COMPETITIVE STRATEGIES ON THE MEAT PRODUCTS MARKET

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SUMMARY

The Hungarian meat-market can be characterised by intensive transitions both in market actors and product-structure. There is a decrease in the consumption of pork and at the same time in this category an increase in the share of processed meat products. There are also increasing differences in the quality and price-level of processed meat products. This transition highlights the importance of relations between the meat production industry and the meat retail trade. In the framework of a field-study we have analysed the opinions of more than two hundred meat trade specialist on supplier-retailer relationships. The responses have been analysed by one- and multivariate statistics. The results of the research confirm that the overwhelming majority of retailers consider a wide choice of products and flexibility to be a necessary precondition of success. The cheap product-line is no longer in itself enough for the achievement of sustainable market development. Retail enterprises attach great importance to marketing activities undertaken in partnership with the meat industry.

The competition between meat suppliers is an especially intensive one in larger towns and in the capital. The maintenance of their partnership with the meat industry is regarded as an important success factor among managers of dynamic, growth-oriented firms.

As confirmed by our structural mathematical model, the conflict level between meat-processor and retailer is diminishing with increasing levels of competition. The level of co-operation is increasing with the flexibility of meat producers and the sharing of market intelligence.

INTRODUCTION

During the past years Hungarian meat consumption has changed drastically. As a consequence of the transformation of the consumer preference system and price relations the consumption of pork, beef and veal declined sharply and there was a rapid increase in poultry consumption (Fig. 1).

At the same time, there were also important changes in the structure of products. Processed meat products with lower added value have suffered an image reduction and the growth of the consumer price-level of these products has remained far below the level of inflation. On the contrary, the price-level of products with higher added value increased in parallel with inflation (Fig. 2).

Under these conditions Hungarian meat producers face a deepening crisis, caused by increasing input prices on the one hand and falling meat product output prices on the other. The aim of this article is to analyse the co-operation and networks existing between the meat industry producers and retailers in the

processed meat products market. The Hungarian fresh meat market has been analysed, based on the transaction cost theory established by *Bárdos (2004)*.

REVIEW OF LITERATURE

In a globalising world, under conditions of increasing competition between economic entities, firms can no longer "act alone in turbulent competitive waters" *(Hajdu I-né. 2004)*, but have to seek out new ways to achieve and sustain competitive advantage through forming collaborative relationships with their partners.

Haide (1995) argued that in the fast moving consumer goods market – and in this context food industry products play an important role - marketing has become a struggle between manufacturers and retailers for control of consumer mind-space (awareness) and store shelf space and that, in the final analysis, awareness will be the decisive resource. In the opinion of *Dwyer et al. (1987)* where once the manufacturer dominated on both fronts, the retailer is now taking back shelf space and making inroads into awareness. In the short run, manufacturers and retailers have contradictory interests, because they are both trying to achieve the highest possible profit share from the sales process. In the long run, the middleman's new power over manufacturers may not only have a negative impact on the manufacturer's welfare, but also on the quality of their partnerships.

In the opinion of *Doney and Cannon (1997)*, power in the hands of one member of the marketing process means their ability to control the decision variables in the marketing strategy of other members at different levels of distribution. The power of process member A over firm B is rooted in the dependence of B upon A *(Robinson, 1976)*. *Morgan and Hunt (1992)* distinguish three specific sources of retailer power over manufacturers: (1) a higher concentration of trade; (2) access to product barcode data provided by point-of-sale scanners; and (3) the growing frequency of sales promotions.

METHODOLOGY

After two focus-group interviews with meat industry specialists, we compiled a questionnaire for Hungarian meat-product retailers. To ensure total anonymity we utilised a written questionnaire consisting of multiple item scales. To facilitate the investigation Likert-type interval scales were utilised.

The closed and sealed envelopes, containing the completed questionnaires were delivered and collected by agents of Kaiser Food Co. The respondents were owners in the case of smaller stores and meat-section managers in the case of larger stores (hyper- or supermarkets). Although the response rate was limited, our final sample consisted of 218 completed questionnaires.

