

Processes and problems of the marketing management adaptation at the EU market: The case of the Slovak meat processing industry

Procesy a problémy adaptácie marketingového manažmentu na trhu EÚ: prípad mäso spracujúceho priemyslu SR

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Abstract: The goal of the paper is to define the decisive factors of the successful adaptation of the marketing management to the new conditions of the EU internal market on the basis of examination of the process of marketing management adaptation in the selected companies of the meat processing industry in the SR from 2002 to 2006. The results of the survey show the importance of diversification of the product portfolio and product innovations in compliance with the nutrition trends, the orientation on the market of the V4 countries and the ex-soviet republics and the development of marketing relations on all the levels of the supplier-customer relations.

Key words: EU market, adaptation, meat, meat products, marketing management

Abstract: Cieľom príspevku je definovať rozhodujúce faktory úspešnej adaptácie marketingového manažmentu novým podmienkam vnútorného trhu EÚ na základe výsledkov prieskumu vo vybraných podnikoch mäso spracujúceho priemyslu na Slovensku za obdobie rokov 2002–2006. Výsledky prieskumu poukazujú na dôležitosť diverzifikácie produktového portfólia a produktových inovácií v súlade s výživovými trendmi, orientáciou na trhy krajín V4, trhy bývalých sovietskych republík a rozvoj marketingu vzťahov na všetkých úrovniach marketingovej vertikály.

Klíúčové slová: trh EÚ, adaptácia, mäso, mäsové výrobky, marketingový manažmen

At present, the companies are under the pressure of international competition and their must adapt to the changed social and economic conditions and the new situation in the market. That is why the international and effective activity of the company is the key factor for the independent survival and reaching of the strategic and development goals of the company. Moreover, Tozanli (2005) adds that only companies that can manage their international company activities within the global structures can hope to reach a permanent global competitiveness. On one hand, the integration of Slovakia into the EU opened the market with 500 million consumers for our producers, on the other hand, it brought about high requirements for the hygiene, quality and veterinary

standards. This brought end too many producers not only due to the international competition, but also due to their position in the domestic market, as Slovakia gradually adapted its national legislation to the European legislation.

According to Bielik and Rajčániová (2004), Horská and Bielik (2004) and Horská et al. (2007), the task of the company management is to resolve and eliminate the impact of influences from the local, regional and global environment. In the statement, the authors understand the EU market as local, regional and global, too. It is necessary to identify the different characteristics of consumers and great economic differences between the original and new member states of the EU, differences in traditions, cultural

Supported by the Scientific Grant Agency (VEGA) of the Ministry of Education of the Slovak Republic and the Slovak Academy of Sciences (Grant No. 289/2006 "Factors of success of internationalization of food companies of the SR").

and regional differences within one country (Sojková, Kropková 2007). Lesáková et al. (2007) found out in their research that the process of internalization of small and medium companies in the SR is not generally a part of a specific marketing strategy, it is mostly only the use of opportunities brought by the internal and external environment. The main impulse for the internalization of small and medium companies comes from the growing competition in domestic markets and from the opportunity to get new customers in foreign markets.

To use opportunities of the EU market means to reach a high quality of products, to establish a reasonable price, to organize a flexible and effective logistic system and to have an effective marketing communication. It is true that there are many companies, which based their competitiveness on the cost leadership, but it is not the only way to compete in the European or world market. Horská and Bielik (2004) define other possibilities of competitiveness, like the differentiation strategy, specialization and strengthening of the position of regional products in the market. The consumer demand for a larger offer, comfort and new experience makes place for the creation of new values and opportunities in the European market. The demand for quality products, reasonable prices and innovations was proved by results of consumer surveys (Stávková et al. 2007). The aim of the paper is to define the decisive factors of the successful adaptation of the marketing management to the new conditions of the EU internal market on the basis of the examination of the process of the marketing management adaptation in the selected companies of the meat processing industry in the changed social and economic conditions in the SR from 2002 to 2006.

