THE ROLE OF THE QUALITY ASSURANCE SYSTEMS IN THE HUNGARIAN FOOD INDUSTRY

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AKI

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Contents

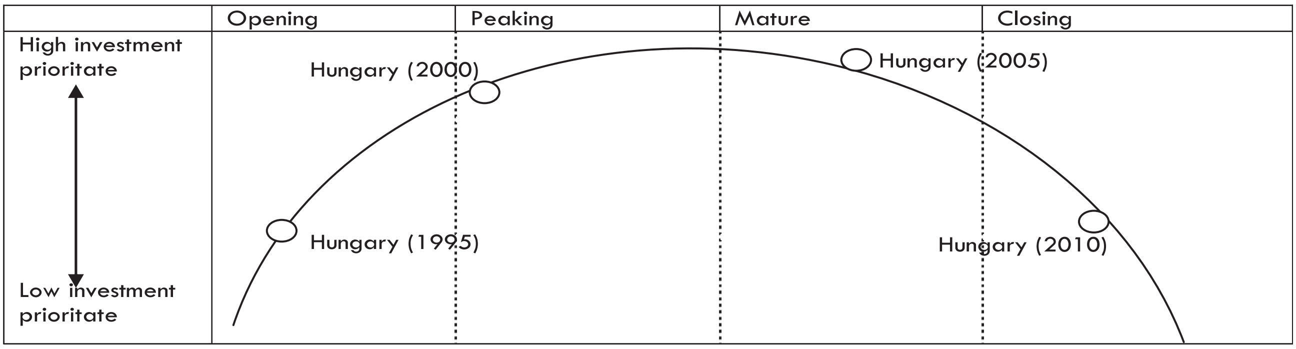
Food chain and quality

1.Product quality attribute categories from information economics perspective

	1. Search	2. Experience	3. Credence	4. Ethical („Potomkin”)
Examples of quality attributes	Fresshness Appearance	Taste, Shelf-life	Nutritional content, Safety	Animal welfare, Fair-trade
Way of information?	Before buying	After consumption	With product analyses	With process analyses
for whom?	For consumers		For controll bodies	
from what?	Internal product quality attributes		External process quality attributes Internal product quality attributes	
difficulty of?	Increasing information assymmetry between producers and consumer of the product			
How can information transmission be enhanced?	Price, Packaging-labelling, Promotion			
	Appropriate point of purchase	Word of mouth communication	Quality Assurance Schemes (QAS) Official inspections	QAS, Civil movements

Source: In: Juhász et al. [2010] own figure based on Jahn et al. [2004], Aust Sterns et al. [2001], Pollák – Tóth – Bánáti [2008]

2. FDI analysis of the Hungarian retail sector using Global Retail Development Index



Source: Own figure using A.T. Kearney [2010] method and data

Privatisation	Interim years	Accelerating competition	„Hard” times	Even harder times: crises
1989-1994	1995-1999	2000-2004	2005-2008	2009-
Number of independent small shops increase and the first FDI appear in the supermarket and cash & carry segment.	Increasing role of modern retail formats and development of retailers' power in the supply chain.	The dominance of hyper- and supermarkets form, independent shops join the domestic „franchise” chains (CBA, Coop) in masses. Slowly maturing market.	Number of shops (small independent) start to decrease. Hard-discounters appear as new competitors.	Rise of hard-discounters. Market redistribution: consolidation of CBA and Coop, first major acquisition of a post-transition chain (Plus).

3.Timeline of the Hungarian grocery retail sector and the effects on the supply chain

Privatisation (1989-1994)

- Good search and experience product attributes provided competitive advantage for suppliers.
- Consumers were hungry for new products after decades of limited assortment.
- There were no organized distribution networks of retailers.
- Retailers were forced to take on risk and vertical coordination tasks in the supply chain.

Interim years (1995-1999)

- Good search and experience attributes became general and minimum requirement for suppliers.
- Consumer demand for strong producer brands increased.
- Direct-to-shop or to a few regional distribution centre transport was required from suppliers.
- Import was still controlled by tariffs, even from the EU.

Accelerating competition (2000-2004)

- Good credence values (certified) became competitive advantage for suppliers.
- PL products started to gain market presence.
- Retailers' regional and country distribution centres were built, central procurement started.
- Tariff protection against imports from the EU-15 was decreasing.

„Hard” times (2005-2009)

- Good credence values became qualifying minimum, ethical values provide competitive advantage.
- PL products developed into segments and triumphed in consumer acceptance.
- Tariff-free trade with 24, then 26 European countries boosted imports.
- Centralized distribution centres and on-line procurement entered the supplier-retailer „game”.

Even harder: crises years (2009-)

- Affordable consumer prices became the centre of retail strategy, horizontal price war and PL penetration increased.

