SZENT ISTVÁN UNIVERSITY
GÖDÖLLŐ
DOCTORAL SCHOOL OF
MANAGEMENT AND BUSINESS STUDIES

Theses of Doctoral Dissertation (PhD)

IMPACTS OF THE TRANSFORMATION OF THE FOOD TRADE SYSTEM TO THE MARKET POSITION OF THE DOMESTIC PRODUCERS

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1. PREAMBLE

1.1. Actuality and importance of the topic

The **change of regime and the privatisation resulted in fundamental changes in the field of the food trade.** Such changes involved organisational changes, introduction of new business and forms of enterprise, increasing penetration of the international and domestic food retail chains, as well as concentration of the food trade.

Due to the peculiarities of the privatisation of the food industry (agricultural producers usually failed to acquire property), the bargaining position of the agricultural producers has further weakened. Through increasing concentration of the food trade, strengthening of the positions of the international and domestic commercial chains, the situation has worsened even more from the perspective of the farmers. The relationship between the food industry and of the trade is burdened by conflicts.

The commerce of agricultural commodities underwent radical changes in the 1990s; the size and importance of the different participants have changed, while the relationships aimed at integration and co-ordination have broadened. At the same time, the structure of supply and marketing has also been transformed; from among the relevant organisations, in fact only the ÁFÉSZ[1] has survived, complementing its activities by new organisational and functional elements forced by the market competition. Warehousing, commodity exchange and auction institutions have developed. Also a new marketing channel, still in its infancy, i.e. electronic trade, has made headway in the food trade.

In view of the development trends of the foreign and domestic food trade, further concentration of the trade may be expected. Upon Hungary's accession to the EU, even tougher competition among the participants of the supply chain has developed. Thus, through an increase in the competitive imports, the internal market share of certain sectors (suppliers) has further diminished.

The most important statements of my study concerning the food trade in the decade of the 1990s are as follows:

In agriculture:

- due to agriculture's transformation, the production of commodities became fragmented;
- the vertical relations almost entirely broke down;

[1] Általános Fogyasztási és Értékesítési Szövetkezet – General Cosumption and Sales Co-operative

- new participants made their appearance, new market institutions developed or the old institutions continued their operation with modified functions;
- in general, marketing of agricultural commodities presented an ever increasing challenge because it was difficult to satisfy the demand for large volumes and uniform quality due to the fragmented supply.

In the food industry:

- the food industry became more concentrated, but simultaneously it "drifted apart" from the producers' interests;
- foreign capital had an important role in establishing and developing both large companies and small and medium size enterprises;
- the opinions of the professionals are divided as regards the role, and the positive and negative effects of foreign capital; but the fact is that agricultural producers usually did not succeed in acquiring any property interest in the food processing facilities, thus further decreasing their ability to enforce their interests.

In the food trade:

- the food trade underwent radical changes, shifting in the direction of "consumer society", from the ownership structure, through organisation, up to the consumers' mentality (consumer-oriented approach);
- in addition, beyond a large but decreasing number of small shops, the concentration process has been continuously strengthened by the aggressive expansion of the international and domestic food retail chains; consequently the market competition has become increasingly tough, usually to the benefit of consumers and to the expense of the agricultural and food industry participants. A heated debate is in progress on whether the erosion of the international competitiveness of farmers and processors generates the continuous conflicts among the participants of the product path.

The system of relations between (agricultural and food industrial) suppliers and food merchants has also transformed in a dramatic manner; today the trade is unequivocally the stronger partner as regards market negotiating position (even though tough horizontal competition can be also observed within the trade sector). It is not easy to accommodate oneself to such situation either in Hungary (although two decades have already passed since the change of regime) or in any country with a developed market economy. At the same time however, suppliers should also adapt themselves more quickly, or trade will continue to exist without local production and processing. This problem comes into prominence also in the developed countries, due to the globalisation of trade. Beyond the improvement of marketing practices, collaboration

and co-operation of the agricultural producers might be a solution for mitigating these effects. Marketing tools offer a chance also for the food industry to reinforce its bargaining position, but much more remains to be done, especially in the field of increasing competitiveness of the processing industry.

In the past, simply there was no pressure for collaboration, because competitiveness problems deriving from the lack of co-operation were obscured by ad hoc governmental measures for immediate problem solving. As regards integration, the form has no importance, because the common interest requires minimisation of the individual risks and improvement of efficiency. The lack of viable vertical (and horizontal) integration constitutes one of the determinant factors of the weak competitiveness. According to international experience, integrated product path systems are more successful than individual farming in a continuously changing economic environment. In addition to allowing utilisation of the benefits of scale, integration constitutes also a risk-sharing and income distribution system. Co-operation should also be established between the professional representation organisations, because rational reaction to the policy challenges requires combination of forces due to their meagre financial and intellectual resources.

It is indispensable for the effective operation of the supply chain (and also of the individual sectors) to continuously develop the "supporting" and "servicing" activities, such as logistics, information technology, electronic business management and electronic trade.

The period between 2000 and 2003 passed under the auspices of the preparation for the EU accession – such preparation subsequently having proved to be unsuccessful. During the years following the accession, Hungary has faced the shortcomings of the preparation, the continuous changes in the world market environment and also the competitive disadvantages of the Hungarian food economy, all this further burdening the suppliers' relations with the food trade participants, adjusting themselves more quickly.

1.2. Objectives

The PhD theses analyses the transformation of the food trade system and determines its effects on the market position of the domestic (agricultural and food industrial) producers. The method consists of a summary analysis of the assessments performed since the change of regime (with emphasis on recent years). Beyond outlining the events of the last decade and the current situation, the future prospects are also presented through examining the system of relations between producers and merchants. The main objective consists in presenting the possibilities for strengthening the market bargaining position of the producers.

