The Hungarian food economy after the EU accession

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The Hungarian food industry is the loser of the regime change and the EU accession

Volumen index: %

Name		Period	Production	Inland	Export
				realization	
Base year		1990	100,0	100,0	100,0
Periods of change	Years of privatization	1991-1996	-8,6	-7,6	-2,6
	Years following the EU accession	2004-2008	-16,9	-24,3	4,8
Last year of periods		2008	76,1	69,6	109,4

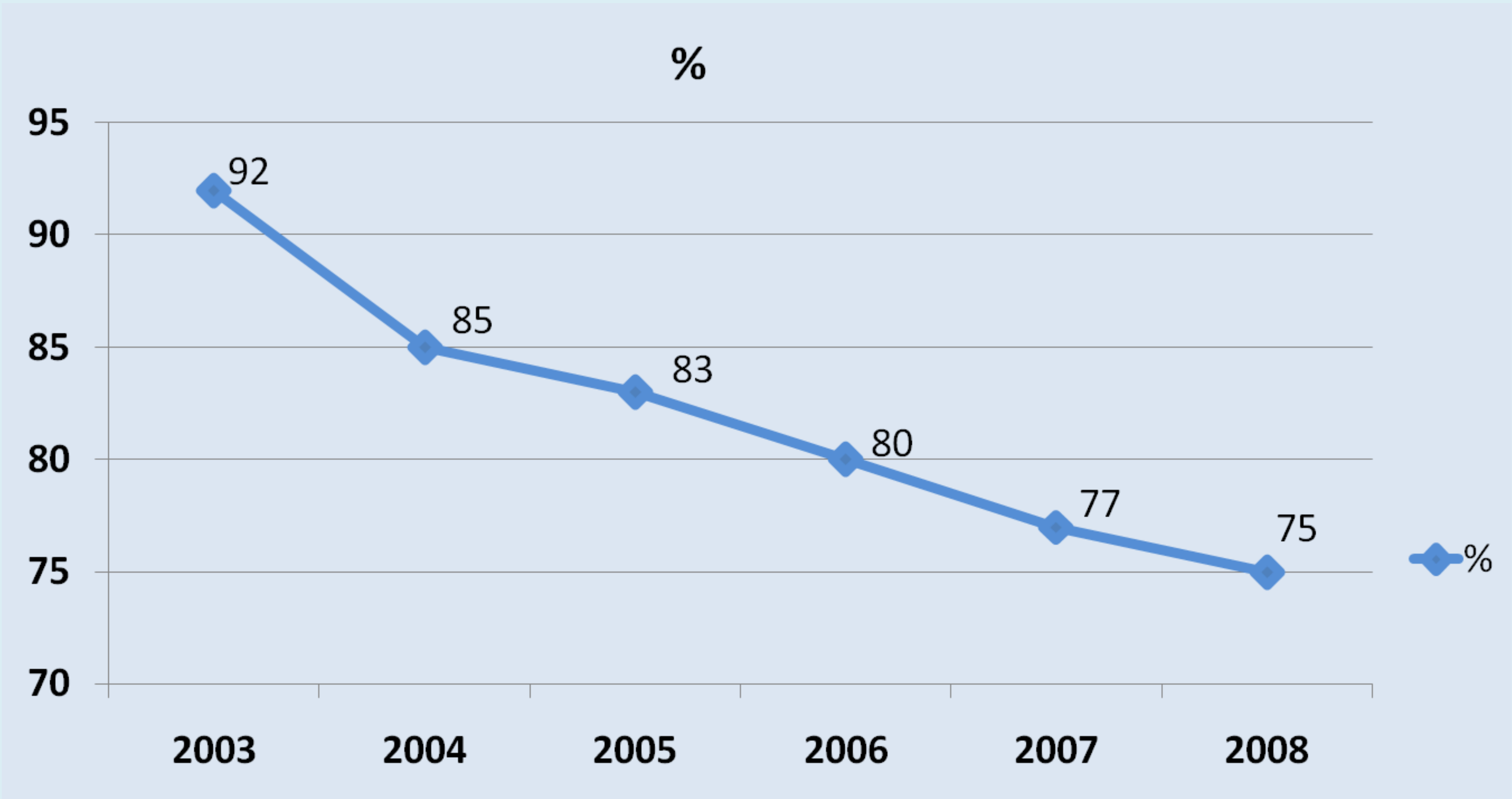
Forrás: Zsuzsa Folláth, ÉFOSZ, 2009

External trade of processed food in million €s

2003	Export	Import	Balance
Food economy in total	2 855	1 494	1 360
Out of total: processed food	2 134	1 187	947
Percentage of food industry products in %	74,8	79,4	-
2008			
Food economy in total	5 735	3 820	1 915
Out of total: processed food	3 264	2 990	274
Percentage of food industry products in %	57,0	78,2	-