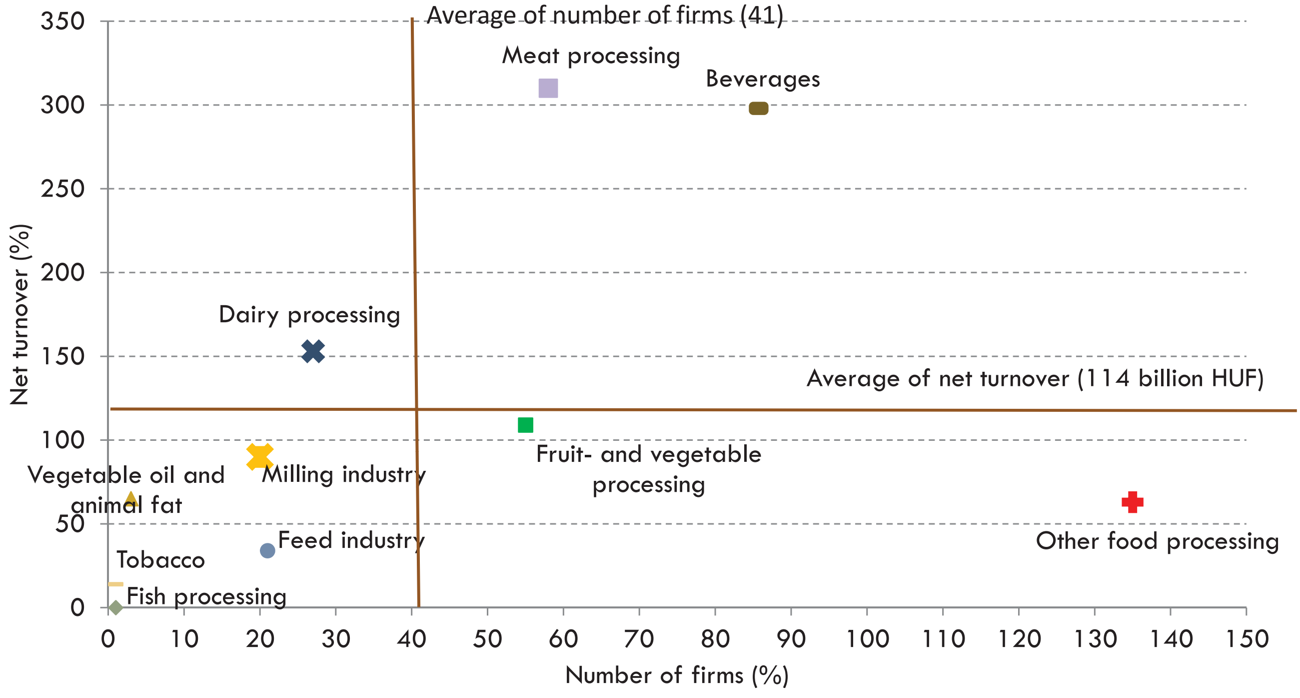
Source: Juhász et al. [2010]

Homepage analyses

4. Presence of Hungarian food processors on the internet

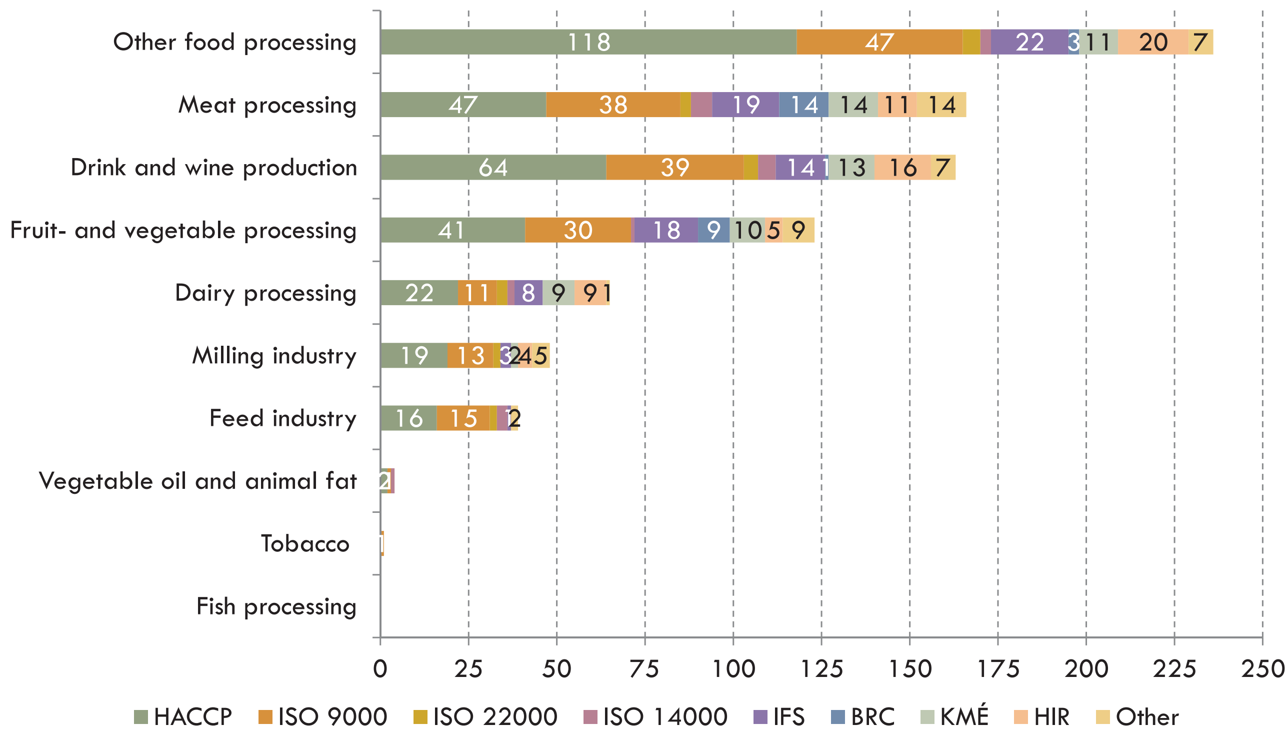
- According to our research based on the directory of food industrial firms of the year 2006-2007 from the registrated 5844 companies only 14% had webpage, but were responsible for 62% of the net sales.
- The number of companies publishing information on quality systems amounted to just 7% of the total number of enterprises, but they realised 46% of the revenues.
- We have collected altogether 869 mention of quality systems, relating to 18 systems, the highest number of systems at one company was 9.

