FROM MARKET-ORIENTATION TO MARKET-ADAPTATION: STRATEGIES OF ACTORS OF HUNGARIAN FOOD CHAIN

Szénás I.

The Hungarian agriculture and food industry has got in a deep crisis after the collapse of the former market structure. The privatisation did not solve the structural problems of agriculture, but in food industry contributed to the improvement of the capital structure. The EU accession has increased the contradictions of the Hungarian food chain, and highlighted the unsolved problems of the food production.
References – 3, language – English.
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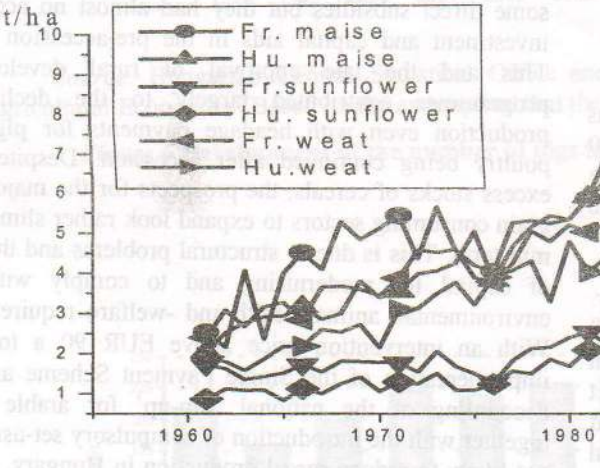
1 LONG SHADOW OF THE PAST-SOME HISTORICAL BACKGROUND

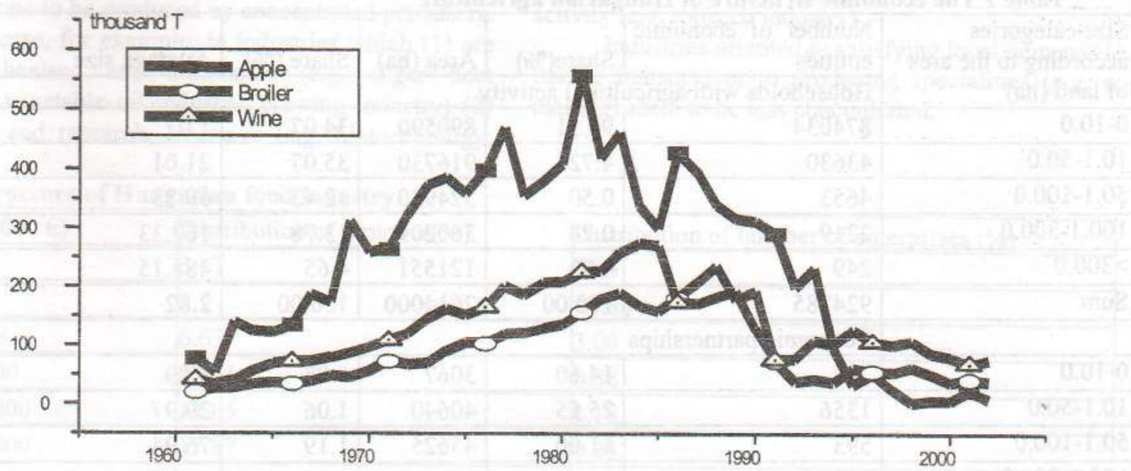
The Hungarian agriculture and food industry has achieved considerable results in modernization of the production and technology from repression of the Hungarian revolution in 1956 to the collapse of the so-called socialist system (Fig.1). These successes have been founded on five pillars: (1) active state-support of the agricultural and food industrial production; (2) symbiosis of large-scale farms and small-scale household plots; (3) utilisation and adaptation of the latest production technology by the so-called agricultural production systems; (4) diversification of the activity-structure of agricultural co-operatives in field of food processing, industrial production and services; (5) practically unlimited product-absorption potential of former states of the socialist-lager. Based on these factors, in Hungary the agriculture and food production have developed on an export –driven path. In some cases –from point of view of quantities-the Hungarian economy has go in first places of the word exporters (Fig.2.)