The composition of the sample, in terms of ownership, location and size, reflects the heterogeneity of the Hungarian retail sector. The share of retail sector outlets with less than $400m^2$ of floor space was 80% in the sample. Retail outlets with less than $80m^2$ represented a high proportion of the sample, 20% of the total.

The number of retail outlets in Hungary increased rapidly in the early nineties, but thereafter the most important process has been their concentration and the increasing importance of innovation. This can be seen in the organisational and ownership structure of the shops in our sample.

Independent shops represented 23% of the sample. One in five shops was a

member of a supply association, while 30% were co-operative stores and 27% were part of a retail chain.

A quarter of the shops were situated in villages or small towns and 22% near to a busy public road, transport intersection or on the outskirts of a city. About 16% were located on housing estates. The share of shops situated in pedestrian precincts or within other institutions was relatively low, only 2% and 0.5% respectively. In summary it can be stated, that the geographic distribution of shops mirrors the diversity of the Hungarian retail trade.

The majority (60%) of shops sell dried (delicatessen) products, prepared meat products and unprocessed (fresh) meat. Only 2% sell dried products exclusively.

The typical respondent was female (60%), with an average age between 31-50 years. The majority of shop owners/managers who responded (60%) graduated from secondary school, although a further 31% only had a technical school qualification, while 10% had a college or university qualification.

The responses to questions were analysed using SPSS and MPlus software. For the graphical presentation of results we have utilised the box-plot technique. Instead of plotting the actual values, a box-plot displays summary statistics for the distribution. It plots the median, and the 25^{th} as well as the 75^{th} percentiles. One boundary of the box is the 25^{th} percentile and the other is the 75^{th}. The line inside the box or on the border of that is the median. The length of the box corresponds to the interquartile range.

To determine the relationship structure between meat industry producers and retailers the structural mathematical modelling process has been used. In the first phase of the research we conducted a confirmatory factor analysis, supplemented in the latter phase by path analysis (*Füstös et al., 2004)*.

RESULTS AND DISCUSSION

The first question posed by our research aimed to analyse relative importance, in terms of the success of the outlet's meat sales, placed by respondents on the factors influencing the purchase of meat products (Fig. 3). It is worth emphasising that, contrary to widespread assumptions, product-price is one, but not the most important product-attribute. A wide range of products and good service were evaluated as factors of considerable importance. In the opinion of the shop-managers the products and different product-attributes (product-portfolio and quality) play a role of great importance in the success of the commercial enterprises.

There were no significant differences between shops in the evaluation of the importance of different marketing tools (Fig. 4). It is interesting to note that respondents working in villages and small-towns evaluated the marketing support from suppliers on average 0,7 points higher than respondents from cities or in the capital. This can be attributed to the fact, that consumers in the Hungarian countryside are less "saturated" with promotions than city-dwellers.

In summary it can be stated that in the opinion of shop-managers the success of the commercial enterprise is determined by numerous factors. The majority of these factors are influenced or determined by the level of co-operation between the commercial and meat industry enterprises. Therefore, the maintenance of good supplier relations is considered to be a strategic resource for the commercial firms.

In the next phase of the research we examined the individual product groups' commercial evaluation (Fig.5). The majority of trade-specialists were clearly satisfied with the higher quality products, but unhappy with the lower value-

added products. This emphasises the fact that if companies continue to reduce the quality of cheaper products, the consequent damage to the product's image will simply result in lower sales - a Catch-22 situation.

In order to examine the producer-retailer relationship, a list of 37 statements was prepared and respondents asked to mark their agreement with these statements on a scale of 1-5 (Table 1).

Table 1

Evaluation of agreement with statements pertaining to producer-retailer relationship, based on a scale of 1-5, with averages given in descending order
(The italicised statement abbreviations given in brackets are utilised in a later part of the study.)

