Management, Enterprise and Benchmarking in the 21st Century
Budapest, 2017

Sale Opportunities of the Small-scale Producers at the Concentrated Food Commerce

Kiss Konrád

konrad.kiss@phd.uni-szie.hu

Abstract:As the result of the market concentration, the most shares of the consumer-goods market are held by the shopping centres, above all by the multinational chain stores, in Hungary too. These chains get their suppliers competed with strict conditions. Taking part in their supply system is a difficult task and it can be extremely hard for the small-scale producers. The sale-opportunities and the market shares of the small producers have decreased because of the expansion of the market concentration. Taking part in "short supply chains "(SSCs)" or in sales based on cooperation for examples in producers' organisation can mean alternative sale options for them. This study examines the opportunities offered by the short supply chains for their participants by content analysis and by using secondary sources. It presents that which are those producers or enterprise-types to whom the SSCs are the best sales options. The basic aim of the study is to compare the features of taking part in conventional supply chains and in SSCs, and to present a description about the characteristics of the short chains.

Keywords: supply chains, short supply chains, direct sales, small-scale producers, suppliers

1 Literature Review

1.1 Presenting the state of the concentration in the commerce

The beginning of the commercial concentration can be put at the 1950s and it took a half decade to proceed. This process is typical in the commerce of the developed countries and in a lot of developing countries as well *(Dobos 2009)*. In Hungary the period of thes transformation has started in the middle of the 1990s and lasted till 2008, till the world economic crisis. *(Kopcsay 2014)* This process took place in every branch of the retail trade but it's effect was definitely strong in the area of the food retail *(Dobos 2009)*. The *GfK's (2016)* study analysing the first half-year of 2016 shows that the units of the "modern retail trade;" the hypermarkets, the supermarkets and the discount stores own the most part of the consumer goods' commercial shares (*1. figure).* The concomitant of this process is that the typically great numbered, small sized enterprises and the small stores perform only a low part of the trade comparing their great numbers. The trade is focused at the small-numbered, but great-sized units *(Juhász et al. 2008).* According to *Jankuné and her contributors (2012)*, the spreading of the modern commercial channels became faster after 2000, furthermore it is probable that their spreading continues together with the forcing back of the traditional trade networks.

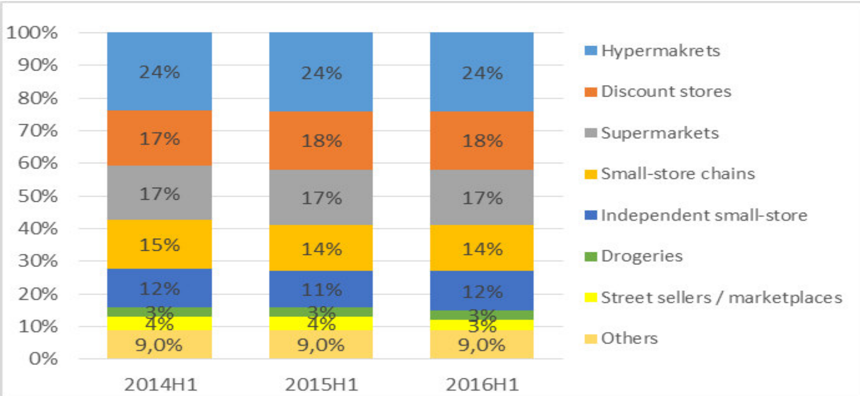

Figure 1.
Market shares of the commercial channels

(Source: GfK 2016, own translation)

In parallel with the process of the market concentration, it is important to review the changes at the producers' side too. The up that time vertically and horizontally strongly integrated product-path has been dissolved after the changeover, and structure of the agricultural production had been transformed. Instead of the previously typical farming on large scale, the "atomic," small size farming became increasingly general. In this way, the smaller farmers could not make enough products on the proper volume with the same quality to be able to individually initiate price-negotations on the merits with the continuously increasing sized engrossers *(Horváth 2010).*

1.2. Alternative opportunities of the small producers

By the withdrawal of the traditional trade channels the question arises that what happens with those producers who are selling their products in traditional ways and places. For economies of scale reasons they cannot sell their wares in the retail chain stores owning the greatest shares on the market.
It is very hard for the small-scale producers to join to the supply system of the chains from abroad. Small producers are able to become their direct suppliers are

rare *(Kozák et al, 2010). Seres and Szabó (2009)* pronounces that there is no future for the direct supply to the multinational chain stores by the small sized producers. Products for "market gaps," or product for market areas are let free by the great sized market producers may mean exception. Thus the small sized producers having small-volumed products with non-humogenous quality cannot appear in big numbers as the suppliers of the great chains.

