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**PROCUREMENT POLICY OF HUNGARIAN FOOD RETAIL  
BUSINESSES – A BREAK-OUT OPPORTUNITY FOR THE  
HUNGARIAN WINE MAKERS THROUGH DIRECT SELLING**

*POLITYKA ZAOPATRZENIA SKLEPÓW Z ŻYWNOŚCIĄ NA WĘGRZECH  
– SPRZEDAŻ BEZPOŚREDNIA SZANSĄ DLA RYNKU WINA*

**Key words: food retail business, direct sales, small-scale producer, grape, wine**

*Key words: sklepy żywnościowe, sprzedaż bezpośrednia, mali producenci winorośli, wino*

**Synopsis.** The globalisation of the Hungarian food retail business has left domestic suppliers largely defenceless against food retail chains. A possible solution to that problem might be the setting up of a system of direct selling. I would like to present the different forms and the significance of direct sales through the example of the Hungarian wine making sector. In Hungary the globalisation of the food retail sector commenced only in the late 1980s and largely took place in the 1990s. This process has left Hungarian suppliers largely defenceless against the food retail chains. Another problem in the sales process is that goods are reaching the final consumer through several stages. For all of these problems the setting up of a system of direct sales could offer a solution. There are several forms of direct selling but producers do not yet fully utilise the opportunities hidden in them. I started my research – opportunities for direct sales in the Hungarian wine making sector – in one of the biggest wine regions of the country (the Eger wine region) in March 2010. From my research to date I have concluded that there are significant differences among wine makers depending on the extent and the efficiency of the particular forms of direct sales they use. With conducting and processing further interviews plus the evaluation of the current situation of direct sales I intend to make suggestions for the sector's decision makers regarding modifying existing or adopting new legislation in order to facilitate the further spread of direct selling.

**Introduction of the Hungarian food retail sector**

In Hungary the globalisation of the food retail sector commenced only in the late 1980s but largely took place in the 1990s. [Györe et al. 2009]

**Table 1. The biggest food retail companies in Hungary ranked according their turnover in 2009**

Rank	Retail chain	Number of facilities	Turnover* [bln HUF]
1	Tesco	176	638.4
2	CBA	3054	547.5
3	Coop	5250	510.0
4	Spar	398	397.4
5	Reál	2320	358.0
6	Auchan	12	226.3
7	Metro	13	219.3
8	Lidl	122	191.2
9	Penny Market	178	161.8
10	Cora	7	103.5
11	Match	123	55.0
12	Aldi	158	49.1
13	Profi	73	28.9

\* food, domestic chemicals and cosmetics  
Source: ACNielsen.

The privatisation of the food retail sector took place during the same period although the multinational capital established mainly new facilities. Altogether 27 national and multinational companies are involved in the food retail sector in Hungary (that means basically all multinational companies have entered to the Hungarian market while there is only one Hungarian company that has facilities abroad) – Table 1.

Globalisation in the Hungarian food trade has happened with the rapid invasion of major retail chains which rapidly took over a substantial part of the Hungarian food retail sector. This process did not occur as an organic part of the development of the Hungarian economy but as a foreign occupation. A crucial point of the process was that the incomers were large, multinational holdings with intensive experience acquired in the markets of several other countries. In this way there was very little chance of defen-

ding the Hungarian national interest. At the same time the prominent people of the Hungarian economy were boasting about the remarkable capital attracting ability of the country in this field. Foreign investors – frequently without trying to hide it – with their investments into the Hungarian retail sector were buying markets at the same time (many times for the goods of companies operating in their home or in some other countries). An important element of the globalisation process is that most of the retail chains have diversified the range of goods they offer, i.e. they sell not just food. This gives them a lot of space to work out special price strategies and promotional campaigns, in this way redistributing the profits among the main branches of commodities.

The globalisation of the retail sector has left Hungarian suppliers largely defenceless against the food retail chains. This is particularly true for those small scale suppliers which had to face gradually decreasing opportunities for alternative market channels as a growing section of the market became occupied by the retail chains. There is another major difference between suppliers and retail chains in that while the suppliers' possibilities for realisation are strongly limited the possibilities of chains for sourcing supplies is almost limitless when imports are taken into account.

