

CHAPTER 4

PRICES OF SELECTED FOOD PRODUCTS AT RURAL STORES

4.1 Introduction

The aim of this Chapter is to trace and record the mark-up levels as food products move from wholesalers (or sometimes supermarkets) to small shops in rural areas of the Free State, Northern Cape, KwaZulu-Natal, Eastern Cape and Limpopo Provinces. The wholesale-to-retail price spread of these commodities was determined over a period of four months (April – July 2003). The following commodities were monitored:

- €# Maize meal
- €# White bread
- €# Milk (long life)
- €# Dry beans (speckled sugar)
- €# Potatoes
- €# Red meat
- €# Sugar

Prices were monitored at spaza shops in rural areas as well as wholesalers where spaza shop owners source these commodities. Most of the stores are located considerable distances away from major towns. Storeowners buy stock at wholesalers such as Metro Cash and Carry and usually use their own transport.

The major objective of this exercise is to determine how and by how much rural prices differ from the price of the same product in the nearby town or city. Already in Chapter 1 we have seen that the CPI-food for rural areas is considerably higher than the index for metropolitan areas. The Committee was also interested to know whether the difference between prices in rural stores and that of the wholesaler/supermarket in the town/city reflects true transport and distribution costs and a normal profit margin. This was necessary to determine whether rural storeowners are abusing their monopolistic position in rural communities to charge excessive prices to these often very poor communities.

The results of the individual provinces are not discussed here but it suffices to note that prices have shown stability and that some decreases took place during the 4-month period we monitored selected stores in the rural areas of the mentioned provinces.

4.2 How do rural prices differ from the national average?

To avoid getting into too much detail re the provincial data, it was decided to do a number of comparative analyses to highlight the broad trends in food prices at rural stores.

Monitoring Food Price Trends

The first analysis compares the average prices of the stores monitored in each province with those of the national average retail prices for the specific product. The percentage differences between national average prices and prices at rural stores are illustrated in the graphs below.

Figure 4.1 illustrates that maize meal tend to be more expensive in all the provinces except in Eastern Cape (and Free State). Here the data could have been influenced by the availability of subsidised maize meal during the monitoring period. Since the survey was done during harvest time (June, July) it is possible that the increased availability of maize in the region resulted in lower prices.

The graphs clearly indicate that for most processed products, prices tend to be higher at rural stores than the national average. It was noted that products such as milk, dry beans and potatoes, which requires less processing are cheaper at rural stores than the national average. These products are, however, subject to seasonal availability and prices are higher than the national average in some months, as indicated in Figure 4.5.

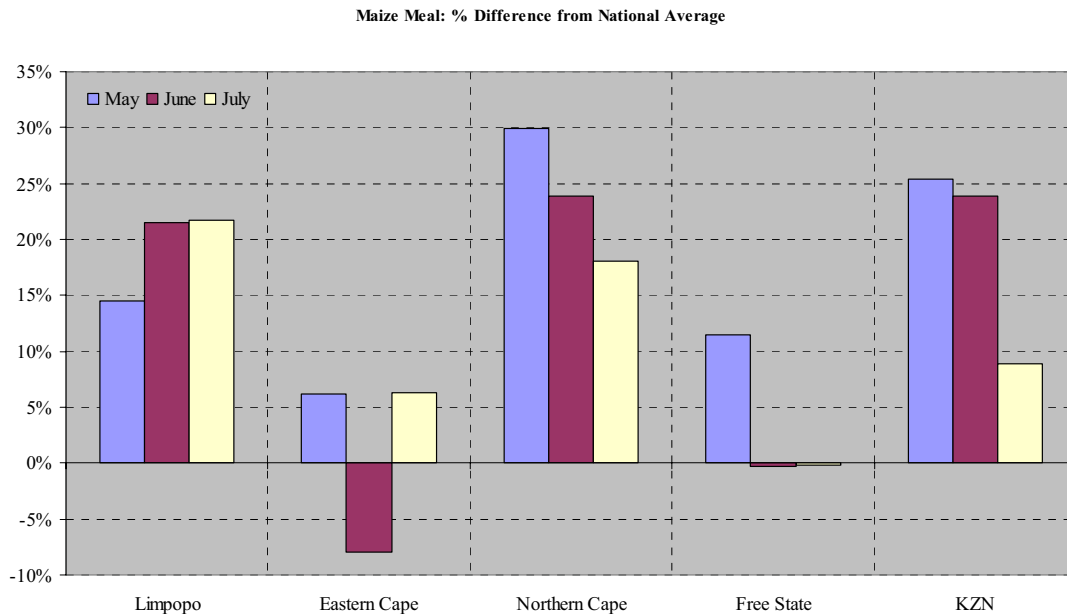


Figure 4.1: Prices for maize meal at rural stores: % difference from national average