In order to improve their importance on the markets, an opportunity for the small producers is to make cooperation, to participate in producers' organisation, that is undoubtedly advantageous in the commerce. According to *Seres and Szabó (2009)* considerably more small-producer-made products get to the chains through other suppliers and producers organisations. On the other hand, producers-cooperations has been organised only in low numbers and in rudimentary forms in Hungary. According to the results of *Baranyai and Szabó (2016. 157.p.)* more than half (51%) of the responder farms do not participate at all in cooperations (out of 6.537 responder farms). Its general reasons are the willingness to cooperation is low in Hungary *(Bódis 2016)*, the adaptability of the domestic farmers are weak *(Dobos 2009),* or they do not want to abandon their independence; they do not want to sale through cooperations *(Juhász et al. 2008)*. Further reasons are the lack of informations about the cooperations and the lack of the cooperations offering opportunities to join and the former bad experiences. *(Baranyai – Szabó 2016)*

1.3 The importance of the short supply chains.

Hungary – realising the importance of the local producer sale - created a thematic subprogram in the rural development program in the period lasts from 2014 till 2020. The title of the subprogram is "Short Supply Chain Thematic Subprogram" which assists the producers getting to market, with a value of 26 mrd. HUFs, by supporting the short supply chains. As it is referred on the *kormány.hu* (the official webside of the Hungarian government) in Europe one has searched for the solution that promotes the producers' greater participation in the benefit comes from the food chains. It's main mode to shorten the supply chain – on the one hand by decreasing the numbers of the intermediary chain-participants, on the other hand by shortening the physical distances by creating trading points that can be found near to the producers *(Internet 1).* According to *Szabó (2014),* the supporting of the small producers is necessary because the "SSC'-producers' self-organising ability is low, and their ability to enforce their interests is weak, and their competitiveness for applications is also weak. Cooperations – that mean solution in many points of view – are rare. The *European Parliament and Commission's Regulation* on support for rural development defined the short supply chains on the following way: "short supply chain" means a supply chain involving a limited number of economic operators, committed to co-operation, local economic development, and close geographical and social relations between producers, processors and consumers" *(Regulation (EU) No. 1305/2013, I. 347/499).* At the judgement of the short supply chains it is considerable that however the shopping centres are the most popular trading channel, but according to *Benedek and Balázs (2014)* the interests in the local food and in the short supply chains has increased throughout the world. The participation in "SSCs" gives really an alternative for the small producers to improve their incomes, but this solution is not regular and do not happen automatically *(Szabó-Juhász 2012).* For this reason it can be used as an instrument of the rural development.

Renting and his contributors (2003; 339.p.) describes the practicable methods of the "short food supply chains" (SFSCs) on the following classifications:

- "Face-to-face SFSCs: farm shops, farmers markets, roadside sales, pick your own, box schemes, home deliveries, mail order, e-commerce." (*Csíkné and Lehota (2013),* ranks the sales from automats also among the direct sales.)
- "Proximate SFSCs: farm shop groups; regional hallmarks, consumer cooperatives, community supported agriculture, thematic routes, special events, fairs, local shops, restaurants, tourist enterprises, "dedicated" retailers, catering for institutions, sales to emigrants."
- "extended SFSCs: certification labels, production codes, reputation effects."

According to *Bareja-Wawryszuk and Golebiewski (2014)* local food systems has an important role in the world food supply, and it "can become great alternative beneficial for consumers as well as for environment." *(77.p.)* Referring to *Mastronardi et al. (2015),* taking part in SFSCs can make significant profit for the famers. They have direct input on price that can be determinated on autonomous way. (The positive features of the SFSCs and the direct sale is going to be explained in the following chapters.)