MATERIAL AND METHODS

To reach the main goal of the paper, we had to realize a SWOT analysis of the marketing management in the selected companies of the meat processing industry during the transition period of 2002–2004 and after the integration to the EU (from 1st May 2004) and to use the results as the base for the identification of important factors of marketing management in the examined companies. As to the external environment, we had to identify the changes in the external environment, to evaluate the reactions of companies to the new conditions and market requirements and to evaluate their impact on the production.

We have examined 8 large and medium companies in the meat processing industry. We obtained the primary information for the paper from managed interviews

with the management of the examined companies and from a questionnaire survey. The secondary information is from the Statistical Office of the SR, the Ministry of Agriculture of the SR, the Research Institute for Agricultural and Food Economics, the Customs Administration of the SR and the Customs Statistics. The time period of examination includes the years from 2002 to 2007.

To process the primary and secondary information, we used logical methods (analysis, synthesis, induction, deduction, comparison), basic mathematic and statistical methods (growth indexes, percentages). The total characteristics of the obtained data were analyzed by the means of the methods of descriptive statistics (medium value – average). To verify the relation between the results of the survey and the characteristics of respondents, we used the χ^2 -test. The level of the marketing mix in the selected companies of the meat processing industry was examined by the means of the SWOT analysis.

The results of the paper shall contribute to the identification of the decisive factors of marketing management of Slovak agriculture to the actual social and economical development of the adaptation, which importantly influences the success of marketing management of a company. The research is also a part of the grant research project of the Ministry of Education of the Slovak Republic VEGA No. 289/2006 “Factors of success of internationalization of food companies of the SR.”

RESULTS

Food industry is the main flow of the majority of products of the agricultural basic industry. The meat processing industry has an important role in it – it processes products of livestock production and it is a strategic sector of the food industry. From 1993 to 2006, the average consumption per inhabitant per year was 63 kg of meat in total. The highest consumption, 66.1 kg of meat per inhabitant, was in 1997 and the lowest consumption, 58.7 kg of meat per inhabitant, was in 2001. The overall consumption of meat in the examined period exceeded the recommended amount of meat, but from 2000 it stayed within the limits of the reasonable consumption.

The comparison of production and consumption of beef and pork in Slovakia

The deterioration of the economic conditions of the population was one of the factors that caused

the decrease of the interest of consumers in beef and pork and adversely affected the domestic production. The production of the individual types of meat in the examined period in the SR kept decreasing. The average annual production of beef in the SR for the examined period was 58.6 thousand tons. The most significant decrease of the production of beef was in 1994, when the production decreased by 29.1 thousand tons, i.e. by 28.4%. In 1996 and 1997 and in 2002 and 2003, there was a slight increase. The average annual decrease was by 5.6 thousand tons of beef, i.e. by 7.3%. If we compare the production of beef in 2006 and in 1993, we can say that the production in 2006 represents only 29.2% of the production in 1993 (Borecká 2003–2005).

The average annual production of pork in the examined period was 176.5 thousand tons. The decrease of the production of pork was not as important as the decrease of production of beef, although in 2006,

when the production for the examined period was the lowest, 120 268 thousand tons, the difference compared to the year 1993 was more than 82.8 thousand tons. There was a significant annual decrease of the production in 1998, 16.2 thousand tons of pork, i.e. 8.2%, and in 2004, 21.6 thousand tons, i.e. 13.7%. In 2002 and 2003, there was a slight increase of pork production. The average annual decrease of production in the examined period was 6.2 thousand tons of pork, i.e. 3.5%. When comparing the production and consumption of the individual types of meat, we can observe significant differences. The production of beef for the examined period was approximately the same as the consumption. In average, the production was higher by 4.3 thousand tons than the consumption, i.e. in average by 0.81kg per inhabitant per year (Figure 1).