Source: AKI, Budapest

The share of the Hungarian food economy from the Hungarian food market



Source: ÉFOSZ, Budapest

Changes after the EU accession

- Sharp competitive market immediately, instead of the former, well-protected inland market
- Overflow of food products that are cheaper than Hungarian ones but often of low quality
- Continuous reduction of production and loss of inland market share in almost all branches
- The import of processed food rose with a boom, while export grew only in modest amounts
- The import of agricultural raw materials tripled in five years (2003: 721mEURs, 2008: 2471mEURs)
- Loss of position with relation to raw material growers and retail trade (the double press)

Trade chains relations

- Retail chains in advantage (rapid decline of independent small shops, enter of the big discount chains (Lidl , Aldi)
- Net selling price below cost level
- Global purchasing (procurement companies)
  - CBA COOP, Tesco, METSPA(turnover: 2.0 – 2.5 bnEuro/year)
- Common action against them is punished with cartel charges by Office of Competition.
- „Grey” trade flourishes
- Sales of surplus supplies became permanent
- Private Labels underplay branded products
- Refunds (back bonuses) without service (30% and above, in spite of the code of good practice)
- Late payment and arbitrary reductions by the chains. Pressure for implicit deals (delisting threats)
- Creation, than refusal of the Food Code by the Office of Competition

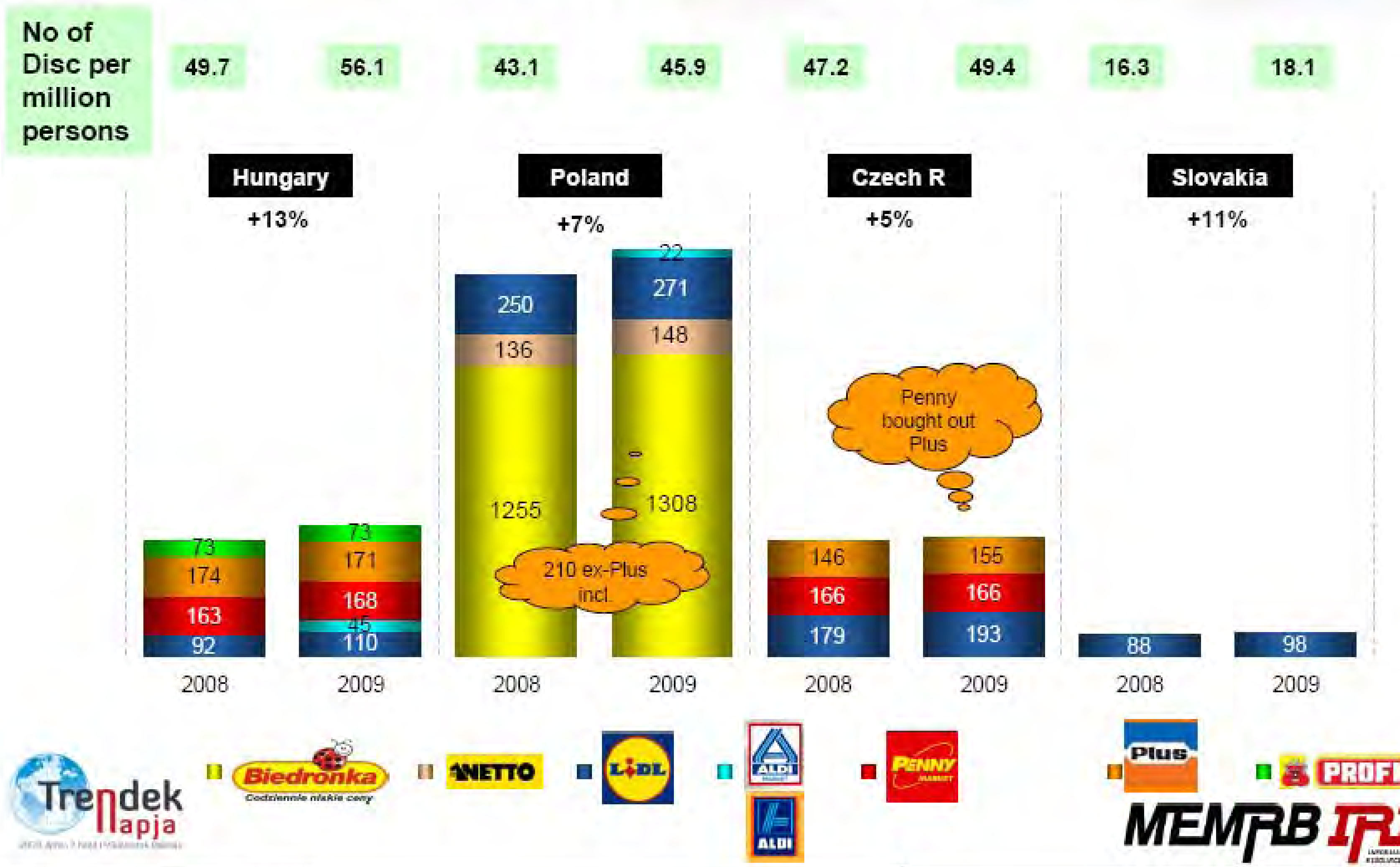
The food industry and the current economic and financial crisis

