The Chicken (Shawarma) or the Egg?

A Market Analysis of Chicken Shawarma in Berlin 🇩🇪🇩🇪

Photo by Yoad

The Chicken Shawarma market in Berlin—a bustling mix of small stalls and established restaurants—presents an intriguing case of monopolistic competition. This popular street food is deeply integrated into Berliners' daily lives and sees high consumption. Each vendor seemingly offers similar products, but the shawarma differentiates through meat quality, strategies, and equipment.

Cost Analysis and Equilibrium Price

My analysis shows an average production cost of €2.50 per unit, informed by discussions with vendors like {REDACTED STORE} (sells at €4.50) and online wholesale prices in Berlin. This cost serves as my equilibrium price in a simplified market model. It contrasts with observed market prices ranging from €4.00 to €8.50, indicating monopolistic competition rather than perfect competition.

Market Structure and Price Dynamics

Berlin's Shawarma market does not fit the perfect competition model due to significant seller pricing power and product differentiation. Here, sellers exercise considerable control over pricing. Despite the apparent homogeneity, differentiation in quality and presentation allows vendors to set prices above the marginal cost. This leads to a monopolistically competitive environment.

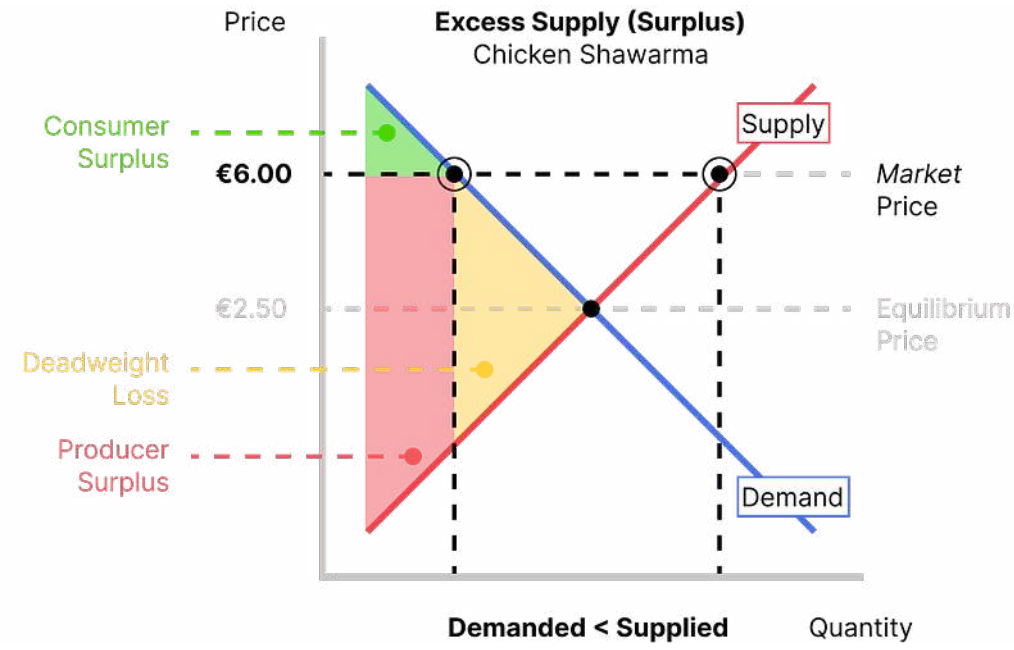
Location, Economies of Scale, and Opportunity Cost

The variation in pricing strategies also correlates with location-specific factors and economies of scale. High-traffic areas command premium prices, reflecting one concept of opportunity cost: the foregone benefit of locating in less expensive areas. For established shawarma restaurants, we assume their costs decrease slightly with the higher quantities due to mild economies of scale: bulk buying of ingredients or efficiency in preparation. This reduces the Average Total Cost (ATC) per unit.

Information Asymmetry and Consumer Perception

From a consumer standpoint, the market is characterized by information asymmetry. There is a variety of value perceptions among consumers. Consumers may not be fully informed of the differences in quality and preparation, impacting their willingness to pay. Tourists might also conflate shawarma with substitutes like doner kebabs, which influences consumer perception and demand.

