

Challenges and outlooks – Future of the Hungarian dairy sector

Századvég Konjunktúrakutató Zrt.
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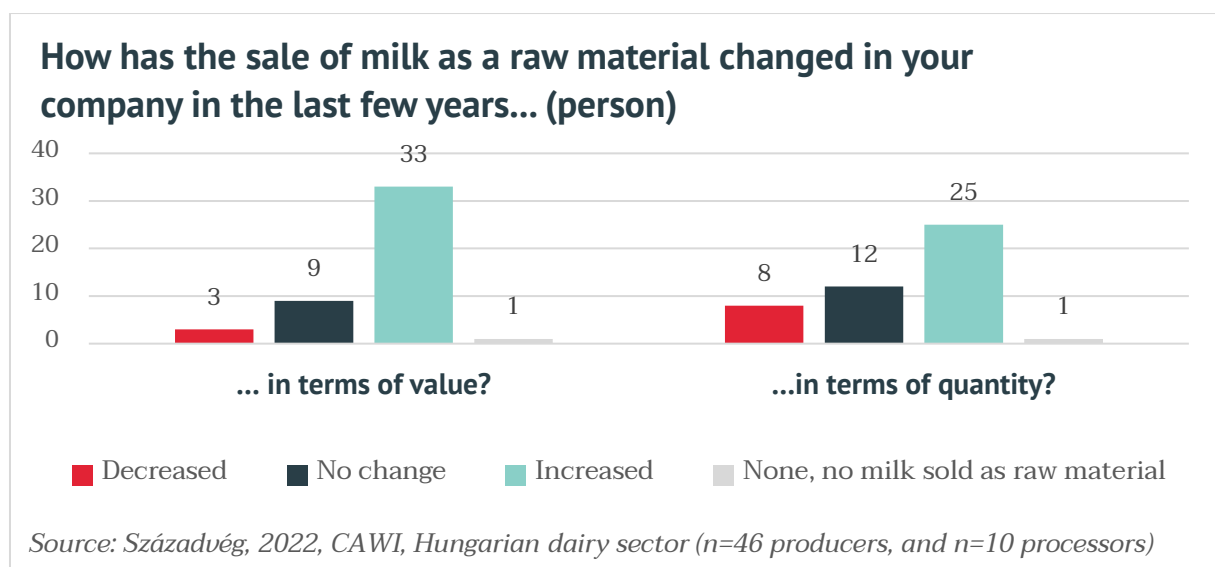
The establishment of sustainable supply chains not only serves to protect the environment, but also contributes to improving the competitiveness of companies through more efficient resource management and cost reduction. Despite all of this, the results of our research examining the situation of the Hungarian dairy sector show that the inequalities in the supply chain between milk producers, processors and traders, as well as the labour shortage and the energy crisis cause significant problems for businesses operating in the sector. This makes it difficult to implement the developments necessary for growth, production that is more efficient and processing procedures. At the same time, it is a positive result that nearly two-thirds of the examined enterprises plan to carry out improvements in the next 2-3 years, which can contribute to the more efficient and sustainable operation of the enterprises.