Specific goals:

- Presentation of the trade in agricultural commodities using the main sectors (wheat, meat, fruits and vegetables) as examples;
- Analysing the food retail trade from the change of system until today;
- Describing the concentration of the food retail trade in Hungary;
- Analysing the relationships between producers and merchants;
- Examining the issue of manufacturers' brands vs. commercial brands.

Within the food trade, attention is principally paid to the food retail trade (and mainly to the domestic owned food retail companies). Several theoretical and practice-oriented studies have been published, including international comparison data, on the globalisation process and increasing concentration of the food retail trade. In my assessment, these may only be considered as composite information; because the basic data are in all probability not homogeneous, not comparable with each other (for example, combination of data of the wholesale and retail trade companies). Also the role and effects of the purchasing organisations are difficult to quantify when measuring concentration, because this may lead to accumulation. Therefore, I have used company report data for the concentration calculations of the Hungarian food retail trade.

The structure of the PhD theses and the content and logical interconnections are presented in a recapitulatory diagram (Figure 1).

My hypotheses are as follows:

1. Transformation of the food trade system is partly a result of the new situation developed upon the change of regime (radical changes) and of the continuous concentration and globalisation of the food trade. This latter process occurred to different degrees in the different countries and regions, but in the aggregate it can be considered as a global phenomenon.

2. The relationship between (agricultural and food industrial) producers and merchants has radically changed; producers should (have) to adjust themselves more or less to such changes. The same process had passed off in the countries with developed market economies with the formation of the buyer's market, but not as quickly and suddenly as in Hungary and in the other new EU Member States. Adaptation (and, simultaneously, attainment of a more favourable bargaining position) did not occur to a sufficient extent.

3. In the relationship between producers and merchants, weakening of the competitiveness of the commercial side (for example through different Member State regulations) cannot be a rational objective; it is much more reasonable to strengthen the domestic and international competitiveness of the production side (commodity producers and food processors).

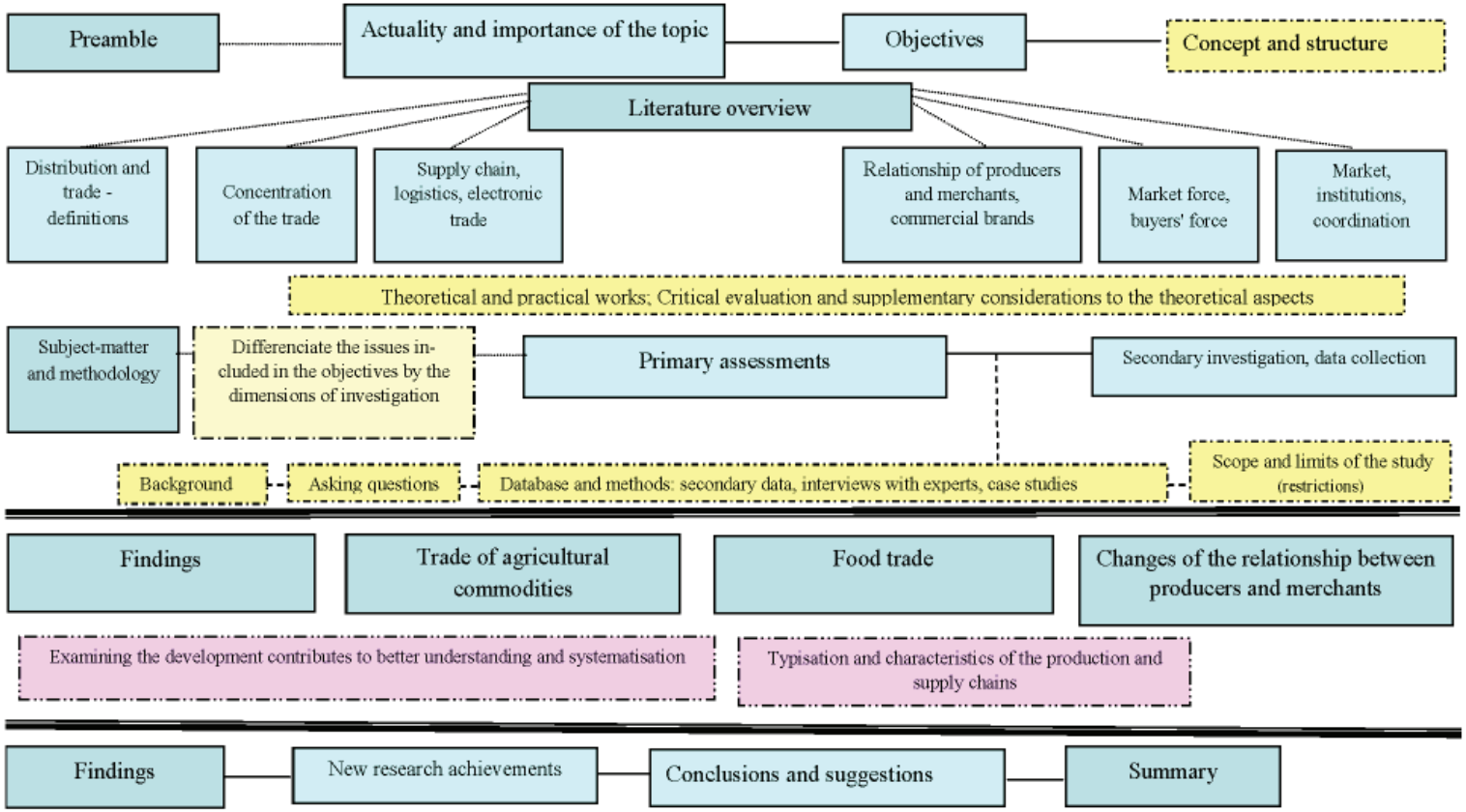

Figure 1
Theme of the dissertation

2. SUBJECT-MATTER AND METHODOLOGY

My PhD theses can be considered as a recapitulative work, representing a summary of my experiences acquired during several years of research activities. The outputs of the study include principally studies and publications of discourses made on international and domestic conferences.

