

THESIS OF THE PhD DISSERTATION

KATALIN VÉGH

MOSONMAGYARÓVÁR

2007

**UNIVERSITY OF WEST HUNGARY
FACULTY OF AGRICULTURAL AND FOOD SCIENCES
MOSONMAGYARÓVÁR
INSTITUTE OF ECONOMICAL SCIENCES**

Újhelyi Imre Doctoral School of Animal Sciences

Chairman of the PhD School:
DR. PÁL BENEDEK DSc
univ. Professor

Program for economical questions of producing, processing and distributing
animal products

Program leader and Supervisor:
DR. ANTAL TENK CSc
univ. professor

**RESEARCH OF THE SLOVAK MEAT INDUSTRY AND THE
COMPANY STRATEGY**

THESIS

Author:
KATALIN VÉGH

**MOSONMAGYARÓVÁR
2007**

1. THE SUBJECT AND ACTUALITY OF THE RESEARCH

The research deals with the run of the Slovak meat industry and the review of company strategy.

The share of agriculture from GDP halved in Central European countries. The reasons of this are the reduction of household incomes, the recession of consumption, the monopoly situation of food processors and chains of department stores. The crisis of meat industry can be attributed to three main reasons: crisis of marketing origin, crisis of financial origin and the structural weaknesses of meat industry. The reducing interest of consumers towards beef and pork influenced unfavourably the home meat production which declined during the examined period. We are not self-sufficient in pork-production of which the negative balance of trading gives evidence, too. It would be effective to reinforce the level of the meat industry's vertical coordination in the field of transport, and search of connection between the meat industry's capital and the capital of primary producers and fodder producers. In the future only that company strategy can be effective which considers the consumers' demands and adjusts flexibly to the changing external and internal market circumstances. To this it is necessary to have a complex analysis about consumer expectations towards the certain products. It can be stated that food industry can accommodate to these changes only tardily.

The research attracts attention to the fact that it is necessary the vertical coordination of the whole meat industry as well as to be thoroughly acquainted with the consumers' habits in order to create an effective company strategy.

Some of companies in food industry believe they spend enough money for marketing and they got money quickly back. Managers think marketing is equivalent with sales, they believe to get a new customer is more important than

to keep an old one. Instead of concentrating for fulfilling customers needs, they put sales in the middle of the company's strategy.

According to the AMERICAN MARKETING ASSOCIATION marketing is a process which includes the planning and fulfilling drafting, pricing, sales-stimulation and distribution of a product / idea / service.

Nowadays marketing includes not only these above mentioned functions, but competition analyses and researches too. The producer's main object is one side to keep their own customers, on other side is to steal competitors' buyers.

Some people put marketing strategy in the middle of tripartite of environment, behavior and perception; others defined it in this way: "marketing strategy defines overall principles, according to the industry would follow marketing plans of the targeting market. It contains basic decisions, what applies to share expenses, toolkit (marketingmix) and resources".

It is very typical for marketing strategy the long-term attitude, to pay attention to the competitors, to work out processes for the competitors' activities. Main instruments of strategic marketing planning are: market research, analyses of production structure (so-called BCG-MATRIX), comparing company's (or company and its competitors) strength and weaknesses (so-called SWOT analyse) and product-life analyse.

According to another approach marketing strategy includes three main steps: segmentation, targeting and positioning. Following these steps companies could focus on profitable group of customers.

In the marketing policy has undergone a change in the last few years, it's become absolutely customer oriented. So companies' decisions (e.g. technical, financial, sales, market development) are forming according to existent even potential customers' needs, desires.

Conditions in the Slovak agriculture are favorable, except the areas of mountains. One of the most important sectors of agriculture is the animal

husbandry, within this on the first place husbandry of pig, on the second place cattle and then poultry.

Present value of meat stock producing is behind the record high amount registered in the middle of the years 1980. One of the most important reasons of decline had been the uncertainty conditions of sales what had a result in fall of incomes.