Source: FAO electronic database

Fig.1 **Nearing and declination between the yields of some important agricultural products in Hungarian and French agriculture**

Ignác Szénás, Associate Professor, College of Nyiregvháza



Source: FAO electronic database

Fig.2 **End of a success (?) story: the export-quantities of some important Hungarian agricultural products**

These developments had its problems, too. The most important of these are as follows: (1) the one –sided development of the production of the mass-products, with low value-added content (Hajduné & Podruzsik, 2002); (2) low level of efficiency (e.g. in the middle of eighties the share of the administrative workers in the Hungarian agricultural enterprises had been higher, than the share of the sum of agricultural workers in an average developed western-European state); (3) uneven level of the development of production infrastructure.

2. THE PRIVATISATION AND ITS CONSEQUENCES

2.1.THE PRIVATISATION OF AGRICULTURE

After the system-change the Hungarian agriculture and food industry has been faced with new problems. There was a political consensus among the most important political forces concerning the basic directions of the transition, but there were considerable differences in the evaluation of the actual ways and means of the transition. The changing priorities and principles of privatisation of the agricultural enterprises mirror these contradictions. The most important problems of the agricultural ownership-reform were as follows: (1) Conjunction of the political and economic processes. In general, the Hungarian privatisation had been based not on the concept of the re-privatisation, but on the real sale of collectivised goods by the State Property Agency. But in case of the land and agricultural goods, the political act of compensation for injuries and grievances in period 1938-1989 for the different groups of former victims or their inheritors were joined to the agricultural privatisation. As a consequence of the mixture of political and economic considerations numerous people was entitled to buy land for vouchers, who had not any relation to the agricultural production. This situation has created further tensions. E.g. however the owners of the granges (detached farms) had the pre-emptive right to buy the land around the granges, they often had too few money to buy these lands; so the domicile of land owners and their land were separated. (2) The wantonly liberal regulation of the secondary market of vouchers has give a practically unlimited freedom for the manipulation with these securities. It was often the case, that the vouchers were bought up by some speculators from the agricultural workers for cheap money, and were invested into land-buying not for agricultural production, but for capital accumulation, calculating on a prospective land market around the larger cities. (3) The value of the vouchers continuously changed, and the process of compensation was a rather long one, from 1990 to 1995. That's why if somebody got his or hers voucher in an earlier wave of compensation, had a much better possibility than the compensated, who got its voucher in a later stage of the process of compensation. (4) As a consequence of the privatisation, the number of holdings has increased drastically, and the average size of the parcels has decreased.

As a summary it can be stated, that the privatisations resulted a dual structure of agriculture: on one hand there is a fragmented structure from point of view of agricultural enterprises and the parcels, on the other hand there are large-scale economic entities, partially the transformed co-operatives and the economic enterprises in different forms.

Table 1 **The economic structure of Hungarian agriculture**

Size categories according to the area of land (ha)	Number of economic entities	Share(%)	Area (ha)	Share (%)	Average size
	Households with agricultural activity				
0-10.0	874034	94.51	890590	34.07	1.02
10.1-50.0	43630	4.72	916730	35.07	21.01
50.1-100.0	4653	0.50	324920	12.43	69.83
100.1-300.0	2219	0.24	360209	13.78	162.33
>300.0	249	0.03	121551	4.65	488.15
Sum	924785	100.00	2614000	100.00	2.82
	Economic partnerships				
0-10.0	787	14.60	3067	0.08	3.89
10.1-50.0	1356	25.15	40640	1.06	29.97
50.1-100.0	593	11.00	45625	1.19	76.94
100.1-300.0	1101	20.42	232724	6.07	211.37
>300.0	1555	28.84	3511944	91.60	2258.48
Sum	5392	100	3834000	100	711.05

