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The economic and marketing importance of local food products in the business policy of a Hungarian food retail chain

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Abstract

Local product cedures and with traditional flavouring, are increasingly preferred by consumers. D iological advantages and peculiarity these products could achieve significant co ational food trade. The aim of our study is to explore how local food product manu moted in the trading policy of one of the largest Hungarian food retailer chains.

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Keywords: Local Food Products, Sales Promotion, Marketing, Trade;

1. Introduction

In Hungary, the importance of the local food became clear in the recent years. As a result of some imported foods' bad quality scandals, even the Hungarian Government realized that there's a need to create a new legislation to define local food. This led to create the "Hungaricum Act" which describes the typical Hungarian traditional food, and the "Local Product Act" which makes different levels of a product how deeply it can be called local (Hungarian food, Food produced in Hungary, etc.).

Coop, a wholly Hungarian owned franchise based retail chain realized the importance of local food years ago. Its predecessors – the Hungarian consumer cooperatives – had specialized production groups set up regionally producing food for the retail chain's needs. This system has worked until the mid 1990's. However in the upcoming years it was not centrally organized, the Coop member companies maintained strong relations with the producers and kept their products on the shelves. Coop is a company that believes in long term strategies, and builds 5-year strategy plans. In the very recent one (Co-op Hungary Ltd, General Assembly, 2012.) the importance of the Hungarian product still remained a top prioty issue.

The Coop chain, relying on co-operative traditions, is present almost in the whole country, has about 3000 stores in over 1650 settlements. In its turnover the proportion of domestic products is about 90%; it has contracts with about 700 SME-s; and helps to distribute nearly 95.000 Hungarian products to the market.

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The aspects of local food is often analysed by numerous studies. The first question where most of these studies start is what we can call local food. In our study we could use a lot of these definitions, however most of them come from the USA and calculating with geographical distance as main attribute of local. For example the USDA (United States Department of Agriculture) at the 2008 Farm Act defines the total distance that a product can be transported and still be eligible for marketing as a "locally or regionally produced agricultural food product" as less than 400 miles from its origin, or the State in which it is produced.

2. Methodology

Our study aim is to explore how local food product manufacturers are embraced and promoted in the trading policy of one of the largest Hungarian food retailer chains.

Complementary analysis was performed in those categories which contained too few regional food products to find reasons.

As a starting point we got sales figures from 49,300 food products. We categorized these into product categories and at the same time defined if it's a local product or is it from abroad. First we categorized all products that had Hungary's GS1 prefix (the GTIN number starting with 599) as local, all others as imported. Then double checked the lists and manually made corrections. It was necessary, as there are some companies that import products and sell them at their home labels (most of the multinational companies do so). And at the other side there are companies that have international GTIN range and have production lines in Hungary (e.g. Coca Cola). As a result of that we had a list of products with sales figures.

In this study we analysed the 2012 January-July seven months to check whether the strategic goals and the sales figures show the same to us.

3. Results and discussion

We found, that the sales percentage of local produced products is higher in those categories, where the production is less complicated and the role of the complex marketing is less important. In those categories, where professional marketing tools (etc. trade marketing elements) or complicated production procedures are required, the existing manufacturers can keep their positions (Hajdu 2011, Lakner 1998).

As different approaches of local food we found the following describing attributes:

- geographical distance between the place of the production and the end consumer
- production methods, that relate to environmental sustainability, e.g. reduce use of synthetic chemicals and energy-based fertilizers, are environmentally friendly, and limit chemical and pesticide residue on food
- the food producer itself: the personality and ethics of the grower, the attractiveness of the farm and the landscape
- a farm with strong social connection with its surrounded environment
- Local food can be also a part of a short food retail chain (SFRC), as the offer of the producer and the needs of the consumer can meet without other actors in the trade channel

In our study, as Hungary's geographical size is below 400 miles, we choose to call local food all the SKU's sold in the retail that are produced in Hungary.

The results of the analysis are the following:

Food:

- 87,35% of the total food sales are domestic products (Figure 1.)
- At the categories with the biggest turnover (mainly the fresh categories: processed meat, raw meat, dairy, vegetables and fruits) the share of the domestic products is higher.
- At the innovative categories (e.g. dehydrated soups, dry dressings) the imported share is significantly higher, however these are less important categories from the turnover point of view

- Something against the trend: UHT 1,5% fat milk. In this category the domestic share is 17,70%. This is caused by a simple purchasing issue: the import UHT milk is cheaper then the domestic. That's why the retail chains have these in promotions and the consumer buy more - because of the attractive price.