The production of pork in the examined period was lower than its consumption by 9.9 thousand

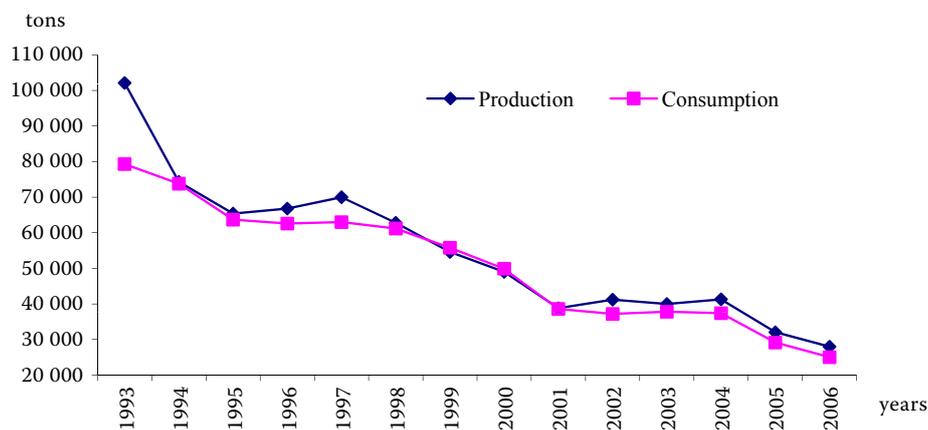


Figure 1. Comparison of the production and consumption of pork in the Slovak Republic

Source: Research Institute of Agricultural and Food Economics, Green Report 2007, author's calculations

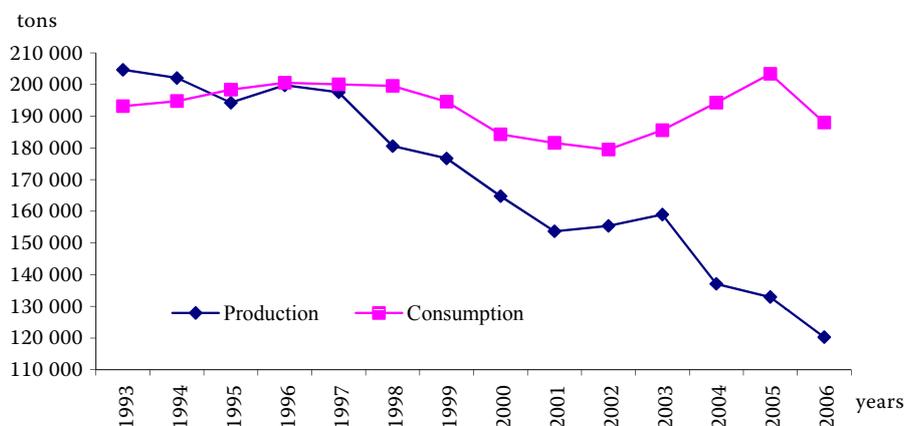


Figure 2. Comparison of the production and consumption of pork in the Slovak Republic

Source: Research Institute of Agricultural and Food Economics, Green Report 2007, author's calculations

tons a year in average, i.e. by 1.8 kg per inhabitant per year. In 1993, the production of pork was higher by 11.6 thousand tons than the consumption, but in 1995 the production decreased under the level of consumption. From 1998, there is observed a significant difference between the production and the consumption, which even increased in 2004 (Figure 2). This difference is covered by the import of live pigs and pork. Even though the number of pigs and the production increase, we do not expect this difference to decrease, because an increase of consumption is expected.

Processes of compulsory adaptation

Adaptation of companies in the meat processing industry to the new legislation and legal conditions is the first prerequisite to a successful activity in the unified EU market and it is the necessary condition for the connection to international structures. This form of adaptation is called also the compulsory adaptation, which enables the company to perform its activity and to respect the principles of the social mission of its sector within the food production and the whole agricultural department. The basic rule that covers the establishments that produce, process, pack, stock and handle animal products in the SR is the Act No. 488/2002, *Coll. on the veterinary care* and on the amendments to some acts, which came into force on 1st January 2003. The amendment No. 23/2002, *Coll.* brought many changes to the Food Act. Besides other changes, the duties of companies that produce food were extended – the producer must provide a regular control of the observance of requirements of health, cleanliness and quality and he must have records of it. This modification made the producers and suppliers responsible for the quality and security of food and the control of the observance. Self control thus became more important. The task of the food inspection (the State Veterinary and Food Inspection of the SR) is to verify whether the food production is made under the relevant conditions and if the system of the **HACCP (Hazard Analysis Critical Control Points)** is functional. The monitoring process of reaching the EU hygienic standards for establishments was made by veterinary inspectors in February and March 2003 and in October 2003. The final date for ensuring the observance of the EU norms for establishments was on 29th February 2004.