Source: Central Statistical Office, 2003

At the same time, the technical infrastructure did not changed: as a consequence, the utilization of the large-scale machines has worsened considerably, and on the other side, the specific cost of agricultural works (e.g. tillage) increased. The new owners often had neither professional knowledge, nor financial resources for the adequate water resource management. As a consequence, in the extreme years of the millennium the draw and/or the internal waters has been causing a constant problem. (5) The privatisation of movable properties was even more chaotic, than in case of the land privatization. In many cases the new owners of the machines were the managers of the cooperatives, who had the possibility to manipulate the evaluation and registration of these agricultural machines. (6) The land-shortage has been an increasing problem during the privatisation, because of the newer and newer waves of compensation there was an increasing in the aggregate demand for land by vouchers. Under this pressure the government decided to utilize lands in natural protection areas too, without any specific restriction for the new owners from point of view of the applicable agro technology.

As a summary it can be stated, that the land privatisation has created at least as much problems and contradictions, as much it was intended to solve. The separation of the land ownership and land –utilization further worsened the financial position of the agricultural enterprises, because there is not any security for that the new land owners will re-invest the rent into the agricultural production.

2.2 THE PRIVATISATION OF THE FOOD INDUSTRY

The privatisation of Hungarian food industrial enterprises has been a difficult process. At the beginning of the transition there were ambitious plans to form a "national" stratum of entrepreneurs, but at the middle of nineties it became obvious, that the only way of increasing of the involvement of foreign capital is the involvement of the foreign direct investment (FDI).

Contrary to the previous expectations, the foreign investors showed interest in the first place for industries (1)with a safe home market (e.g. tobacco industry),(2)single product lines (e.g. sugar industry), (3)standard technology (e.g. starch industry) and (4)mono- or oligopolistic position (e.g. brewery industry).

During the process of privatisation three main strategy-types could be determined in the Hungarian food industry (1) the management does practically nothing, waits for possible ownership or market changes. In this case bankruptcy is practically unavoidable. In some enterprises the passivity of management resulted in a "meting away" of the material resources of the firm, (2) the firm focuses on the domestic market, often with intensive product and/or process innovation. This strategy could be only a short-term solution, because the home market is approaching the saturation level,(3) the management tries to take an active part in privatisation and - using existing connections with possible investors - does everything to stabilise the market positions of the firm.

It has been generally held that the concentration of Hungarian food industry is excessive; the Hungarian food industrial companies are "overweight" and privatisation and concentration go hand in hand. Relying on Hungarian and international experience neither of these statement proves to be true. A closer examination of the rate of concentration of food industrial firms shows that the degree of concentration in the Hungarian food industry is not much higher than in developed European states, and the concentration shows considerable variation according to sectors. The comparative analysis of concentration ratios for the five largest food companies in the UK, Germany and Hungary, shows that the statements concerning the "extremely high" rate of concentration in the Hungarian food industry are not true.

Since market forces, and not central planning have led to a highly concentrated food industry in the UK and Germany, the current prevailing wisdom in every former COMECON state, that `small is beautiful` and economically efficient is not borne out by experience. It can be stated, that some classes of food industry products are more prone to be produced by concentrated producers. This is the case, for example, in industries which (1) are easily mechanised and automated (e.g. sugar beet processing, vegetable oil industry, brewing industry) (2) innovation- and research- intensive (e.g. biotechnology, yeast and starch processing) (3)need intensive marketing activity (e.g. tobacco industry)

Industries oriented to satisfying local demands (e.g. baking industry) or to producing specialities (e.g. wine making) seem to be less concentrated.