Bread Price: % Difference from National Average

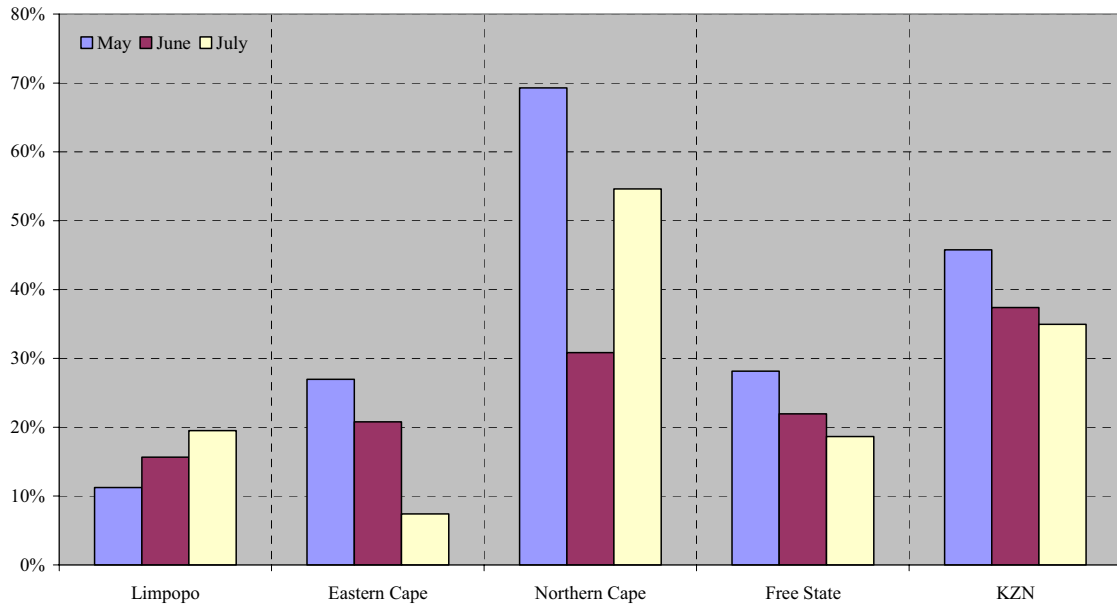


Figure 4.2: Bread prices at rural stores: % difference from national average

Milk Price % Difference from National Average