By 31st March, 565 establishments were approved and authorized in the SR. Moreover, by 31st March 2004, 199 establishments were not approved and authorized. The highest number of establishments

that terminated their production was in the sector of fresh meat and meat products. These two sectors were the most problematic ones in the process of improving. The most frequent shortcomings in these sectors that had to be relieved during the modernization of the establishments were especially the mixture of the individual production flows and the construction and technical condition of floors, walls and roofs.

In October 2003, a list of establishments with an approved supplementary transition period was elaborated. The supplementary limited transition period was to enable the establishments that did not meet all the hygienic requirements of approval of the establishments according to the EU norms by the day of the integration of the SR to the EU and that were in the course of a continuing improvement, to finish the process. 38 industrial establishments asked for it. The Commission inspections were made in 33 establishments. 10 establishments were suggested for a supplementary transition period, of which one dairy, and the establishments for production and processing of fresh meat. The Figure 3 explains in short the process of approval and authorization of companies in the meat processing industry before and after the integration of the SR into the EU. The processes of approval and authorization, compulsory as well as voluntary adaptation are described in the Figure 1.

The process of the voluntary adaptation: the results of the survey of certain aspects of the marketing management

When we asked the companies in the meat processing industry whether the meat and meat products market grows, stagnates or decreases, 3 companies stated that according to their opinion, the meat and meat products market grows. 4 meat processing companies said the meat and meat products market in Slovakia stagnates. All the companies agreed that the situation in the meat and meat products market is highly influenced by the social and economic conditions. The individual companies stated the development of revenues for the period between 2002 and 2006. On the basis of this development, we can state that from the overall number of 8 meat processing companies, 6 companies, which is 75% from the total number, reached increasing revenues for the period between 2002 and 2006, one company (TAURIS a.s., Rimavská Sobota), which is 12.5%, reached stagnating revenues and one company (PM Zbrojníky s.r.o.) i.e. 12.5%, had decreasing revenues.

For 7 companies of the meat processing industry, the share in the foreign market for the period of 2002–2006 increased. This trend started especially in 2004, after the EU integration when the companies started to exercise the possibility to place their production in the European integral market. From the overall number of 8 meat processing companies, 6 companies, which is 75% from the total number, had increasing sales of products under private marks and two companies (SVAMAN Myjava s.r.o. a TAURIS NITRIA s.r.o.), which is 25% of the total number, had stagnating sales of products under private marks.

According to the results of the survey, the actual trade networks constitute 36 % of sales of products of the individual meat processing companies. The international trade networks are the types of shops that ensure 46%, and thus the biggest share of sales, especially thanks to the possibility of entering foreign markets. Specialized meat and meat product stores and proper stores are the types of shops that represent a 9% share on the sales of products of the companies. In spite of a lower share, the specialized and proper stores enable to offer the customer a complex range of goods of the individual production company, in-