***Table 2* Structure of Hungarian food industry**

Turnover (1000 €)	Distribution of turnover(%)	Distribution of number of enterprises (%)
<400	3.17	77.3
400.1-2000	6.7	12.84
2000.1-4000	6.67	3.04
4000.1-12000	12.81	0.88
12000.1-24000	12.05	1.18
24000.1-40000	17.87	0.93
>40000	40.73	3.83

Source: Hungarian Food Processors' Organisation

Number of employed	**Number of enterprises**	**Distribution of number of enterprises (%)**
<11	7438	85.5
11-20	468	5.3
21-50	395	4.6
51-300	287	3.4
>300	108	1.2
Sum	8696	100

Source: Hungarian Food Processors' Organisation

***Table 3* Comparison The size structure of food industry in EU and in Hungary**

Number of employed	Distribution of number of enterprises (%) in EU	Distribution of number of enterprises (%) in Hungary
<20	92.4	90.8
20-99	6	7
>100	1.7	2.2

Source: Hungarian Food Processors' Organisation

The dominant position of a relatively small number of absolutely large firms in Hungarian food industry is of especial significance when considering the joining to European Union. In an economy characterised by a high level of overall concentration the special position of the larger firms in product and factor markets constitutes a major competitive advantage of great economic significance.

In the ranking of the 100 biggest Hungarian food industrial companies, 97 are multinationals.

As a summary of this analysis of concentration in the food industry it seems to be inadequate to believe that the small- and medium- scale processors are capable of taking an active part in international economic competition in most sectors of the food industry. The only way to create a balance of forces between agricultural producers and food processors is the establishment of a modern institutional environment (effective product councils), legal basis (enforcement of Competition Law) and economic conditions (the majority of subsidies - e.g. export subsidies - should be given to agricultural producers, not to food processors, and the diffusion of latest results of R+D activity should be promoted to the small- and middle scale processors).

A summary, the FDI did not solve the strategic problems of the food industry. In opinion of managers of the foreign companies the Hungarian system of regulation is bureaucratic, and the tax –burdens are rather high. That's why in numerous cases the production capacities were re-allocated into another Central-or Eastern European states, first of all into Slovakia and Poland.

Some domestic investors could get ownership in the food industry for a relatively cheap price, but after some years it became obvious, that they have not enough financial resources for the technological modernisation and marketing. The lack of revolving capital is an especially important problems for these enterprises. In numerous cases these enterprises have tight relations with the illegal trade, without any payment of value added tax. This phenomenon was an especially important problem in middle of nineties. The illegal trade and the wine falsification deteriorated the image of a considerable part of the Hungarian Great Plain, as a wine growing area. According to the experts' estimation the share of illegal turnover in wine industry even today is 15-20%, in poultry processing industry 15%.

3. DRIFTING AND STRATEGIC PLANNING IN FOOD CHAIN

3.1 THE STRATEGY OF DIFFERENT GOVERNMENTS

The different Hungarian governments after the system-change have committed numerous errors in agricultural policy. The most important, common strategic errors were as follows: (1) Under-estimation of the financial resources, needed for the reconstruction of the agriculture. It is worth to mention, that after the German re-unification even the German government has not enough money to form family-owned agricultural enterprises from the former, specialized co-operatives and state farms. (2) There was not a straight policy line from point of view of development of co-operatives. During the nineties the most important, unsettled questions of the legislation on agricultural cooperatives were as follows: (a) the land-ownership right of co-operatives; (b) the ownership-position of former members of the co-operatives; (c) the differentiation between the rights of active (actual) members of co-operative and the rights of former members. (3)The different Hungarian government has not any well- defined policy in field of the ownership of foreigner persons. The majority of Hungarian agricultural economists has the opinion, that the liberalization of the land buying by the foreigners, could cause an increasing agricultural unemployment, because the Hungarian land prices are 10-15% of the prices in a Western-European country, and there is a real threat of foreign buying up of the Hungarian land. The minority of economists had been arguing, that the most important problem of the Hungarian agriculture is the low level of capital and the land-owners badly need credit. There is only a limited purchasing power for the land, that's why the increasing of the land –demand could increase the land –prices too. In case of the low land-prices there is no possibility for the involvement of the bank –credit into the agricultural production, because the banks are reluctant to accept the agricultural land as collateral. That's why the animation of the land –market could contribute to the attenuation of financial problems of the agricultural enterprises, too. (4) The fragmented agricultural producers, struggling for the survival had neither energy, nor experience to organize themselves with purpose of the articulated representation of their interests. There has been a proliferation of the peasant organizations, but in reality there has not been any support behind these organizations. Under these conditions the different Hungarian political parties were able to manipulate the influential circles of these organizations with purpose of the maximalisation of votes for the minimal expense. (5) The concept of the co-operation has been corrupted among the agricultural entrepreneurs, who exited from the co-operatives, however there are numerous activities, joining to the agricultural production, in which the collective efforts are necessary preconditions of the market success. The most important such type activities are: (a) common procuration (b) collective marketing and selling (c) joint utilization of infrastructure, e.g. storage or drying facilities. These organizations play an especially important role in the agriculture of the European Union, e.g. in the sphere of fresh fruits and vegetables the existence of these organization is a necessary precondition of the obtaining of financial supports. The legislation has formed the legal framework of these organizations in a rather late period. The promotion for the organization of co-operatives was weak and fade.