The primary sources include:

- participation in international scientific conferences with the associated visits to farms and food industrial facilities, as well as publications of my international lectures (proceedings) allowed me to acquire on-site experiences. The main conferences include:
  - IAAE (International Association of Agricultural Economists),
  - EAAE, (European Association of Agricultural Economists),
  - IAMO (Institut für die Agrarentwicklung von Mittel- und Osteuropa), Halle an der Saale
  - Gewisola (Gesellschaft für Wirtschaft und Sozialwissenschaften), Germany
  - ÖGA (Österreichische Gesellschaft der Agrarwirtschaft), Austria
  - Babes-Bolyai University, Romania
  - VUEPP (Výskumný Ústav Ekonomiky Pol'nohospodárstva a Potravinárska), Slovakia
- conferences of domestic universities and colleges;
- personal interviews; and
- survey.

Secondary sources:

- overview of the publications of domestic and foreign (German, English and French language) authors. Beyond trade theory, I followed the changes and concentration of the food retail trade from several sources, including: studies and publications of research institutes and universities; practice-oriented information from market research institutes; up-to-date information from the trade journals. Beyond the section giving an overview of the literature, also Chapter 4 specifies several special sources;
- collection, processing and analysis of statistical data (statistical tables, indices, Lorenz curve). Here I performed analyses partly on the basis of the HCSO (Hungarian Central Statistical Office) data. For the preparation of the Lorenz curves, I used the data of the HCSO concerning number, staff and revenues of the companies recorded as operating ones by the HCSO. Because such data were available broken down to staff number categories, I used the Lorenz curve that may be plotted

on the basis of weighted data, imaging the staff number categories as points and connecting such points by straight lines. This is the reason for the typical "fractioned" design of the curves. In the first step, from the concentration table including the data, I generated the shares in the number of enterprises by categories (relative frequencies) and the shares in the staff number and in the net revenues (relative values). In the second step, through ranking the partial results in increasing sequence, the cumulated relative frequency and cumulated relative value progressions were generated. In the third step, the results thus generated were presented graphically in a square grid, positioning the frequency sequence on the X-axis and the value sequences on the Y-axis.

I had the opportunity to conduct personal interviews with the leaders of commercial companies, mainly on the topic of the suppliers' opportunities (sometimes focusing on the small suppliers). This method however has narrow limits, because some of the large companies do not supply information of adequate quality and in sufficient quantity.

In completion of the theory and desk research, the survey gave a chance to verify the experiences from the trade literature, as well as for making my research more "live" and more practice-oriented, this constituting an extremely important criterion when discussing this topic. The survey (even with a relatively low rate of returned questionnaires) allowed a large quantity of information to be obtained, even though it was not fit for in-depth analysis due to the finitesimal character of the open questions. Answers to the open questions were generally sincere, as respondents usually are satisfied that their problems are discussed.

Predefined responses may sometimes lead to distortions, especially if the preliminary assessment of the situation has not been satisfactory in serving as a basis for compiling the possible responses. Questionnaires may also focus on requiring the least possible effort for their completion, but as a consequence thereof, important information may be lost. Thanks to the time horizon (I have been studying the subject-matter of the food retail trade since the beginning of the 1990s) I have had the opportunity to conduct surveys on two occasions, in 1994 and in 2006. Some of the answers were comparable, making clear that in several fields, hardly any changes occurred during that period. The subjects of the survey came from the above-mentioned corporate sector. The survey covered several topics, but on an ad-hoc basis. The advantage of this latter communication method consisted in the fact that it could get quickly to the addressees, thus respondents have had sufficient time to consider their answers.

The questionnaires were sent in 2006 to a total of 3000 companies (1000 agricultural producers, 1000 food processors and 1000 food merchants) drawn from the list of addresses on the HCSO's company register. The first screening criterion consisted in the division by county, then followed screening by activity and commensuration by revenues. At the end, sample elements were randomly selected in the different categories. Microsoft Office Access and Excel programs were used for processing the questionnaires. The Access application facilitated data entry, while the Excel program gave flexibility in preparing the spreadsheets. The query process: the necessary data were acquired through simple query from Access, then the tables were prepared in Excel. A relatively high number of open questions were included in the questionnaires because, in my opinion, the benefits of the information thus obtained exceeded the disadvantages of the extra work required for the processing.

3. PRINCIPAL STATEMENTS OF THE DISSERTATION

3.1. Trade in agricultural products

The trade in agricultural and food products has undergone a long development process from the principles and practices of supply responsibility, buying obligation and territorial limitations, through loosening up of these obligations to the "free trade".

The typical paths of the trade in agricultural products proved to be abiding during the 1990s, with the difference **that the weight and importance of individual participants changed during the years and the integration and co-ordination relationships** (those survived and those newly developed) **became more diversified.** Establishment and operation of TÉSZs (producer organisations - POs) (existing even now only as a "phenomenon", with little power of interest representation), of the producer groups and of the new type of co-operatives emerged as a new trend. Foreign interests and ownership are present in all product paths.

To date, the biggest problem for producers – the question emerging most frequently – is: what should they produce, what can be sold on the market.

In respect of the wheat sector, LEHOTA [2000] has listed the following institutions:

- contractual relationships;
- storage, warehousing and the related institutions;
- co-operatives, associations and other forms of co-operation;
- vertically co-ordinated quality control systems;
- auxiliary institutions (information, logistics, finance).

The cereals trade was characterised by growing contracts; the foreign trade companies, wholesalers and the milling factories equally provided the necessary grain quantities required for their trade or production and for the utilisation of their storage capacities in this manner.