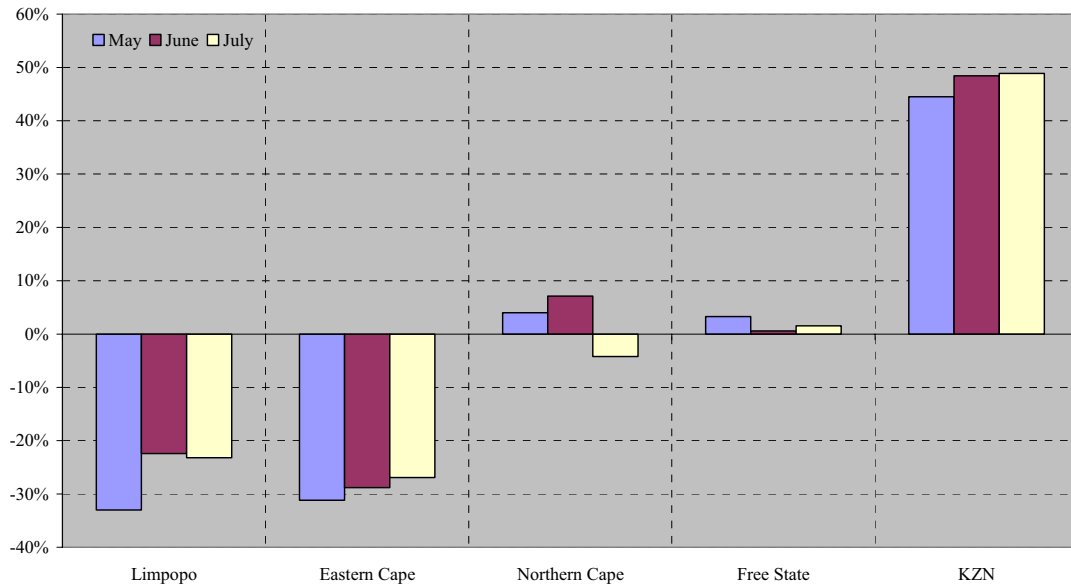


Figure 4.3: Milk prices at rural stores: % difference from national average

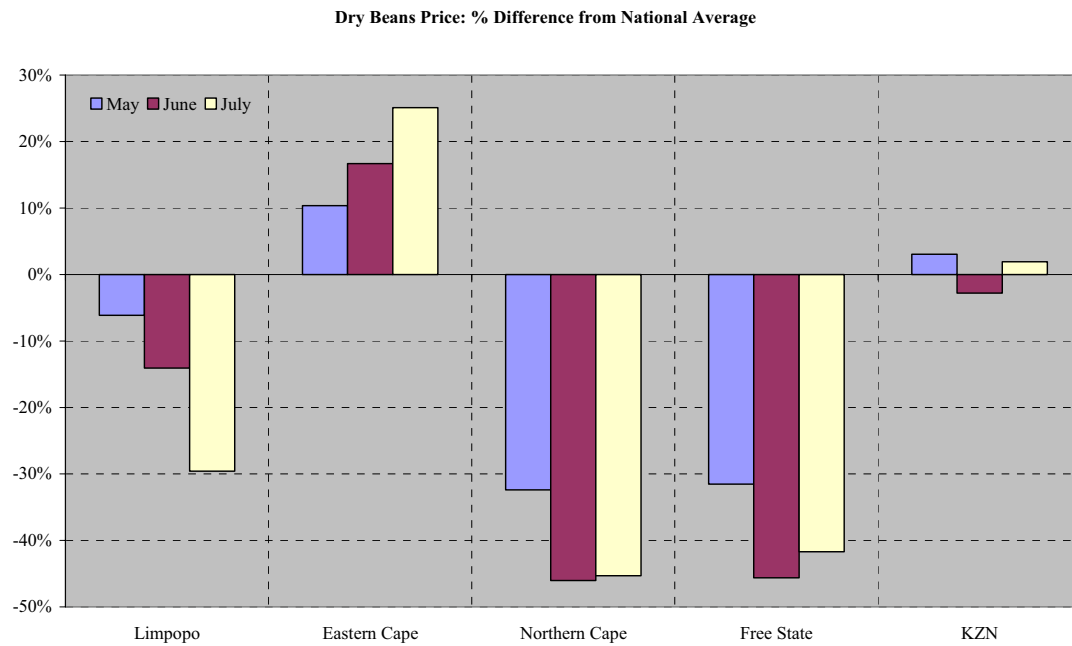


Figure 4.4: Prices of dry beans at rural stores: % difference from national average