As a consequence of the processes mentioned above, the production of the Hungarian agriculture has decreased sharply, the livestock number has achieved a historic minimum, the yields has fallen on the level of 70's.

This low level of production was a difficulty in the negotiations on Hungarian accession to the EU, because the Hungarian delegates had to prove, that in the past decade the production of the agriculture had been much more higher, than in the second half of the nineties.

The territory of plantation cultures has shrunken extremely intensively. In 1980 the wine growing area was 130 thousand ha, twenty five years later 78 thousand ha only. In this case the EU regulation does not allow any increasing of the current territory.

In negotiations with the EU, the Hungarian government –deffering to the other join in countries- emphasised the importance of the direct-payment systems, and the regional development got a lower level of subsidies. According to the opinion of some experts, this is a result of the interest-groups of large-scale producers. It is hard to discute, that under these conditions there is a high risk of fragmentation of financial resources.

Table 4

Countries	EU Resources (Million Euro)			Agric. land (1000 ha)	EU Resources (Million Euro)			Ration between the two pillars (%)	
	Pillar[1] 1	Pillar[2] 2	Sum		Pillar[1] 1	Pillar[2] 2	Sum	Pillar[1] 1	Pillar[2] 2
Poland	2094	2543	4637	18443	113,5	137,9	251,4	45	55
Hungary	949	534	1483	6193	153,2	86,2	239,5	64	36
Czechia	638	482	1120	4280	149,1	112,6	261,7	57	43
Lithuania	291	434	725	3496	83,2	124,1	207,4	40	60
Slovakia	275	352	627	2444	112,5	144,0	256,5	44	56
Slovenia	152	250	402	780	194,9	320,5	515,4	38	62

Lithuania	110	291	401	2488	44,2	117,0	161,2	27	73
Estonia	120	134	254	1434	83,7	93,4	177,1	47	53
Cyprus	48	66	114	526	91,3	125,5	216,7	42	58
Malta	5	24	29	120	41,7	200,0	241,7	17	83
Sum/Average	**4682**	**5110**	**9792**	**40204**	**116,5**	**127,1**	**243,6**	**48**	**52**

1: Direct payments and interventions= Subsidies, joint to the production
2: Resources for the regional development
Source: Ángyán, 2003, The strategic directions of agricultural entrepreneurs

The strategies of agricultural entrepreneurs have been evaluated by a system of questionnaires. By a combination of cluster-and factor analysis four characteristic groups could be identified.