- Demand for the processed „branded” products is decreasing
- The loan capacity of banks is minimal also in the case of good clients
- Meat, poultry, milk and canned food industry in the verge of bankruptcy
- Government initiatives (human resource retention, government guarantee for bank loans) are insufficient
- The main problem:
  - Loans are irrationally expensive (15-18% interest / year), that a responsible food company will not accept if it has long-term prospects
  - Lack of capital and excessive indebtedness – a straight way towards bankruptcy

Possible ways to restore competitiveness

- A significant reduction of taxes and other state charges is a prerequisite for staying alive (currently: over 50%)
- Capital investment and inside reorganization at the Hungarian food companies is inevitable
- The companies have to discover their efficiency reserves
- New management techniques have to be applied:
- Switch to a more market-oriented production
- Professional marketing activity
- Cost-efficient production
- Conscious „brand name” management
- Conscious PL strategy: the manufacturers have created their own high-quality competitors under the egis of capacity efficiency. In the future they should distinguish the PL products and their branded products in product features as well.

Discounter channel development in CE



Trendek Napja

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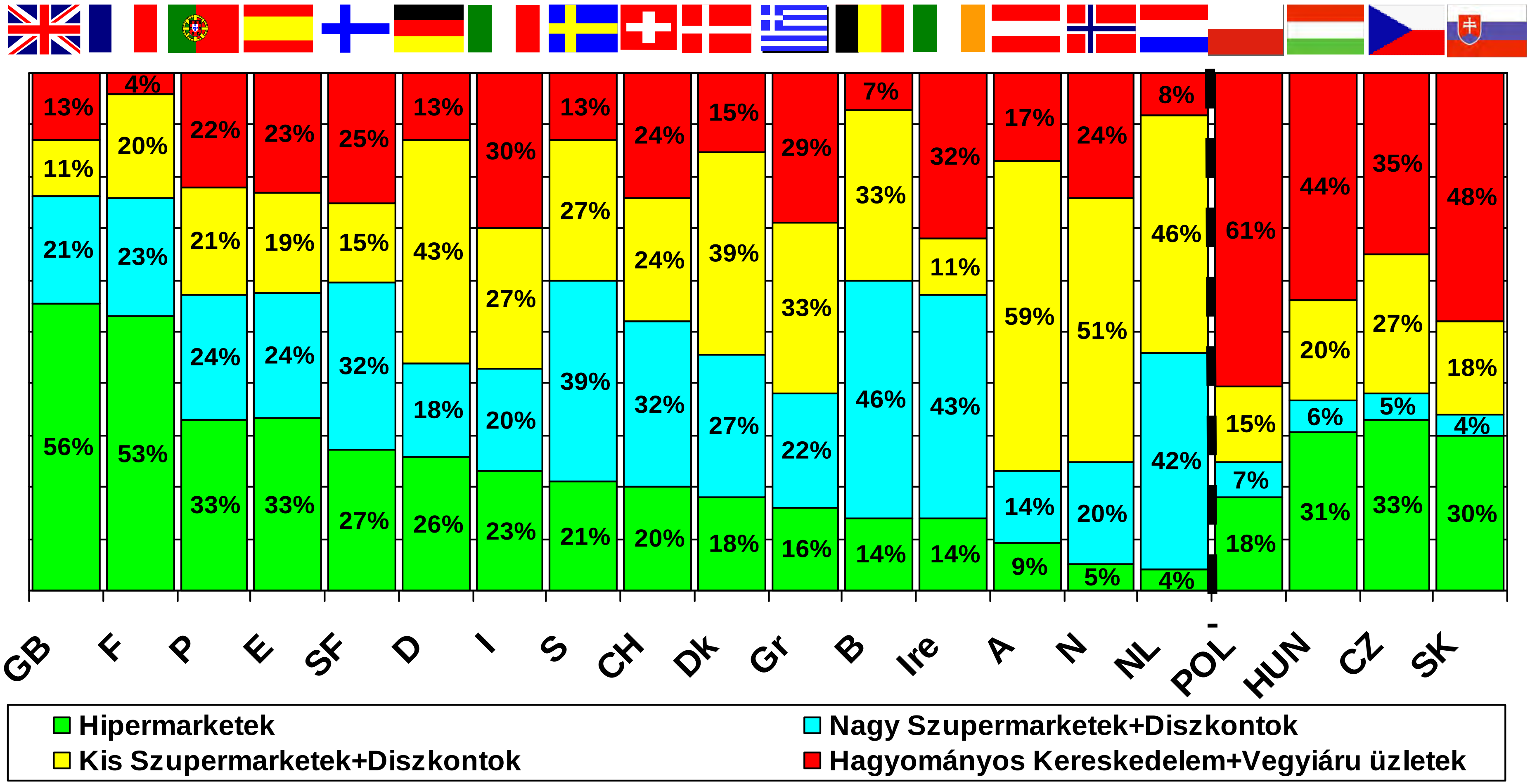
The European retail structure