Market Supply and Demand Curve Analysis

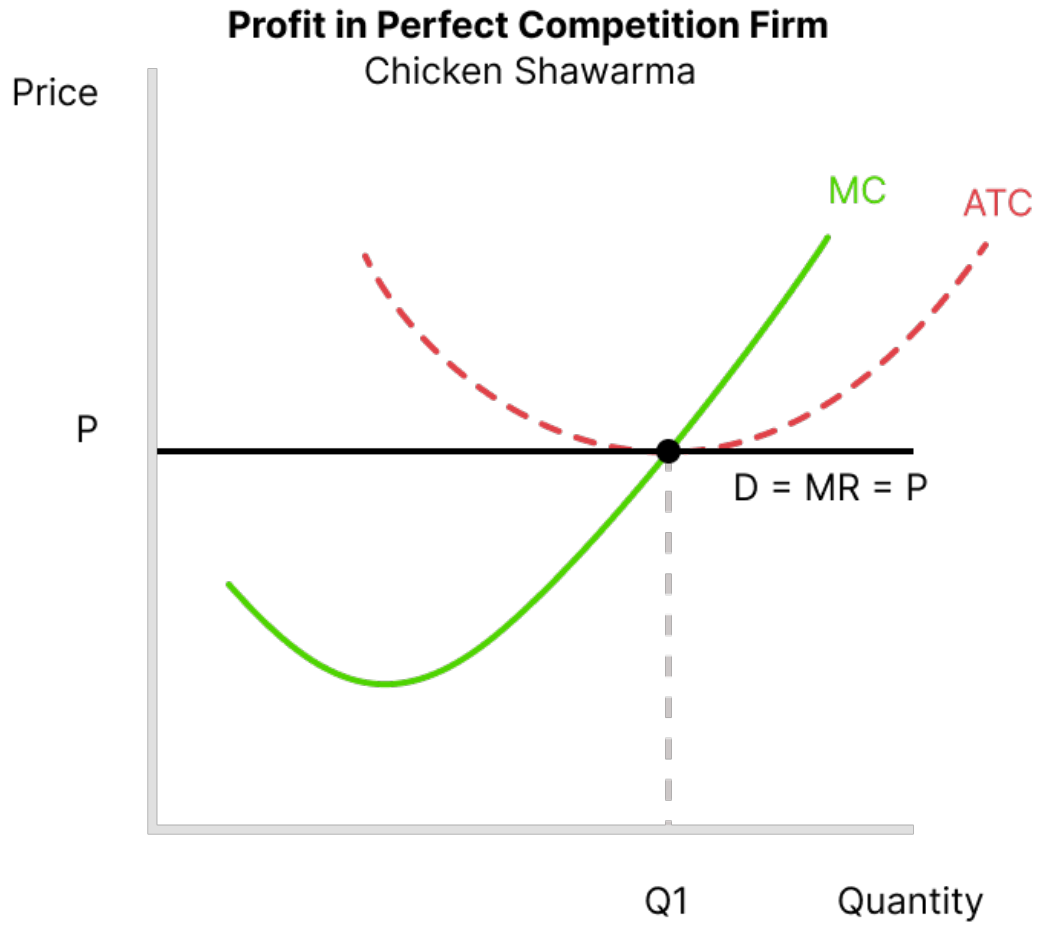


I compared the prices of 20 sellers online and in-person and aggregated their prices to €6.00. This represents a partially-empirical market price. Given that my calculated equilibrium price is €2.50 but market prices