Statement	Average	Standard deviation
The suppliers' sales representatives are generally trustworthy (*trustworthiness*)	4.200	0.750
The commercial sales representatives are generally helpful and well-prepared (*helpfulness*)	4.168	0.794
The outward appearance of suppliers' sales representatives inspires confidence (*appearance*)	4.138	0.845
If my current supplier's prices are too high I change to a different one (*supplier change*)	4.135	1.045
In developing our business strategy, we build on the long-term relationships with our suppliers (*long-term relationship*)	4.015	0.889
There are considerable differences in product quality between suppliers (*differences in quality*)	4.015	0.967
Our suppliers co-operate closely with us to satisfy our requirements (*co-operation*)	3.964	0.871
My suppliers handle my problems with understanding (*problem-acceptance*)	3.879	0.943
In general, suppliers accept and take into consideration our requirements, requests and suggestions (*flexibility*)	3.838	0.955
Our suppliers regularly keep their promises (*reliability*)	3.778	0.935
I regularly observe and evaluate the effect of suppliers' sales promotions on my turnover (*price-observation*)	3.685	1.087
In the framework of negotiations with suppliers we regularly take into consideration data on the effectiveness of their sales promotions (*data-supply*)	3.655	1.108
Our suppliers' vehicles are aesthetically pleasing and suitable for awareness-raising (*aesthetic vehicles*)	3.640	1.075
Consumers can buy the meat products we sell elsewhere in the immediate vicinity (*shop change*)	3.611	1.186
Our suppliers use up-to-date means of delivery (*supplier logistics*)	3.592	0.985
Our suppliers generally have correct market information regarding the effects of their sales promotions (*information*)	3.583	1.045
If we no longer sold our current suppliers' products, our turnover would drop (*drop in turnover*)	3.552	1.208
Our suppliers are able to reliably predict the effectiveness of their sales promotions (*power to forecast*)	3.518	0.989

The sales representatives possess a wide range of valuable market information, which they are usually willing to share with me (*information on innovations*)	3.462	1.132
My shop (our chain) could change its suppliers relatively easily and rapidly	3.439	1.338
If we terminated our contracts with our current suppliers, our turnover would drop (*drop in turnover*)	3.164	1.307
I aspire to earning the recognition of my suppliers for my commercial work (*supplier recognition*)	3.077	1.553
I do not care too much, what my suppliers think of me (*supplier recognition*)	3.071	1.534
I want to build up long–term, stable relationships with my suppliers, even if this demands short-term sacrifices on our side (*sacrifices for relationships*)	2.995	1.320
If we sought to alter our roster of suppliers, it would be very difficult to substitute those being replaced (*problems of change*)	2.869	1.415
If we no longer used our current suppliers, they would sell more to our competitors (*competitors*)	2.854	1.094
I do not generally receive enough advice and recommendations from our suppliers (*advice from suppliers*)	2.553	1.192
Competition between suppliers is rather weak in my region (*lack of supplier competition*)	2.497	1.256
Suppliers' delivery dates are often inconvenient for me (*timing of delivery*)	2.444	1.374
Suppliers often do not take the shops' interests into consideration (*flexibility*)	2.416	1.328
The suppliers' sales representatives are too busy to take into account our individual requests or requirements (*preoccupied sales reps*)	2.397	1.176
Supplier negotiations are sometimes tense and there is a lack of mutual understanding (*lack of mutual acceptance*)	2.383	1.249
I often have difficulties in negotiations with suppliers (*hard negotiations*)	2.359	1.324
The suppliers do not pay enough attention to us (*lack of attention*)	2.328	1.178
Due to the conflicting interests of the meat industry and the retail trade, our relations with suppliers' sales representatives have grown tense (*antagonistic interests*)	2.247	1.223
Sometimes my relationship with the suppliers is tense (*tension*)	2.245	1.336
We often have conflicts with suppliers (*conflicts*)	2.198	1.339
There aren't many suppliers striving to sell me their products (*lack of suppliers*)	2.086	1.289