### **Introduction of the possibilities and the barriers of direct sales**

Multinational food trade companies in developed countries in recent decades have reshaped the vertical relationships in the food industry including agricultural primary producers, food producers and wholesalers [Forgács 2008]. The real value of small-scale producers is uniqueness, diversity, small series and special quality that retail chains cannot take into consideration due to their business strategies.

Another problem in the realisation process is that goods are reaching the final consumer through several stages. Each player in the chain requires high profit margins and that way the price of the end product can be several times higher. However, the producer at the beginning of the chain will realise only a small part of the retail price. According to Fehér [2007] the marketing and other trade-related costs will account for 80% of the food prices which means producers will receive on average only 20% as their share.

For all these problems the setting up of a system of direct sales could offer a solution. Direct selling means a personal way of sales usually out of a selling facility. It is personal as the vendor and the consumer will meet in person during the exchange of the commodity. Out of a selling facility as the presentation of the goods to the potential consumer takes place not in a shop but for example in his place of living. The concept of direct sales in agriculture is somewhat different from that. Direct selling in agriculture is the selling of goods – without the inclusion of processing or commercial companies – directly to the final consumers [Bálint 1999].

Several forms of direct sales are known however producers do not fully utilise the opportunities so far. We can distinguish the following forms of direct selling:

- producer will reach the consumer through traditional retail channels: green market, producer's shop, so-called „mobile” shop,
- producer will reach the consumer through direct distribution using the internet, flyers, direct marketing or community initiatives,
- consumer will reach the producer: selling from the farmhouse, „pick your own” campaigns, selling by roadside next to the field.

The secret of direct selling is the mutual benefit as both the producer and the consumer will win on the transaction. The producer will have an occupation and a decent income while the consumer receives healthy food from a trusted source.

Direct selling can contribute to the well-being of the rural population, to the maintenance of employment, and to the development of trade and tourism. People living in rural areas have worked in agriculture all their lives and in the future only agriculture and forestry may offer them a real alternative. Direct selling contributes to the realisation of rural development goals which can be supported from EU funds as well. Rural development goals related to direct sales may be the following [Fehér 2007]:

- protection and preserving of cultural values,
- rational utilisation of human and natural resources,
- improvement of age structure and the qualification of the rural population as well as the strengthening of the attachment of young farmers,

- protection of the natural and the architectural environment,
- improvement of the level of the populations' general cultural knowledge,
- alleviation of social stress,
- improvement of social care.

Direct selling contributes to establishing new workplaces locally thus improving the region's population retaining capacity. In this way the region's market share is going to increase in the fields of food trade and services. By direct selling the need for and cost of transportation of goods will be reduced. At the same time the income of producers and the workforce employed will increase promoting a reduction in the need for social aid. As the farmers will sell their products by themselves it will facilitate their sensibility to the real market demand. Besides, direct sales will also promote the development of rural tourism.

At present there are several factors slowing down the spread of direct sales. Nowadays consumers do their shopping in super- and hypermarkets or in discount stores (e.g. Aldi, Lidl). These stores usually have a very wide range of articles and most of the times favourable prices. Due to the wide choice people can buy many goods in one place. Hungarian consumers prefer this type of shopping which is demonstrated by the gradual growth of market share of this kind of store in the retail business. As Hungarian consumers are very price-sensitive at some rural locations discount chains are fighting with each other for the right of settling down [Haász 2009]. Establishment of discounts in certain locations would mean extra income for self governments in the form of local taxes.

Trends in Budapest and in other bigger cities are just the opposite where a so-called „social shop” chain has started up owned by producers' groups. In this new chain, consisting of small-scale facilities, mainly fruits, vegetables, milk and honey are being sold coming directly from domestic origin. Thus – leaving out the intermediaries – producers can sell their products at a higher price while the consumers receive fresh, domestic products cheaper. According to this model all concerned parties (farmers, shop owners and consumers) will win.

In recent years due to less and less transparent variety of foodstuffs and to the food scares (dioxine, melamin, BSE, bird flu, re-packing and re-labelling) together with GMO products, consumers have lost confidence in cheap, bulk products. Together with the increasing purchasing power a growing part of consumers are looking for healthier, fresher and more tasty foodstuffs which provides an opportunity for Hungarian producers involved in direct selling. Consumers more and more are seeking those products the origin of which is certified which thus may be consumed safely and their production complies with the strict restrictions of environmental protection and animal welfare.