The aim of the thesis is to give an overall picture of the Slovak meat industry. I'm going to offer a closer look at these factors:

- general analysis of the situation in the Slovak pig and cattle husbandry;
- presentation of meat processing and meat disposal;
- exposition of main factors' role in the meat production, meat distribution and meat consumption;
- comparing two leading meat companies' marketing strategy on the Slovak market;
- objectives and instruments influencing the customer's/consumer's behavior on the Slovak market;
- getting hold of information from analyses, I try to give an overall progress report and program to create and update companies' competition strategy, operating in the Slovak meat industry.

2. MATERIAL AND METHOD

According to in the foregoing mentioned (discipline-based) considerations during making my themes I've used these information-sources and data:

1. Collecting and comparing relevant data and information form home and foreign literature.
2. Suitable grouping and analysing statistical data pertaining to the output of Slovak meat industry.
3. Personal (primer) data collection (quantitative) and making inquiries (qualitative) by two meat processing companies and the chosen consumer groups.

The methods of these researches basically are:

- professional in-depth interviews by (marketing) managers of two market leader companies in the meat industry;
- questionnaire by different consumer groups.

➤ Methods used by secondary researches:

In case of secondary (desk) researches, the Slovak food-production and consumer data were collected and analysed, laying emphasis on pig and cattle meat, as well as products made from it. The needed data were supplied form domestic and foreign statistical databases.

Beyond the analyse of statistical data, I have examined and processed domestic and national specialist journal, summaries of conferences and other publications.

Basic data comes from the years 1998-2004. This data was processed by Excel program, and were created tables, diagram, grafs.

➤ **Methods used by primary researches:**

I used both of qualitative and quantitative methods. From qualitative methods I did in-depth interview, from the quantitative technics I prefered asking by questionairs.

Qualitative methods

The professional in-depth interviews were done by company's chief managers in the meat industry, which are also processing products further, all this according to forward prepared draft.

The two companies which I have examined were TAURIS a.s. and MECOM a.s., where were hold personal conversations by competent marketing experts.

Quantitative methods

The used questionnaire – in the interest of easier processing- includes primary closed questions, by which in majority respondents could answer by interval scale..

Main fields:

- consumer habits of further processed products form pig and cattle meat;
- purchasing attitude related to these products;
- image inquire.

The consumer survey was made by asking 400 respondents from the spring 2005 to spring 2006. In the survey were interested every districts of the country.

3. RESULTS AND CONCLUSIONS

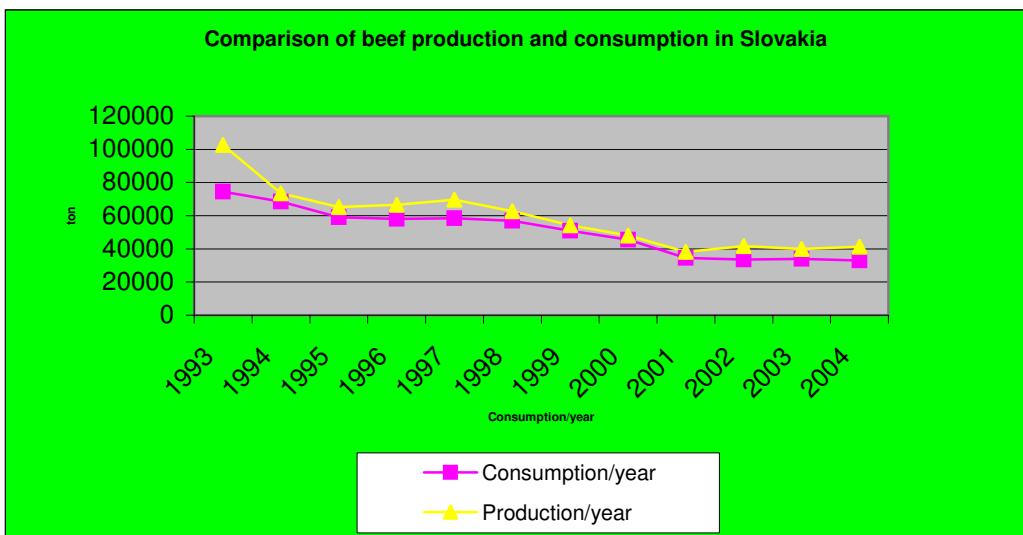
The primary objective of my thesis was to survey the economic situation of the Slovak meat industry. My further goals included the presentation of Slovak meat-processing companies' marketing strategy and the survey of consumers' behaviour in relations to meat-products.

