Value added and rural development effect of POs in the fresh fruit and vegetable sector

Lessons learned and future possibilities

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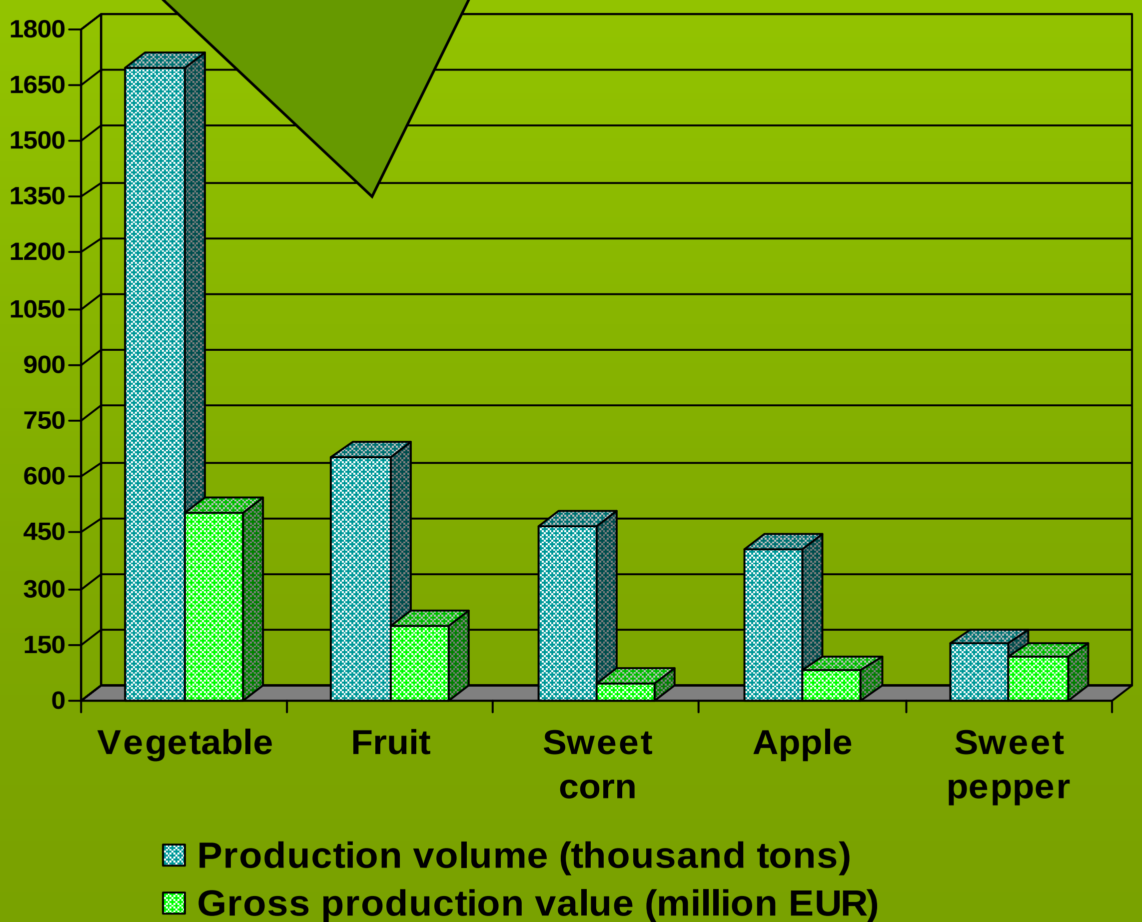
Introduction of the Hungarian fruit and vegetable sector

▪ Figure shows 2005-2007 average data, because of catastrophic year of 2007 for fruits
▪ Fruits had negative growth between 2000-2007 especially apple
▪ Vegetables had positive growth especially sweet pepper and corn