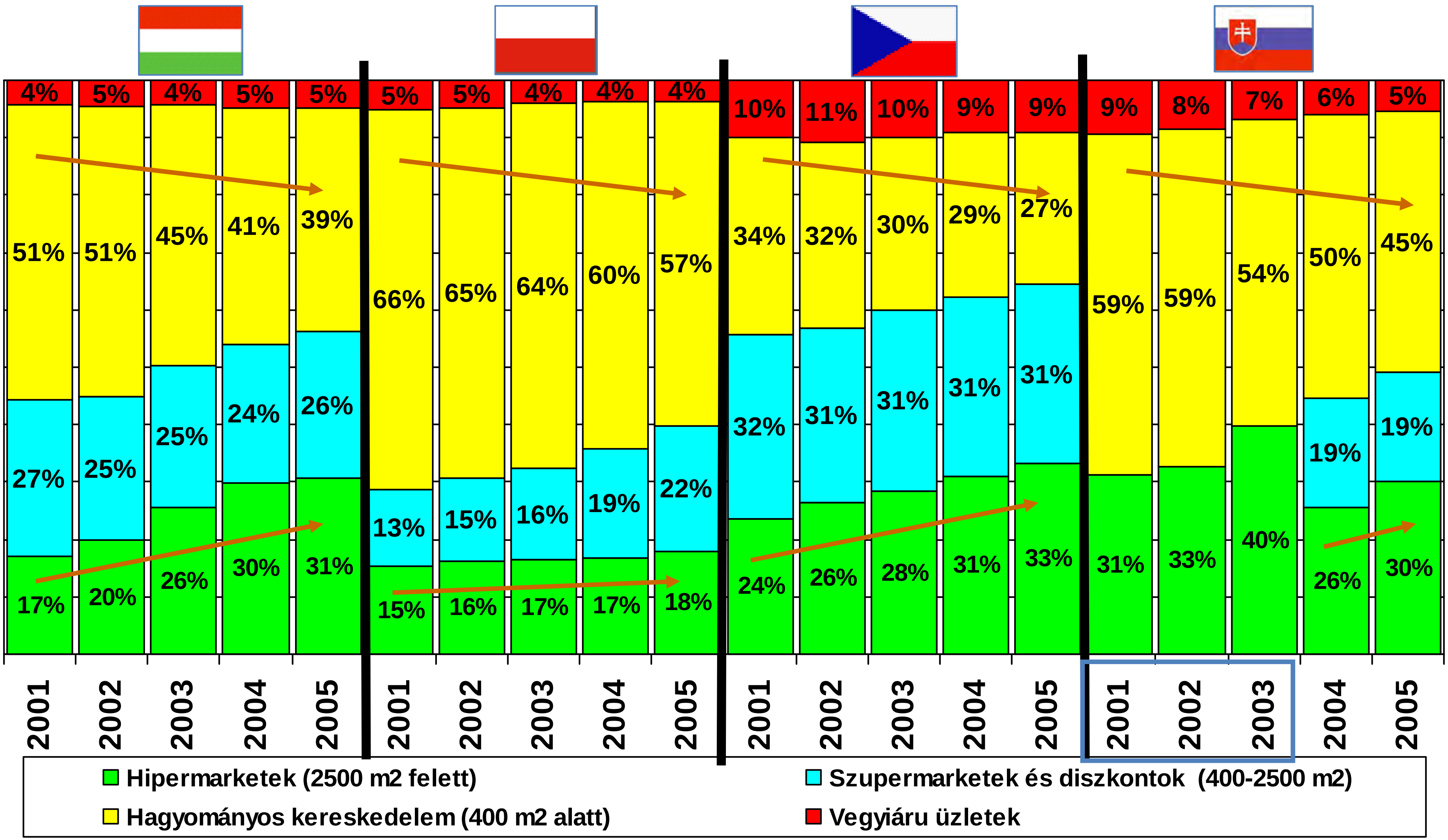
In % of sales



*A teljes auditált eladási érték részesedés és üzlet-méret megoszlás alapján (dohányáru nélkül)