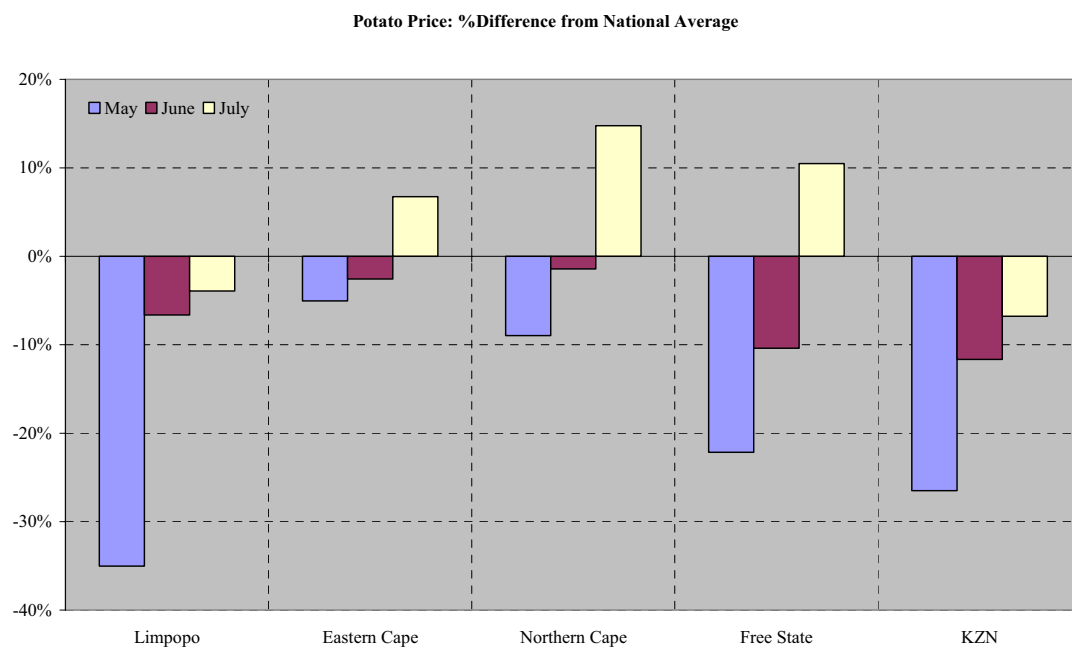


Figure 4.5: Potato prices at rural stores: % difference from national average

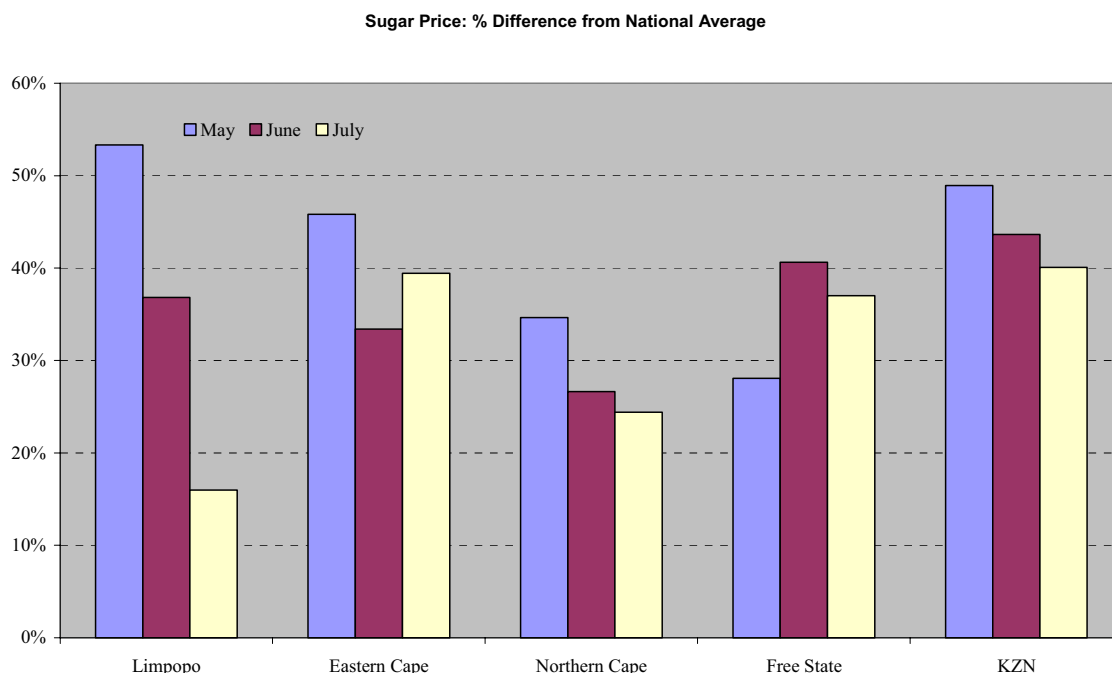


Figure 4.6: Sugar prices at rural stores: % difference from national average

4.3 Mark-up per product

The next analysis compares the mark-up for the different products. Mark-up is defined as the difference between the retail prices and the wholesale price and does include the costs of transporting goods to the store plus the owner's profit margin. Due to the difficulty in isolating the transport costs per product item from the total mark-up it was decided only to report the gross mark-up which basically reflects the margin between the wholesale price and the retail price in the rural spaza shop or general trading store. This was done for maize meal, bread, potatoes and sugar, and is graphically illustrated below.

