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Hungaricum Promotion- Pick Salami Exporting Plan to European Union Countries

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1 Introduction

Nowadays, there aren't almost any countries where economic life should not play an important role in international trade. There is hardly any product or service that is not directly or indirectly related somehow to foreign trade. Thus, we can get to know other countries' values more easily. Every country has its excellent own products which everybody should know. Hungary has a lot of valuable products, but many of them are not known enough abroad.

In order to improve this situation, I would like to describe how we can achieve this. In this study report, I will describe the export plan of some top class Hungarian meat products of Pick Szeged Zrt.[1] to European Union countries. I will focus on the products of Pick Szeged Zrt. because I think we can be proud of them which must be known everywhere.

Therefore in my study firstly, I would like to describe Hungary's export background and reveal some business information about its prospects. The second part of my study is an analysis on the meat market. The future success of the Hungarian firms will largely depend on international trade, how they can benefit from make profit of the opportunities generated by the foreign markets.

The aim of my study is to explore the domestic economic background and other economic factors at European level which can determine the export possibilities of such a successful company as Pick Szeged Zrt.

[1] Pick Szeged Zrt. is similar to a private company limited by shares.

2 A little history

Hungary has a really good geographical location carry out do export and import because it is a land-locked country in Central Europe. It is situated in the Carpathian Basin, bordered by Slovakia in to the north, Ukraine and Romania in to the east, Serbia and Croatia in to the south, Slovenia in to the south-west and Austria in to the west. The country's capital is Budapest.

Before World War II, Hungary's industrial growth was slow because the adequate capital was missing lacking. Since 1949, however, industry has expanded rapidly, and it now contributes to a larger share of the national income than agriculture. The government has no capital investments abroad, but it participates in limited economic activities in developing countries. Substantial industrial growth continued through the 1960s and mid-1970s, but the output in the socialized sector declined during 1979–80, and growth was sluggish in the 1980s.

At the turn of the eighties and nineties, radical political, economic and social changes took place in the Central and Eastern European countries. The Soviet domination lasted until 1989, when Hungary finally became an independent democracy. Now it is a developed country. After the fall of Communism in 1989, Hungary began a painful transition to a market economy. Between 1990 and 1992, the GDP dropped by about 20%.

Hungary pursued a vigorous program of economic transformation with the goal of transferring 30–35% of state assets to private control by the end of 1993. Hungary's liberal investment laws and comparatively well-developed industrial infrastructure permitted the nation to become an early leader in attracting Western investors.

On 8 January 1994 Hungary formally accepted the offer of a compromise on NATO membership. The offer involved a new defence partnership between Eastern Europe and NATO. In 1999, NATO agreed to grant Hungary full membership (along with Poland and the Czech Republic) in the organization in order to help them qualify to join EU.

In 1997, Hungary was invited to begin negotiations leading to its membership in the European Union. It was formally invited to join the body in 2002 at the EU summit in Copenhagen. It was accepted as a full member in May 2004 as one of the most advanced of the 10 candidate countries slated for accession.

As an EU member, Hungary maintained its position as one of the most dynamic and strongest economies in Central and Eastern Europe. Its position within the European Union, and the fact that it is still comparatively cheaper to do business there than in other Western European countries, makes Hungary a prime target for investments. However, Hungary is being challenged by some of its neighbours that have managed to maintain lower labour costs, and a more attractive tax system.