The Central European Retail Structure

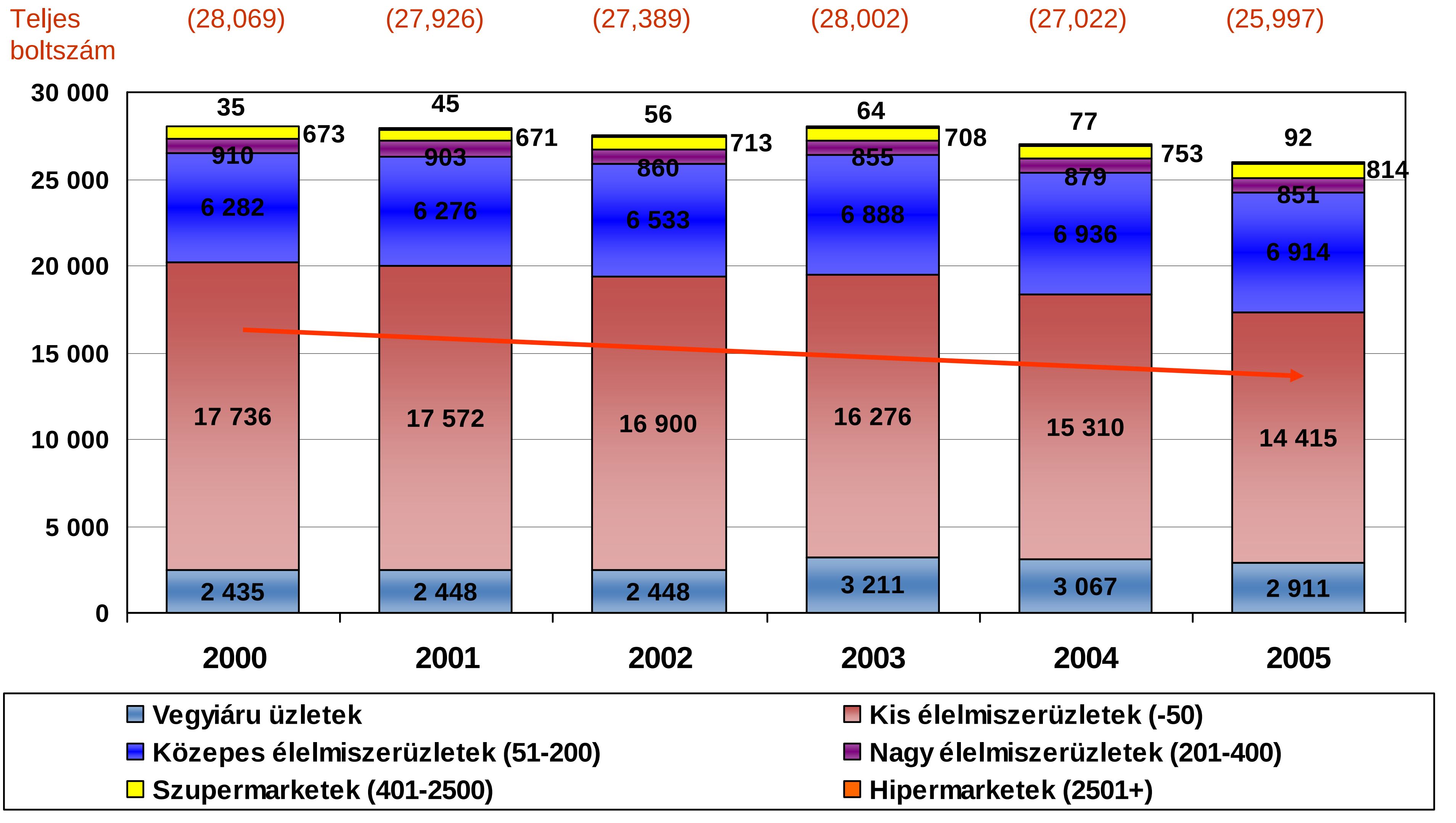
In% of sales



*A teljes auditált eladási érték részesedés és üzlet-méret megoszlás