Table 5 **Main characteristics of clusters of entrepreneurs**

	clusters of agricultural enterprises "quality- oriented"	"adaptive"	"expander"	"thrifty"
character of the enterprise	full-time farmer 60%	• full-time farmer – 30% • part-time farmer 70 %	• full-time farmer – 60%	• part-time farmer–70 %
Qualification	mainly at least high school	• finished elementary school or below 50 % • skilled worker 40 % • high school 30 % • college, university 10 %	• at least high school –75%	• finished elementary school or below -40 % • skilled worker –30 % • high school –20% • high school –10 %
motivations at the beginning of the enterprise	• family traditions • utilisation of land re-privatised for vouchers • profitability	• unemployment or threat of it	• expectation of favourable market conditions for agricultural products • family traditions	• additional income • possibility for joint work in the family
utilisation of external resources	• bank-credit, central support of agricultural production	• financial or physical support from family	• bank-credit, central support of agricultural production	• no utilisation of external financial means
main way of development	• special, niche products • image building of Hungarian agriculture and the region of production • increasing of professional knowledge of agricultural entrepreneurs	• product diversification, • co-operatives for joint procurement of input materials, product marketing and/or machine- utilisation	• increasing of territory and/or livestock of enterprise, • reduction of production cost	• reduction of production cost, • improvement of bargaining position of agricultural producers in process of marketing, • state owned food – industrial enterprises should be given to agricultural enterprises • specialisation for one product and / or one market segment,
less important (perspective) ways of development	• lower agricultural prices • using cheaper production technologies	• specialisation for one product and/or one market segment	• specialisation for one product and/or one market segment	• utilisation of methods of sustainable agriculture • special, niche products
main problems	• it is hard to get bank-credit • erratic market conditions • no premium for better quality • bureaucracy	• high input prices	• overproduction • it is hard to get bank- credit • high cost of living labour	• too high quality demand on the market • high input- prices • erratic market conditions
most likely utilisation of possible additional income	development of his (her) enterprise, joining agricultural production (e.g. food processing, post- harvest technology)	development of agricultural enterprise	buying of land and/or animals	buying of blue-chip or secured bonds

has the entrepreneur any agricultural insurance?	yes -87 %	no - 64 %	yes - 68 %	no – 82 %
plans for development of agricultural enterprise	establishment of plantations • increasing the livestock number • building of agricultural buildings • food processing • buying new machines and equipment	• modification of production structure	• increasing the agricultural land and livestock number	• 82 % do not plan any further development
the type of knowledge, most necessary for running of the enterprise	corporate finance and taxation banking services and marketing			
sources of increasing professional knowledge	subscribing to books and journals	journals	books and journals	TV broadcast

The most important question of the current Hungarian agricultural policy, what to do with the high number of agricultural producers, who are to small to be effective, but do not want to co-operate which each other. At the same time, they are strong enough to create market –turbulences. This category of producers is a traditional woting –base of left wing parties, that's why the handling of this question has far-reaching political consequences too. The analysis of enterprises has been made by a series of questionnaires.

3.2. STRATEGIES OF FOOD INDUSTRIAL ENTERPRISES

The Hungarian entreprises differ from each other according to their size and ownership. The capital-allowance is much more greater problems for enterprises in Hungarian ownership, that's why it seems to be useful to analyse separately from each other these two groups of enterprises.

3.2.1 STATATEGIES OF SMALL- AND MIDDLE SCALE ENTERPRISES IN HUNGARIAN OWNERSHIP

In the case of enterprises grouped in cluster 1, the most important emphasis was laid on satisfaction of demand of local consumers, by conventional, cheap products and production methods, by better utilisation of technical resources and improvement of technology. These enterprises utilise a direct-delivery to retailers, that's why firms in this cluster lay a specific emphasis on good relations with these entrepreneurs. It is worthwhile to mention, that although these enterprises consider the good image of the given region and of Hungarian agriculture as a whole as an important source of success, they do not accept the importance of collective marketing activity of food manufacturers. These enterprises follow a rather defensive strategy: they do not increase their scope of activity, neither do they increase their field of activity in a geographical sense. Enterprises in this cluster assign little importance to product development. These firms often operate on the minimum level of technology, satisfying only the minimal hygienic and technological standards, that's why these firms consider the good relations with local municipalities and government official organs as a necessary precondition for further survival. These firms are generally micro –enterprises, working mainly in baking, meat processing and in canning industry. Their main scope of activity is the village or one part of a town, that's why they do not plan to increase their geographical scope of activity. They do not plan to increase exports.