3 Economic overview

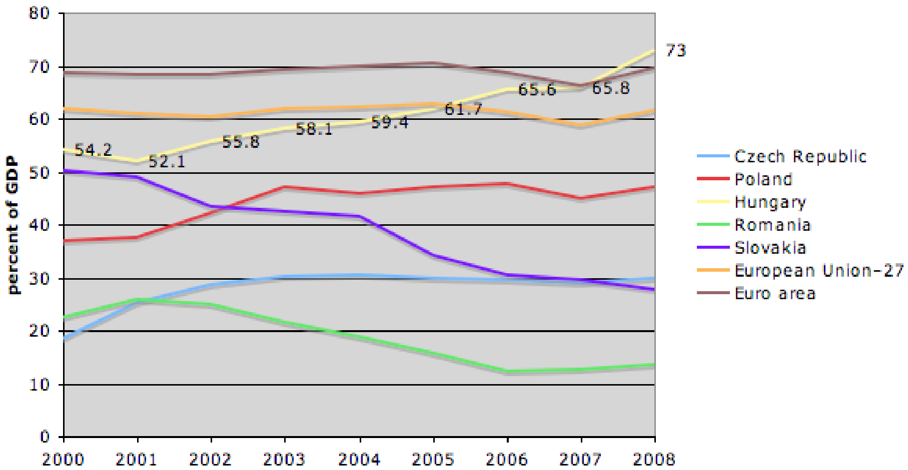
Hungary is an open economy that is involved in a high proportion of international barter market. Hungarian industrial export is highly determined by firm size; export concentration is even higher in terms of foreign ownership, and both concentrations have increased considerably in recent years. Export concentration in other sectors of the Hungarian economy (agriculture, construction industry and services) is generally lower than in industry. Taking firm size and other factors, in comparison to fully Hungarian-owned firms, businesses partially or fully owned by foreigners are more export-oriented.

Hungary has a long tradition of state interference in foreign trade regulation but since 1988, to exercise control a right on of foreign trade has become subjective. From 1991 onwards, virtually every entity engaged in an economic activity a legal person or unincorporated business associations, trade groups and - subject to certain limits - individuals can engage in foreign trade activities. The products and services are sold abroad which creates a great opportunity for a company to expand the size of its available markets.

Hungary's economy is sensitive to external trade which is vital for the country. The small size of our country requires relatively high trade openness.

Hungary has gone through a centrally planned to a market economy whit capita income of nearly two-thirds that of the EU-28 average. The private sector accounts for among 80% of the GDP. Foreign ownership of and investments in firms is widespread with cumulative foreign direct investment totalling more than $200 billion since 1989.

Figure 1: General government gross debt



Source: http://en.wikipedia.org/wiki/Economy_of_Hungary#/media/File:Governmentdebt_hungary.png

The global economic downturn, the declining exports, the low domestic consumption and the fixed asset accumulation dampened by the government's austerity measures, resulted in an economic contraction of 6.7% in 2009 during the global financial crisis. Hungary reached an agreement with the IMF and the EU for a rescue package of US$25 billion, aiming to restore financial stability and the investors' confidence. It was a successful experiment. By now, Hungary's economy has reached stability. From now on remain stable.

3.1 Export/Import opportunities

The Hungarian export of industrial products and services has been growing steadily in the past years. The share of hi-tech products made in Hungary entering international markets trade is also on the rise. The structure of Hungarian exports is highly concentrated on products giving 62% of the total Hungarian sales abroad. Such a large-scale export is not characteristic of the Central and Eastern European region. The share of the products is above 50% almost everywhere.

Hungary has a competitive advantage in many industries, but the ones listed below deserve special attention. The food industry plays a strategic role in Hungary's domestic food supply and export, and is a major employer. Although it is share in the output of the Hungarian industry has decreased in the past 10 years, the food processing industry still remains one of the most important sectors in the economy amounting to 14% of the industrial production. About one fifth of the industry's products are sold abroad which amounts to an average 7-8% of Hungary's total exports. We can see that in the industry's balance of trade has been showing a surplus for many years.

