

Research Note

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## **Reorganising Friesland Hungaria – A Case Study\***

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*This teaching case study focuses on the shifting of company strategy from the national to the CEE-regional level. Friesland, a Dutch-owned dairy company in Hungary, was extremely successful in the national context since 1993, but the 2004-enlargement of the European Union initiated a process of regional integration across Central European countries. Management has to face new challenges for company strategy (such as regional expansion) and organisational structures (fitting an existing national company to the new international group of businesses).*

*Diese Fallstudie veranschaulicht, wie sich Firmenstrategie von nationaler Ebene auf den zentral-europäischen Kontext ausweitet. Friesland Ungarn, ein Molkerei Konzern mit holländischen Eigentümern, war seit der Privatisierung im Jahre 1993 außerordentlich erfolgreich, doch die Osterweiterung der Europäischen Union bewirkte einen über mehrere Länder in der Region übergreifenden Integrationsprozess. Somit musste sich das Managementteam neuen Herausforderungen stellen: Strategische Neuorientierung (Regionale Expansion) sowie Umgestaltung der Organisationsform (bestehende Firmen in das neue Unternehmensnetzwerk zu integrieren).*

*Key words: Strategic management / organisational change / EU-enlargement / regional strategies / leadership / case study*

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## 1. Case Synopsis<sup>1</sup>

In dairy industry the privatisation process started much later than in other food sectors in Hungary. Some companies were more successful than others in applying the new experiences gained from related industries so stepping ahead in their restructuring process. The case gives insights into the rapid changes in business environment, both at competitive level and consumer behaviour, during the transition period. The case demonstrates how Nutricia Hungary has successfully maintained a growth strategy by constantly adjusting it to the changed environment. The case ends in mid-2003, just a few months before the EU accession of several Central European countries. At that time almost all companies in Hungary expected radical changes caused by the advent of one single European market but nobody was certain about its future impacts. Companies and government bodies had high expectations, but also faced high insecurities.

The case describes the rapid growth of Nutricia Hungary, which started off as a Dutch-Hungarian joint-venture company: first it grew by strong acquisition activity, and then gained its competitiveness by focusing on the various elements of the company's value chain. In the third phase, which begins with the international expansion of Nutricia Hungary into three neighbouring countries, accession to the European Union becomes a new strategic factor. The company makes a pre-emptive approach and attempts to establish itself as the regional leader in the dairy industry.

Apart from the strategy content issues, the case also gives insights into the strategy making process. Nutricia Hungary is different from many other multinational companies operating in Hungary in that respect that its success was masterminded and executed by a local, Hungarian management team.

However, the major issue of the case is the immanent decision, which the newly appointed Hungarian CEO is facing: whether or not to reorganise the formerly eight now three Hungarian companies into a single legal entity. This question is not straightforward, since the company has been very successful so far, and the effects of EU accession are unknown.

The case explores major questions concerning the relationship between strategy and structure and vice versa (cf. Chandler; Tom Peters et al.).

Overall, the case exposes the interdependence of strategic issues and is not a "numbers-based" strategy case.

<sup>1</sup> European Case Clearing House, Cranfield University, UK Case Reference Number: 304-278-1

## 2. Teaching Case: Reorganising Friesland Hungaria (Shortened Version)

Kornél Temesvári (34) newly appointed CEO of the largest Hungarian dairy company was waiting patiently in the traffic jam, and was content that as a result of modern cooling technologies their fresh dairy products did not perish in delivery trucks, even on days as hot as that particular day. This also played a role in the fact that dairy companies managed to extend the reach of their popular products far over their traditional county boundaries, in each of which a dairy factory supplied all milk products. Suddenly it seemed to Kornél that at least the traffic jam got dissolved, but his car only advanced approximately 25 meters. In the meantime the radio news were over, he turned the radio off so that he could better contemplate about the future strategy of his company with 240 million Euro turnover. Was it necessary to reorganise the company ruling 24% of the Hungarian dairy business before 1<sup>st</sup> May 2004?