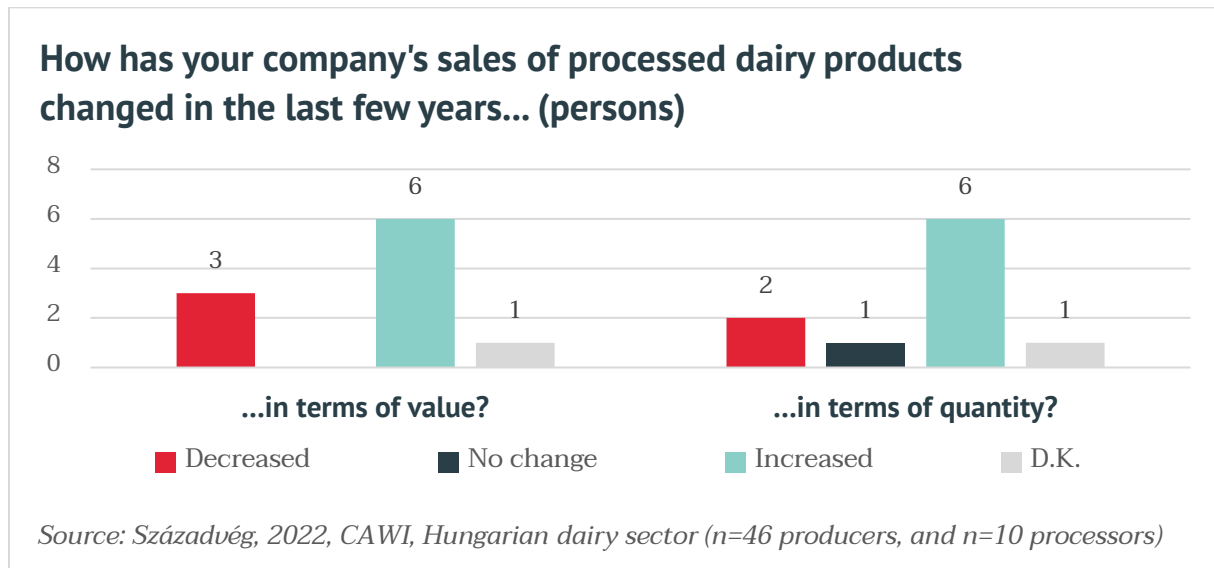
The tendency to build and support sustainable supply chains is becoming increasingly prominent in 21st century economies (cf. Zenovitz 2022). The establishment of sustainable supply chains not only serves to protect the environment, but also contributes to the competitiveness of companies through more efficient resource management and cost reduction (Beske et al., 2014).

In accordance with this, the aim of our analysis of the situation of the Hungarian dairy sector was to explore the sustainability of the sector's supply chains, identify trends, problem points and subsequently develop solutions. In our research, we examined the capacities and needs of producers, processors, and traders, as well as the relationships between them.

Both producers and processors feel at the mercy of the market

Our results show that in the past couple of years, both the producer and the processor segments have typically experienced an increase in sales, with overproduction being a rare occurrence. In other words, the sale of products between the various actors of the supply chain is generally successful. Overproduction is only a problem for - typically smaller - companies with inadequate storage capacities.