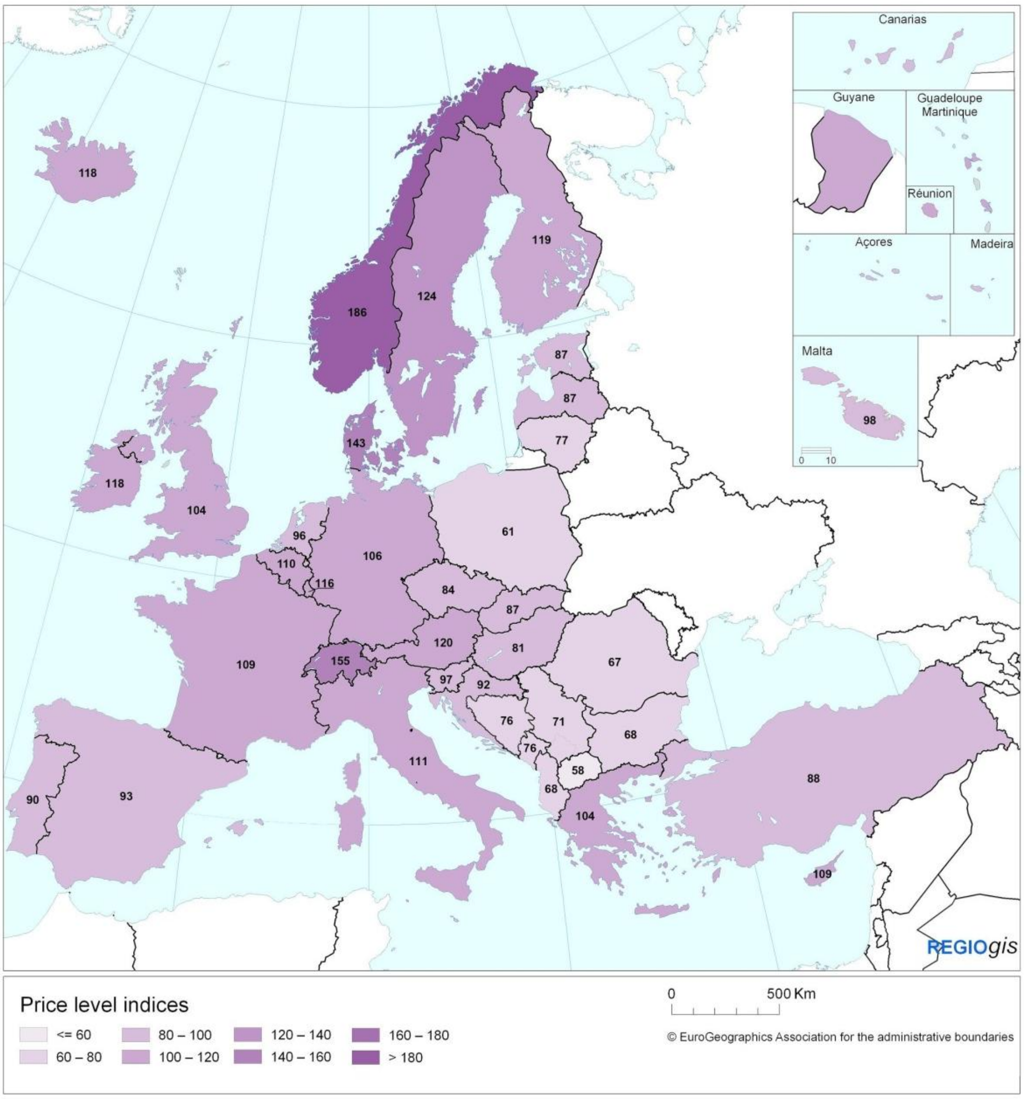
There is a strong competition in every sector of the economy. Foreign direct investments have had an overall positive effect on the development of the economy since they greatly contributed to the technological modernization of the industry. Investments in in the food processing industry aim to increase the competitiveness of this sector by raising market productivity, adaptability and the speed of concentration.

The priority of the Hungarian economy is to conform to EU standards in quality, safety, animal protection, environmental and hygiene protection.

In economic terms, this branch of industry the sector is practically integrated in the EU's food industry. Fifty percent of the investments in this sector are from EU investors, and 80% of the export goes to the other EU countries.

Hungary main exporting products are: machinery and equipment 53.5%, other manufactures 31.2%, food products 8.7%, fuels and electricity 3.9% and raw materials 3.4%. Hungary exported a significant volume of its products most to Germany 25.6%, Romania 6.2%, Slovakia 6.1%, Austria 6%, Italy 4.8%, France 4.8% and the United Kingdom 4.2%. Hungary's exports amounted to $93.01 billion.

Figure 2: Price level index for food and non-alcoholic beverages in 2012, EU-27=100



sources: http://hu.tradingeconomics.com/hungary/exports

The lightest is the cheapest, and the darker a colour is the higher the levels of the prices are from Eurostat data base. This map shows well that the ingredients of the salami are cheaper in Hungary than in Western- European countries, but are lower here than in other countries of Western Europe.