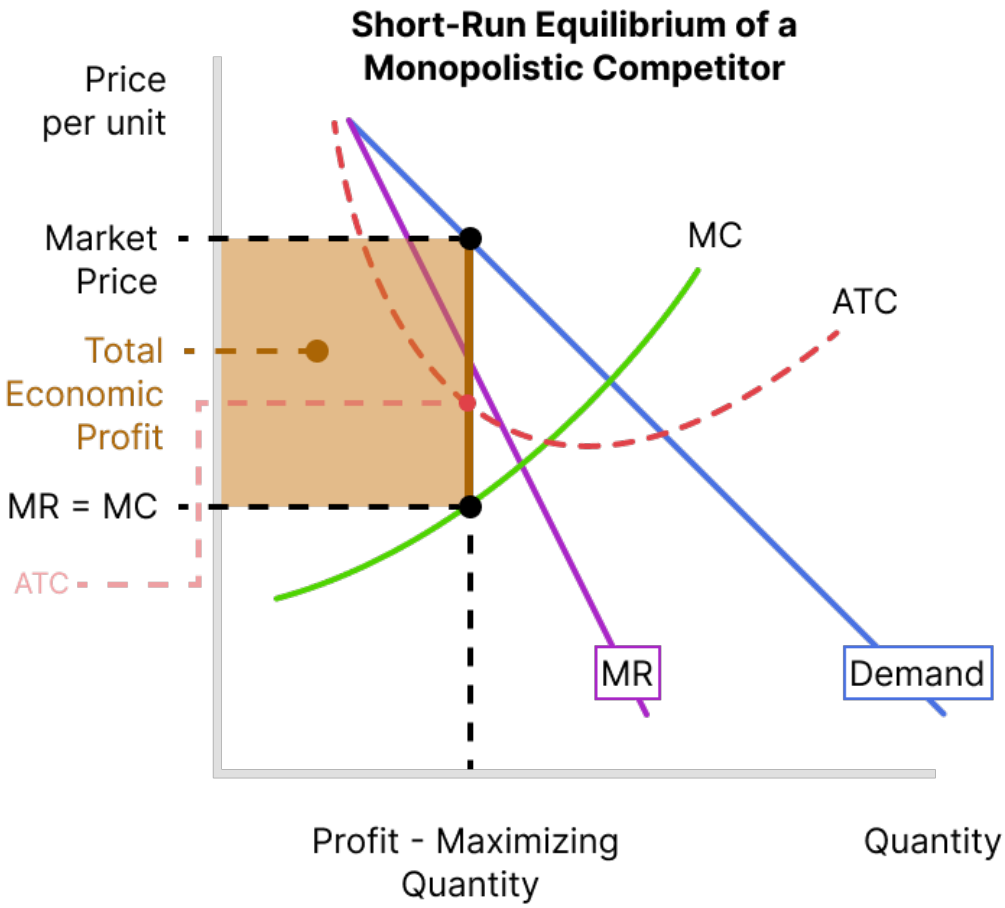
are higher, this oversimplified market does not align with the model of perfect competition.

In Berlin's monopolistically competitive shawarma market, the consumer surplus is less than if the market price equaled the marginal cost, indicating consumers may pay more for differentiated attributes or information asymmetry. The producer surplus is amplified due to higher prices.