An analysis of the Slovak meat-industry's economic situation (processing, raw material production) and the preparation of a long-term development plan, which could help to better adaptation of products in this sector to the changing market conditions. It could also result in more competitive capacities and more profitable production in accordance with EU technical standards.

In the period from 1993 to 2004 – due to low purchasing power of the population and increasing consumers' prices of meat and meat-products – the consumption of meat per capita decreased. The decrease in the consumption of beef was more significant. At present, we consume 10.8 kg less beef than recommended. It is quite opposite in case of pork: in comparison to the recommended quantity, we consume 8.6 kg more pork.

In case we compare the certain types of meat production and consumption we could observe significant differences. The production and consumption of beef during the surveyed period was nearly on the same level. The production exceeded the consumption by 4,3 thousand tons on average, that is by 0,81 kg more/person/year. (1.Figure)

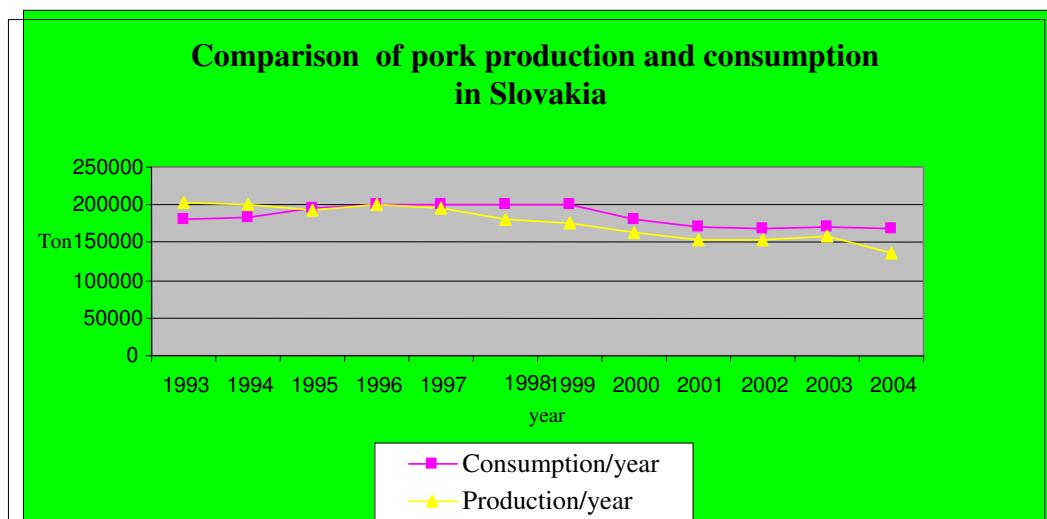
1. Figure



Source: private calculations according to the monthly report of the professional journal Poľnospodár.

The production of pork meat during the analysed period was lower than the consumption by 9,9 thousand tons on average, that is that is by 1,8 kg lower/person/year. In 1993, the production was 11,6 tons higher than the consumption but in 1995 the production went down under the consumption level. The essential difference between the production and consumption has been more or less on the same level since 1998 however this difference grew further in 2004. The deficiency is covered by import of live pigs and pork. During the next couple of years, in spite of growing number of pigs and higher productivity we can not expect significant decrease in the difference between the production and consumption since it is not possible to count with higher pork consumption (2. Figure)

2. Figure:



Source: private calculations according to the monthly report of the professional journal Poľnospodár.

The decreased interest of consumers in beef and pork has had a negative impact on the domestic meat production, which declined in the surveyed period. We are not self-subsistent in pork production. This has also been proven by a negative economic balance of trading in pork and live stock.