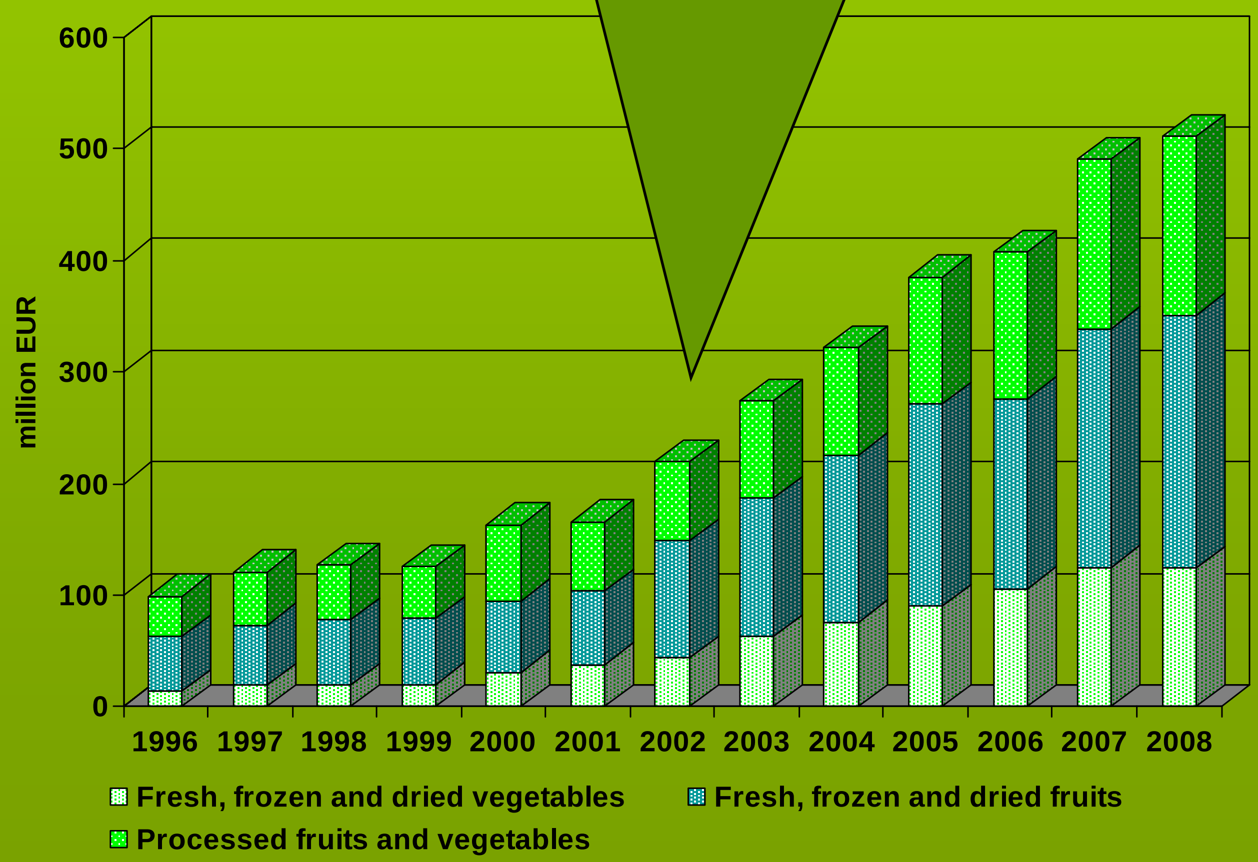
Source: Authors own calculation from HCSO data

Importance:
▪ Share of f&v sector from the agriculture production value is around 12%
▪ Share of f&v sector from the agriculture production area is around 3%

Structure:
▪ Domestic fresh market increased its importance from 24% to 32%
▪ Processing industry loosed ground from 61% to 54%

Global challenges faced by F&V sector: Increased import competition

2002 Year of major pre-accession trade liberalization:
- Starting point of steady import increase
- Fruit trade balance turns into negative



- Vegetable import increased the most
- Fruit trade balance already negative
- Only processed f&v trade balance improved
- Some traditionally competitive Hungarian fruit and vegetable under serious import pressure