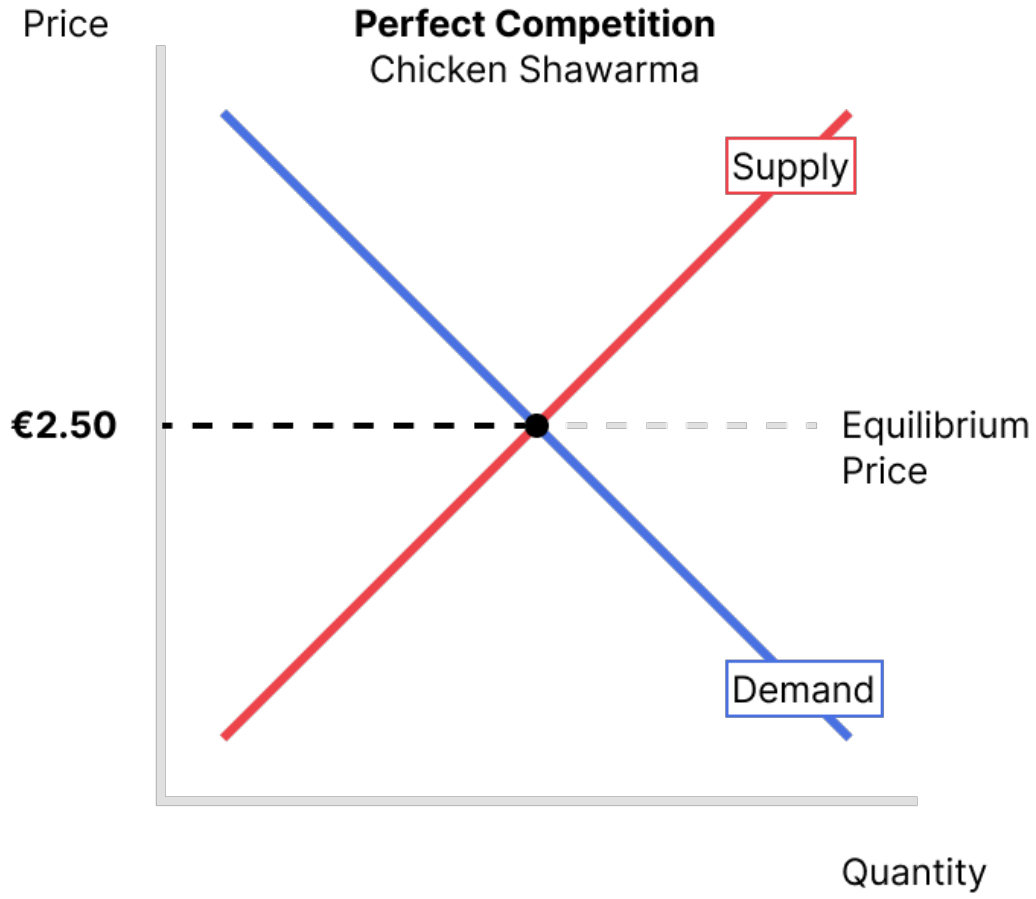
This imbalance results in an efficiency loss in the market represented by the deadweight loss triangle. It reflects the lost potential transactions composed of consumers who would have bought Shawarma at prices between the equilibrium and the market price; As well as vendors who would have sold more at lower prices but are unable to due to the market structure.



In a perfectly competitive scenario—if all Shawarma were identical and vendors had no pricing power—each vendor operates where price equals marginal revenue and marginal cost. This ensures no vendor could earn long-term economic profit. Firms would only achieve normal profits where price is driven down to cover ATC; The flat MR curve reflects the fact that firms are price takers.



However, in monopolistic competition, firms are not price takers. Information asymmetry and differentiation creates brand loyalty and diminishes price sensitivity. The profit-maximizing point, where MR intersects with MC, is not at the minimum (ATC). Firms do not achieve productive efficiency. Instead, they operate at higher ATC. This trade-off for economic profit is represented by the brown shaded area in the chart. Such profits are not indefinite. They erode over time as new entrants attracted by the profit signal, introduce more Shawarma varieties, increase the supply, and put downward pressure on the market price.



In a perfectly competitive Shawarma market, the market price would equal the equilibrium price of €2.50, maximizing both consumer and producer surplus without incurring deadweight loss.

Again, the actual higher prices tilt the balance in favor of producers at the expense of consumers. Thus, while the Shawarma market in Berlin deviates from the theoretical model of perfect competition, it provides valuable insights into real-world market dynamics, consumer behavior, and business strategies.

Appendices

Appendix 1—Production Cost of One Chicken Shawarma

The ingredients listed are based on what {REDACTED STORE} uses. They purchase in bulk, which can suggest optimization via economies of scale. Prices were averaged with this formula:

(Price mentioned by … + Wholesale Price online) / 2.

Total Cost

€2.50

Note: Fixed and variable costs incurred by multiple factors like overhead costs, labor costs, competition prices, and empirical demand level for chicken shawarma in Berlin were not included.

Appendix 2—Shawarma Prices from 20 Sellers

The market price used in the analysis, which was €6.00 was obtained by taking the average of the prices below and rounding down to the nearest whole number.

By Carl Kho on February 2, 2024.

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