In the first phase of our research we utilised the descriptive statistics method for the evaluation of responses. Analysing the results it is clear that retailers overwhelmingly take their suppliers into account when developing their business strategies and build on the long-term relationships established with them, viewing these relationship networks as a strategic resource. They also express a positive opinion of the suppliers' sales personnel, viewing them as trustworthy and highly suitable for their roles given their level of preparedness, their personal characteristics and external appearance. The results also suggest that due to intense competition among suppliers, retailers can negotiate with different companies if the existing suppliers' prices are considered excessive. The respon-

dents did, however, admit that there are significant variations in quality among suppliers. The extent of respondents' agreement with the various statements given reflects a meat industry market which is, in effect, a competitive market within which relatively flexible, but nonetheless qualitatively strongly differentiated suppliers compete for retail orders as per the market-analysis of *Szerdahelyi and Zelenák (2003)*. General theory holds that competition inevitably improves quality, however the results of the survey do not support this view. A possible explanation for this may be differences in suppliers' technological and human resources and the long-term continuance of illegal meat production (i.e. without official documentation).

Combining factor and cluster analysis, four categories of retailer were identified and separated from each other.

The first category is characterised by intense competition and market saturation for shops in this group, the vigorous rivalry among suppliers making the establishment and maintenance of a competitive advantage extremely difficult. As a result, shop owners/managers are forced to keep a careful eye on the market. In this competitive market environment, suppliers place great importance on sales promotions. The owners/ managers, however, are dissatisfied with suppliers' performance and feel that there is a lack of understanding and mutual flexibility. This is regularly raised during negotiations with the suppliers who are nevertheless perceived as uncooperative partners and unwilling to resolve ongoing problems via discussion. This group is particularly critical of suppliers' behaviour, due to the sense that a radical transformation of the supplier list would not be problematic and they are very well aware of the significant differences between certain suppliers. Interestingly, the shops grouped into this first category are predominantly located in the centre of Budapest, are run as independent concerns, their owners/managers possess at least a further education qualification and are under 50. Overall, this category consists of traders with high standards, who place equal emphasise on the intensive competition from the supplier and consumer-side, but who are dissatisfied with the suppliers' work.

The representatives of retail companies in the second category feel an asymmetrical dependence on their suppliers. They believe it would be difficult to replace suppliers and that their customers would be dissatisfied if there was a change from the established range of products available in their shops. These traders are also characterised by their efforts to consciously monitor the market and their view of their suppliers as willing partners in this activity. This group, however, expects even more support and closer partnerships. Overall, they are satisfied with the performance of their suppliers, whilst also emphasising the existence of significant differences between them. The type of shops that falls into this category are those located in provincial towns, with a high proportion of their turnover comprising dried goods.

The owners/managers of the third group fall somewhere between the first and second in terms of their evaluation of supplier performance. This group places less significance on strategic thinking and at the same time rates suppliers' activities very highly. These are the traders who expect a far less intensive supplier-retailer relationship and who feel they actually receive this from their suppliers. In most cases, this group does not stand up for its interests, which probably explains why, in their opinion, tension is rare in the supplier-retailer network. This approach is characteristic of older own-

ers/managers working in more traditional retail chains (e.g. co-ops).

In the opinion of the fourth group of respondents, there is intense competition among suppliers in the meat industry but they do not view the development and implementation of a marketing strategy as being of any fundamental importance. They judge that vigorous competition provides them with the opportunity to establish the most advantageous supplier list. The retailing of meat products is not, however, a strategically important issue for them.

It is worthy of notice, that the proportion of shops with various floor spaces was approximately equal in the three larger categories. We get a different picture, however, if we examine the proportional distribution of the shops based on ownership and management structure. In this case we see that more than half of the co-operative shops fall into the B (second) group while, for example, privately owned shops constitute just 15% of this group.