Direct selling on its own does not give an advantage for producers as most of them use it as a runaway track in the uneven battle against multinational chains [Bálint 1999]. International experience shows that these kinds of solutions may work only in the short term. But if these techniques would be combined with the rural development measures synergic effects may turn direct selling competitive. Such measures can be: promotion of rural employment, supporting the consumption of local products, facilitation of ecological production, development of rural infrastructure, assisting the development of agro-tourism. If synergic effects are not strong enough, some state support is needed at the beginning. In Austria, Germany and in the United States direct marketing is supported by the state. In Washington D.C. even on the squares in front of the Ministries green markets are set up.

### **A short introduction to the Hungarian grape and wine sector**

Grape production and wine making has been practiced in the Carpathian basin for several thousand years. However the cultivated area of grape fields has gradually declined in the last few decades. Presently the productive area of grapes for wine is barely over 70 thousand hectares [Alpári 2008]. Since the political and economic transition in 1989 the situation of wine making has changed remarkably. While before the transition 30 state companies and 50 soviet-type cooperatives produced the vast majority of wine in Hungary, now more than 12 thousand holdings are involved in wine production. The number of grape producers is even higher. Altogether 150 thousand farms produce grapes of which 99.6% are individual farms.

Hungarian wine makers can be divided into three groups [Györe et al. 2007]. In the first group are belonging those small winemakers who are processing their own grapes produced on their few hectare parcels. They consume the majority of their wine while the left over small portion is sold locally. Their market share is somewhere between 5-10%.

In the second group are the middle sized farms which are either were formed from the smaller state companies or were founded in the last 15 years as family farms. These middle sized family farms have their own vineyards mainly established by themselves. Most of them also buy grapes from other local producers. Their market share is around 25-30%.

The big winemakers usually do not have their own plantations. Some of them rent plantations while others simply integrate smaller grape producers and buy their grapes. Their market share is 60-70%.

### **The opportunities of direct selling in the Hungarian grape and wine sector**

I started my research in one of the biggest wine regions of the country (the Eger wine region) in March, 2010. I have chosen this wine region because here I can analyse all players of the market from the small individual farms to the big winemaking companies. For gathering the information I have chosen direct interviews with the manager of the winery. My goal is to conduct an analysis that is representative (>60%) of the wine region for which I need to make approximately 25-30 interviews. I intend to complement data from the interviews with the balance sheet data of the companies that will allow drawing other conclusions as well.

According to my research so far I have concluded that there are significant differences among wine makers depending on the extent and the efficiency of the forms of direct sales they use. In general it can be said that while older generation prefers the "traditional" realisation from the cellar, the younger generation is more open to innovation (e.g. web based selling or issuing wine bonds as the French do). From the results it is obvious that the suggestion that bigger wineries would pay less attention to direct sales is simply not true. Several wineries devote direct sales great attention (e.g. wine tasting rooms, wine festivals) as they can sell their wines with a higher margin. What is more, they can collect very useful information directly from the consumer aiding their innovation.

The forms of direct sales are constantly changing. Wine makers would notice it during their professional trips abroad or through the internet while sometimes they work out their own ideas. On the whole, according to the interviews the majority of wine makers put direct sales into the centre as they would like that more and more consumers would get to know their winery and their products. As a result in Hungary the number of wine festivals is rapidly growing.

With conducting and processing further interviews plus the evaluation of the current situation of direct sales I intend to make suggestions for the sector's decision makers regarding modifying existing or adopting new legislation in order to facilitate the further spread of direct sales. Drawing from the size, the nature and the number of players it might determine the middle and long term future and prospects of the Hungarian wineries.

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***Streszczenie***

*W artykule dokonano analizy zmian w sektorze sprzedaży detalicznej na Węgrzech. Wskazano na postępujący proces globalizacji. Na przykładzie rynku wina zwrócono uwagę na sprzedaż bezpośrednią jako rozwojową formę polityki zaopatrzenia.*

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