Contractual relationships were characterised by non-compliance with the contracts: arbitrary contractual breaches, advancement and assertion of selfish interests to the cost of the other party. Subject to the current market situation, sometimes sellers and sometimes buyers committed such breaches. The number of growing and preliminary contracts, being high in the past, had been continuously decreasing; the obligations imposed by contractual discipline were mutually defaulted, also as a consequence of the length and uncertain outcome of judicial enforcement, implying even risks for parties with poor capital supply. According to the merchants' opinion (Magyar Gabonafeldolgo-

zók, Takarmánygyártók, és -Kereskedők Szövetsége – Hungarian Grain and Feed Association), principally producers committed breaches, either by making reference to Vis Major when unable to grant the contracted quality due to their own fault or by simply selling the grain elsewhere when the contracted price was lower than the free market price at time of supply. Similar arraignments were made from the other side too; furthermore, not a bit of mutuality or division of the consequences could be observed in respect of the non-calculable effects; where dominance existed, it was enforced. All these circumstances have lead to the current situation where, on the buying side, no more efforts are made to conclude growing contracts and to pay advances.In recent years, grain marketing channels have included: processors and merchants (90%); a small part of the rest is appropriated; the remainder goes directly from producers into the intervention stocks. From among the contract forms, the most frequent ones include [VARGA ed. et al., 2007]:

- sale and purchase contracts (spot and forward);
- integration and contract growing agreements;
- master agreement and
- intervention.

The relationship between growers and merchants continues to be plagued with conflicts. In the case of some wholesalers, there are already established supply relationships and contractual discipline. The same cannot be said in respect of the relationship of the growers, local buyers and small merchants. Similar problems emerge between suppliers and the processing industry [POPP ed. et al., 2009].

Pig slaughter capacity and pork production and processing remain still determinative in Hungary for **meat production and trade.** The rate in cut meat is increasing both in domestic and foreign sales. The development of the cooling and cutting technologies and of the subsequent packaging has substantially increased the shelf life that can be offered to consumers. The implementation of the cold chain could be considered as the most important development in the marketing procedure. This means that, from the primary processing, products reach the consumers' basket without interruption of the cooling. Similarly, the cold chain is granted also in the foreign sale system. This is of major importance in maintaining the meat's quality and in complying with the food safety requirements. The Pick-Délhús Group and Hungary Meat Kft. currently have the largest slaughtering capacities in Hungary. The Pick-Délhús Group partly uses the meat of the slaughtered animals for its own processing and production, while Hungary Meat Kft. principally performs primary and secondary meat cutting, exporting the majority of its production. Both companies use their own marketing organisation for the sales and exter-

nal merchants are included in the marketing process only in the case of special products or special markets.

Recently, a new trend has appeared. The meat marketing companies, representing the biggest slaughterhouses of Europe, have appeared on the Hungarian meat market. These include: German Tönnies Fleisch, VION (German subsidiary of the Holland SOVION), Westfleisch and Düringerfleisch. Also the French SOCOPA is present on the domestic market. Danish Crown, listed among the world's largest slaughterhouses, and Swedish Meat, too, are trading in Hungary. Their operation is evaluated by the parent companies not principally by the profits realised on the products sold in Hungary, but on market presence at all costs and increasing the share in the meat supply to the Hungarian market is considered as their main goal. The Hungarian meat marketing companies still surviving try to expand their activities by other goods beyond traditional meat products. The most important meat marketing companies with a majority Hungarian interest include: Hampex Kereskedelmi Kft., Agrotrade Kft., Frigalin Kft., DHS Kft. and Szinmark Kft. The competitive disadvantage of the Hungarian owned companies mainly derives from the uncertainty of funding. The mentioned companies also import meat, but they are compelled to collaborate with foreign wholesalers with higher capital supply.

Sales of the market leader slaugterhouses vary between wide limits, 20-60% of the cut meat is sold domestically. Other slaugterhouses dealing mainly with slaughtering (and boning and cutting) sell their products solely on domestic market. Today 70-80% of pork meat is sold to retail chains. Several meat processing companies have their own shops. For the sales of finished products contracts are typical [Varga ed. et al., 2007].

Domestic pork meat processors produce both private label branded products and manufacturer's brands: the share of manufacturer's brands accounts for 60-70% of total production and the rest is private label. The fresh meat gives half of the domestic sales [POPP ed. et al., 2009].

The three main forms of **vertical co-ordination strategies in the fruit and vegetable sector** include:

- voluntary growing: in this case, transactions between seller and buyer are determined by the momentary market prices;
- contract growing, when buyer covenants to purchase and seller to sell the products at a price agreed upon in advance, to be calculated on the basis of a formula;
- vertical integration: where a member of the supply chain integrates a participant located directly above or below it within the chain in a single organisational unit.

The argument often mentioned in the relationship of producers and merchants is also typical in the fruit and vegetable sector: with few exceptions, the merchant is the "stronger party". Co-operation is indispensable because "solitary growers" can hardly become suppliers of the commercial chains or of the food industry.

In most cases, however, suppliers are even not able to comply with the most stressed requirements of the food retail chains: uniform quality, packaging quality and sizes adapted to the retail marketing requirements. I mean here: non-maintenance of the desired temperatures, bulk storage of the products on the supermarkets' or hypermarkets' shelves. The degree of freshness of the goods when reaching consumers is far from optimal. Similar quality decay and selling in such conditions is unknown in the practice of countries with developed market economies.

According to data from the years 2002 to 2004, more than half of the fresh fruits and vegetables were sold in the commerce. The marketing channels include [VARGA ed. et al., 2007]:

- from individual farmers → wholesale market, wholesaler, TÉSZ, consumer market, direct export sales;
- from POs (fresh fruits and vegetables taken over from members) → retail trade, foreign markets; when selling products purchased from growers other then its members, the TÉSZ functions as a wholesaler.