### 2. 1. The Creation of the Nutricia Group

The Hungarian subsidiary company of Nutricia Dairy and Drinks Division (NDDD) was founded in 1993 as a joint-venture between a Hungarian pharmaceutical company and NDDD of the Dutch-owned Royal Numico, a multinational producer of baby food and clinical nutrition. The common company successfully started the production of milk powder in Gyula, a town near the Romanian border. After a few years the Dutch acquired full ownership of the company, and relocated the production into the organisation of Milupa, another company that they (had) acquired abroad. In 1996, when the Hungarian dairy segment changed drastically and suffered severe difficulties, they became the new owners of Hajdutej dairy producer plc. through privatisation. Until the beginning of the 1990-s the socialist dairy industry structure prevailed meaning that in almost each of the 20 counties there was a single dairy plant responsible to cover all aerial needs. Fluid milk (i.e. non-processed) has always had the largest proportion within the overall milk consumption, however results of this segment stagnated. Due to the changing consumer preferences sales of fruit yogurts grew by 55%, UHT milk by 37% and cheese<sup>2</sup> by 26% over 1996 and 2000. Butter and butter-spreads sales grew by 25%, but sales of condensed milk, which Hungarians commonly added to their homemade strong espresso coffees, decreased to a fifth. One of three yogurts was sold on the Budapest market.

As a result of privatisation the number of privately owned dairy companies in Hungary suddenly increased. During the first years Nutricia also acquired a number of dairy producer companies, using its Hajdutej dairy producer plc. which was located in the eastern town Debrecen, as a springboard for its

<sup>2</sup> In 2000 two thirds of the Hungarian cheese consumption were made up by the "trapista"-type and a further 10% by emmental-type "Pannonia".

Hungarian expansion (see exhibit 1). The acquisition of WES dairy plc. also meant that the company got a food-hold much closer to the strategically important market of Budapest than before.

The Dutch parent company expected a reasonable level of profit from the subsidiary and left the actual management of the Hungarian companies to the local management team. The latter began redesigning the product and regional portfolio of plant within the group of companies, which led to the closure of some dairy plants. They set-up new, cooled storages, which they outgrew within less than one or two years. Kornél recalled those days as follows:

“It was not a long time since I had changed position to key account manager and I received the new task of building up our new North-Hungarian depot. In those days I thought, we would deliver from a 50 square meter cooled storage to Budapest. But in the subsequent two years we had to move three or four times into bigger and bigger storages. Those were really difficult days with really late night shifts! Consider milk products need constant cooling, 24 out of 24 hours.”

In early 2001 the Dutch parent company decided to reorganise its international company portfolio and to focus its resources on its core competencies. As a result they divested the whole Nutricia Dairy and Drinks Division for 664 million Euro. The new owner was Friesland Coberco Dairy Foods Holding, one of Holland's dairy cooperatives, which has grown into the world's fifth largest and Europe's number one dairy company. The new owners had great plans in the Central European region, and for its realisation they counted on the Hungarian company, which had grown dynamically under the leadership of István Kiss Pál. The only expectation they had for their subsidiary was profitable operation. They did not wish to interfere with organizational matters. The new owners only merged the existing, but not too large activities of Friesland Hungary into the Nutricia Hungary group and transferred the brand rights of *DutchLady*, *Completa* and *Frico*. They had decided to gradually replace the Nutricia name to Friesland only after summer 2003.

## 2.2. Efficient and Focused Organisational Structure

During the years of expansion the new companies were legally acquired by the Hajdutej company. This circumstance, however, did not solve the questions on how to integrate the functional activities and product ranges of subsidiary companies within the whole group, which consisted of nine separate legal entities of even more plants. The 16 storages, from which 25,000 points of sales were supplied, belonged to either one or the other subsidiary company. At the same time the company gradually switched from county-level brands to national-level brands. The result was that the area of competencies and responsibilities became rather diffuse and unclear. Kornél was proud that he could successfully participate in this fundamental reorganisation, but reported that

“The coordination of the differing operational procedures and organisational cultures which we found in the acquired companies were a big problem. I think that István Kiss Pál played a great role in stabilizing the operations of the organization which had grown so large and so fast.”