Based upon a comparative study of economic results of meat industry, we established the following:

- the share of meat industry in the total food production decreased from 18.2 % to 16.1 %. (1. Table);

1. Table: The share of meat industry's gross production in the production of the food industry in Slovakia (%)

1998	1999	2000	2001	2002	2003	2004	1998-2004 base index
18,2	19,0	18,2	17,4	17,3	15,4	16,1	2,1

Source: According to data of Slovak Ministry of Agriculture, own calculations

- the loss of meat industry – compared with the year of 1998 - increased by 61 million crowns in 2004. (2. Table);

2. Table: Tendency (development) of economical results in the meat industry in Slovakia (Mill. Sk)

1998	1999	2000	2001	2002	2003	2004	Loss increase between 2004-1998 Mill. Sk
-58	-99	-381	60	287	327	-119	61

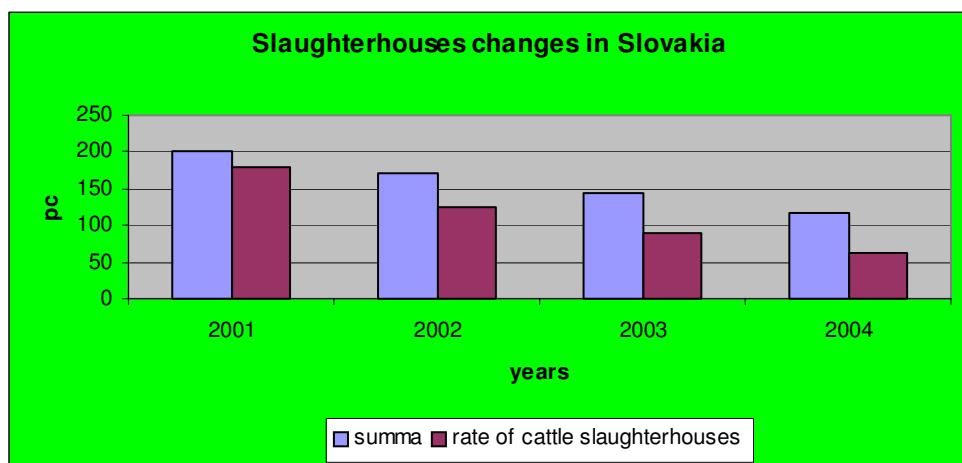
Source: According to data of Slovak Ministry of Agriculture, own calculations

- income increased by 8.5 % and reached 19.4 billion crowns;
- total costs increased by 8.8 %. In the structure of costs the share of cost of wages decreased and the cost of production consumption and cost associated with sold goods increased; the overall procured investment goods increased by 84 %;
- investments to buildings and constructions increased in 19.9 percentage points; investments to technology and equipment decreased by 3.4 percentage points;

- investments to technology and equipment had a positive impact on the development of the productivity of labour. Decrease in the number of employees (44 %) was accompanied by the increase in the productivity of labour resulting from the profit and production (ca. 200 %);
- the utilization rate of production capacity in general is very low, below the average 60 %. The utilization rate of available capacity of cattle slaughtering in 2004 was 49.7 %; that of swine slaughtering was 51.7 %; the rate of unprocessed (fresh) meat totalled to 55.9 %; meat produces equalled to 72.8 % and tinned meat amounted to 66.8 %. These data indicate that, in consideration of production cost, it is necessary to cut down the number of production companies.

Although a national, comprehensive development project was prepared for the meat industry in Slovakia, there were no essential changes in the structure of meat industry (low concentration of slaughterhouses and the high unutilization of production capacities), (3. Figure).

3. Figure



Source: GFK- Slovakian research institute, own calculations

This situation persists although the concentration of meat industry and its process of specialization in last years were favorably influenced by free exchange of goods after joining the EU as well as appearance of foreign food trading chains on the Slovak market, which meant the beginning of the significant concentration of demand and sale.

According to the development strategy, the integrated companies should divide themselves into specialized slaughterhouses and processing plants for the sake of cost's reduction and production efficiency. In this way they could take advantage of opportunities given by specialization including the reduction of costs, growth of labor productivity, effectiveness of selling apparatus (supplying commercial chains) and the increase of value addition calculated for the product's raw material unit as well. This process is only in the very beginning.

At the same time the meat product's production does not need as superior concentration as slaughterhouses, for companies with such profile are not so sensitive to operating costs because they produce high(er) value added products and it provides more favorable conditions for profitable management. In addition to that, this process is slowed down with by the absence of capital investors and the low degree of foreign capital's share as well.