2 Material and Method

My research is based on literature reviews and content-analysis. It's aim is to present the charasteristics of the short chain, especially of the direct sale. In Hungary the most common "short supply chain form" is the local market trade. I reviewed studies examining this subject in order to get a summary about the charasteristics of these trading ways. I focused primarly on the direct sale.

3 Results

Examination of the short supply chains from the producers' point of view

The collective examination of these short chain types would be a definitely difficoult task. In the domestic literatures of this subject the works that examines the SSCs in a comprehensive way are rare because the individual studies mostly examines the SSC-types severally *(Benedek 2014).* According to *Benedek and her contributors (2014)* there is no such statistics that focus on the direct sales. Therefore I have pointed out the most significant form of the short supply chains in Hungary, and that are the local markets. On the basis of my experiences, the literatures deal jointly with the direct sale and that's most wide-spreaded way, the sales on marketplaces. The information of the *GfK (2016)* indicates the withdrawal of the local market sales. In 2010, the proportion of the local market-visitor costumer households were 72%, and that dropped to 59% by the time period between 2015 July and 2016 June. This regression has been primarily caused by decrease of the rural consumers' numbers. According to the *GfK (2016),* the fruits and vegetables have the most significant trade at the local markets.

The features of the direct producer sales and the distribution in conventional chains are different. *(Table 1.).* (The studies that I utilised to edit this chart, mostly presents the features of the direct sale or sales in SSCs through the examples of the local market sales.)

Point of view:	**Descriptions:**
The advantages of the direct sales and the local market sales:	- Immediate incomes, in the form of cash (by contrast with the cases, when engrossers pay to their suppliers with delay); - Attainable price in higher levels; in comparison with the indirect sales. ▪ According to *Csíkné (2011),* sometimes a considerably higher (even with 2-300% higher) price level can be gained than in the cases of selling to engrossers or at producers' organisation. - Independence from engrossers. Autonomy in decision-making; greater freedom at the determinations of the prices (in contrast with the cases, when the producers are dependent on the engrossers' inflexibility or price-determining behaviour); - relationships between the consumers and the producers; evolving circle of steady consumers - opportunity to size up the consumers claims and to adjust to them; - flexibility; there is no regular (for example daily) supplier obligation
The disadvantages of the direct sales and the local market-sales:	- In the case of the direct sales, the expenses of the producers are higher, because they themselves bear the costs of the logistics, the storage, the selling, and the other additional costs. The necessary jobs must be done by themselves or by their workers; - the product-volumes can be sold through the local markets are limited; - trading at local market is circuitous (for example the "marketing" in the early morning hours); - the circumstances of shopping at the markets are below the opportunities offered by the modern chain stores; - the weight of the shopping at the markets has decreased by the concentration of the commerce.

Table 1.
The positive and the negative effects of the direct sale, and sales at local markets.

Source: own editing; on the basis of *Csíkné (2011), Csíkné - Lehota (2014), Szabó - Juhász (2012); Horváth (2010), Mastronardi et al. (2015).*

As it can be seen the direct sales and the local market-sales are the best for the small-sized-producers. The studies examined by me, used different specimen for their primer researches, but the results are generally that the SSC-sellers' land-sizes are smaller than those sellers' who participating in conventional chains.

(Table 2.) It can be pronounced about their motivations, that they are rather "more traditional" or more "small-scaled."

Characteristics of the producers participating in direct sales:	- Relatively small land sizes and relatively low incomes from agricultural activities
	  - In the study of *Csíkné-Lehota (2014);*
	    o The producers have dealt with direct sales, have had average 5,5 hectares land sizes, and had 1,5 million HUFs income on average, comes from agricultural activity.
	    o The producers have used more sale channels at same time, have had on average 15 hectares land sizes, with more than 3 million HUFs of incomes on average.
	  - *Csíkné (2011):* the most of the respondents have worked on lands below 10 hectares on average, and they have sold the 72,5 percentages of their wares with direct method.
	  - *Szabó (2014): in Juhász and Szabó's (2013)* study, the SSC-sellers have had approximately 26 hectares land sizes, while those who have sold at conventional chains, have had approximately 83 hectares. The annual net incomes that the SSC-sellers had, did not exceed the value of 7 million HUFs.