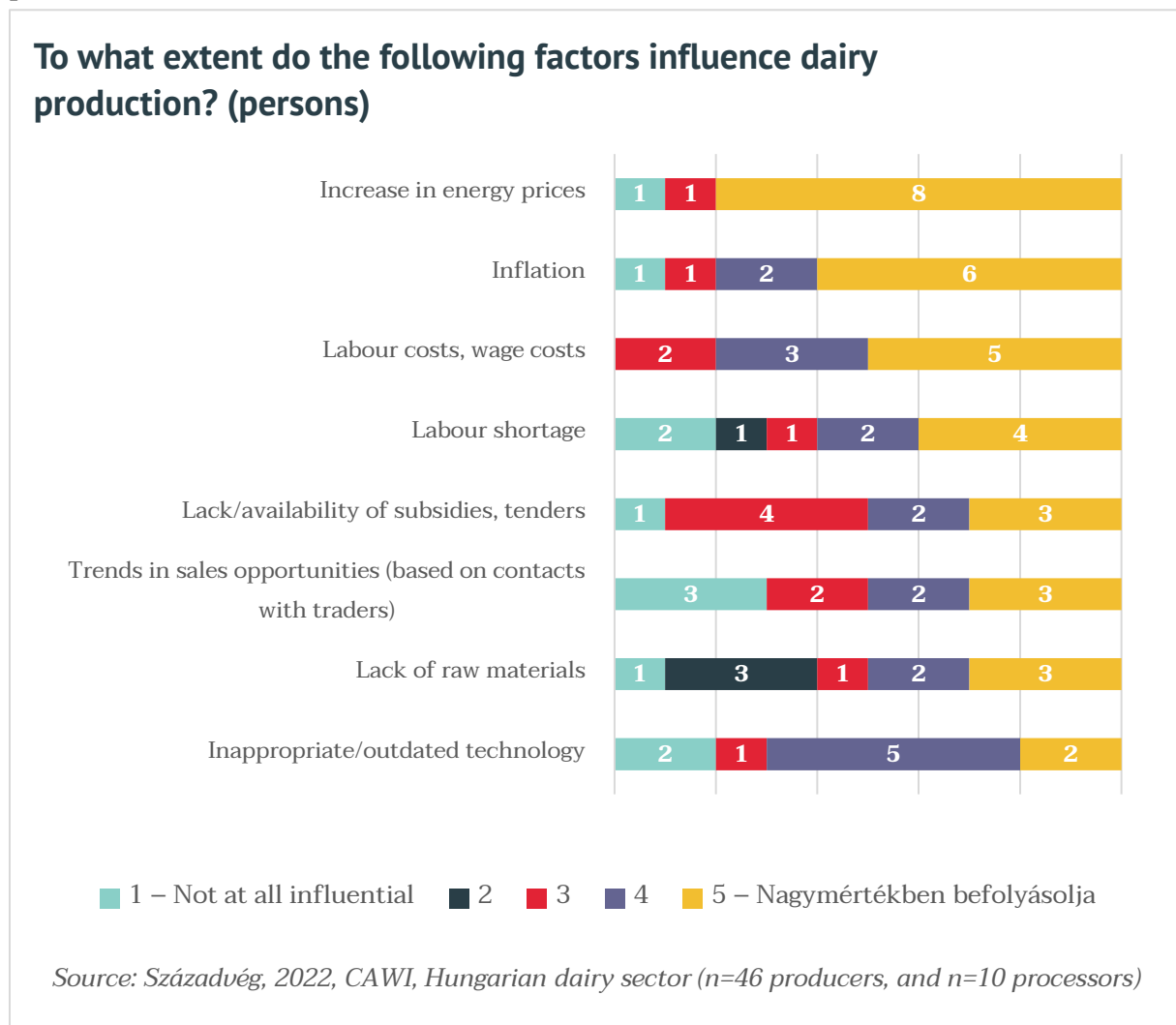
Although these results suggest that the different levels of the milk sector's supply chain (producers, processors, traders) are essentially coordinated, this is significantly nuanced by the results of our interview surveys. The producers participating in the research state that the unit price of the goods to be sold is determined by the processors, that is, the producers feel that they are at the mercy of the processing sector. The situation is similar for processors, who, on the other hand, perceive an asymmetric relationship in relation to the commercial sector. It is important to note that all of this is also significantly influenced by consumer preferences: the data (Századvég 2022) shows that the price of dairy products is the most important aspect for consumers.

Overall, it can be said that the producers are at the mercy of the processors, and the processors are at the mercy of the merchants. Because of this, the market position of producers and processors is weakened. This makes it difficult to implement the planned developments.

Labour shortage and growing operating cost are the greatest challenge that the dairy sector faces

Of course, the efficient operation of the sector is not only hampered by "conflicts of interest" between the different sectoral actors. The results of the research show that the lack of adequate human resources proves to be one of the biggest obstacles to the operation of the dairy sector. Due to the lack of skilled labour, companies find it difficult to find employees to whom they can entrust the coordination of individual work processes. However, there is also a fear caused by the lack of supply, as many of the necessary training courses have been discontinued.