Source: Authors own calculation from data provided by HCSO

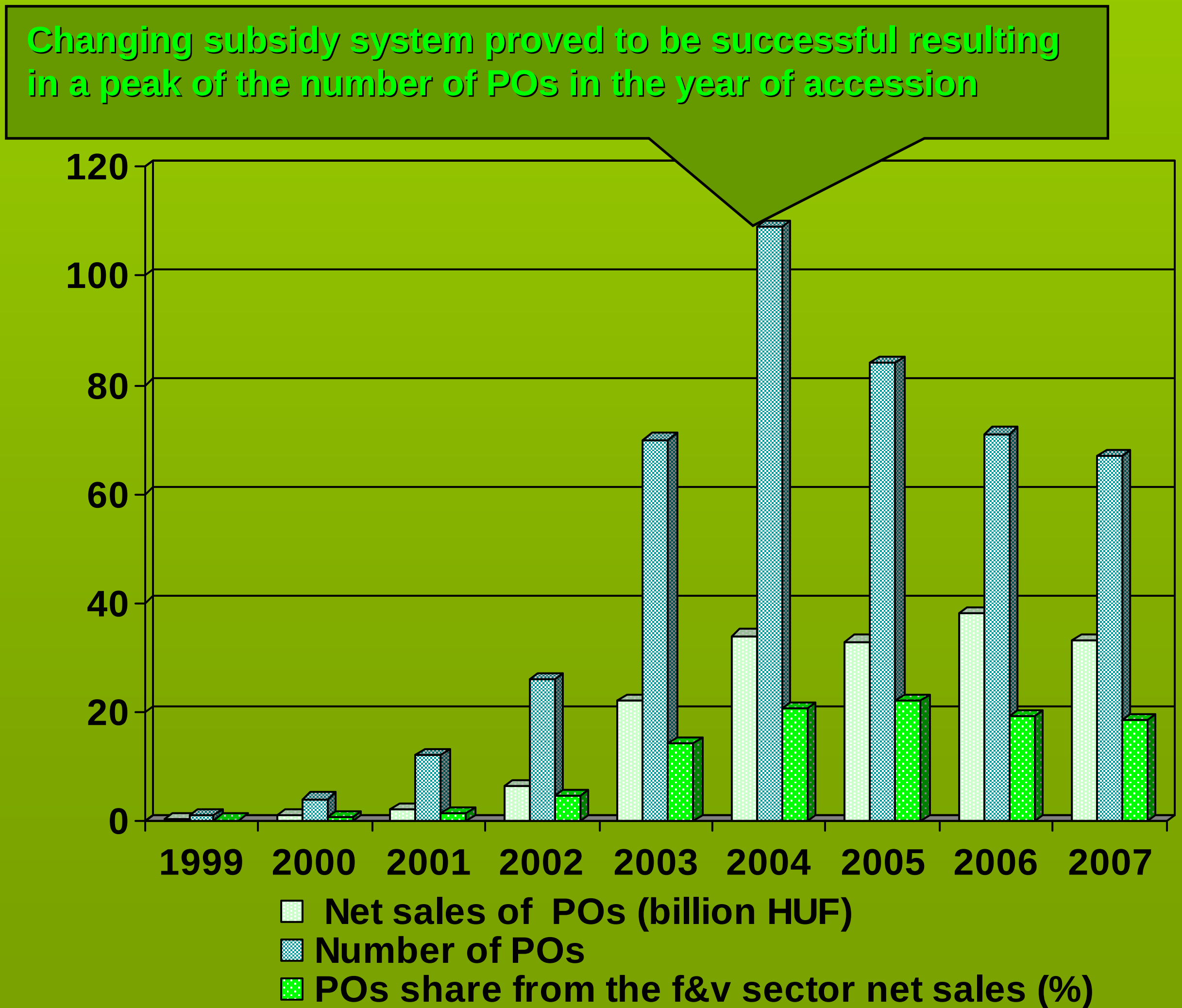
Global challenges faced by F&V sector: Pressure of the modern retail sector

2004/2005 a real turning point:
▪Hypermarkets and hard discounters lead the killing competition.
▪Hungarian chains learned to be professionals in a short time.
▪Suppliers face increasing demands and „practices”:
▪„...to be a successful supplier of a retailer is like trying to hop on a TGV, it was far more peaceful and friendly even five years ago.”

Source: Authors own calculations from data provided by HCSO

Five periods:
- Spontaneous privatization (1989-1991)
- FDI privatization (1991-1995)
- Transitional years (1996-2000)
- Concentration (2001-2004)
- „Hard”conditions (2005-)

Local answer should be PO!
Why does not PO's have more importance?