3.2 The impact of market factors on Pick Zrt.

After the collapse of the communist regime, in spite of some ups and downs, the company’s exports were continuously developed until 2000 when the negative trends in meat industry continued to increase. One of the most serious problems of the company was the fact that the pig prices rose. The high prices played a significant role in maintaining the domestic pig meat deficit, which resulted in the fact that from the end of the second quarter of the year, the domestic pig purchase price exceeded the average purchase price in the European Union. On the western labour markets, the competition is very strong due to which higher domestic prices could not be enforced against local competitors. On this market, the group was able to just hold its their position that meant applied to a lower rate of price increase in Hungary.

However, the other problem was that the BSE appeared in Europe in 2001 - ("mad-cow disease") and foot-and-mouth disease, which resulted in the fact results that a number of countries restricted or suspended the import of meat products. These tendencies affected the production of Pick Zrt. very adversely. The shrinkage of the most important export markets was caused by the prohibitions imposed by Poland, Estonia, the Czech Republic and Slovakia. Moreover other difficulties also worsened the group’s activity with respect to the other countries bordering Hungary to which the export of meat products was temporarily suspended. This was also a problem because due to the above mentioned unfavourable processes, trading with the remaining partners thus became more and more difficult and costly.

The appearance of certain animal diseases caused a significant reduction in the consumption of pork and beef in Europe. To remedy this situation, Pick Szeged Zrt. completely abandoned the manufacture of those products which contained beef. Pick Hortobágyi Bio Salami of this range of products contains only beef to the present day, but it is made of gray beef which is resistant to all of the above-mentioned diseases. These were the most important trade issues the company had to face in the short run which were relatively easily sorted out by compromise. The company was also affected by the exchange rate volatility and the weakening of the Hungarian forint against the euro.

3.3 Pick group sales

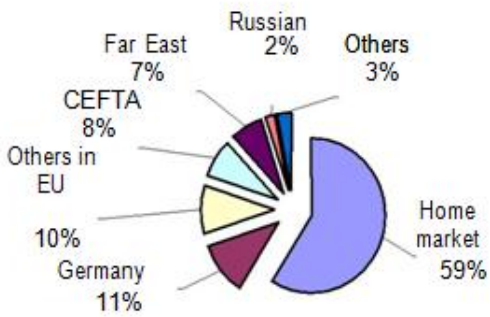
If we compare the Pick Szeged Zrt. foreign and domestic sales data to one another, then we can conclude that the home market which is not large at all, but the larger proportion of the company's sales here. This is probably due to the fact that the salami is a traditional Hungarian food, which have to know for more than 100 years. Consequently, it can be found in a significant proportion in Hungarian households. Of course the company aims to increase the popularity of this Hungaricum on foreign markets as well.

One of its flagship companies whit its best known brands is Pick Szeged Zrt. which is owned by BONAFARM Group, an agricultural holding consisting of the leading Hungarian companies from various agricultural segments. Due to this structure, all the pigs processed by Pick come from farms of the group's companies that use fodder grown on their own land and processed in their own fodder mills.

The yearly output of Pick totals up to 50,000 tonnes of meat and processed meat products, meanwhile its turnover amounts to nearly 200 m EUR. All the five production sites meet the highest quality requirements – the company has been granted some of the most highly ranked quality accreditation certificates: ISO, BRC, IFS, USDA, AVA approval, Japanese and Korean export licenses, etc. The product range includes a wide variety of processed meat products ranging from salamis, dried sausages, frankfurters, sausages to different kinds of bacon and other meat products.

Pick Szeged Zrt. exports its products to more than thirty countries in the world and has operating branches and subsidiaries representative offices in several countries as well. Pick also takes care of and exports Hungary's Edible National Treasure, the unique and special Mangalica pork pig.

Figure 3: Pick- group sales distribution in 2014



sources: http://www.bonafarmcsoport.hu/bonafarm-csoport/pick-szeged zrt/ertekesites/export/

4 About the product

During nearly 150 years, Pick was a significant player on the European food industry market and has been the leader of the Hungarian meat market for a long time, offering excellent quality products widely known and appreciated all over the world. In Hungary Pick is the best-known meat industry brand name, and in order to improve our market share (so far this is 30%) and reputation abroad it is also trying to find other members willing to join the Hungaricum Club with a primary goal to preserve the identity of traditional Hungarian brands.