Maize meal

The average mark-up from April to July 2003 for all 5 provinces is around 24%. Only the Northern Cape and the Free State have a mark-up of less than 20%. Rural stores in the Eastern Cape and Kwazulu-Natal enjoy the highest mark-up with an average of 39% and 31% respectively. The high transports costs due to the remoteness of communities in Limpopo and Northern Cape plus the relative poverty of these communities potentially results in very low net margins in these provinces.

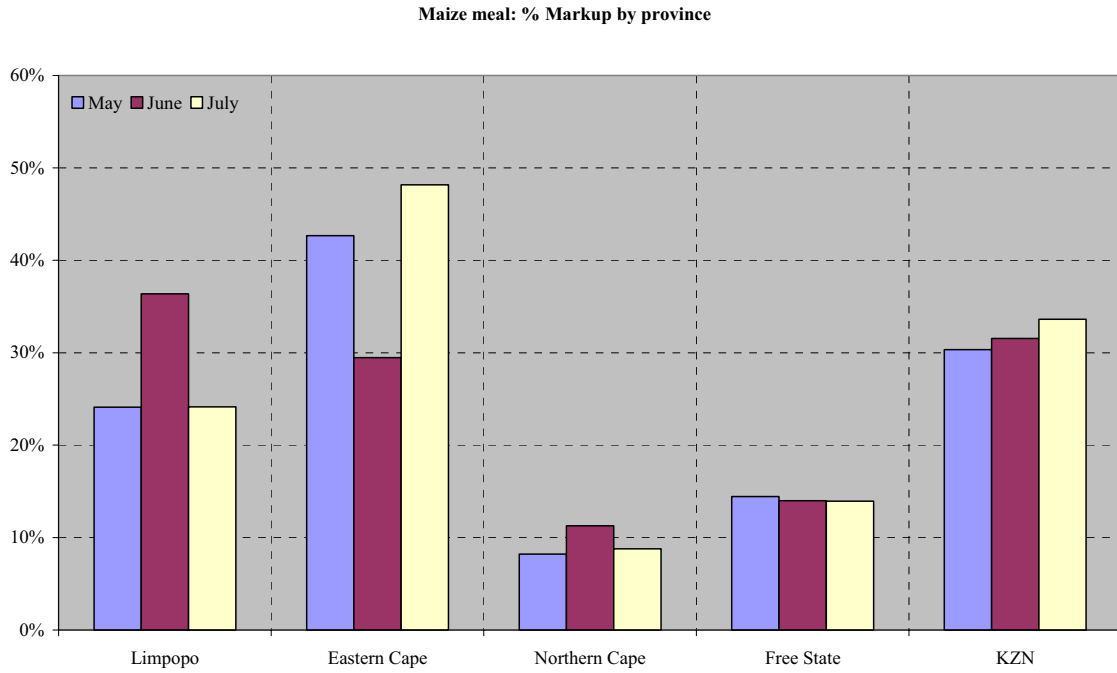


Figure 4.7: The percentage mark-up of maize meal per province

Bread

Figure 4.8 indicates that the mark-up on bread at rural stores is also fairly high. The average mark-up for bread from April to July 2003 at rural stores is 22%. Rural stores in Limpopo have the highest mark-up averaging 39% for the survey period. In most cases, - especially in Limpopo and Eastern Cape - bread is delivered by the suppliers/bakeries to these stores thus minimising transport costs for the shop owner.