Finally the Hungarian CEO and the Dutch owners decided to change the organisational structure of the Nutricia group after October 2000. The group was consolidated into three entities with the aim to foster the efficiency of each functional area. The Nutricia Production House plc., the Nutricia Trading House plc. as well as the Nutricia Hungary Ltd. were created. The Hungarian CEO headed all three companies in personal union.

Each of the three companies focused on a different segment of the value chain within the group. The managers emphasized easier exchanges of information and the resulting efficiency gains in internal communication as the major advantages of the new structure. Furthermore, they also placed great importance on the fact, that a new and more transparent structure should clarify hierarchies and responsibilities.

#### *Nutricia Trading House plc.*

Nutricia Trading House plc. was in charge of the trading, marketing and distribution functions. The concept was that it would be the duty of the Trading House to inform the Production House on qualitative and quantitative changes in customers' demand as well as to distribute and market the dairy products of the Production House.

“Between the two separate legal entities we created a market relationship: one firm billed the other for the transferred products, and as a result of the separated finance and accounting functions in each subsidiary we were now able to see the operational differences of the two units.” Kornél continued: “By that time retailers had grown much stronger and consumers became more sophisticated. We did our best to accommodate the market with what it demanded. Dividing our base activities into two units created much more flexibility. As a sales director I thus had the possibility to purchase products from third party manufacturer if our own production units were not able to deliver on time. If – for example – I promised a particularly low price to a large retail chain then the deal usually tendered amongst several possible producers including our sister subsidiary. Due to this new set-up I was able to fulfil any possible product combination, whatever the retail chain purchasing department demanded from us, even if Nutricia was not manufacturing all products sold in the deal.”

The two subsidiaries jointly planned their yearly production as well as sales volumes, and subsequently met to formally renegotiate any changes that had occurred during the year. Good personal relationship and cooperation between the marketing, sales and production directors fostered the profitability at group

level. In the event of overproduction the export department of the trading house was in charge of foreign sales. This initiated the expansion of the company in neighbouring countries. The Hungarian Dairy Producers' Council reimbursed the extra costs of the export activities. István Kiss Pál, president of the Council, explained that

“The domestic dairy farmers, Hungarian dairy product manufacturers and the State jointly financed a fund, which was used for subsidizing export activities in case of national dairy overproduction. With this solution we were able to avert the collapse of domestic dairy prices until the EU accession.”

Traditionally dairy products were sold directly from producers to small grocery retailers, but from the mid-nineties wholesalers (dairy specialist and general such as METRO) grew into the value chain between the two segments. But often the dairy producers themselves acted as wholesalers and sold other manufacturers' products in order to be able to offer a full product range to grocery stores. The dairy producers and the retail chains usually had direct trading relationships with each other, whilst smaller independent stores – mainly in Budapest – were supplied by specialised wholesalers. In the countryside the same role was played by the local or regional dairy producer company, which naturally gave an advantage to its own products.

Price played a pre-eminent role in achieving competitive advantage: producers who were close to bankruptcy, typically medium-sized companies, gave serious volume discounts to utilise existing production capacities. Other companies used radical pricing to achieve their main strategic goal, which was to increase market shares. Again others used media advertising tools to turn their previously commodity-like products into milk, soured cream, kefir etc. with known consumer brands. Wholesale prices of dairy products were non-transparent; this was mostly due to the secret prices negotiated between dairy producers and the large retail chains. Although dairy producers had 'official' price lists, a considerable and growing volume of transactions did not materialise on those prices. The rivaling companies had little information on each others' plans and overall market developments were difficult to see.

Since high prices were one of the main factors for the relatively low level of milk and dairy product consumption, un-branded and own-branded products strongly increased over the recent years. Yogurts represented the most dynamic growth segment in the dairy market, which was explained by the fact that yogurt consumption gradually became part of every day life. Recently consumers were also more likely to choose quality products with higher content of real fruits, but placed great emphasis on the product's taste and perceived value. Un-branded products played a minor role in the yogurt market since they could not compete on quality with branded products. Lower price did not make up for poorer packaging compared to branded products, and they were not supported by any marketing tool or market research.