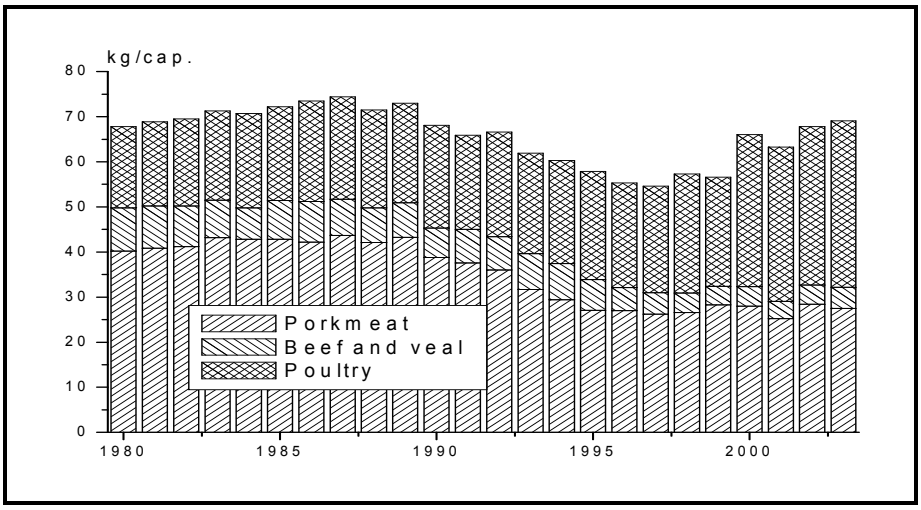
Analysing the industry-small retailer network using the structural mathematical model, we can state that in numerous cases significant relationships could not be determined between measured and latent variables. In Fig.5 we have depicted only those measured variables having a significant relationship to the background variables.

A negative correlation could be shown between the negotiating powers of the industrial company and the accessibility and utilisation of information it has released. There was a positive relationship between the company's market power and retailer commitment. At the same time there was no significant relationship between industrial might and the level of co-operation between producer and processor. Supplier power merely increased the intensity of conflicts, while retailer commitment to co-operation raised co-operation levels.

Figure 1

Changes in per capita consumption of pork, beef and poultry in Hungary (1980-2003)

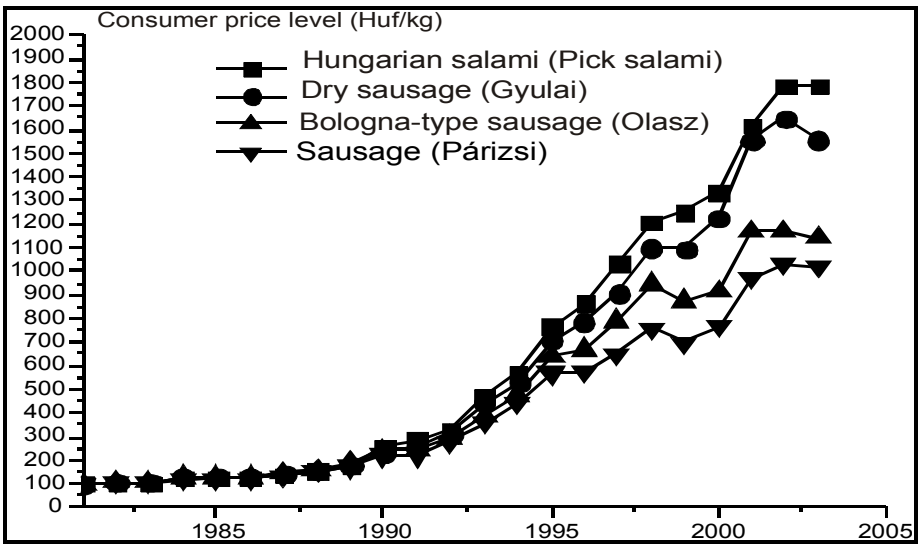
Pork



Source: Hungarian Statistical Yearbooks, 1980-2003

Figure 2

Consumer price changes of some processed pork products (1980-2003)



Source: Hungarian Statistical Yearbooks, 1980-2003

Figure 3

Evaluation of a shop's success factors, measured on a 1-5 Likert scale in decreasing order of median values.



