

Vertical Coordination in Central and East-European Countries: Status Quo and Outlook

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“Vertical coordination is more important and more widespread in the transition countries of Europe and Central Asia than generally recognized.”

Swinnen (2006)

- Relationship breakdown along the whole food chain in CEEC in the transition period
- Vertical coordination → coordination of each link in the food chain to overcome problems of supply and quality
- Driving forces → end consumer requirements, demand for inter-firm trust, quality aspects, etc.
- Chain-wide concept needed, i.e., chain quality management

Problem

- Vertical coordination and the resulting managerial challenges can be viewed as one of the most relevant challenges for enterprises which are or want to be active in Central and Eastern Europe

Objectives

- Outline the extent and relevance of vertical coordination in CEEC
- Outline future challenges regarding vertical coordination in CEEC

Improvement of the consumers' requirements

The development of modern retail forms (supermarkets, hypermarkets and cash & carry)

Ca. 15 % in total retail turnover

Of these, 49.4 % belong to top five retailers

18.7 % of total FDI

Processing sector

19.5 % in Gross industrial output

13,000 – small enterprises

Consolidation in meat processing, milk processing, flour-milling and sunflower-seed processing

13.5 % of total FDI

Agriculture

13 % of GDP

6.5 thousand – SME

Households produce about 60 % of Gross agricultural output

2.7 % of total FDI

- Majority of transactions via price mechanism
- Contract breaching, poor contract enforcement
- Mistrust among supply chain actors
- Shortage of quality supplies

But:

- FDI increase
- Implementation of own business models by FDI

What is the status quo of vertical coordination?

What can be expected?

- Fifteen telephone interviews (from 15 to 30 min)
- Experts from:
 - **Retail** (purchasing directors, CEO in quality management)
 - **Food processing** (managing directors of a meat processing, beverage, dairy and confectionary companies)
 - **Agriculture** (managing directors of agricultural enterprises)
 - **Agricultural inputs** (supply chain manager of the agricultural machinery company)
 - **Non-governmental and research institutions** (managing directors of international standardization bodies, project manager of IFC, managing director of an international retail institute)

- Level of realization and understanding of chain management issues in agribusiness
- Cooperation mechanisms being used
- Existing solutions to coordination problems
- Use of known chain management concepts
- Quality management as a sub-strategy of chain management
- Characteristics of transition economies

Vertical coordination and chain quality addressed at first hand by FDI

- Installation of chain management practices to follow strategic framework
- Rolling-out of global IT-standards and supply chain management techniques
- Own quality control (GLOBALGAP, ISO 9000, HACCP) and distribution

Vertical coordination and chain quality by local agri-food companies

- Rare evidence of international quality standards
- Imitating strategies
- Branding in some sectors (e.g. milk processing)
- General cooperativeness and willingness to supply for well-known multinationals

Challenges for vertical coordination and chain management

- **Infrastructure** (scale inefficiencies, worsened communications, seldom used modern IT, low labor qualification, etc.)
- **Marketing** (lack of information about quality and quantity of supplies, etc.)
- **Quality** (low quality of supplies due to the lack of necessary inputs, expertise and know-how)
- **Trustful relationships** (mistrust to partners and institutions due to non-payments, weak contract enforcement, etc.)
- **Transaction costs** (high costs induced by search for reliable partners, etc.)
- **Financial and price aspects** (low access to bank loans, lack of liquidity, price disparities, etc.)

Expectations

- Formation of supply chain networks
- Strategic chain management frameworks as a pattern, not as a straightjacket
- Strong cost orientation of most enterprises
- Approaches to operative quality management will dominate the scene
- Importance of general cooperativeness

Thank you for your attention!