alapján (dohányáru nélkül)

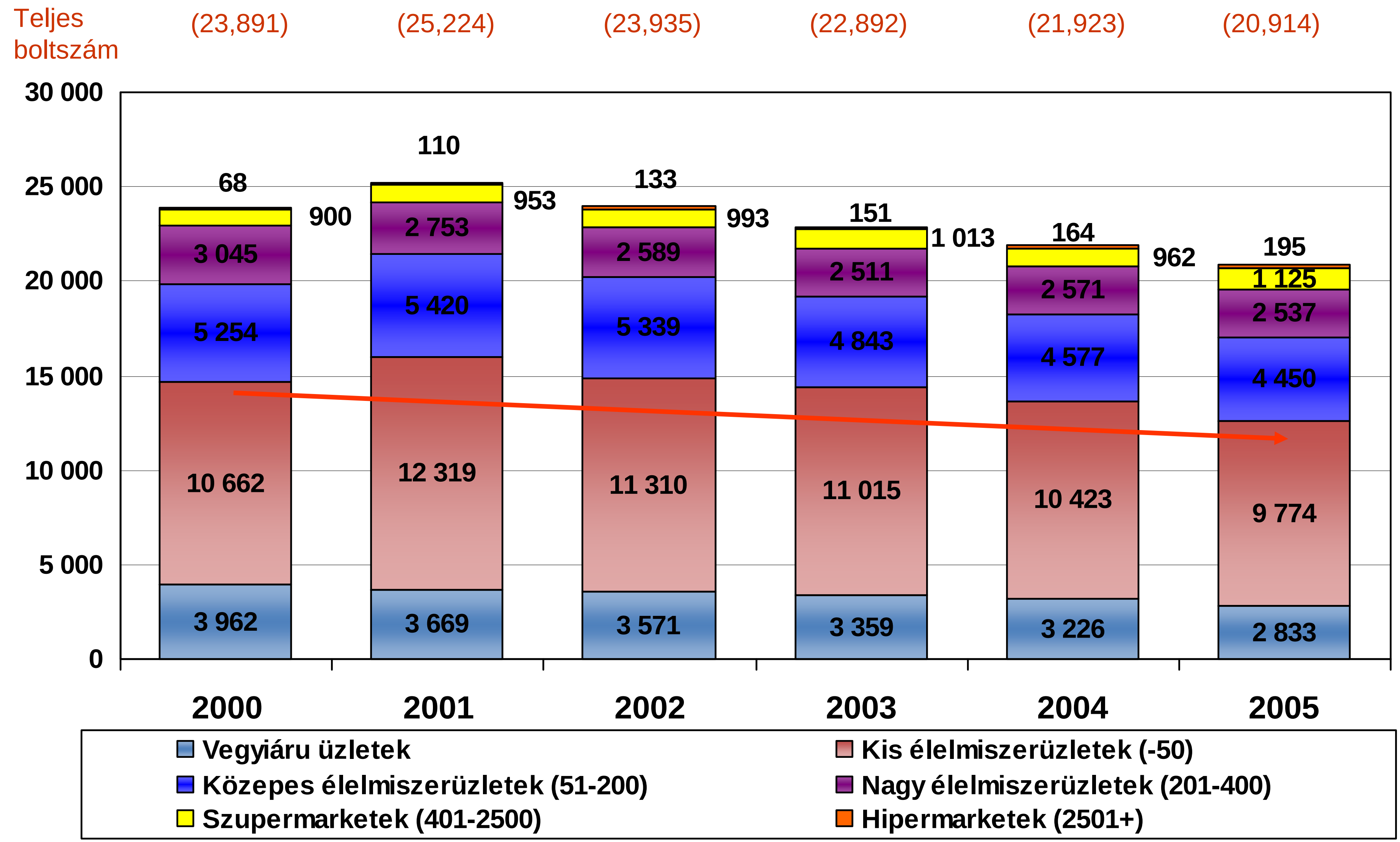
A hipermarketekre vonatkozó szlovák adatok 2001-2003-ig tartalmaznak minden 400 nm feletti üzletet.