4.1 Range of products

Each year, Pick Szeged Zrt. produces nearly 50,000 tons of meat products. Their product selection includes premium products satisfying wide-ranging market needs: salamis and dry sausages, cold cuts, liver pastes, frankfurters, hams, cold cuts, grill products, spreads, bacon fat, bacon, various ready-made meat products as well as quick-frozen products and meat products made from the unique Mangalica pork. Pick is the largest Mangalica meat processing business in the world.

Since 2005, Pick's portfolio has included Mangalica products and the company has now become the largest Mangalica meat producessing business in the world. This world famous, uniquely Hungarian product has been made according to the secret recipe of Márk Pick for over 140 years.

The four brands Pick, Ringa, Délhús and Herz (which returned to the market in 2010) produced by the 2,700 employees of the company, which has a market share of almost 30% in Hungary, and represent top quality in their respective market segments.

4.2 Awards

The 1st Sustainable Food Chain World Summit Meat Contest took place on 21st August 2010, where the products of Pick Szeged Zrt. were awarded the following acknowledgments in the following categories:

I. Pick Mangalica salami (also voted as the best product within its category by visitors of the contest) II. Pick Winter salami II. Pick Mangalica ring sausage III. Herz Chorizo.
Hungarian Quality Product Award 2010.

The Pick Rákóczi salami product range received the acknowledgement of the judges at the Hungarian Quality Product Award ceremony in 2010.

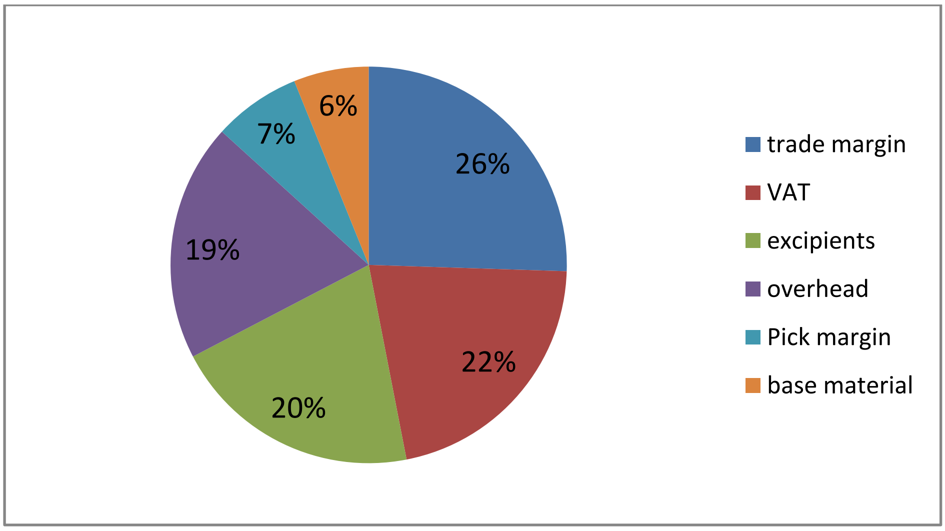
4.3 Price

The products of Pick Szeged Zrt. product have a high quality and are also internationally well-known brands, so their price strategy is based on the value of its products. Since the company is going to use a cooperative organisation, they cannot strictly determine the final price for just a category product. That is why, they would make several agreements with their partners regarding sales strategy because they should find the right selling price.

If the salami were would be too cheap, then they would lose their prestige, but if it were would be too expensive, then there would be fewer people who would buy it, so they would have less profit.

The biggest part of price is 27% of the trade margin which may contain bonuses, discounts and extra charges. The other big part of them is the 21% value-added tax. Taxes in Hungary are levied set on imported goods and services that come from outside the EU. These taxes are calculated as a sum of the goods' value, transportation costs and insurance. The duty rates that apply to imported goods and services in Hungary are set between 0% and 17%. There are additional charges, also known as anti-dumping taxes. 20% of wrapping and spices costs make up the manufacturing wage costs. 19% of the available funds are general expenses and overhead costs. A substantial part of the available amount of money is spent on energy consumption logistics and other manufacturing processes to comply with food standards. The total Pick margin is 7% an obvious profit for the firm. The smallest part of the price is 6% representing raw base materials costs. The purchase price of pork and other kinds of meat have not been precisely mentioned. The prices could vary between 18 and 23€/ kg. This price could represent not only the high quality, but at the same time the availability of the products as well.