5.Share of food processing firms with quality assurance system information on homepages



Source: Own figure based on Juhász et al. [2010]

6.Number of quality assurance systems mentioned on homapages of Hungarian food processors

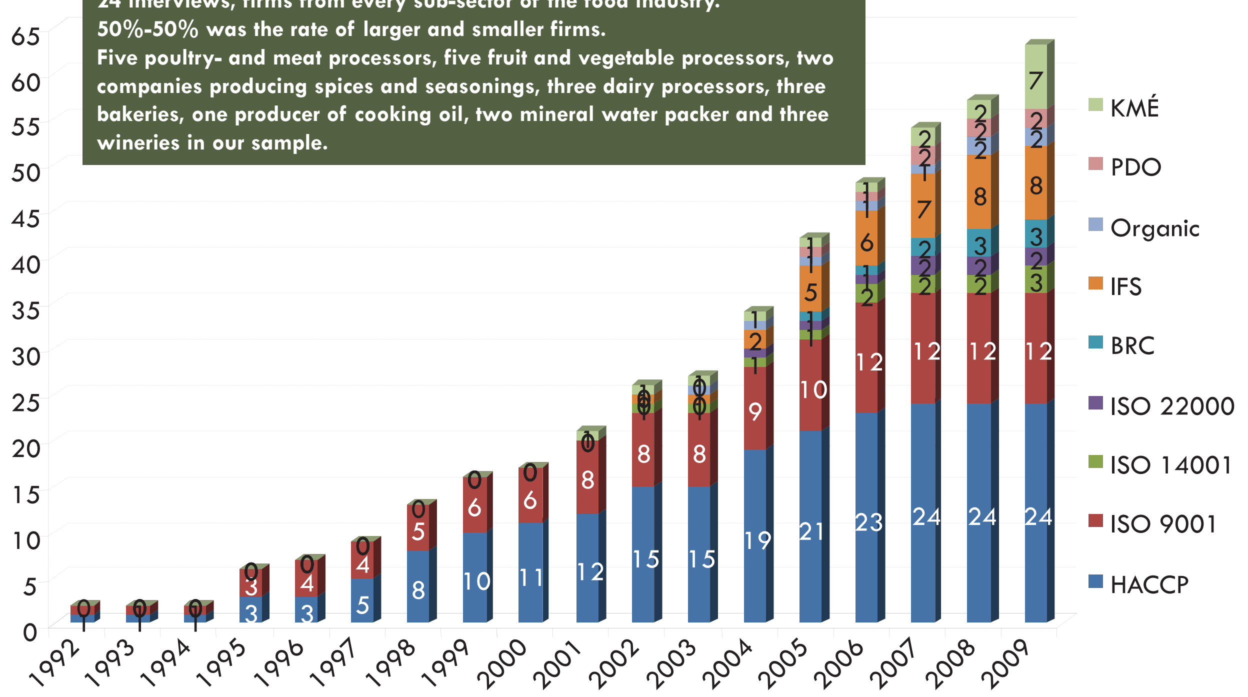


Source: Own figure based on Juhász et al. [2010]

Interview analyses

7.Number of quality assurance systems used by the interviewed processing companies

24 interviews, firms from every sub-sector of the food industry.
50%-50% was the rate of larger and smaller firms.
Five poultry- and meat processors, five fruit and vegetable processors, two companies producing spices and seasonings, three dairy processors, three bakeries, one producer of cooking oil, two mineral water packer and three wineries in our sample.