*Nutricia Production House plc.*

Nutricia Production House plc., was in charge of raw milk sourcing and of producing dairy products in the right quantity, the right quality and to the specified deadline. The quality of raw milk was influenced by a number of factors: Larger dairy producers cooperated with some raw milk producers in order to ameliorate the living conditions of cattle and to develop their nutrition policies. Transactions between dairy producers and milk farmers frequently also had non-price elements, in this way dairy producers had more room for individual negotiations that just on price, which would have created binding precedents for all other milk farmers. Raw milk producers often had cash flow difficulties. Dairy producers helped them to stay in business by giving them so-called "milk price advance payments" or offering them leasing possibilities which acted as quality or quantity incentives. The amount of financial and professional aid offered to milk farmers varied depending on their financial situation and on the demand level of raw milk. Nevertheless, raw milk producers, except those of the eastern counties, had some degree of choice which dairy producer to sell their raw milk to.

István Németh started his work as production director with Nutricia at the beginning of the year 2000. He gained 24 years of work experience with a Hungarian beer brewing company where, after the privatization by an international owner, he was promoted to production director. In his new position with Nutricia he directed all the production units, whose managers not only had several decades of work experience but also professional experience crucial in dairy production. For this reason István strongly built on them in operative matters.

Most important input materials into dairy production were ingredients and packaging material. Amongst the ingredients fruit-ingredients were the most important in particular for fruit-yogurts and the increasingly popular dessert products. In earlier years these had to be sourced through imports but over time domestic suppliers emerged. Suppliers needed state-of-the-art techniques to deliver the high-quality fruit ingredients. Special metal containers were used for transportation which at the dairy plant were connected to the closed and strictly controlled production system, thus reducing contamination risk. Focusing on the functional areas resulted in considerable amelioration of production efficiency rates. According to István Németh their task had always been totally clear:

„(...) to produce quality products and to constantly reduce costs. Actually, with a well installed output/internal-accounting system the added value should then accumulate here with us.”

István and the plant managers worked together on developing the same cost level indicators for each of the plants as well as to benchmark the theoretical and de facto capacity levels with the internal norms of the new owners, Friesland. With the detailed production costs István could have had a much better picture

on the current situation and deciding on the optimal reorganization of the production processes would have been much easier:

„Naturally we constantly controlled the quality level. Varying to product demand we had some preferred plants for development, which also affected the production staff. On the cost side we always tried to fully utilise our capacities, so we could push down our unit production costs. Of course on the market you could always find special promotion products at dumping prices and our Trading House could have also bought it. But we will only remain competitive if we manage to keep our unit costs constantly at minimum. Danone – for example – just opened their new dairy dessert factory for Central Europe. We are curious what price levels they will be able to deliver at.”

In order to better serve its major customers the Trading House demanded special products and services from the Production House which thus led to new cost types. Larger retail chains demanded different packaging for their own-branded products. These needs often meant different packing material and new packaging technologies. Other retail chains demanded new and exclusive product varieties. The larger retail chains also expected their suppliers to create separate storages for them and to develop costly JIT logistic solutions.

#### *Nutricia Hungary Ltd.*

The third company in the Hungarian group of companies management support functions such as HR and IT services. The introduction of MIS was an ongoing process for several years but the company always grew and grew. Its dairy plants and warehouses were constantly under reorganisation or the managers in charge were constantly replaced. It were actually the middle managers with the many years of work experience whom we got the first useful reorganisation suggestions from.

### **2.3. The European Union and the Effects on the Hungarian Dairy Market**

In 2003 many of the world's largest dairy companies were situated in the European Union namely six out of the top 25. Of the 25 largest companies 14 were quoted on a stock exchange and eight of those 14 in Europe. The European Union dominated the world dairy industry. In anticipation of the consequences of EU-accession management decided to establish an “EU task-force” with the aim to explore the possible effects on Nutricia. Adopting to the new competitive situation meant large investment needs for all companies. The other difficulties were the sets of new regulations that had to be applied within the EU.