The shares of the fruit and vegetable marketing channels and the marketing directions have practically not changed since the period 2002-2004. According to estimates, by 2007, the share of the "modern retail trade" exceeded 50%, while that of the traditional retail trade decreased to 47%. The fruit and vegetable purchasing policies of the food retail trade chains are different, but typically they require large volumes of homogeneous quality products, due to the large quantities sold. Therefore, they strive to limit the number of suppliers; anyway, only the larger partners are able to comply with the requirements of suppliers [POPP ed. et al., 2009].

3.2. Food trade

The change of system and the privatisation resulted in fundamental changes also in the field of the food trade. The food trade was attractive for investors, including foreign investors. Several international commercial chains started operation in Hungary, through refurbishing existing shops or by implementing greenfield investments. Thanks to the international projects, part of the Hungarian food trade has started the alignment with the Western European level. Also Hungarian owned commercial chains have been developed, some of them undergoing quick development, or even starting foreign expansion.

All the same, the majority of the Hungarian commercial enterprises are small or medium-size enterprises with poor capital supply.

The period between 1989 and 1990 may be defined as the period of spontaneous privatisation, when smaller shops were privatised, but simultaneously a great number of small privet shops were established. As a result, the number of food retail shops started to increase.

During the privatisation period (from 1991 to 1995-1996), the change of ownership of the large food trade companies (for example of Közért) occurred. Majority of the shops in favourable locations were acquired by multinational trade chains. Some of the small individual shops continued to develop, but others went bankrupt. The first half of the period under study was characterised by the establishment of the so-called forced enterprises (due to unemployment), most of them operating only for a short period. As from 1995 however, **concentration** started to become stronger.

After the period 1997-2000, the large surface shops made their appearance. This period was mainly characterised by the appearance of new foreign owned, mainly multinational enterprises and their intensive greenfield investment-based expansion, as well as by the headway of buying associations, including domestic owned, smaller floor-space commercial units. The concentration process is well represented by the increase of the turnover by single shops, amounting to 10% between 1997 and 1999. Beyond spreading of the up-to-date retail trading forms, also the number of shops and even that of small independent shops operated by individual entrepreneurs has increased.

The new millenium has brought additional changes. The concentration of the retail trade has continued; the multinational companies operating large surface shops and buying associations concentrating Hungarian owned small and medium-size shops seem to be unequivocally the winners. An increasing portion of the consumer demand has shifted to the larger market participants. The structure of the domestic shop network has transformed: while the number of food stores and mixed profile food shops has decreased (especially after 2000), an increase in the number of the units with main profile other than food might be detected. The decline in the number of shops occurred in parallel with the decrease in the number and strong fluctuation of the economic organisation operating them. A remarkable transformation of the composition of enterprises operating shops can be observed also as regards the corporate form: from the start of the 2000s, both the number and the share of the individual enterprises have diminished.

Beyond further penetration of the commercial chains and large floor-space shops in the Hungarian food trade, the hold of an extremely large number of

small shops constitutes the other main characteristic. A strong contrast has developed between availability of shops, their equipment and price level in the capital, large and smaller cities and in the villages.

As regards development of the marketing channels, no major transformation could be observed during the period 2004-2007; no remarkable shift occurred to the benefit of any channel (Figure 2). This confirms the fact that the market is overbought, the available instruments and commercial marketing cannot really influence the customers. In consideration of the data of 2000 (hypermarkets 14%, supermarkets 15%, discount stores 16%, Cash and Carry 6%, small shops integrated in commercial chains 5%, small independent shops 29%), the headway of the hypermarket category is clear. Similarly, the increase in the share of small shop chains and decrease of that of the small independent shops is evident (Figure 2).

Several pessimistic analyses can be read on the importance, "extinction" and survival chances of the small shops (whether independent or organised in chains). The question remains, however, what can be considered as a small shop: shops having a floor-space for example between 20 and 50 m^2, 100 to 300 m^2 or below 400 m^2. The HCSO categorises the food shops based on their floor-space. Since 2007, shops with a surface exceeding 3000 m^2 are qualified as hypermarkets, while those below 3000 m^2 as mixed profile food shops.

The existence and survival of the small shops is influenced by several factors that may be different or even identical from the point of view of the small merchant and of consumers, as well as may change as a function of the shops' location (whether it is in the capital city, in a large city, in a bigger settlement or in a village). A similar shop may obviously **serve for expansion of the assortment and function as a convenience shop in large cities, while it constitutes the only solution for local supply in a small rural settlement.** In the large and medium cities, the small shops function principally as sites for making daily purchases. Though the value of the individual purchases is not high in comparison with other marketing channels, the rate of sales of certain products/product groups may be high in the small shops. The small shops have the advantage of the attentive, personalised attendance (even though this is not always true for the self-service shops), while the product range is highly influenced by the local purchasing power, beyond the capital supply of the independent merchant. Also the product range may be limited by the small floor-space (physical restriction). Again, the EU requirements (separated storage) act as a restrictive factor.

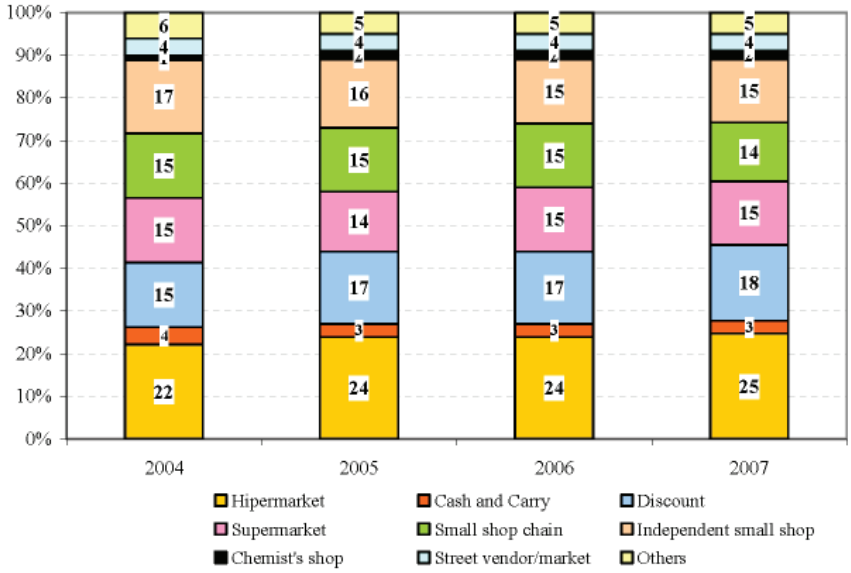

Figure 2

Development of the different trade channels, 2004-2007, (%)