According to the strategic plan there should remain minimum three, optimally placed slaughterhouses in Slovakia. Besides these industrial slaughterhouses some low capacity regional slaughterhouses should be established (for instance in collective farms, which operate a meat processing plant, specialized on regional market supply). From the point of view of specialization instead of small slaughterhouses rather the smaller processing plants should be kept on the market.

At present, joint stock companies TAURIS and MECOM represent the largest meat and meat-product manufacturers in Slovakia. (3. Table)

3. Table: The value of processed meat quantity (Billion Sk)

Company/Year	2002	2003	2004	2005
<i>Tauris, a.s.</i>	5,162	3,778	4,318	5,493
<i>Mecom, a.s.</i>	1,918	1,733	1,762	2,600
<i>Hrádok mäsokombinát,s.r.o.</i>	2,210	2,057	1,989	1,898
<i>PM Zbrojníky, s.r.o.</i>	2,117	1,793	1,613	1,430
<i>Mäso Spiš, s.r.o.</i>	0,511	0,490	0,446	0,720

Source: GFK- Slovakian research institute, own calculations

Although they have had positive economic results in the period of their existence, their development in the period of my survey, 2001 through 2004, was not even. Their economic development was influenced by a number of external as well as internal factors: cooperation in and concentration of the business – which, at the demand side resulted in the strengthening of their negotiating position, in particular in relation to store chains; increasing pressure of the strongest competitors; decrease in meat consumption; low purchasing power of the population; and also the growing number of write-downs due to reconstruction and modernization of production and technology, which, however, was inevitable to meet the strict requirements for animal health and hygiene, indispensable for the certification of companies producing meat and meat produces for the EU market.

In the area of trading meat produces, the figures of both companies are growing. The development in the field of sales of meat, bone and bowels was even more favourable. Both companies sell their products at the domestic and also international markets. Their largest costumers include national and international store chains operating in Slovakia, domestic costumers, tradesmen/manufactures,

who, in terms of their number, precede the commercial chains, but their potential decreases year after years. In order to achieve the most optimal results in the market, the companies' marketing activities are aimed at finding a well-balanced application of marketing-mix tools (product, price, distribution and marketing communication). Their most important products include unprocessed (fresh) beef and pork as well as beef and pork meat products. In price determination, the companies consider their own cost and the competing prices in the market, which are continually followed by their respective sales representatives. There is a range of different price levels in specific market segments. The joint stock companies distribute their products to end-users by means of their direct and indirect distribution channels. In terms of promotion and advertising activities, the surveyed companies distribute leaflets, publish advertisements in the papers, issue catalogues and use other means and forms of promotion (including the internet; ads displayed on buildings, stadiums, corporate vehicles, small gift items). The most effective tool aimed at increasing the turnover is special/sale prices.

Recently to analyze the competitiveness of certain companies, the most common instrument is the SWOT analysis (Strength, Weakness, Opportunities, Threats), which demonstrates the criterions to be considered without any special explanation. The point of the method is to confront threats and possible chances traceable within the company's environment with strong and weak points of the company.

SWOT analysis - Tauris

Strengths	Opportunities
Quality approach	Opening of new markets: export
Tradition	Product range expansion according to consumer' demands
Brand reputation, image	EU joining
High distribution	Strengthening the vertical integration
Customer orientation	High entering limits for new companies
Application of modern technologies during the production	Government programs for the meat industry support
K and F activities	Favorable macro economical indicators
Continuous supply of raw material	
Emphasis on human resources	
Weaknesses	Threats
Lower distribution than the average in medium size stores (100-400m2)	The position of rival producers is getting stronger
In certain meat segments the price is too high	Outer environmental, economical factors (instable prices, economic crisis) Strict environmental rules Changing of consumers' habits further decrease the beef and pork consumption.

