhealthy profiteering of the big retailers:

Price control should be a level playing field	<ul style="list-style-type: none"> <li>Retailers should be subject to the same price control laws that apply to manufacturers, i.e., they would need to make submissions to relevant authorities when increasing prices/ rebates</li> </ul>
Cap on retailer costs	<ul style="list-style-type: none"> <li>Retailer costs must be capped and not arbitrarily increased to justify only their business objectives without consideration of the ecosystem</li> <li>Irrespective of cost heads, the overall cost to supplier should not exceed a pre-defined limit in total, e.g., capping rebates at 20%, elimination of store opening fees, no shelf rentals</li> <li>Costs cannot be increased on an annual basis and must be strictly regulated by government and competent authorities</li> </ul>
Mandate promotion of "Made in UAE" products	<ul style="list-style-type: none"> <li>Offer free listings (5-10 per category) to UAE manufactured products to encourage local innovation</li> <li>Allocate reasonable shelf space for UAE manufactured products</li> </ul>
Streamline price change mechanism	<ul style="list-style-type: none"> <li>Process of increasing prices needs to be simplified and streamlined in order to allow justifiable increases for manufacturers' prices</li> </ul>
Regulatory level playing field	<ul style="list-style-type: none"> <li>All private labels and imported products must adhere to the same nutritional, food safety, quality and labelling requirements that UAE manufacturers have to comply by</li> <li>Heavy fines and penalties to be imposed in case rules are flouted</li> </ul>
Private label caps	<ul style="list-style-type: none"> <li>A cap on the sale of private labels, per category x store x overall needs to be established</li> </ul>
Establish 3rd party price/ availability monitoring	<ul style="list-style-type: none"> <li>In order to objectively question and represent the price control situation in UAE, a possible solution is for the Committee to assign a third-party agency to transparently monitor the prices and availability of products across stores in UAE. This could potentially become a counter-measure to keep retailers' frequent price changes in check</li> </ul>

Addendums for further reading:

1. "Market access issue – monopolistic retailer environment hurting the economy", FBMG Research Cell, 2021
2. "Changing times requires changing market policies – protecting local manufacturers from uncertainty of global economic changes", FBMG Research Cell, 2021