Source: GfK Hungária, Kereskedelmi analízisek 2007

The Lorenz curve is a general analysis and illustration tool of the relative concentration [KERÉKGYÁRTÓ et al., 2003]. On the basis of the concentration table, I have prepared the cumulated relative frequencies and values calculated from the shares in the multitude (relative frequencies) and from the shares in the staff number and in the net revenues (relative values). The cumulated relative values may be represented as a function of the cumulated relative frequencies. The higher is the degree of concentration, the curve is more distant from the diagonal (Figures 3 and 4).

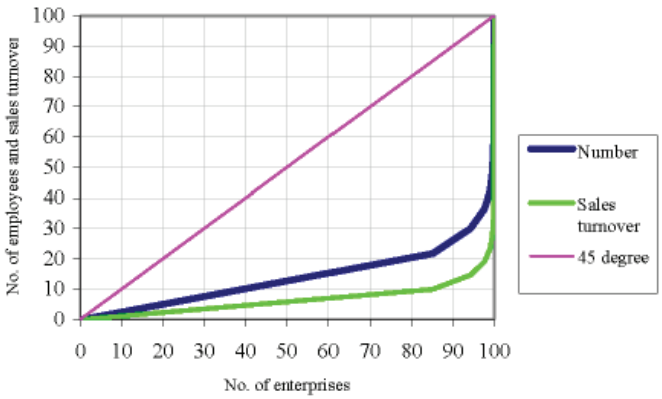

Figure 3

Mixed profile food retail trade

Source: Own calculation, based on HCSO data

The figure confirms the conclusion that could be drawn from the concentration table, according to which the mixed profile food retail trade is considerably more concentrated than specialised food retail trade.

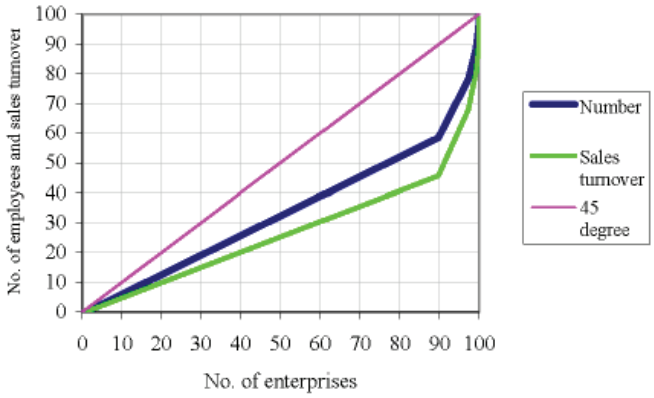

Figure 4
Food, drink and tobacco retail trade
Source: Own calculation, based on HCSO data

3.3. Changes in the relationship between producers and merchants

By the upsurge of the commercial chains, **radical changes occurred in the system of contacts between producers and merchants.** In the relationship between commercial chains and food producers, usually unequal parties are facing each other. Merchants dictate, and producers have to adjust themselves, because but for few exceptions (e.g. Coca-Cola), the majority of the food products may substitute each other. Subject of sales becomes ever increasingly the aggregate of the product and of the conditions. Due to concentration, a great number of producers face a few powerful commercial chains. It is also true that – **notwithstanding the unfavourable conditions – supplying the commercial chains gives the food producers the possibility of selling large volumes. The commercial chains, therefore, offer opportunities for the small and medium-size companies only at the regional level or in the case of specialities and niche products.** During recent years, an increasing number of purchasing associations have been established, further strengthening the already strong bargaining position and concentration of the merchants. The lack of contractual discipline may cause difficulties on both sides.

I have assessed the changes of the relationship between producers and merchants based on own survey [Stauder, 1994 and in Kürti et al., 2007].

Purpose of the study and the sample surveyed

The Research Institute of Agricultural Economics has been investigating the system of connections of the food economy, the wholesale and retail trade of food and the relations of producers (agricultural and food industrial) and

merchants for already one and a half decades. Two surveys were performed under a study in 1994 [STAUDER, 1994] partly concerning the situation of the food trade and partly on the relationships between food industrial companies and merchants.

The research study of 2007 [KÜRTI et al.] includes results of three surveys, but I have used this occasion also for comparing results of the 1994 survey with the changes that have occurred since that time.

Target groups of the survey included the agricultural producers, the food processing companies and the food merchants. The survey covered the three levels of participants of agribusiness because, according to international experiences, in our days there are not any more the enterprises that are competing but the supply chains, from the producers up to consumers, and success is also depending on the strength of co-operation.

The principal issues of the survey included:

1. the vertical relationship (supply channels, marketing channels, system of connections);
2. reasons for the increasing imports (foreign ownership, consequence of EU accession);
3. proposals (export growth, expansion of the domestic food consumption).

When examining reasons for the increase in imports, two issues received special emphasis in the study:

- influence, if any, of the ownership structure and proprietary composition of the food industry on the imports; and
- ways of protection against imports, application of the marketing tools for the possible increase of the consumption of domestic products.