Figure 4

The evaluation of different marketing tools utilised by the respondents, measured on a 1-5 Likert scale in decreasing order of median values

supplier's TV advertising, joint manufacturer-retailer advertising,
joint consumer competition, billboard campaign, radio advertising

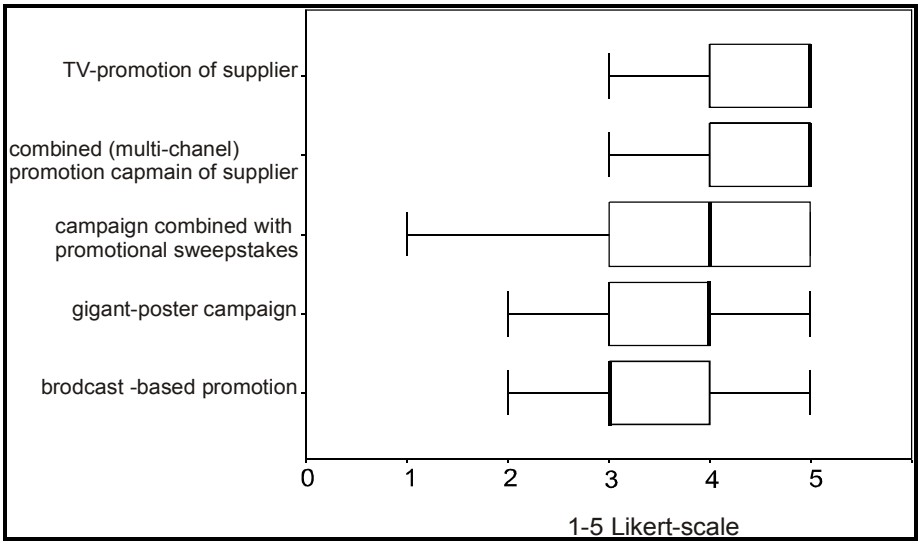


Figure 5

The evaluation of some meat products by retailers, on a 1-5 point scale

