Vertical Coordination in Central and East-European Countries: Status Quo and Outlook

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“Vertical coordination is more important and more widespread in the transition countries of Europe and Central Asia than generally recognized.”

Swinnen (2006)
Background

- Relationship breakdown along the whole food chain in CEEC in the transition period
- Vertical coordination → coordination of each link in the food chain to overcome problems of supply and quality
- Driving forces → end consumer requirements, demand for inter-firm trust, quality aspects, etc.
- Chain-wide concept needed, i.e., chain quality management
Problem

- Vertical coordination and the resulting managerial challenges can be viewed as one of the most relevant challenges for enterprises which are or want to be active in Central and Eastern Europe.

Objectives

- Outline the extent and relevance of vertical coordination in CEEC.
- Outline future challenges regarding vertical coordination in CEEC.

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Agribusiness in Transition – Ukraine as Example

Improvement of the consumers’ requirements

The development of modern retail forms (supermarkets, hypermarkets and cash & carry)

- Ca. 15% in total retail turnover
- Of these, 49.4% belong to top five retailers
- 18.7% of total FDI

Processing sector

- 19.5% in Gross industrial output
- 13,000 – small enterprises
- Consolidation in meat processing, milk processing, flour-milling and sunflower-seed processing
- 13.5% of total FDI

Agriculture

- 13% of GDP
- 6.5 thousand – SME
- Households produce about 60% of Gross agricultural output
- 2.7% of total FDI

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Majority of transactions via price mechanism

Contract breaching, poor contract enforcement

Mistrust among supply chain actors

Shortage of quality supplies

But:

FDI increase

Implementation of own business models by FDI
What is the status quo of vertical coordination?

What can be expected?
Interviews with Experts

- Fifteen telephone interviews (from 15 to 30 min)

- Experts from:
  - **Retail** (purchasing directors, CEO in quality management)
  - **Food processing** (managing directors of a meat processing, beverage, dairy and confectionary companies)
  - **Agriculture** (managing directors of agricultural enterprises)
  - **Agricultural inputs** (supply chain manager of the agricultural machinery company)
  - **Non-governmental and research institutions** (managing directors of international standardization bodies, project manager of IFC, managing director of an international retail institute)
Blocks of Questions

- Level of realization and understanding of chain management issues in agribusiness
- Cooperation mechanisms being used
- Existing solutions to coordination problems
- Use of known chain management concepts
- Quality management as a sub-strategy of chain management
- Characteristics of transition economies
Vertical coordination and chain quality addressed at first hand by FDI

- Installation of chain management practices to follow strategic framework
- Rolling-out of global IT-standards and supply chain management techniques
- Own quality control (GLOBALGAP, ISO 9000, HACCP) and distribution

Vertical coordination and chain quality by local agri-food companies

- Rare evidence of international quality standards
- Imitating strategies
- Branding in some sectors (e.g. milk processing)
- General cooperativeness and willingness to supply for well-known multinationals
Challenges for vertical coordination and chain management

- **Infrastructure** (scale inefficiencies, worsened communications, seldom used modern IT, low labor qualification, etc.)
- **Marketing** (lack of information about quality and quantity of supplies, etc.)
- **Quality** (low quality of supplies due to the lack of necessary inputs, expertise and know-how)
- **Trustful relationships** (mistrust to partners and institutions due to non-payments, weak contract enforcement, etc.)
- **Transaction costs** (high costs induced by search for reliable partners, etc.)
- **Financial and price aspects** (low access to bank loans, lack of liquidity, price disparities, etc.)
Expectations

- Formation of supply chain networks
- Strategic chain management frameworks as a pattern, not as a straightjacket
- Strong cost orientation of most enterprises
- Approaches to operative quality management will dominate the scene
- Importance of general cooperativeness
Thank you for your attention!