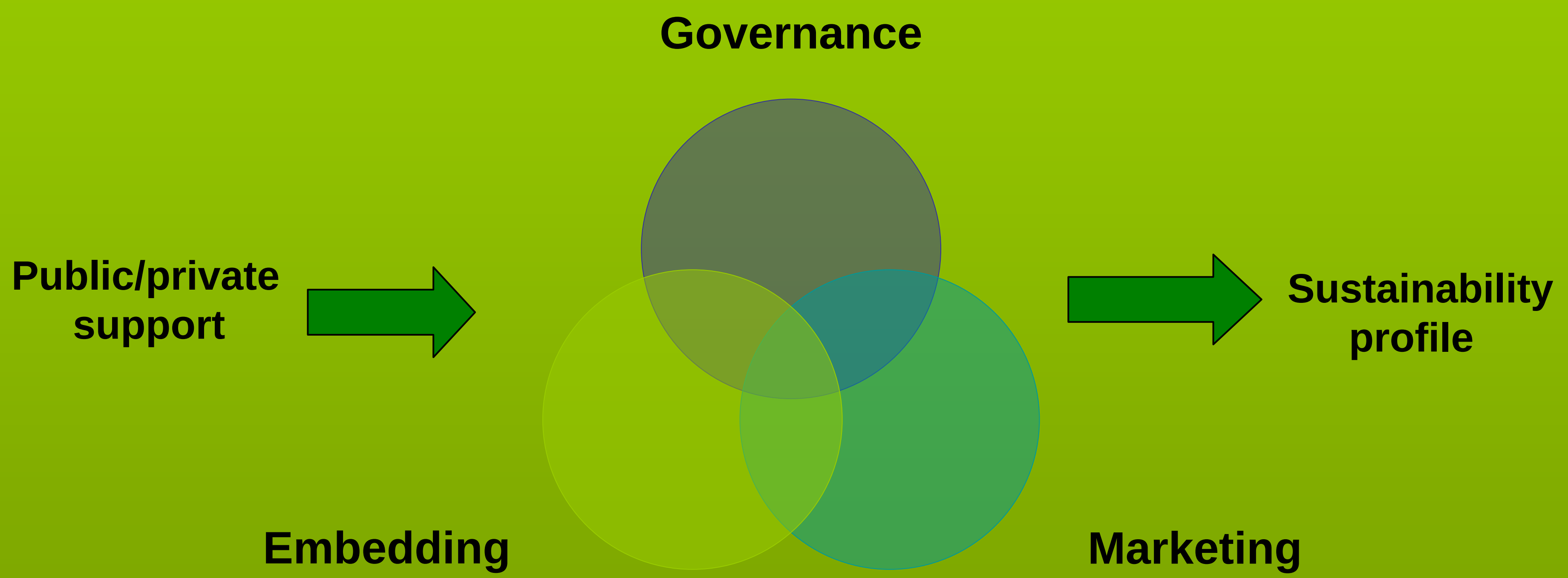


Source: Authors own calculations from data in Dudás [2009]

Obstacles already known [Erdészné-Kozak,2009]:

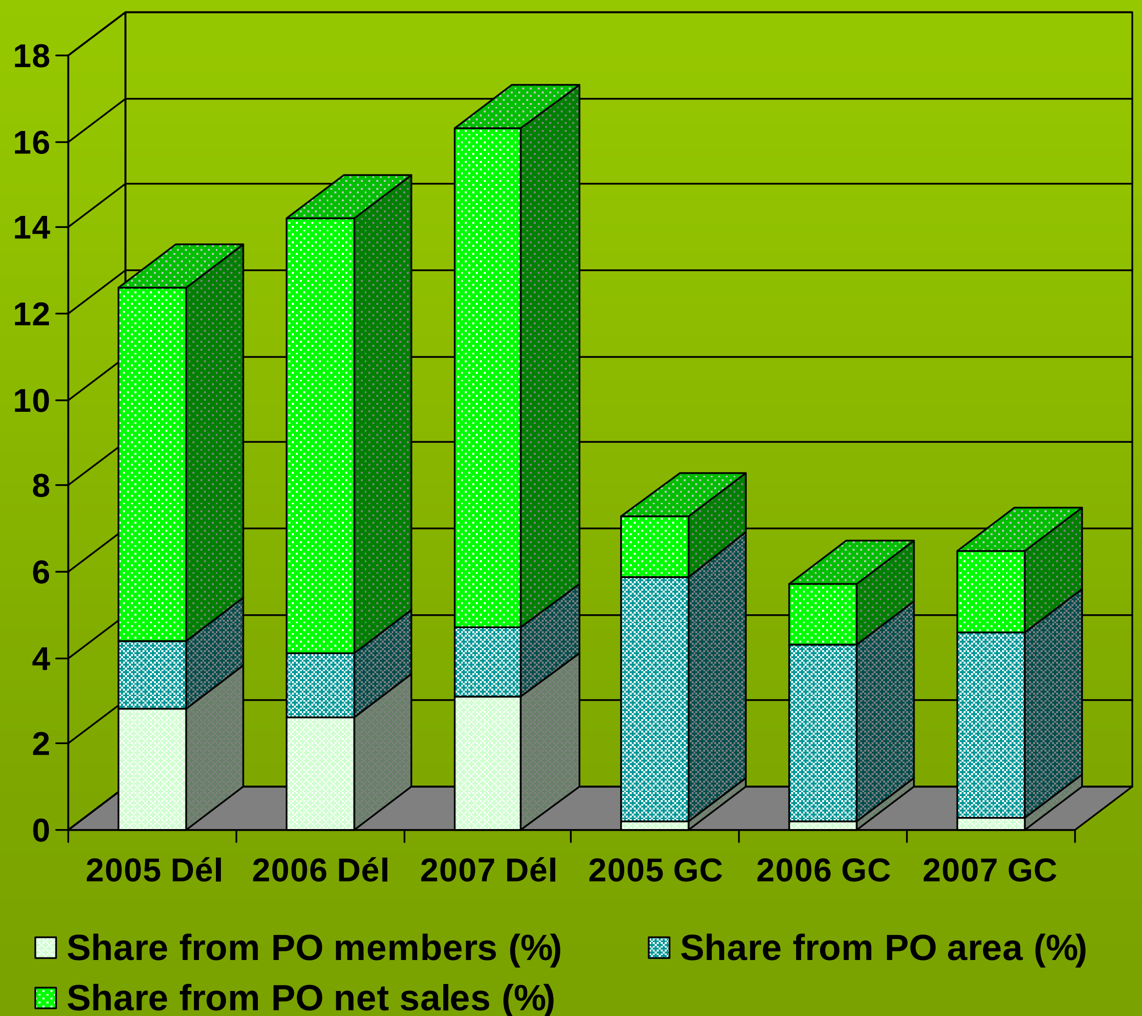
- **"Tax-minimizing" wholesale traders v. transparent POs**
- **The completely disintegrated relationships are difficult to rebuild even in 20 years**
- **Still lingering past of the forced cooperation**

General and sector specific problems: GEM profile can show all



Source: Wiskerke [2002]

Introduction of the case study POs



Source: Authors own calculation from case study data

DélKerTÉSZ:

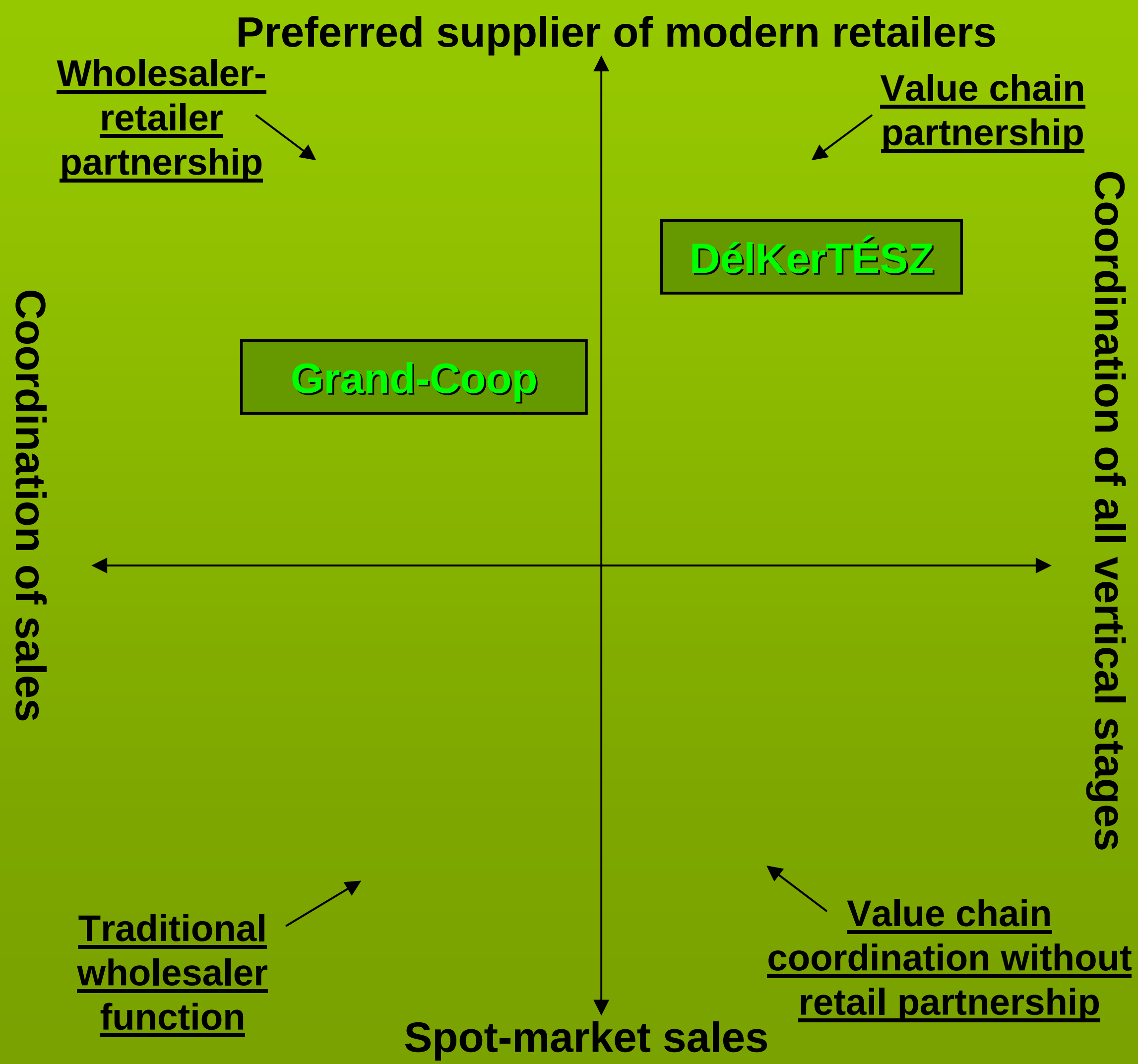
- **Off-spring of a former cooperative based production system**
- **Second largest PO**
- **Members mainly producing vegetables in intensive glass-house and foliage systems**

Grand-Coop:

- **Without former cooperative background**
- **Smaller in scale**
- **Coordinates fruit growers**

Both successful and sustainable with different problem areas

Value chain governance types of DélKerTÉSZ and Grand-Coop



Source: Authors own figure based on case study results

- Timeline shows similar development stages: distribution centre, improving grading, packaging, transport and traceability
- DélKerTÉSZ 5 quality developments, closer internal governance and partnership with the modern retail sector
- Grand-Coop 4 production volume improvement, more wholesaler activity, increasing amount from non-members

Embedding of DélKerTÉSZ and Grand-Coop

General

Advance:

- Public support and increasing
- Market pressure rising

Hinder:

- General mistrust related to cooperation
- Opportunistic behaviour of producers
- Aging and weak motivation of younger generation to continue farming
- Lack of short-term operational loans
- Legislative obstacles of thermal energy use