Certain Hungarian dairy products were competitive on export markets if they were at good price level and met EU quality as well as packaging standards. With the accession to the EU customs and tariff barriers would be lifted and a strong rise of dairy import volumes from EU to Hungary was expected. In fact



the market share of western made dairy products, such as yogurts and desserts, already started to increase in 2002. In addition, quality of these import products was often superior to domestic ones, but in order to gain popularity they were sold close to production costs. Parallel to increasing imports consumers and suppliers to the dairy industry underwent gradual changes: the customer base for dairy products widened and consumers more readily tried out new flavours and unknown dairy products.

As a result of all these developments one could observe an active repositioning and taking of places within the dairy industry. Several international retail chains even started to coordinate their sourcing across Central European countries. Several of the smaller Hungarian dairy companies decided to narrow down their product range. This way they were able to better utilise their existing production capacities and, thus, reduced their average production costs. They attempted to secure themselves shelf space through lower prices. The managers' opinion at Nutricia was that some of these companies only aimed at increasing their relative changes to be acquired by new entrant with strong financial resources. After 2001 the dairy industry in this region of Europe thus entered another period of reorganisation.

Amongst dairy industry players it was held that only those producers would be able to withstand the new challenges in the EU who prepared themselves for the new situation. On the one hand, they had to ensure constantly the strict hygienic and quality EU regulations. On the other hand, they had to innovate production technologies and develop new products in order to satisfy a wide range of consumer needs at competitive prices. SOLE Hungaria for example invested twelve million Euros to develop their plants, to introduce new technologies and to secure modern production hygiene standards. As part of this project they opened a new 7000 m<sup>2</sup> plant and continued investing into environmental projects. SOLE placed an emphasis on improving its competitiveness by creating the most efficient production environment and thus escalating the rivalry with Nutricia. Many producers believed that the best way to defend their domestic market position against new entrants would be focusing on efficiency improvements. EU enlargement was expected to create the same market rules for all actors in dairy industry and therefore they aimed at winning markets with competitive prices enabled by increased productivity and lower unit production costs.

#### **2.4. The Friesland Central European Group**

The EU enlargement in May 2004 was also expected to bring new export possibilities and to create new markets for domestic dairy producers. Compared to their western competitors Hungarian dairy producers had the locational advantage of being much closer to the neighbouring countries of Central Europe. Dairy producers tried to leverage these regional advantages. More Hungarian

dairy producers had EU registration numbers then Polish or Slovak competitors, but the CEO considered this advantages only to be a temporary one. However, an expert expressed great concern about the Hungarian overproduction:

“If the farmers stop breeding new live stocks, then I can imagine some raw milk shortage even by the 4<sup>th</sup> quarter in this year”.

Other experts commented that this could also adversely affect the EU production quota of Hungary and project the increase of imports.

The new owner, the Dutch Friesland Group, decided that Budapest should become the regional centre in their Central European expansion and organisational changes began. Between November 2001 and April 2003 the Hungarian subsidiary Nutricia, still called by the name of the previous owner, acquired 13 dairy plants in the Czech Republic, Slovakia and Romania. In addition to this, they gradually intensified their commercial activities in these countries and even began to build new cooled storages. Soon they reached dominant market share in Romania (23%), which was close to that in Hungary (24%), and aimed at reaching number one position in Slovakia as well.

„We want to become a major and stable player in the dairy markets of these countries so that we can fully exploit economic advantages of regional cooperation. In this way we create the basis for future profitable growth. Our current domestic market of ten million Hungarian will thus expand to 80-90 million potential consumers, which in itself is a huge business opportunity”, said István Kiss Pál.

The Friesland Central European Group Division was created to head the Hungarian and the new acquired foreign subsidiary companies. The offices of the new Division were located in the same Budapest office building as previously, only one floor above (also see exhibit 5). The owners were ready for the large investment, but expected that current operations should always be at a profitable level. István Németh commented on the new situation:

„Of course we have found the same problems in those foreign plants as we had had in our domestic ones. My job was to decide on professional questions, plant investments as well as on product and production process issues. I had to get the know-how transfer going across countries. My ultimate goal was to optimise production processes.”