Source: own compilation

SWOT analysis - Mecom

Strengths	Opportunities
<ul style="list-style-type: none"> - strong market position - reserves, liquidity - reliable quality - skilled labor force - international relationships - own vehicle park - own chain store - secure owner's background - well-known brand name, reputation - ensured resources - product development 	<ul style="list-style-type: none"> - quality guarantee - innovation in product development - EU cooperation - Trade (income) development - Product diversification - New target groups - Providing discounts in own stores - Better utilization of the internet
Weaknesses	Threats
<ul style="list-style-type: none"> - absence of own slaughterhouse - employees are not well financially motivated - inflexibility - price keeping obligation - less efficient customer service - obligations emerging from sectoral circumstances - ageing working staff 	<ul style="list-style-type: none"> - The position of rival producers is getting stronger (e.g. Tauris) - Threats connected with food safety - new EU rivals' appearance is expected on the market - decrease of solvent demand - too fast consumers' changes - aggressive competition - uncertain future of the sector

Source: own compilation

Proposals for the marketing strategy of Tauris a.s. and Mecom a.s.:

1. Work out product and price policy better adaptable to special consumer expectations

Products of Tauris a.s. and Mecom a.s. are positioned like high price level goods. Because of this I think is very important to lower some segment (red and cold meat) or product group to average price level, in this case we could target the average or poor consumer and products could be available also to families for every day's consumption. I would put very big stress on quicker developing different products to fulfill special expectations. Both of two companies have introduced new products, but the time of it is much slower than on the poultry farms.

2. Strengthening trade-name's image in consumers, so beyond the brand popularity make also stronger the name of single products in the consumers' mind

Both of two companies have lot of products on high quality level. Because of this beyond the trade-name strengthens we also need to increase the popularity of single products, effective promotions through strong media.

3. Position-strengthening in smaller shops

Tauris a.s. and Mecom a.s. quickly recognized, how much is important the presence like chains, because the bigger part of their turnover is take place in those stores. According to data they neglected these smaller shops, which have not brought so big income, but are increasing it significantly.

4. Strenghtening pig meat's popularity in the consumers

Efforts for healthy life style, advertising campaign of poultry farms, young people doesn't know to cook, these factors are decreasing the pig meat consumption. Meat industry and its labour organizations missed to react on propaganda against the pig meat. To have protein reserves is basic to have organism in good health; beyond this meat industry has offer new and modern products with gradually improving quality. There is a need of companies' joining in meat industry to stop the process, and in long term they could money get back multiple.

5. Take advantages of benefits arising from the joining the EU by getting new markets

Both of companies are prepared for integrating quality and regulation rules and have continously enlarged number of exporting countries. We have to take into consideration that after joying every bigger competitor is going to attack the union market and those could take the biggest chances that will appear as the first one. It needs to have a plan including exact figures of marketing strategies for those markets which have been unaviable up to this time or would have taken up too much investment.

6. Promotion, promotion and promotion

Both of examined companies have been presented in the media, they are sponsoring different events, attending fairs, advertising, strengthening their brand. According to me is very important to increase the advertising costs, to go before competitors because it is the primary, maybe the most important way of reaching consumers.

In order to establish and identify the consumers' creativity and ideas, I surveyed the consumers' initiatives in terms of marketing communication of the joint stock companies. The most important requirements and demands of the consumers:

- More information on new products, including presentations with tasting at shops;
- Corporate leaflets with the current assortment, informative prices and pictures of the products;
- Receiving an extra product or other benefit for buying a specified volume of products, or spending a specified amount of money;
- Competitions for the consumers.

According to the consumers' recommendations, the manufacturer should take firm measures aimed at traders, in particular in small shops, focusing on the way and hygiene of selling. The consumers have also suggested the manufacture to provide free gloves to shop assistants as part of the delivery. The consumers considered any kind of promotion useless in case the product loses its value in the shop under the consumers' eyes. The consumers considered eliminating this problem by means of competent authorities an extreme solution.

The analyses of in-depth interviews conducted during the elaboration of my thesis could be summarized as follows:

The respondents identified the following key changes in the consumers' behaviour:

1. there is a new category of consumers with increased health awareness, paying increased attention on the quality;
2. the place of shopping has been transferred to chains of stores;
3. the housewives wish to spend less and less time in the kitchen;

4. the demand for reprocessed and packed products has significantly increased;
5. the consumers require pre-cooled rather than frozen products;
6. due to travelling abroad and/or to the offer of chain stores, consumers require new products representing an increased added value.

In general, all concerned professionals have agreed to the increasing significance of reprocessed meat products. While in the past the meat products had only been “copied”, these days the companies have developed product groups highly specific for meat industry. These products are also facilitated by the accelerated lifestyle. A new generation has grown-up which welcomes the novelties and is not attached to domestic flavours.