Number of stores in Hungary



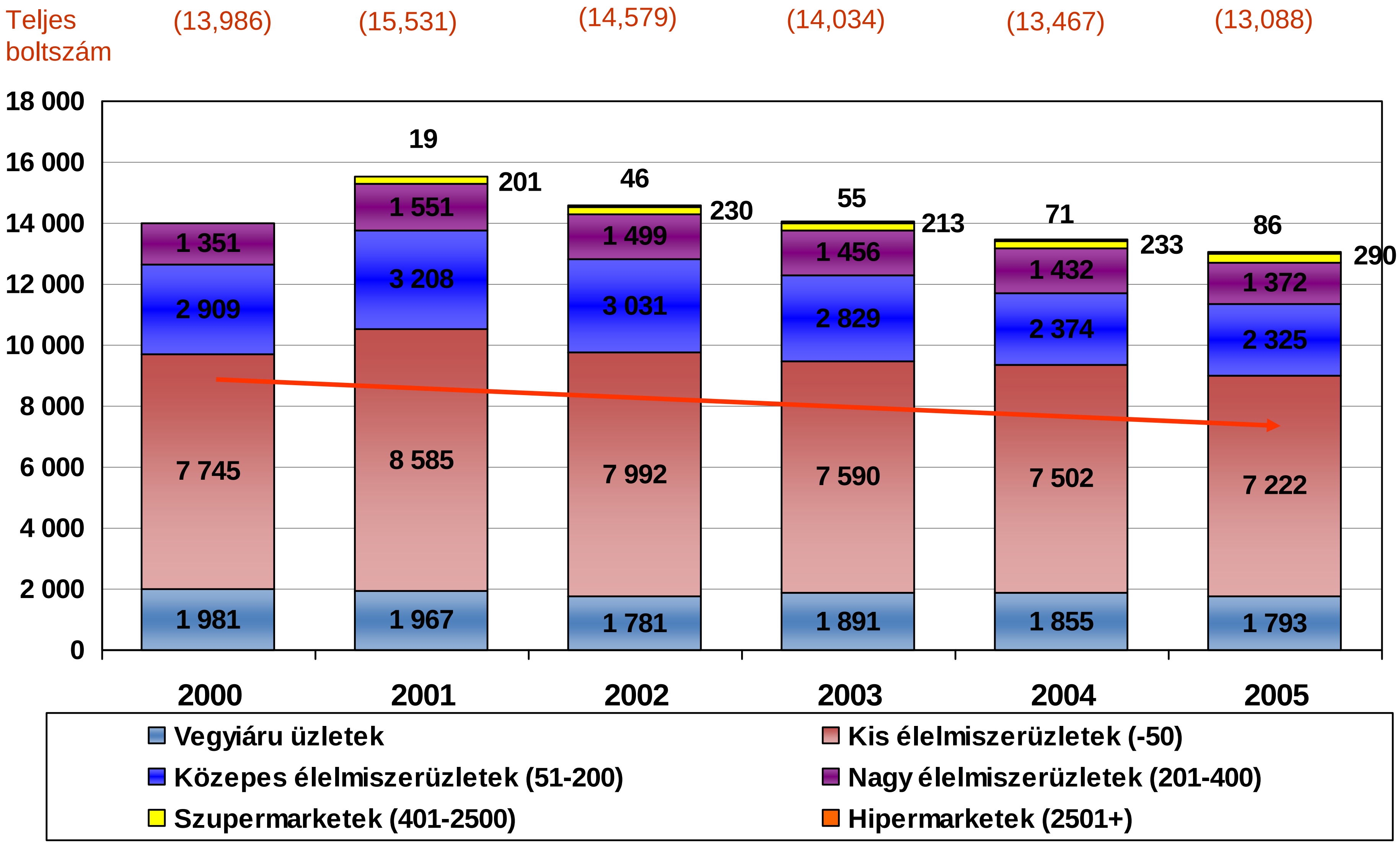
Forrás: ACNielsen Retail Audit

Number of stores in the Czech Republic



Forrás: ACNielsen Retail Audit

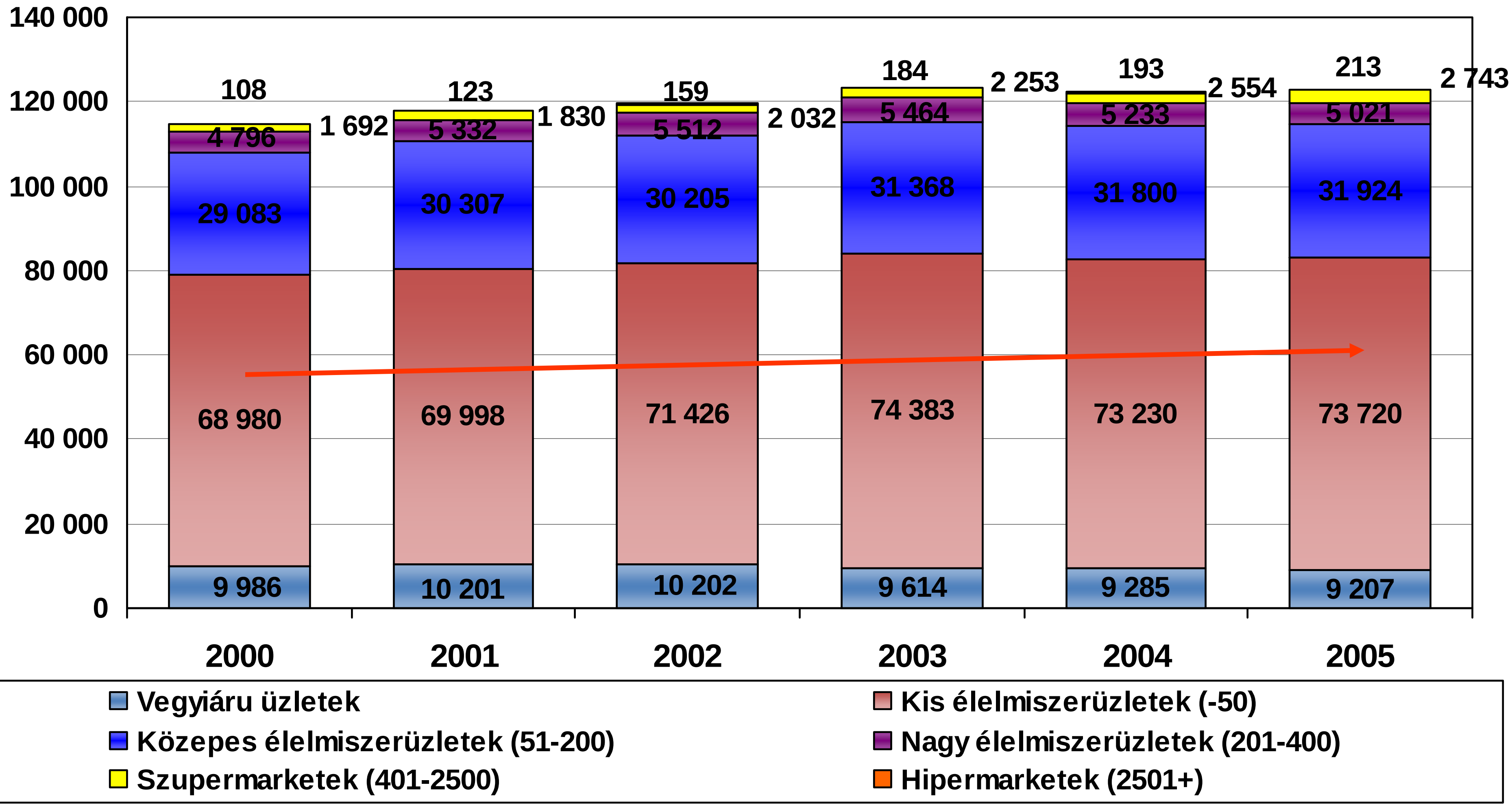
Number of stores in Slovakia



Forrás: ACNielsen Retail Audit

Number of stores in Poland

Teljes boltszám	(114,645)	(117,791)	(119,536)	(123,244)	(122,295)	(122,828)



Forrás: ACNielsen Retail Audit

Thank you for the attention