Figure 4:Price made up



source: made for basis of http://www.bonafarmcsoport.hu/bonafarm-csoport/pick-szeged-zrt/

5 Business plan

In this paragraph, I would present the business plan of Pick Szeged Zrt. related to the meat market of the European Union. The products of Pick Szeged Zrt are high quality, and their brands are well known all over the world.

In this respect, a cooperative organisation which can spread the product with a few distributors could be the most effective and fastest solution to achieve fast growth (5%) on the market, and make profit as soon as possible. The faster and the better information we get about the markets, the sooner the better we can we meet their requirements.

The first priority for the first year is building consumer awareness, loyalty, and customer satisfaction. Besides taking into consideration the diversity of the markets, we must also examine the circumstances which can threaten a successful business. There are also some other factors which may affect the outcome of a business, for example, the current political economic issues, the fact we want to export from a developing country to a developed countries, the possible difficulties of introducing a new brand into the market, and the customers' reactions to this attempt, facing competitors from other countries who may have a better reputation with good problem solving skills, can perhaps offer a high quality product with a more acceptable price, too.

5.1 Pick Szeged Salami Market Entry Strategy

As a high quality product which is known worldwide, Pick Szeged Salami has already positioned itself with its the premium meat products on European countries' markets. This positioning has been achieved, eye catching design,- and high prices. The Pick Szeged Salami company has acquired vast experience in selling its products on international markets By relying on the example set by the success of Pick Szeged Zrt, we may conclude that premium products, premium pricing, prestige, sales promotion and selective distribution elements are indispensable to the marketing mix strategy to position the company on international markets in a favourable way.

Furthermore, women's and housewives' role is especially important, because they are the ones who buy the necessary goods for the whole family. This fact will have a positive influence on product advertising.

5.2 Swot analysis explanation

Table 1: Swot analysis of Pick Szeged Zrt.

	Helpful	*Harmful*
INTERNAL	**Strengths** • High level in production • Market experiences • Proper agricultural background • Growing quality • Inimitable products • Ever increasing yearly exports	**Weaknesses** • Perishable nature of goods • Higher cost of temperature controlled shipments • Environmental factors affect the quality of products
EXTERNAL	**Opportunities** • Exploring new markets • Online sales	**Threats** • Competitors • Export duty, tax • trade agreements
	Positive	*Negative*

Sources: made based on my studies

The main strength of the company its old traditional trademark which is very popular in Europe. This company can offer well known products with growing quality. In Hungary, Pick is the best-known meat industry brand name. In order to improve its market share and reputation abroad, the company is also trying to find new members for the Hungaricum group. The company's products are mainly exported to European countries, but they can also be found in Japan and the USA. There are exactly 36 countries to which the company' products are exported.

However, a big weakness of the companies' products lies in environmental factors which threaten their quality. Therefore, particular attention must be paid to delivery and storage.

The main opportunity of the company is reflected by the increasing demand for its products abroad. Their product can be the best choice for people who like these kinds of meat products because Pick offers high quality products at affordable prices.

The biggest factor threatening the company's successful activity is competition itself. Its meat products have to cope with a great deal of competition on the markets of the European Union. However, an acceptable price of these excellent products can reduce competition to a certain extent.

6 Conclusions

"Pick mission is to fulfil the needs of the consumers for a great quality product, and maintain it's name homeland and worldwide."[2]

The main marketing objective to introduce and position the Pick brand on international markets as a high quality, trustful, worldwide brand which hallmark these tasteful meat products improving our daily well-being.

In the beginning, the sales can be low because people do not know the products, but in the course of time, the customers will get to know them they going to get to know it and the sales rates are getting gradually and higher. There will always be demand for variouis kinds of high quality salamis which can be regarded as prestigious products which will never enter a "decline" phase.

This is also a very old and traditional company, which is already 140 years old. Due to its high quality, Hungarian meat export has always had always a high priority and a good image on the western markets that is why meat industry will probably be successful. As far as

[2] Qote from Pick Szeged Zrt. website: http://pick.hu/en/about-us

the message of my study is concerned, I wanted to point out the indispensable role of high quality without which products won’t be able to remain competitive on the markets in the long run.

I hope that the results of my research could become the basis of a successful business, and could provide decision makers with useful ideas.

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