As a consequence of these developments Kornél was appointed as CEO for Hungary. Kornél thought it to be important to discuss the most important questions during the weekly meeting with his new fellow managers. He felt that these meetings have become necessary to better co-ordinate the Hungarian activities, where more than 2000 people were employed.

## 2.5. The New Friesland Hungary

Kornél was thinking about what would be the best way for him as the new CEO to continue the success story of the Hungarian Friesland subsidiary companies. The constantly changing market conditions and the not so distant EU accession again made the possible reorganization of the Hungarian group of companies an issue. Some of his former management colleagues advised him on personal and professional grounds not to reorganize. They pointed to the growing success of the current “2+1” organizational set-up and told him to consider that the group gradually increased its efficiency during the past few years. Again others urged him to take action. They presented professional arguments to Kornél on why the “New Friesland Hungary” project should advance. This project would have merged the three Hungarian subsidiaries into a single legal entity.

Kornél very well remembered how many times he, as commercial manager, strongly felt that the internal transfer prices between the subsidiaries were simply not enough to really motivate their Production House. He had the definite impression that the colleagues in the Production House were simply too far from the harsh realities of markets and competitors. In any case he then got the impression that the Production House took the Trading House as a secure, internal customer, whom they could rely on.

At the same time Kornél was well aware that during the past years one of the major strengths of the company was, that each unit focused on its particular business function. This focus enabled them to react fast to environmental changes. Nevertheless, he was pondering about whether it would be a good idea to reorganize the current organizational set-up. What effects would it have on the efficiency of the organization, and was this really the best way to keep in step with the new challenges ahead?

On the one hand, he saw the positive effects of the newly introduced management information system; on the other hand, he was still reluctant fearing that a large-scale reorganization would use up too many organizational and managerial resources. Or was it unavoidable for keeping pace and for maintaining their leadership in a changing market with strong international competitors?

## 3. Case Analysis

The case is primarily centred around the question which the new CEO seemingly faces: whether or not to merge the Hungarian companies.

Table 1

	<b>Phase I</b>	<b>Phase II</b>	<b>Phase III</b>	<b>Phase IV ?</b>
	Post-privatisation years	Transition years	Pre-accession years	In the EU
Starting Period	1993	1999/2000	2001/2002	2004
Major Challenge	Many territorial players	A few national players	A few regional players and western competitors	Western Competitors and successful regional players
“Growth by” Corporate Strategy	MnA	Focusing on different functions within the value chain	Integrating major functional areas (notably sales and production) <u>within</u> the wider company and within a national market, strong focus on internal rationalisations	Regional MnA and later rationalisation across region along functional fields
Critical Success Factors	Fast acquisitions, regional coherence	Develop national brands, develop national distribution network, rationalise production along product groups	Increase productivity even further by better coordinating internal dataflow and production processes (BPR, IT)	Fast MnA in Central Europe and fast integration of acquired businesses
Competitive Strategy	(regional) Focus, i.e. one dairy company in each department	Trading company: premium and cost brands, differentiation through distribution network Producer company: basically cost strategy through reorganisation between regional department and differentiation through product innovation	Cost strategy: reduce costs both in trading and producing companies. New economies of scale: try to integrate activities on regional level.	On CEG level: focus on strategies within each national market, but also high priority to cost reduction through leveraging economies of scale across borders

### 3.1 Hard Factors of Analysis

In order to understand the full context of this decision participants have to analyse the company's past strategy (content) and the organisational realities, both formal as well as informal.