4. NEW AND MODERN RESARCH RESULTS

1. After the changes and joining the EU the Slovak industry gained a new impulse and firm signs of economical concentration can be observed in the country's meat industry as well. As a consequence of concentration of beef and pork meat processing plants with more solid capital, the number of meat processing plants (slaughterhouses) has significantly decreased but the utilization of capacity with 56% at slaughterhouses, 73% at meat processing plants and 67% at tinned food industry is still a lot over the required quantity. In order to increase the effectiveness and competitiveness, the further concentration is unavoidable however the tight capital supply is still a limiting factor that can be changed only with the influx of significant foreign capital.
2. In a relatively short time period two Slovak meat plants managed to get among the market leaders with their own 50% share with applying distinct and very different marketing strategy. Despite the growing production volume of these companies they will not be able to increase their capacity without external help, unless they can implement one of the effective forms of capital concentration (fusion, alliance).
3. The meat companies of Tauris a.s. and Mecom a.s. –as competing companies - established a collaboration, which could be followed by any other companies. Within this collaboration the raw material (cut pig and cattle halves) for Mecom a.s. is supplied by Tauris a.s. as a subcontractor. The company of Mecom gets rid of operating costly slaughterhouses and at same time the 15% increase of the utilization of capacity contributed to the increase of the turnover (profit) of Tauris.
4. According to the questionnaire (survey) with 400 respondents the examined two meat plants do not utilize adequately all the available marketing tools to attract customers. They invest insufficient amount of

money into promotion and the efficiency of amounts spent on promotion is also leaves a lot to be desired.

According to surveys it can also be ascertained that a stratum “sensitive to quality” is emerging in Slovakia, which does not really care about the price of products as a result of its financial situation. However the majority of customers are still expressly sensitive to the price.

5. The depth interview prepared with the two market leader meat companies’ marketing managers shed light on disadvantages, which come from neglect of continuous observation and survey of customer’s demands and opinions as well. These issues are not dealt effectively even with the two meat companies mentioned hereto. The own researches also show that the knowledge of the trademark itself is not enough to win the customers and mainly at the newly appeared products it will be needed a more efficient promotion campaign.

6. LIST OF PUBLICATIONS

Scientific journal published in Hungarian language in supervised professional periodical:

1. Végh Katalin (2007): Fogyasztási szövetkezet a Dunaszerdahelyi járás élelmiszerkereskedelmében, Gazdálkodás, 51. évfolyam 20. számú különkiadás 2007, 189 – 197. o.
2. Varga Anita– Végh Katalin (2002): Hazánk sertésminősítésének helyzete az Európai Uniós csatlakozás tükrében, Gazdálkodás 2002/6, szám, 52 – 58. o.
3. Végh Katalin (2007): A szlovákiai húsipari vállalatok marketingstratégijáját befolyásoló tényezők vizsgálata. Gazdálkodás – megjelenés alatt – under publication

Scientific paper published in foreign language in supervised professional periodical:

1. Végh Katalin (2007): Consumer association in the Dunaszerdahely district food trade, Acta Agronomica Óváriensis – under publication

Published conference presentation in Hungarian language:

1. Végh Katalin (2007): A marketingstratégia elemzése Szlovákia két piacvezető húsipari vállalatában, Európai Kihívások IV., Tudományos Konferencia, Szegedi Tudományegyetem, előadás konferencia kiadványban – megjelenés alatt
2. Végh Katalin–Kiss Gábor (2007): Fogyasztási szövetkezet marketing-stratégiája a dunaszerdahelyi járás élelmiszer-kereskedelmében, Európai Kihívások IV., Tudományos Konferencia, Szegedi Tudományegyetem, előadás konferencia kiadványban – megjelenés alatt

International conference:

1. Végh Katalin (2004): The country – improving and the agrotourism in South Slovakia, WEU Mosonmagyaróvár, Nemzetközi Konferencia, előadás konferencia kiadványban, 80. o.

Diploma work:

1. Végh Katalin (2001): A Kleimber Kft. marketingtevékenysége a külpiacon. NYME-MÉK Mosonmagyaróvár.