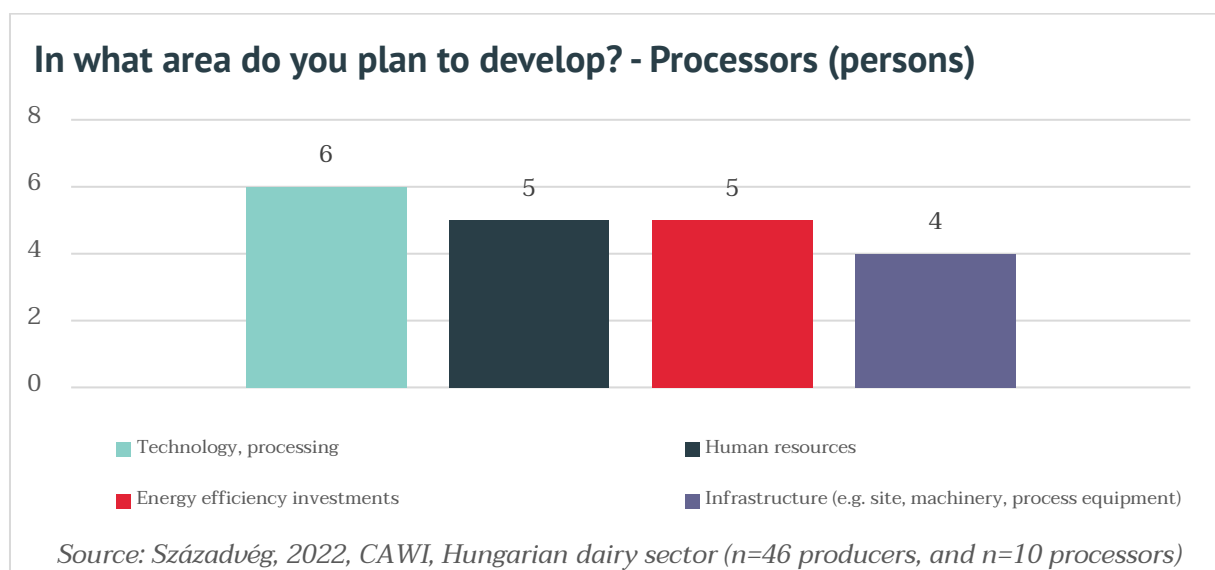
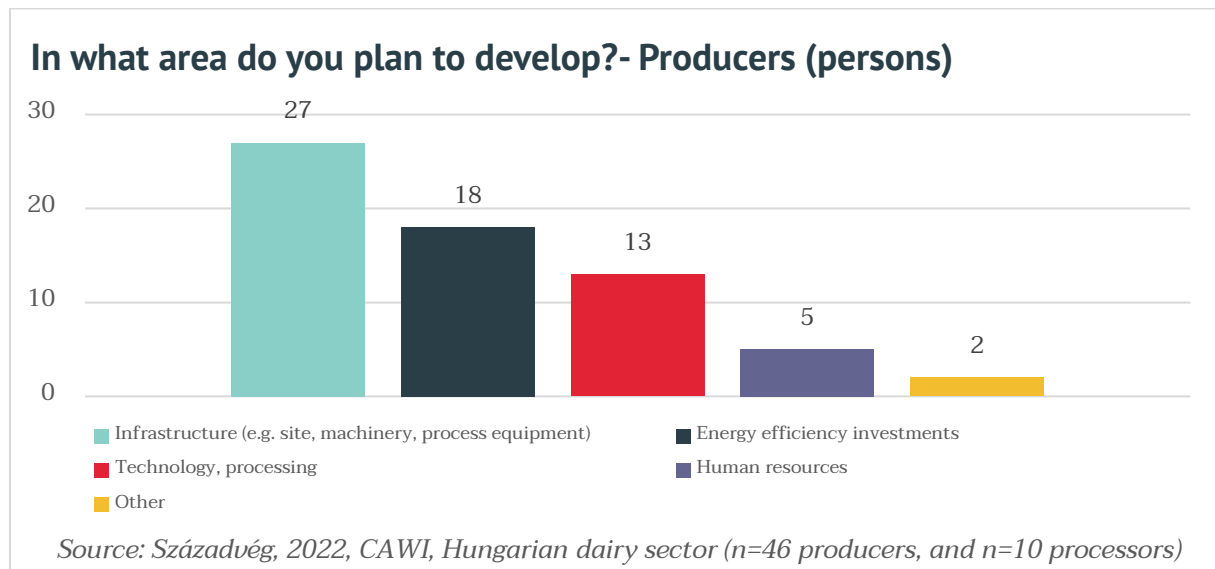
Another serious problem for the dairy sector is the energy crisis and high inflation. According to the interviewees, the significant increase in gas and electricity bills makes it impossible for many businesses to continue to operate. These problems are also confirmed by the results of the survey conducted in the processing sector. 8 out of 10 respondents see the rise in energy prices as a significant problem, similar figures can be registered in the case of inflation, and 6 out of 10 respondents stated that labour shortage significantly or greatly affects dairy production.