Table 2

	Phase I	Phase II	Phase III	Phase IV
	Post-privatisation years	Transition years	Pre-accession years	In the EU
Starting Period	1993	1999/2000	2001/2002	2004
Organisational Form (formal)	Many regional subsidiary companies, quasi-territorial divisional organisation	Management holding company, with internal market for products i.e. trading and production subsidiary companies and central holding company offering support functions	Single company in Hungary with functional organisation but matrix organisation on CEU-regional level (Functions and Countries)	Probably many companies across CEU region, i.e. quasi-country-divisions
Management Mode	CEO and his small team in close cooperation with Dutch owners	CEO and his trusted team	New CEO, appointed from within the old management team, extended with new, external directors. The rest of the old team now manages country subsidiaries from the Central European Group level	Who will be hired/appointed to be the CEO in neighbouring CEU countries?
Planning	None, very informal between CEO and his team	Formal planning between the sales and production company, but de facto constant adjustments through informal channels.	Formal planning between CEG and national companies, coupled with ongoing management through matrix organisation. At national level: Informal planning between functional directors within single Hungarian company.	Need for both formal planning and budgeting, but also for informal modes to remain flexible (matrix organisation).

Nutricia Hungary has developed remarkably. The companies' growth path can be divided into three major phases. The underlying business environment has radically changed over the last decade. The following major phases can be distinguished. Phase I started with the first acquisition of Hajdútej Rt., a territorial dairy producer and lasted till around 2000, when the last potentially attractive dairy companies were taken over by multinational companies. Phase II started a short period before the first reorganisation into production/trading/service company and lasted until Hungary's EU accession was finally decided in 2002.

Phase III covered the period of pre-EU accession. Nutricia Hungary has skilfully adopted its (corporate) strategy to the business environment. To support the respective strategies the company has constantly modified its organisational structure, both formal as well as informal.

Nutricia Hungary is basically in the FMCG market with highly perishable products. The economies of scale in this industry have changed rapidly. New production technologies resulted in new products, which are better and thus can be transported to further distances from the original production location. This development gives the product base for developing national brands instead of only having brands at the departmental level. With market success on the national level the production volumes increasing, new investments into production will pay off faster.

These changes continue in the pre-accession era: economies of scale seem to be reached at national level. To achieve further productivity dairy companies must also adopt more advanced strategic tools such as BPR and integrated IT-systems. These management tools so far have only been used in more competitive industries and mostly in services. With the EU accession economies of scale in dairy industries will again be shifted to new levels: from national to regional.

### 3.2 Soft Factors of Analysis

Apart from analysing the strategy content side, a fuller picture will emerge if management styles and decision making processes are made explicit.

### 3.3 To reorganise or not to?

The major question relates to the question of reorganising the company in the summer of 2003 before the EU accession of Hungary on May 1<sup>st</sup> 2004. As already described above the company's organisational structure showed strong interdependence with its strategy. The case study deliberately demonstrates the advantages of the existing organisational form, but only "indicates" the changes in environment, the competitors' strategies, the internal management difficulties and the lack of market responsiveness.

The decision is not purely based on rational arguments, but also influenced by organisational realities, personal interests and organisational power relationships. Additional analysis on organisational forms (functional, divisional, matrix, project etc.) as described in standard management literature also applies here.

### 3.4. "What happened?"

A top management team decided on the unification of the Hungarian companies during summer 2003 - for several reasons.

- The legal agreement not to integrate Szabolcstey Rt. has elapsed.
- Hungarian national subsidies paid for dairy exports have gradually been faded out.
- Top management team moved one level up to CEU level (CEG) thus conferring Hungarian operations to the new CEO, who is member of the inner management circle.
- EU accession has shifted the strategic level from national to regional.
- Friesland Hungary had to pre-empt the expected price war by reorganisation (economies of scale) and business integration (cost reduction).

Nutricia Hungary built its branding strategy on its products, and did not emphasise its corporate image ("a house of brands" vs. "a branded house"). One factor for this was the possible redundancies during the rationalisation process after strong MnA activity.

Interestingly, the new Dutch owner (Friesland) did not push its own company name either. Thus even in summer 2003 the interviewed persons all referred to the company as Nutricia. The regional HQ however was officially called and referred to as Friesland Central European Group (plc.). Thus, parallel to the question of reorganisation the Hungarian companies, there was the process of renaming the company from Nutricia to Friesland Hungaria.