The main motivations of the producers in direct sales:	- The producers, farming on small land-sizes, using traditional technologies, may choose this kind of sale, because it may be the (only one) practicable way for them *(Csíkné 2011).* - To get incomes and/or to increase their incomes; - to reduce their dependence to the traders; - additional-like sales; sales for the aim of having more opportunities (mostly in the cases of greater farmers) *(Csíkné 2011);* - to continue the family traditions; - self-employment as a result of compulsion *(Csíkné 2011).*

Table 2.

Charasteristics of the producers preferring the direct sales, and the local market sales.

Source: own edition on the basis of Csíkné (2011), Csíkné-Lehota (2014), Szabó-Juhász (2012), Szabó (2014)

Conclusions

It can be seen, that the conditions of the SSCs and the direct sale have different features than the participation in the conventional supply chains. The direct sales are suitable primarily for the small sized producers. In my opinion they are those, who can exploit these sale opportunities on the most profitable way. In this way, the small producers selling in low volumes have the opportunity to sell with higher prices. On the basis of the examined literatures, the income levels (come from agricultural activities) of the producers preferring this method are lesser than those producers' who distributes at higher proportion in conventional chains. It must be remarked, that these groups have great differences in their commercial sizes, and in their land sizes. The direct sellers are not exposed to the conditions of the chain stores, but they take the cost and the tradingworks upon themselves. For example instead of the daily supplying they can decide how many days would they devote to the production and how many to the sales, balancing these two workprocesses. Evident disadvantages of the direct sales are the smaller market, the lower saleable product volumes, but these are relative disadvantages, because it depends on the sizes of the seller producers.

However, on the basis of the literature, the consumers are interested in the SSCs, but for example, according to the information of the GfK, the importance of the local market trading (as the most significant SSC-method') has been decreased.

References

[1] Baranyai Zs. - Szabó G. G. (2016): Kérdőíves felmérés a magyar gazdálkodók együttműködési aktivitásáról; In: Takácsné György Katalin (szerk.); Innovációs kihívások és lehetőségek 2014-2020 között: XV. Nemzetközi Tudományos Napok, ISBN: 978-963-9941-92-2 pp. 157-165.

[2] Bareja-Wawryszuk O. – Golebiewski J. (2014): Economicval, environmental and social significance of local food systems, in Review of Agricultural and Applied Economics (RAAE) (Number 2, 2014), ISSN 1336-9261, XVII., pp. 74-77.

[3] Benedek Zs. – Fertő I. – Barát L. – Tóth J. (2014): A termelői heterogenitás a rövid ellátási láncokban: a piacokon értékesítő gazdák jellemző különbségei, in: Gazdálkodás 58. évf., 4- sz. 2014. pp. 307-319.

[4] Benedek ZS. (2014): A rövid ellátási láncok hatásai – Összefoglaló a nemzetközi szakirodalom és a hazai tapasztalatok alapján. MTA-KRTK KTI, Műhelytanulmányok MT-DP 2014/8, 48 p.

[5] Benedek Zs. - Balázs B. (2014): A rövid ellátási láncok szocioökonómiai hatásai; in Külgazdaság – 58. évfolyam 5. szám., pp. 100-120.

[6] Csíkné M. É. – Lehota J. (2013) Mezőgazdasági termelők értékesítési csatornaválasztási döntéseinek vizsgálata különös tekintettel a közvetlen értékesítésre. in Gazdálkodás, 2013.évf. 5.szám, pp 451-459.

[7] Csíkné M. É. (2011): Közvetlen értékesítés a zöldség-gyümölcs termelők körében; in Gazdálkodás, 55. évf. 5. sz. pp. 494-501.