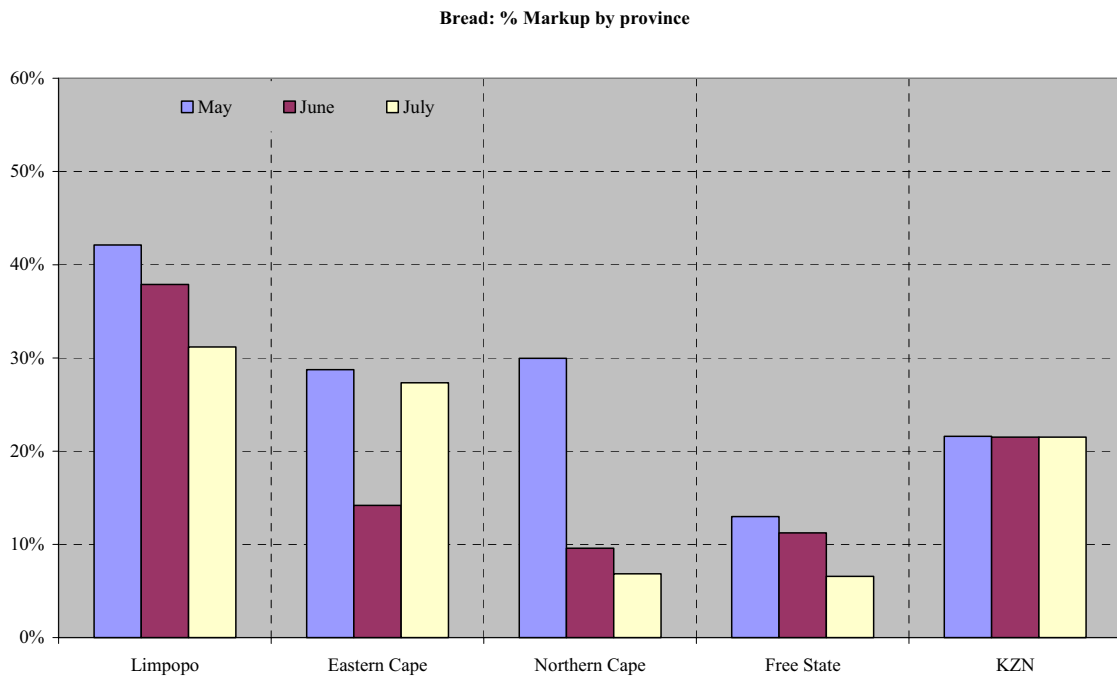


Figure 4.8: The percentage mark-up of bread per province

Potatoes

The mark-up differs considerably between provinces and is a function of the distance from the source; it also depends on local production of potatoes. The mark-up in Limpopo is high compared to other provinces.

