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Experiences on organisation of fruit and vegetable sector in Hungary

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Abstract: The objectives are (1) to reveal some current issues on organisations founded by fruit and vegetable producers and (2) to stress upon those factors that should be highlighted in the very next future. In Hungary, POs have been accounting for bigger share of fruit and vegetable trading in Hungary, which refers to a better organisation in the sector. Bargaining force and level of experience on running such businesses, although, are still much behind the level expected. Flexibility and speed of a running business are highly determined by the legal form of Pos. The most favourite form is cooperative that is not flexible enough as a business form, especially for starting businesses. Low yearly turnover and weak market power feature the POs, preferring short time solutions to strategic thinking. It is macro environmental factors that generate short term thinking, but coupled with mismanagement on different levels of corporate management.

Key words: producer organisation (PO), fruit and vegetable, management

1. Introduction

Cooperation of producers in the EU dated back to the twentieth century, which is a continuous development more-a-less. But at least there was no break down in the process concerned as a development. By now, cooperation focusing on product chain could not response properly to the fast change of markets. Therefore, a new approach come from the force of fast and proper response to the market, that bodied in a new type of organisation called producer organisation (PO). This organisation, which is called producer group at the beginning of its lifecycle, is meant to be an organisation to communicate the market needs to the farmers and to assist them in order to turn those needs into operations for the farmers to be competitive (*Felföldi*, 2005).

Producer organisations play their role and secure their weigh by different but basic operations such as sorting, packaging, storing and marketing. POs in the fruit and vegetable sector are of great importance, since over 70% of yearly turnover of fruit and vegetable products has been done by such organisations in The Netherlands and Belgium. Furthermore, they have also significant roles in Spain and Italy with the extent of 50% and 27%, respectively (*Felföldi*, 2007).

2. Materials and methods

To find out organisational status and dynamics of producer organisations in the fruit and vegetable sector in Hungary, I applied databases of authentic organisations such as AKI (Agricultural Economics Research Institute) (*Dorgai*, 2005), FVM (Ministry of Agriculture and Rural Development, Hungary) and Fruitveb Hungary (Hungarian National Fruit and Vegetable Interprofessional Organisation). I also made interviews with managers of organisations concerned and regular personal monitoring had been done in several cooperatives (with the title of PO) in order to get the real picture of their operation, assets and status.

3. Results and discussion

3.1 Experiences and features in general

There are such experiences which feature these organisations in general in the EU. There has been an increase in numbers of organisations operated by producers and investors among their members. In the meanwhile, total number of them has been decreasing, which is concentration, forming international organisations. They gain more value and market power at international level, providing more developed vertical integrations. Integrations have focused on effective production and marketing. They produce goods of high quality that couple with stronger export activities, while becoming more decisive the environmental and quality aspects.

Flexibility and speed of a running business are highly determined by the legal form of the organisation. Most applied legal form of PO is cooperative that is not flexible enough as a business entity. At the same time it does not mean that this legal form can not be successful. Evidence exists in the agro-food sector in the EU, which has successful cooperatives coming from dairy and meat sectors. See in *figure 1*.

Sectoral comparisons show the size of successful organisations featuring specific sectors and their potentially competitive scale within the EU.

Considering a product chain, this has some defects such as the decisive fact that producer organisations are not involved in the retail sector. This statement, although, includes many factors responsible for circumstances dominating nowadays. Despite of its complexity it is true, and parallel with power issue mentioned in the previous paragraph these allow retailers to drive sector patterns.

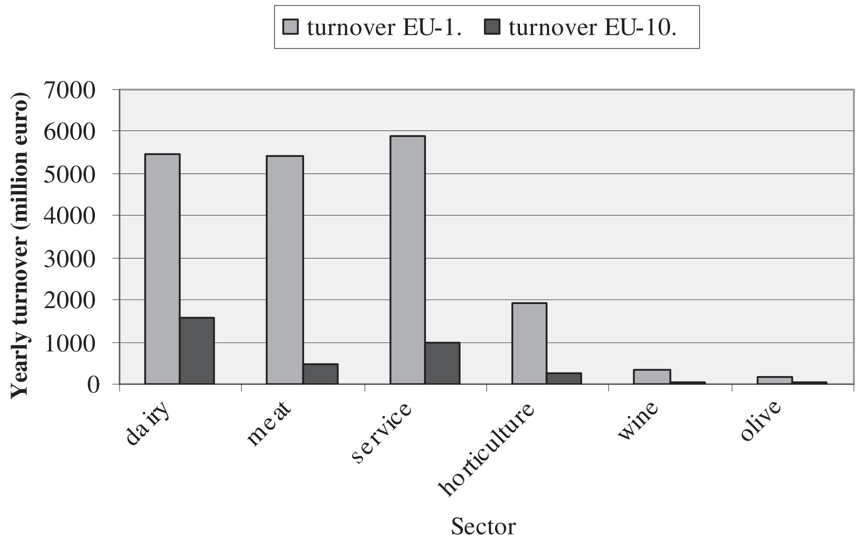

Figure 1. Yearly turnover of coops in agro-food sectors in the EU in 2003
(1. =First and 10. = tenth of the best ten of that sector)
Source: EUSTAT, COPA-COGECA, 2006

Globalisation results in concentration in this sector too. Experiences say that there are good reasons to be worried about the concentration in the retail sector. Concentration is faster among customers and competitors than among fruit and vegetable producers. This has significant effects on every day business transactions, proving that there is no doubt about the stronger market power of retailers.