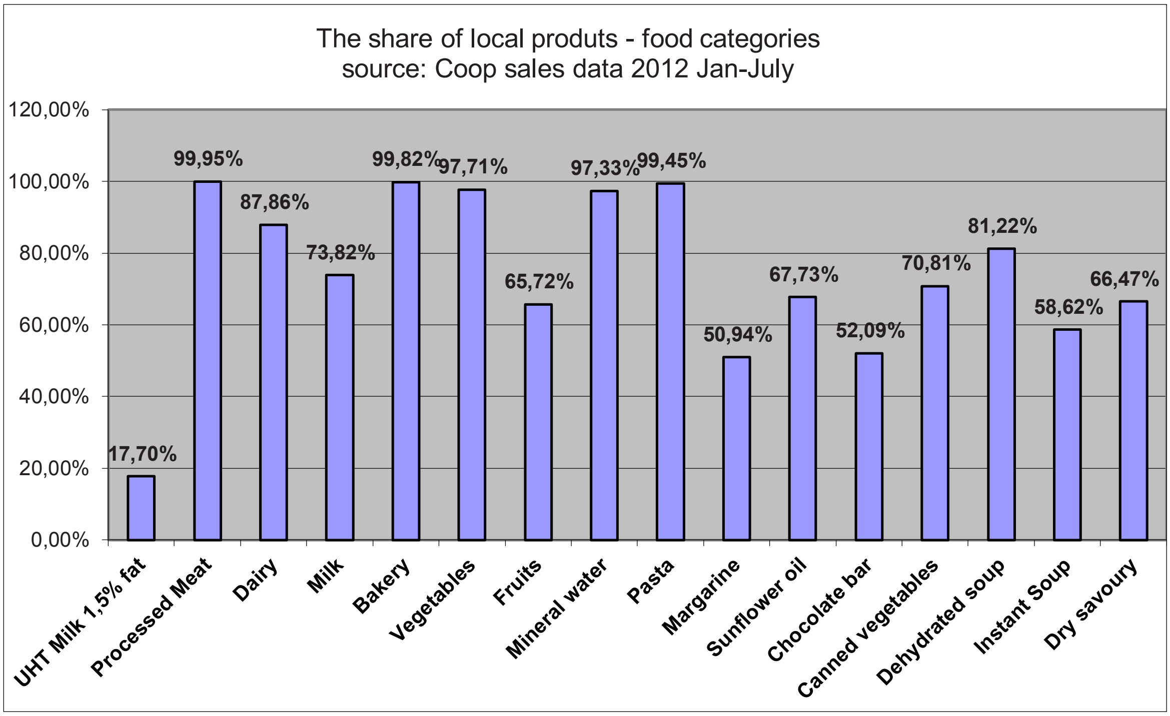


Figure 1: The share of local products – food categories

Non food categories:

- 74,01% of all sold drug items are imported
- At those categories, where the role of the brands is strong (e.g. washing powders, dishwashing liquids, shaving), the percentage is above 80%, sometimes even 85%. (Figure 2.)
- There are some examples, e.g. tissue category, where the Private Label products became strong and now these sell more, than the branded ones.

On the market we can observe strong competition in all of the highlighted categories. Manufacturers operate with new products launching and promoting the existing ones. Since the early 1990s, the period of the free economy, each product category has made a long way to reach this status.

As a result of the previous years competition between manufacturers and retailers, each market player could choose its own way to be successful. In this competition the role of the domestic products became more important in the recent years. Some retail chains (e.g. German discounts) prefer the best possible purchasing possibilities, while others (e.g. Domestic Traditional retail chains – Coop, CBA, Real) prefer to buy from domestic suppliers. As a result of these strategies, there are huge differences between the assortment of retailers.