The strategy of members of cluster 2 is similar to the strategy of members of cluster 1, but these firms lay more emphasis on product quality and marketing. They want to achieve a market-leader position in the region, laying greater weight on product and technology development and better utilisation of resources. These enterprises sell their products not only to retailers, but also to wholesalers, that's why they attribute greater importance to building up better relations with wholesalers. This is a strategy of development-oriented small and middle scale enterprises, oriented on satisfaction of local and-or specific demand. For these firms the regional and country wide dimension in marketing strategy is more important than for firms in cluster 1. The main competitive edge of these enterprises is the upgrading of the logistical system on the purchasing and distribution side too. Enterprises in this cluster are operating mainly in the meat processing, bakery, wine-making, distillery and brewery industries.

Members of cluster 3 follow a quality and technology oriented strategy. This strategy includes better product quality and improvement of various inputs of production. These firms are processing agricultural or horticultural raw material These enterprises utilise the favourable image of the firm and the region. This is the strategy pattern of small and middle scale enterprises, which are increasing their efficiency by technical and technological improvements and continuous technological and technical development, as well as product innovation. These firms are often confronted with problems of unsatisfactory information and logistical systems, that's why they consider the improvement in these areas as a key factor of further development. These firms are working mainly in the canning, wine making and milling industry.

The members of cluster 4 are middle-or large scale enterprises, following an expansion oriented strategy. For them the market share in their immediate surrounding is of secondary importance, because they want to achieve a high market share in Hungary or in Central and Eastern Europe. They consider the low price strategy as unacceptable, because they are afraid of competition and at the same time there is a danger that the consumers will consider the products as low quality. These firms try to increase their market share by improvement of their distribution network and promotional activity. For these firms the market and marketing orientation is a key factor of success. The relative importance of export markets is more important for members of this cluster than for other enterprises.

3.2.2 STRATEGIC GROUPS OF MULTINATIONAL ENTERPRISES

For firms grouped in cluster 1 the most important hindrance to development is the high price of machines. The scope of activity of these firms is rather narrow in the geographical and technological sense, that's why they often do not meet with problems which are much more important for firms operating on a wider field of activity. The satisfaction of technological and hygienic regulations is a rather difficult task for firms in this cluster. Interestingly, these firms often do not have enough know-how and market intelligence, but they do not consider it as a problem yet.

Firms in cluster 2 are facing the same problems as firms in cluster 1, but at the same time for them the business practice of multinational firms and the purchasing strategy of commercial enterprises presents a practical problem. These companies often meet with difficult regulation system in practice. The reluctance of consumers to pay for products of higher quality is a current problem, but even these firms have not recognised the importance of market formation yet.

For technology-oriented firms the most important problems are the lack of capital for modernisation and the high price of machines. For these mainly considerably innovative firms, the low level of paying demand is an effective hindrance to development. These firms often process agricultural raw material, that's why the uneven quality of agricultural products represents an effective problem. These firms follow a differentiated strategy by production of specific products. The markets of these products are rather stable, that's why the market fluctuation is a question of secondary importance for these firms.

For middle scale enterprises aiming to increase their activity, the involvement of additional financial resources is an important problem.

Searching for a sustainable strategy

As a consequence of processes, depicted above the Hungarian government has to work out and consequently realise a long -term strategy. This needs much more courage, than it has been seen during the last one and a half decade, because one can be sure, that this won't go without the damages of some groups of interest.

The possible most important pillars of this strategy could be as follows.

1. Promotion of land –concentration, early retirement, cooperation, and sustainable agriculture in sphere of agricultural production.

2. Building up an effective quality and food safety control network.

3. To defend more intensively the interests of food producers against the abuse of economic superiority from side of large-scale retail chains.

4. In foreign market policy to concentrate more intensively on Central-and Eastern European markets, because these market segments seem to be the most perspective ones for Hungarian products.

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