The questionnaires were sent in 2006 to a total of 3000 companies (1000 agricultural producers, 1000 food processors and 1000 food merchants) drawn from the list of addresses of the HCSO's company register. The total number of companies operating in the field of agricultural production (plant growing, animal husbandry and mixed farming) amounted to 7733. The next screening criterion was the division by county and then followed screening by the amount of revenues and commensuration. Sample elements were randomly selected within the single categories. Screening criteria and basis commensuration of the food industrial producers (total number: 4876) included: county, specific sector and revenue categories. In the case of food trade companies (total number: 20767) the screening and commensuration criteria include: by counties, by TEÁOR[2] codes and revenue categories.

[2] Tevékenységek Egységes Ágazati Osztályozási Rendszere – NACE in Hungary

The main topics of the survey cover a broader range than the issues important for this study, intended for information (Table 1). The table also includes a short summary and centre of gravity of the answers.

Table 1
Most important topics of the survey

Question	Agricultural producers	Food industrial producers	Food merchants
Effects of the foreign ownership	Foreign interests Unequal competition Putting down competitors	Discriminating domestic products Weak quality of imports Market-seeking, acquisition	Harmful Disparaging domestic products Defencelessness
Relation with other market participants and suppliers (ranking by quality of relationship) - 1 is the best	1. Suppliers 2. Own shop chain 3. Wholesale trade 4. Food industry	1. Own shop network 2. Producers 3. Retail trade	1. Agricultural producer 2. Retail merchant 3. Food industrial producer
Causes of the quality of relationship (with merchants); ranking by number of mentioning	1. Defenceless 2. Good 3. Changing	1. Dominance 2. Oversupply 3. Defencelessness	Answers of general character, mainly concerning purchase
Which party is stronger in the relationship between producers and merchants	Merchants (99) Agricultural producers (7)	Merchants (140) Food industrial producers (8)	Suppliers (89) Merchant (69)
How to prevent increase of imports	Market regulation Market protection Quality control	Protection of domestic products/ production Enhancing state control Sanctioning multinational companies Restricting imports Advertising domestic products	Protection of domestic products Restricting imports Administrative measures
Possibilities and ways for increasing exports	Intervention by the government Publicity Marketing	Intervention by the government Marketing	Intervention by the government Quality Marketing

Source: Own compilation

4. CHECKING HYPOTHESES

H1 - Transformation of the food trade system has been influenced by the new situation developed as a consequence of the change of regime and by the concentration and globalisation of the food trade

As explained in Article 4.2.1 of the dissertation, privatisation, growing foreign investments and increasing penetration of the international and multinational commercial chains, then establishment and alignment of the Hungarian owned chains have fundamentally transformed the entire food trade. This PhD thesis is aimed at investigating principally the conditions in Hungary, but my other studies confirm that the same process occurred in other countries accessing the EU together with Hungary. With growing concentration and globalisation, the same process is extending to the entire world: the expansion of the commercial chains renders the food trade sooner or later uniform everywhere, even if the local historical and cultural traditions are partly conserved. That means that my hypothesis has been fully confirmed.

H2 – The relationships between producers and merchants have radically changed, but the production side has not sufficiently adapted thereto

During the period following the change of system, the relationships between producers and merchants have also undergone radical changes. This is not only due to the appearance of the international and domestic commercial chains and/or of the international or multinational food industrial companies, but also to the buyers' market. As a consequence of the buyers' market, merchants are the "stronger party" also in the old EU Member States; however in these countries a longer period was available for the accommodation and therefore the transition passed off without concussions. (Originally, the buying associations have been established in Germany for strengthening the position of merchants against food producers.) In addition, in my opinion also the producer side was stronger, thanks to the traditionally developed co-operation and association (even if this cannot be considered as a panacea, resolving all problems). This is also confirmed by the fact that, by order of the EU Commission, intensive analyses and researches are under way even now for improving the operation of the supply chain.

On the basis of the experiences obtained during preparation of the PhD theses (from the trade literature, survey, personal interviews with producers and processors and from participation on conferences), I have concluded that the adaptation and indispensable co-operation continued to be insufficient in several aspects, meaning that the fundamental problems and expectations

against the trade from part of the producers have hardly changed. Therefore, my hypothesis has been confirmed.

H3 – In the relationship of producers and merchants, strengthening of the producer side is necessary for improving their chances for market entry

In the animated discussions being already under way for many years, it is a continuous wish and requirement of the producer side (agricultural commodity producers and food processors) that the trade should be "restrained" by state intervention, by strict regulations. Though these PhD theses did not cover the rules of competition, the code of ethics and the regulation of trade, but my experiences in this matter suggest that this is not a viable solution. Beyond discouraging and restricting competition, all EU Member States regulate also the trade less or more. There are also codes of ethics, but all this does not provide a fundamental solution to the "problem". On one part, the producer side, afraid of retorting, rarely complains against the commercial side (as also evidenced by foreign examples) and, on the other part, in practice there are wide possibilities for framing the terms and conditions to the benefit of the stronger party, notwithstanding any written regulation. According to conclusions drawn from my research, above all strengthening the domestic and international competitiveness of the producers is indispensable for improving their bargaining force. Thus, my hypothesis has been confirmed.

5. NEW RESEARCH ACHIEVEMENTS

1. **I have thoroughly investigated the internal system of relations of the food economy during the period following the change of regime.** It has been shown that, through entry of the multinational food retail chains and by continuous strengthening of the Hungarian owned chains, the food trade became the centre of co-ordination, suppliers being forced to align therewith. The well-capitalised suppliers retain important the wide market presence granted by the commercial chains. Suppliers marketing large volumes on a restricted geographical market are almost unable to find alternative sales possibilities, therefore they hold on to the commercial chains paying often with delay, but for sure (replacement by merchants with doubtful background implies risks). As agricultural producers and processors in Hungary typically produce mass products and not premium category products, the processing industry itself is also under strong competitive pressure. The supply market of the processing industry is geographically limited due to perishableness of products not allowing transport and to the high transport costs. On the contrary, thanks to the lower specific transport costs due to the higher added value, on the marketing side the sector is selling its products on ever wider geographical markets where it has to withstand competition from a growing number of potential or actual competitors.