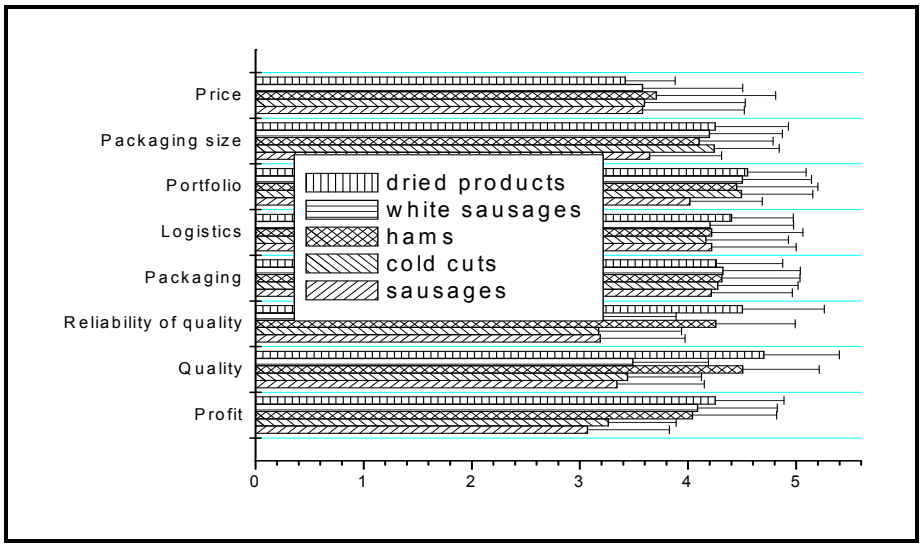
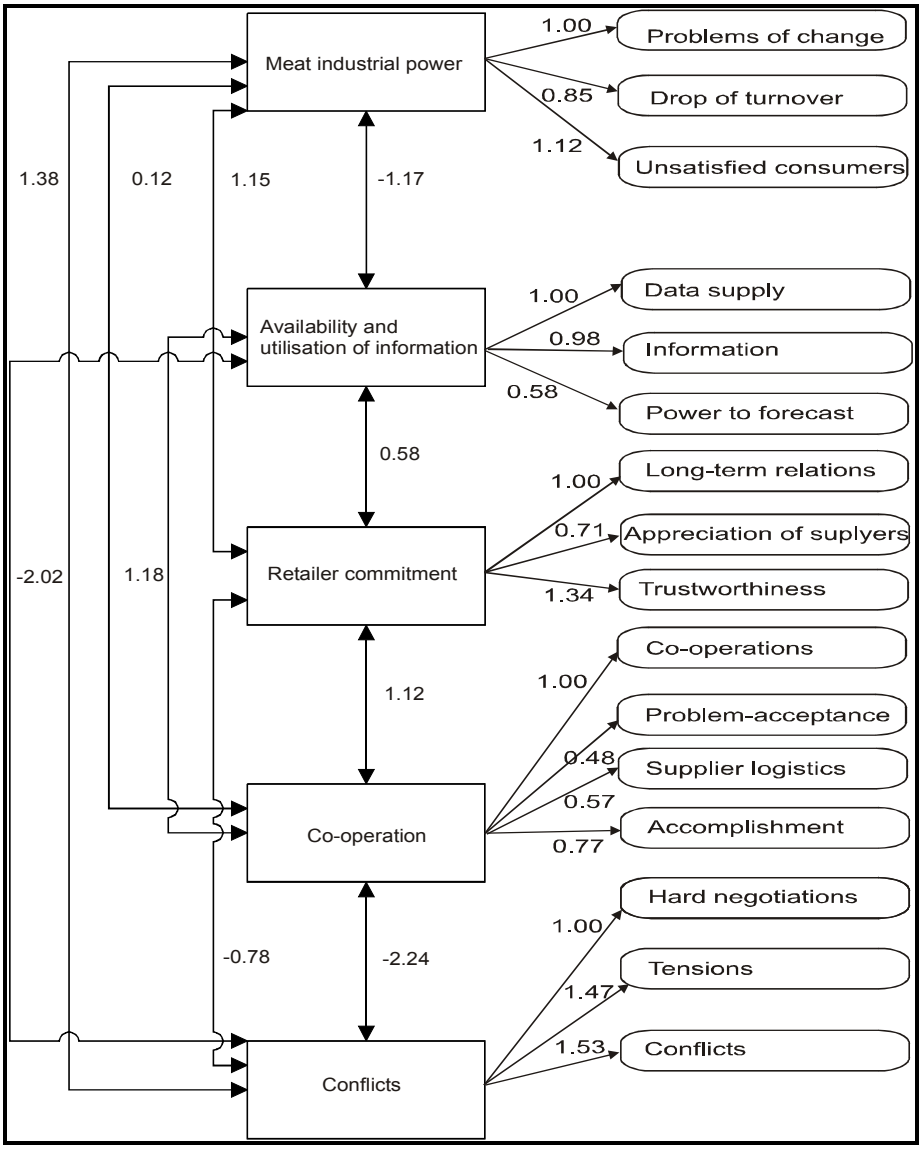


Figure 6

The structural analysis of industry-retailer relations
(the abbreviations of the measured variables are those given in Table 1)

Meat **industry** power Drop **in** turnover
Retailer commitment **Supplier recognition**
Co-operation Co-operation**s**, **Helpfulness**)
Conflicts Tension**s**



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