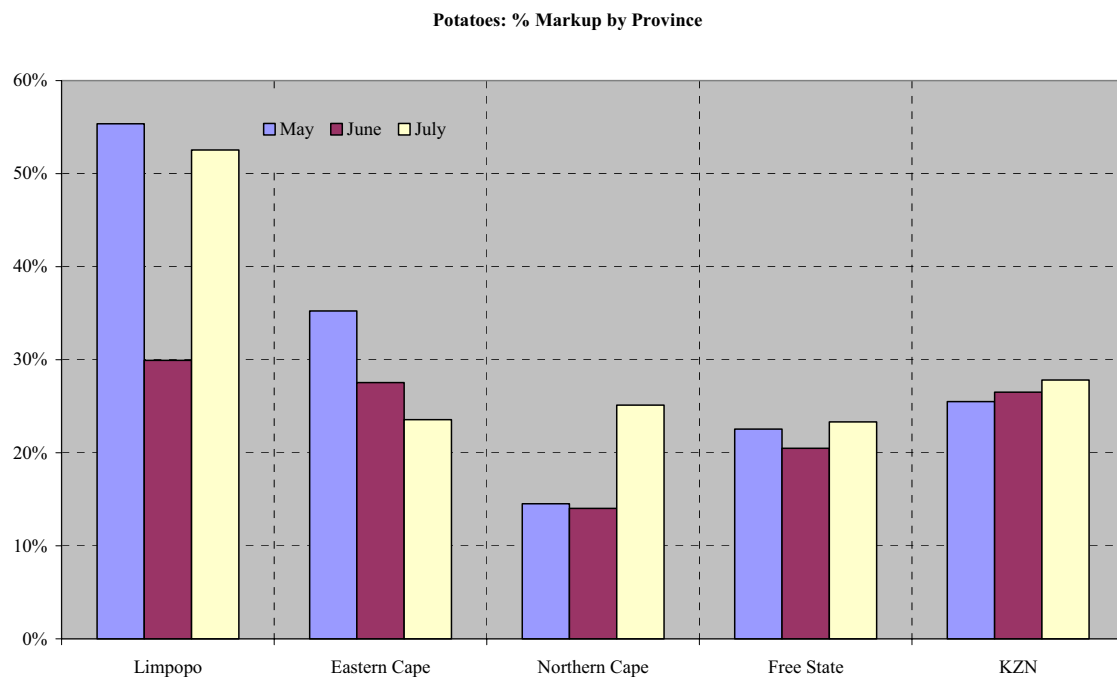


Figure 4.9: The percentage mark-up of potatoes per province

Sugar

The mark-up on sugar at rural stores is depicted in figure 4.10. Rural stores in Limpopo, again, have the highest mark-up, averaging 58% over the survey period. The average mark-up for all provinces from April to July 2003 was 31%.

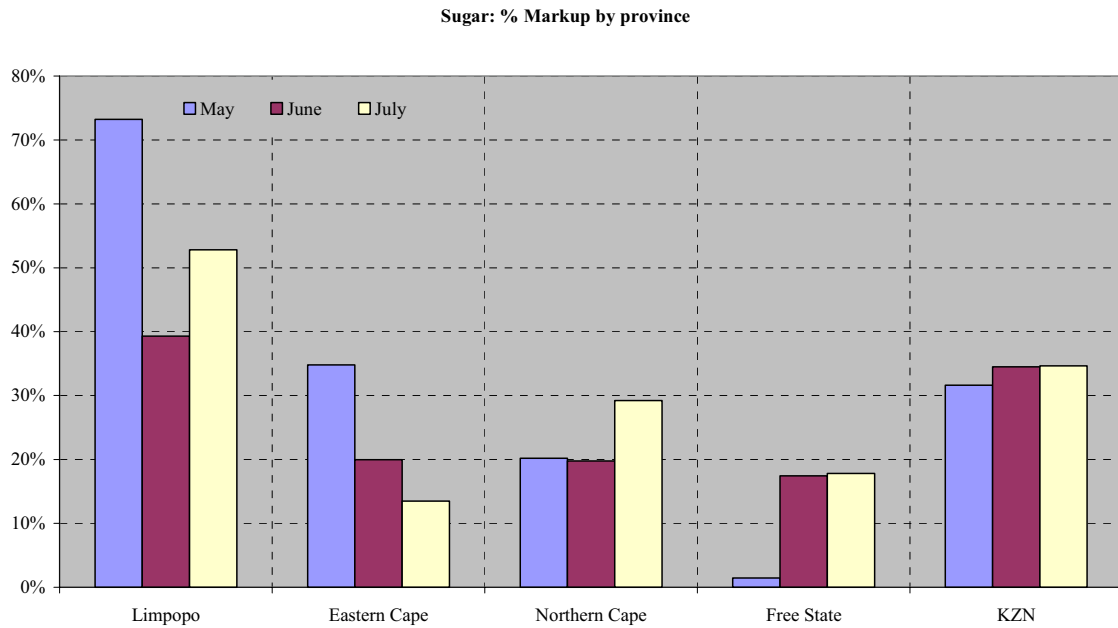


Figure 4.10: The percentage mark-up of sugar per province

4.9 Conclusions

The results from the analysis of prices at rural stores in 5 of South Africa’s poorer and more rural provinces reveal a number of valuable concluding points:

- €# Some prices of food products in rural stores are considerably higher than in urban centres while others especially fresh produce and milk tend to be lower in these rural stores.
- €# In some commodities and in some provinces a decrease in prices was noted indicating that rural storeowners were passing on decreases at wholesale level to their customers.
- €# Mark-ups are very high but even more so in the rural areas of Limpopo and KwaZulu-Natal.

From the background data and the various anecdotes from the fieldwork it also became evident that in areas where there are more agricultural activities and a surplus production, prices tend to be lower than the national average. This provides a useful direction for potential policy interventions by Government, namely to encourage small-scale production and value-adding activities at the local level to supply local communities. This is an aspect to which we return in Part 7.