2. **I have presented and analysed the theory of commercial concentration and have also investigated the concentration of the Hungarian food retail trade.** I have shown that concentration data available in the trade literature and the press serve principally for guidance only, because the data are not entirely comparable, due to the different basis data and to the mixed profile of the products marketed by the companies ranked under food retail trade.

3. **Based on my own investigation (interviews, survey), I have shown that in the stages under review of the agribusiness, the position of the producers was unfavourable, and especially that of agricultural producers, being most distant from consumers, was critical.** It is however also a fact that previously there was no pressure for collaboration, because competitiveness problems deriving from lack of co-operation were obscured by the continuous ad-hoc regulations seeking immediate solutions.

4. From analysis of the different sectors it is clear that **the lack of operable horizontal and vertical integration constituted one of the most determinative causes of the weak competitiveness.** As regards integration, the form has no importance, because the common interest requires minimisa-

tion of the individual risks and improvement of the efficiency. According to international experiences, integrated product path systems are more successful than individual farming in a continuously changing economic environment. In addition to allowing utilisation of the benefits of scale, integration constitutes also a risk-sharing and income distribution system.

6. CONCLUSIONS AND SUGGESTIONS

The fundamental question is: **how has changed, and how effectively is operating in practice, the agribusiness, interpretable as a supply chain.** My studies have shown that co-ordination disturbances exist in several areas. The most important statement is that co-operation has to/should be reinforced at all levels, but especially in the most vulnerable field of commodity production, say at the level of agricultural producers. This would be extremely important not only for the marketing of the agricultural products but also in the field of information. It is not true that insufficient information is available in agriculture, though the transfer of the information and feedback are problematic. At the same time, even agricultural producers could show more interest; the reasons for their reluctance are also worthy of investigation. Co-operation should be established also among the trade representative bodies because proper answers to the policy challenges require combination of forces due to their meagre financial and intellectual resources.

Tasks also remain at the micro level for ensuring the efficient operation of the supply chain. Enhanced attention should also be paid at this level to the development and changes of the requirements of consumers, as well as to the remarkable improvement in the information technology.

As a consequence of the processes occurred in the food trade, two options are open for the food production for marketing the products:

- to keep in step with the challenges of the international and domestic retail chains and of the buying associations; or
- to refuse to "pick up the glove" and to try to by-pass the retail chains and to find alternative marketing possibilities.

Based on the situation developed as a consequence of the changes that have occurred in the trade, the turnover implemented by the buying associations and the retail chains is becoming increasingly dominating and a decreasing share remains for the "outsiders". This diminishing segment may also give space for food producers having properly positioned products, but only to a small extent. Willing or not, the majority of producers have to adjust themselves to the conditions dictated by the buying associations and chains, if they do not want to be expelled from the market. Food producers have to be well prepared for such pressure of adaptation; therefore they have to be aware of:

- the differences of the marketing objectives of producers and merchants;
- the deficiencies of their corporate marketing practice;
- the strict system of conditions imposed by the buying associations; and
- the marketing tools that can be used for strengthening their bargaining positions.

Elements of the corporate "defensive strategy" may include for example:

- co-operation among producers, establishment of producers' brand associations;
- focusing on specialities instead of commodity products within the product structure;
- development of trade-oriented policies;
- adjustment of the mentality, methodology and of the organisation.

No fundamental changes have occurred in the relationships of the producers (producers of agricultural commodities and food processing companies) and of food merchants during nearly two decades; in spite of knowing each other much better and of the producers' accommodation, their antagonism continues to sharpen. This is attributable partly to the more favourable import purchase opportunities following the EU accession, deterioration of the general (world) economic situation, saturation of the food market and price sensitivity of the consumers, and partly to the fact that certain segments of consumers are becoming increasingly demanding.

Based on my experiences, the final conclusion can only be as follows: the opportunities of the production side continue to decline against merchants and it seems that they are unable to exploit such exiguous opportunities. On the one part, competitive disadvantages of production cannot be eliminated or mitigated through restricting the operation of the market (as demanded by the producers).

From my own surveys the factual reasons of the weak competitiveness could be established:

- structural problems of the commodity production and food processing;
- decrease in the output of the animal husbandry and of the meat industries;
- unexploited capacities, low technical level;
- lack of proper reaction to the market processes;
- insufficient corporate marketing (but the same this applies to the communal agricultural marketing).

All this however does not imply that Hungary has to give up a major part of the agricultural or food industry production. As regards agriculture, the European Union stated that food security would remain a priority in Europe. The question emerges however; to what extent the Hungarian agriculture and food industry will be able to survive under the tough EU and global competition and, beyond this, what opportunities remain for those crowded from the competition.

Practical applicability of the results

The topic of the PhD theses is practice-oriented in itself but, during my several decades of research, I have always endeavoured to make the studies usable not only for theoreticians but also for trade representative bodies, for the agricultural higher education and also for producers. In the everyday practice, the producers are those that have to face the transformation of the food distribution system and its effects at both domestic and international level.

With the survey I have aimed, beyond bridging the gap between theory and practice, at promoting co-operation among the participants of the food supply chain, at shaping and approaching their different mentalities by publishing the collected and processed information.

Investigations could be further conducted and extended to the following important areas:

- detailed examination of the co-ordination interrelations within the supply chain;
- investigation into the purchasing policy of the food retail trade, with special regard to international comparative analyses;
- a multi-faceted, deep analysis of the issue of manufacturer brands vs. commercial brands.

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