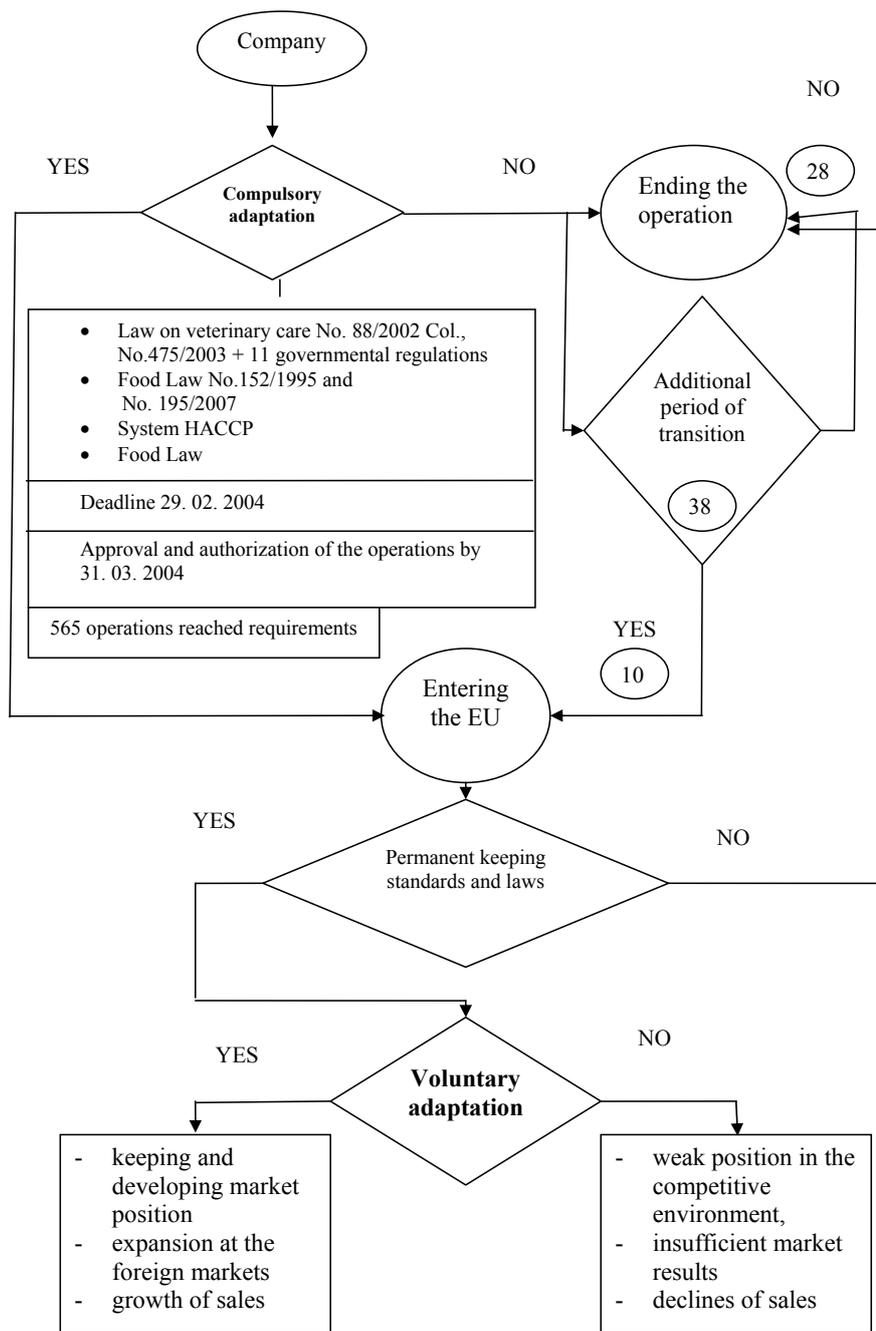


Figure 3. Processes of approval and authorization, compulsory and voluntary adaptation

cluding products with a higher nutrition and added value. The selected companies of the meat processing industry consider as the most gainful (42%) the medium standard. The section of products with lower prices (discount market segment) and in the field of premium products (higher price and quality) is considered to be gainful in 25%. The least gainful activity is, according to the companies, the sector meat (8%). The integration of the SR into the EU changed the conditions for all the companies. The companies in the meat processing industry consider the changes of offer in the meat and meat products market most significant in the aspect of the demand of price cutting and in the increasing domestic competition. The possibility to export more is considered to be a positive change. The higher stress on meeting the quality standards makes the products more competitive. The endeavor to specify the products causes our producers to be highlighted in the international markets, which consolidates their position.