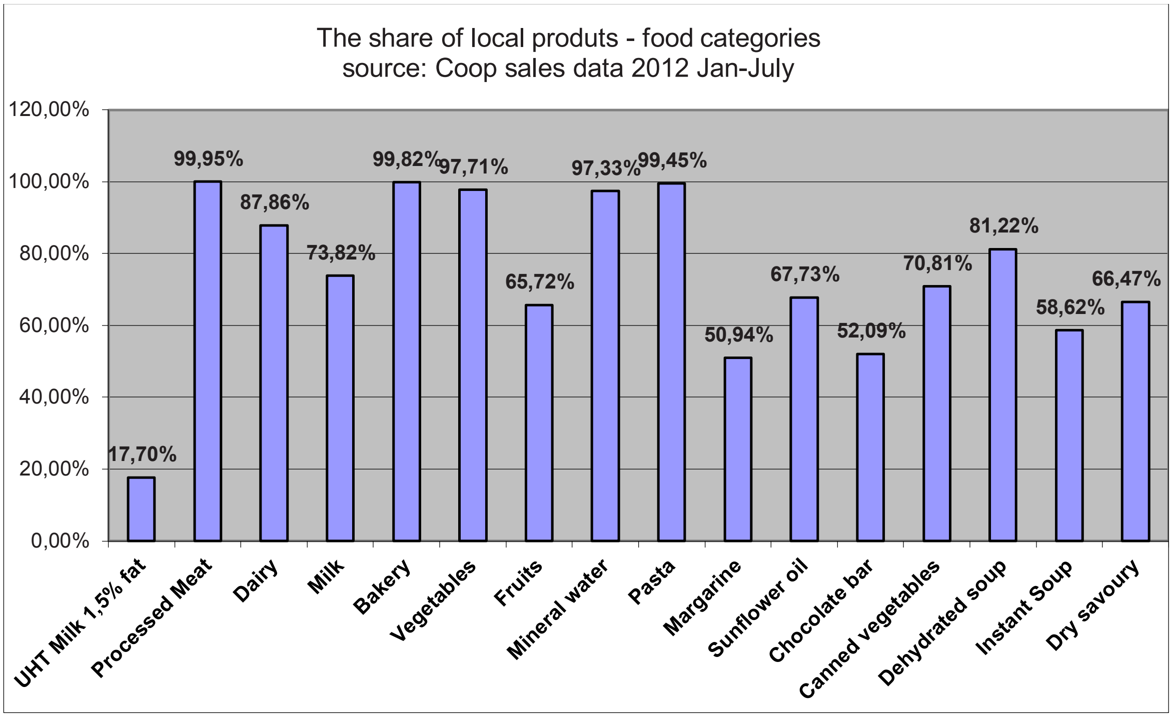


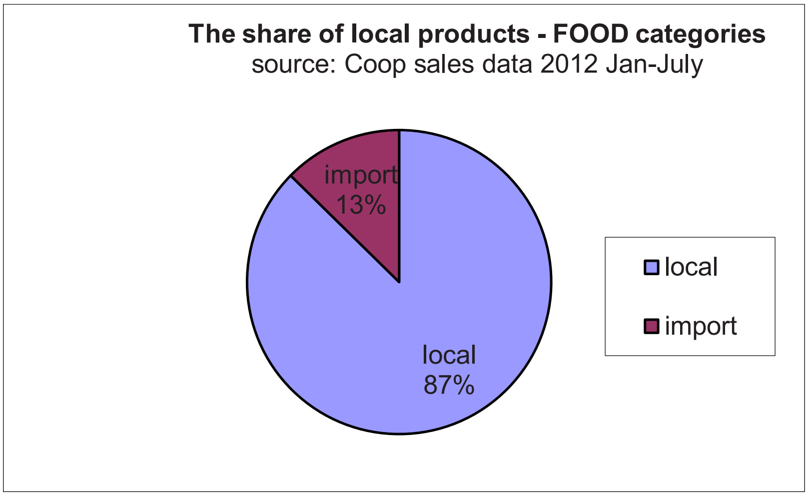
Figure 2: The share of local products – drug categories

Behind Coop's strategy, as big supporter of domestic production, there are considerable reasons, for example:

- By having more domestic factories, there will be more employed people who spend their income at local retailers
- The sourcing from local retailers helps keeping the level of the environmental emissions low (e.g. by smaller transport distances)
- If the local food industry is strong, it requires agricultural production as well
- The local food production's taxes and profits are good for the whole economy

While there is a strong strategy of Coop to source as many domestic products, as possible, in some categories the share of the imported products is higher. Those are categories, in which:

- Strong brands came in the country years ago and the local products could not win back the previous share (e.g. Milka chocolate, Coca-Cola).
- New developed categories, where the added value and the continuous development is important (for example dressings, savoury, etc.)
- Categories, where the production is complex and/or the economies of scale is higher (most drug categories, e.g. washing liquids) (Figure 3.)



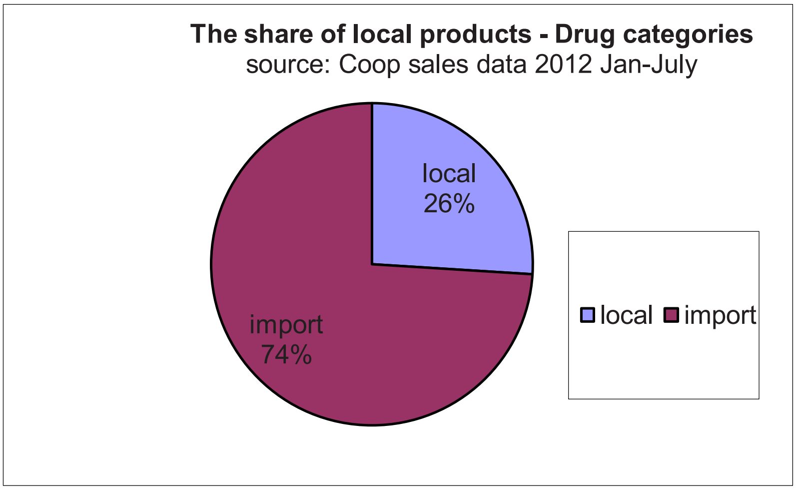


Figure 3: Comparison food and non food categories

Although these courses of proceedings exist, the fresh product categories are still domestic dominated. The reason behind that is:

- the fresh products have short shelf- life, and long transportation would cause shorter time until expiry dates (e.g. in case of fresh fruits it is a huge challenge)
- in some categories it makes no sense to transport the products as there are local manufacturers near the destination (e.g. bakery, fresh meat)
- In most of these categories the most of the products are still not branded (e.g. fresh meat) or the brand loyalty is lower

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