3.2 Experiences on organisations in Hungary

Unfortunately, there still exist POs of which formation were generated by only grants. Most of them have been disappeared as entities, and a process featured by amalgamation helped solving that unfair state. Related pattern of decreasing number of producer organisations and their share out of sectoral is shown on *figure 2*.

In spite of that fact, it is rather the subsidy to motivate forming and operating such producer organisations than recognising and making decision on competitive factors. Organisations operating as expected have reasonable strategic management generating necessary investments and essential value added. They are featured by diversification focusing on how to fit those activities. These are important from the company aspect. From the members' aspects, there are expectations to be met by such processes as clear and precise accounting, procurement, and post-harvest. To fortify the members' positive approach to their own companies, it is vital to follow the basic regulations on operation, since such decisions have often failed.

3.3 Outlook for producer organisations

External effects derive at European Union level express the trends they have to realise and follow. There is a statement saying that opportunities on cooperation are highly not utilised as expected in member states in general. It is specifically true for new member states (Hungary is included of course) (*Felföldi*, 2009). Furthermore, it is high time to improve the flexibility of the operational features of the cooperative as a legal form, focusing on practical aspects to be competitive compared with other legal forms. This means

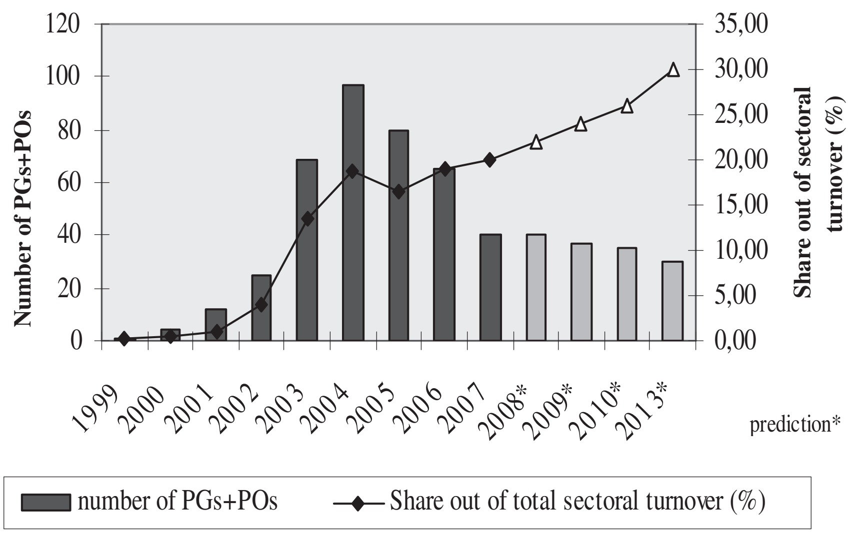

Figure 2. Number of producer groups (PGs) and organisations (POs) and their share out of the sectoral total turnover in Hungary (1999-2007) and prediction
Source: Felföldi,2008; FVM ,2008; and Fruitveb, 2008

such changes that can defence the interest of members and their equity in the cooperative generated over many years of time before.

Roles of cooperative in the social- and employment policy, and in the regional and rural development will be stressed upon again, parallel with the agricultural activity.

Ability to solve the challenges coming from defects and failures of the sector can represent the internal effects. Here are some of the most important challenges to which they must find out the right responses.

Mainly organisations with low turnover and weak market power dominate the supply side of the sector, which are often motivated by short time solutions. Formation is generated by „middle-men" in the sector, in spite of bottom- up formation that would be reasonable. At the same time it means that access to profit is still closed for real producers. Lack of post harvest infrastructure is a general issue, but this rather features those organisations which were formed by small scale producers than the others whatever they are. Short term thinking exists that is forced by macro environmental factors, but coupled with mismanagement on different levels of corporate management.

4. Conclusions

There are organisational defects and failures in general in Hungary, which are still not killing factors. Yet, these factors might be killing ones from strategic point of view. There are no generally right size of operation (economies of scale), but Hungarian organisations must be aware of the huge difference that exists among competitors in specific sectors. Unfortunately, it is rather the subsidy to motivate forming and operating such producer organisations than recognising and making decision on competitive factors. Mainly organisations with low turnover and weak market power dominate the supply side of the sector, which are often motivated by short time solutions. Short term thinking exists that is forced by macro environmental factors, but coupled with mismanagement on different levels of corporate management.

Organisations operating as expected have reasonable strategic management generating investments such as post harvest ones and essential value added by them.

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