Seven companies of the meat processing industry used the possibility to export to foreign markets, the Jakub Ilavský Ltd. Company decided to act only in the Slovak market. The most commercial activities of the meat processing companies are in the meat and meat products market in Hungary, (24%), in the Czech Republic (20%) and in Poland (20%), the market shares in Ukraine (16%), Russia (12%), Austria (4%) and Croatia (4%) are smaller. The main reason for entering foreign markets for the companies of the meat processing industry is the oversaturation of the domestic market. By entering the foreign markets, they want to obtain a new space for the sales of their products and increasing revenues. The competition in the foreign markets makes our producers to continuously improve the quality of the products to make them marketable and more attractive for consumers in comparison with the domestic producers. The presentation of products in foreign markets brings the possibility of making new commercial relations.

We have chosen some marketing steps and the companies gave them points from 1–10 according to their influence on the increase of revenues. Price, price offers and discounts as a marketing measure gained the total of 69 points, which means the companies considered this measure to be of the greatest influence on the increase of revenues and it influences it in 22%. The B2B marketing got the total of 65 points – good relations with the distributors, contacts, business presentations (22%). The sales in company store got 53 points, which means that this marketing measure shall increase revenues by 18%. The product innovation shall influence the increase of revenues in 14%, which represents 41 points. According to the expe-

riences of the individual companies, the marketing measures that influence the increase of revenues in the least are the publicity and in-store tasting with 36 points (12%) and the production under private mark with 35 points (12%). The companies concurred in pointing of the individual marketing measures and thus the order of marketing measures according to their influence on the increase of revenues for the individual companies is very similar.

DISCUSSION AND CONCLUSION

All the examined companies reacted to the legislation changes and requirements in the field of hygienic and veterinary standards by introducing the ISO 9001 and ISO 9002 certification or the HACCP system. The successful introduction and use of these standards did not take place in the companies at the same time, which caused a certain competition advantage for the companies that introduced them first. On the other hand, the exaggerated reactions to the hygienic and quality requirements in the field of technology innovations led to the unnecessary investment costs, which had a negative impact on the assets and cash-flow of the companies. The original quality and hygiene requirements of the SR Government were reduced in favor of small and medium companies that were not prepared for them and which did not have the necessary experience and practice in the relevant sector.

A useful tool for obtaining the image of the company is the SWOT analysis and the analysis of the tools usage of the marketing mix in the managing process of the company:

Strong points – the companies state especially the qualified staff and management, but they all observe the lack of free work force with proper education in the specialization. As to large investments, all the companies have new high quality technologies that are not always used at 100%. As we have already mentioned, in the last year, there were several acquisitions and production concentration that provided for big companies closing and completion of production cycles from slaughter through processing up to production of the sectioned meat and meat products. Moreover, fusions and acquisitions ensured a greater capital and market power for the largest meat processing companies (the 4 largest companies cover almost 50% of the domestic market).

Weak point – the companies are aware of the insufficient publicity and marketing activity.

Opportunities – all the companies see the possibility to increase their revenues and profits by increasing

of export, especially into the countries of the ex- Soviet Union and the V4 countries. They also focus on obtaining the irreclaimable financial sources from the EU funds to increase their competitiveness. As to the insufficient or no use of marketing and publicity, the companies are aware of the potentially empty space to increase the sales and market shares.

Threats – the companies present different risks that have or may have a negative impact on their activity. It is namely the increase of the prices of energy and raw materials, operating costs, the increase of the domestic and foreign competition, the buying policy of business networks, the decrease of the revenues of the population and the diseases and epidemics of slaughter animals.

On the basis of the obtained information and the survey, we recommend to focus the attention of the companies on the following sections that are perspective in the market expansion: production of probiotic meat products and products with the reduced fat content, diversification of the product portfolio, increase of export and activities into the V4 states and the states of the ex-Soviet Union, focusing on the marketing innovation of products (package, name etc.), improving and a more efficient use of the propagation and marketing activities, good relations with the distributors and suppliers (B2B), the improvement of personal policy leading to attracting of young people with a good knowledge of languages and marketing education, gaining people that know the individual foreign markets and therefore can promote sales. The identification of new markets or market segments in the demanding market environment leads to the endeavor to maintain the actual range of production and sales, but also to reach the potential expansion goals.

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Arrived on 11th June 2008

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