[8] Dobos K. (2009): Kiskereskedelmi láncok és beszállítóik kapcsolata; in Közgazdasági Szemle - LVI. évf – 2009. február, pp. 155-175.

[9] GfK (2016): Sajtóközlemény – 2016. október 10. GfK: változatlan a vásárlók kereskedelmi csatornákhoz való hűsége; GfK Hungária, Budapest, 3 p.

[10] Horváth Z. (2010): A zöldség-gyümölcs teremlők együttműködése, a TÉSZ-ek értékesítési és gazdasági helyzetének vizsgálata; Doktori (PhD) értekezés; Gödöllő, 178. p.

[11] Jankuné K. Gy. – Stauder M. – Györe D. (2012): Az élelmiszer-kereskedelem termelékenysége és jövedelmezősége, Agrárgazdasági Kutatóintézet, Budepest; ISBN 978-963-491-582-9; ISSN 2061-8204; 148.p

[12] Juhász A. – Seres A.- Stauder M. (2008): A kereskedelem koncentrációja, Budapest, ISBN 978 963 06 5017 5, 135 p.

[13] Kopacsy L. (2014): Az élelmiszer kiskereskedelmi hálózatok megújuló stratégiái Magyarországon 2014-ben, in „Marketing megújulás" Marketing Oktatók Klubja 20. Konferenciája előadásai, Szeged 2014, ISBN: 978-963-306-312-5, pp. 73-83.

[14] Kozák A. – Seres A. – Szabó M. (2010): Sikeres kisárutermelők és egy sikeres termelési, értékesítési rendszer a zöldség-gyümölcs ágazatban 45. o.; in Magyar Tudományos Akadémia Közgazdaságtudományi Intézet – Műhelytanulmányok, 2010/04.

[15] Mastronardi L. – Marino D. – Cavallo A. – Gianelli A. (2015): Exploring the Role of Farmers in Short Food Supply Chains: The Case of Italy, in : International Food and Agribusiness Management Review (IFAMA) Volume 18 Issue 2, 2015 , pp. 109-130

[16] Regulation (EU) No. 1305/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 december 2013 - on support for rural

development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1305&from=hu downloaded: 2017.03.01.

[17] Renting H. – Marsden T. K. – Banks J. [2003]: Understanding Alternative Food Networks: Exploring the Role of Short Food Supply Chains in Rural Development. in Environment and Planning A. Vol. 35. No. 3., 20 p.

[18] Seres A. – Szabó M. (2009): Hazai zöldség-gyümölcs kisárutermelők nagy láncoknak történő értékesítési lehetőségei; in Gazdálkodás - 53. évf, 3. szám, pp 254 – 260.

[19] Szabó D. - Juhász A. (2012): A piacok szerepe és lehetőségei a hazai élelmiszer-ellátási láncban; in Gazdálkodás, - 56. évf., 3. szám. 217-229. o

[20] Szabó D. (2014): A rövid ellátási láncokban rejlő lehetőségek és veszélyek Magyarországon; Acta Carolus Robertus 4(2), Gyöngyös, pp. ISSN 2062-8269 109-118.,

a. referred by it: *Juhász A. – Szabó D. (2013):* A piacok jellemzői fogyasztói és termelői szemmel, Agrárgazdasági Könyvek, AKI, Budapest, 142.o.

Internet-references:

[Internet 1.]: a kormány.hu weboldala (2014.november.22): Huszonhat milliárd forint jut a termelők piacra jutásának segítésére; *Date of the downloading: 2017.02.17.*

http://www.kormany.hu/hu/miniszterelnokseg/agrar-videkfejlesztesert-felelos-allamtitkar/hirek/huszonhat-milliard-forint-jut-a-termelok-piacra-jutasanak-segitesere

[Internet 2.]: „Akcióban az Agrárkamara - Pénteken a Kopaszi-gátat, kedden a Hold utcai piacot szállta meg a NAK” Agrofórum Online; Bódis L. (2016). *Date of the download: 2017.02.22*

http://www.agroforum.hu/hirek/akcioban-az-agrarkamara-penteken-kopaszi-gatat-kedden-hold-utcai-piacot-szallta-meg-nak