Source: Juhász et al. [2010]

8.Implementation and operation of quality assurance systems

Implementation

□The establishment of the first quality assurance system required the highest rate of investment, but this usually occurred together with infrastructural or IT development.

□Approximately 80% overlap can be observed in the requirements of different B2B systems showing that, with a proper corporate quality management system, compliance does not cause major problems or require further investments.

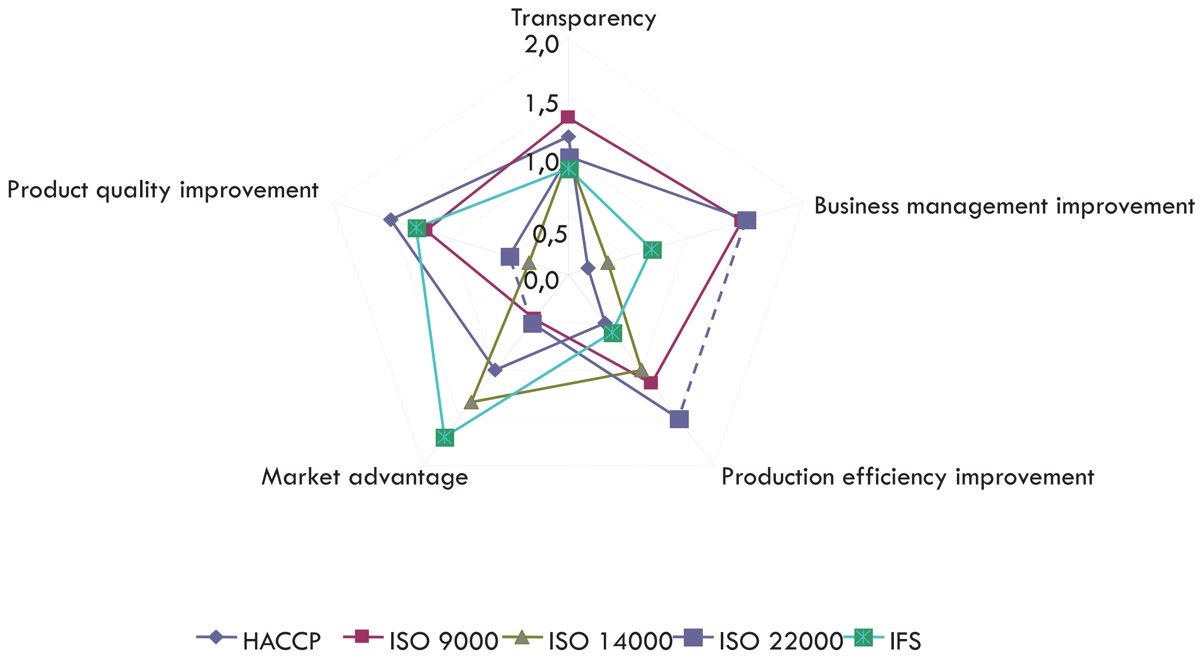
□The burdens of the first system were further reduced by the fact that for systems implemented at an early stage public support could be still applied for.

Operation:

The costs of certification is the highest expenditure item, followed by renewal fee and costs of audits; wages and training costs were listed in fourth and fifth places.

□The operation of quality systems usually had an impact on the duties of all employees of a company, but staff expansion occurred rearly.

9.Quality assurance system judgement of the interviewed Hungarian food processors



Seven-grade scale: -3: extremely bad, -2: very bad, -1: bad, 0: neutral, 1: good, 2: very good, 3: excellent

Source: Juhász et al. [2010]

10.Hungarian food industry segmentation according to the quality assurance system usage

	B2B systems	B2C systems	Requirements of interviewed companies
Multinational companies	Quality-culture is matured, internal motivation, ISO 22 000	Not specific, it is substituted by strong brands	Regulation and enforcement predictability
Domestic large firms	Quality-culture nearing maturity, total compliance, though external motivation	Well selected (moderately used) a good marketing tool	Regulation and enforcement predictability Investment and development sources
Small and middle sized enterprises (SMEs)	Mixed quality-culture (from mature to low), depending on the approach of the management/owner and requirements of the buyers	Can be the most important marketing tool	More information and education, Investment and development sources
Micro-firms	Quality assurance should be based on personal responsibility and trust. Not a specific target group for quality assurance systems more apt for Good Hygenic Practice guides.		Simplification of public administration requirements (laws, regulations, fees)

Source: Juhász et al. [2010]

Thank you for your attention!

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