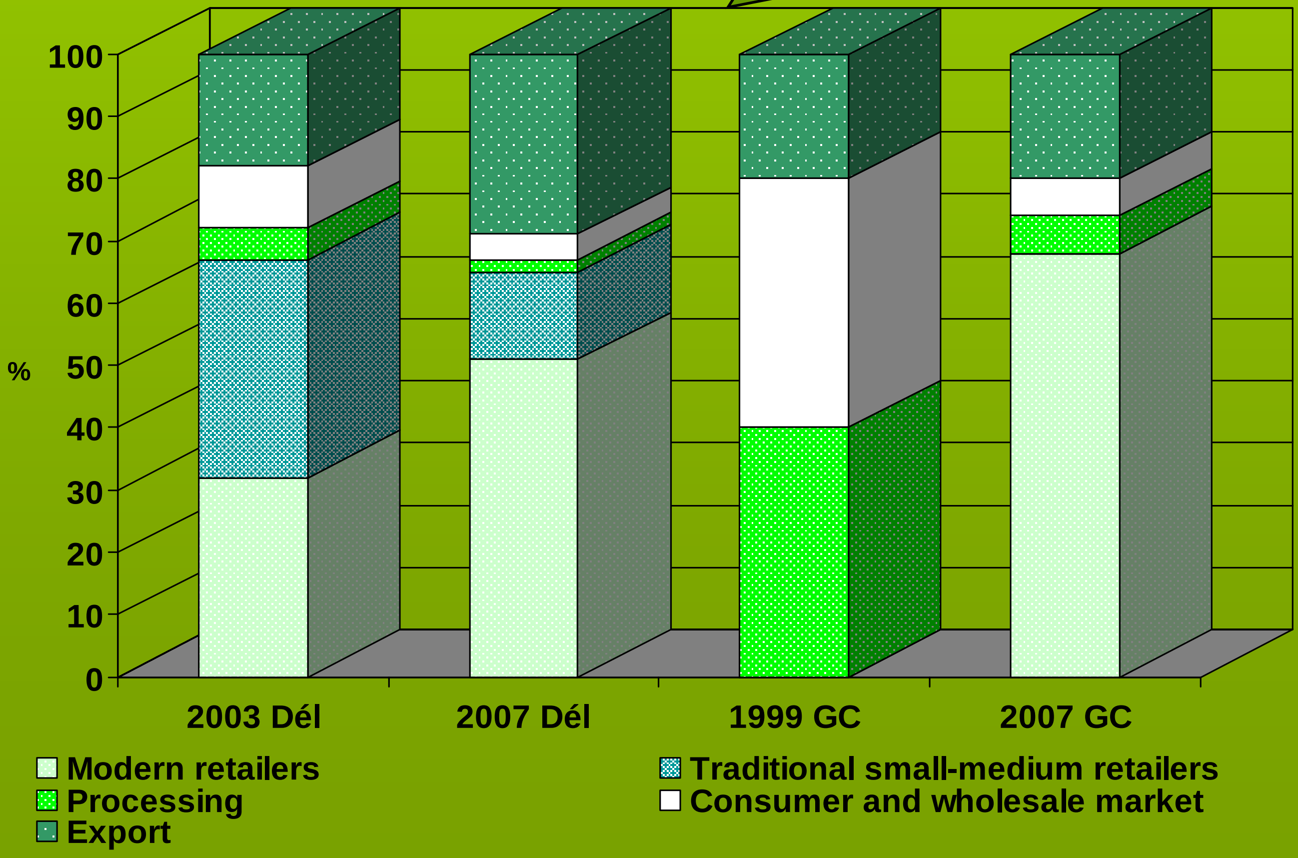
Local

Advance:

- Considerable full time and seasonal employment in rural areas where industry is not dominant, and alternative options are rare
- Active in sponsoring local cultural and sport activities
- Cohesion between the members quite high
- Personal relation with the municipality is good or neutral
- Tradition of fruit and vegetable growing

Marketing of DélKerTÉSZ and Grand-Coop

Marketing activity of the two POs differ, DélKerTÉSZ being far more active, but even Grand-Coop is doing more than the sector average: homepage, distinctive logo appearing on the packaged products, being almost 80% of their sales



Source: Authors own calculation based on case study data

- Modern retailers gained share
- Wholesalers and traditional retailers lost share
- Exporting activities grew
- Drastic importance decline of processors

Main dynamisms and bottlenecks of DélKerTÉSZ and Grand-Coop PO

	Dynamism	Bottlenecks
DélKerTÉSZ	Preferred retailer supplier status (G-M) Reasonable use of subsidies (G) Special IPM quality initiative (G-M) Increasing the share of the ready to buy sized packaging (M) Joining a premium product initiative (M) Tradition of intensive growing (E)	"Tax minimizing" semi-illegal traders (E) Legislative obstacles of thermal energy use (E) Retailers different pricing policy for the global suppliers (M)
Grand-Coop	Similar member profile (G) Diversification of the wholesale activity (G-M) Adding-value by increasing the share of packaged products (M) Gaining market share by diversifying the offered product line (M-G)	Lack of short-term operational loans (E) Buyer power of retailers makes paying period long (M)

Source: Authors own table based on case study results

Conclusions

- DélKerTÉSZ: main driver is the governance and marketing based value chain partnership, allowing for quality innovation

- Grand-Coop: main driver also governance and marketing based, extended wholesaler activity which allows for the required flexibility but only viable with professional and quite similar members

- In both cases the major obstacles and threats come from embedding and not the local but the general economic and legislative situation.

Extension of research

- **Next year: we would like to extend our research to all of the operating POs in Hungary, making it possible to create typical PO clusters with typical success and failure factors.**

- **Long term: aim is to develop our results into a good practices handbook with emphasis on warning signals at the critical development stages.**

Thank you for your attention!