Dairy enterprises plan on upgrade their energy efficiency and develop their technology

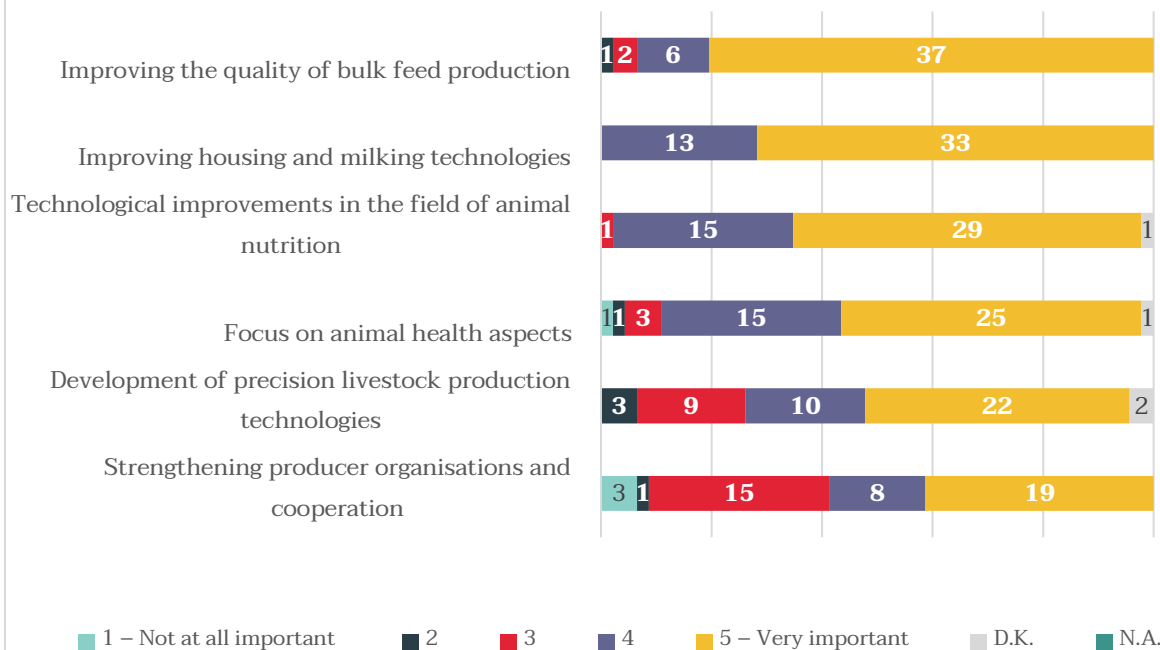
At the same time, these results are favourably influenced by the fact that nearly two-thirds of the examined enterprises - either in the production or the processing sector - plan to carry out improvements in the next 2-3 years. While in the case of

the production sector, infrastructure and energy efficiency investments are the highest priority, the representatives of the processing sector mentioned technological developments in the highest proportion. The financial resources to be used include state and European Union tenders, grants, own resources and borrowing.



In order to explore potential developments in an even more nuanced way, we also asked about specific development areas. Based on this, it can be said that the decision-makers of the companies operating in the producer segment of the domestic dairy sector consider it necessary above all to raise the quality standard of mass feed production, but they would particularly welcome the development of animal husbandry and milking technologies, technological developments related to feeding, and the prioritization of animal health aspects.

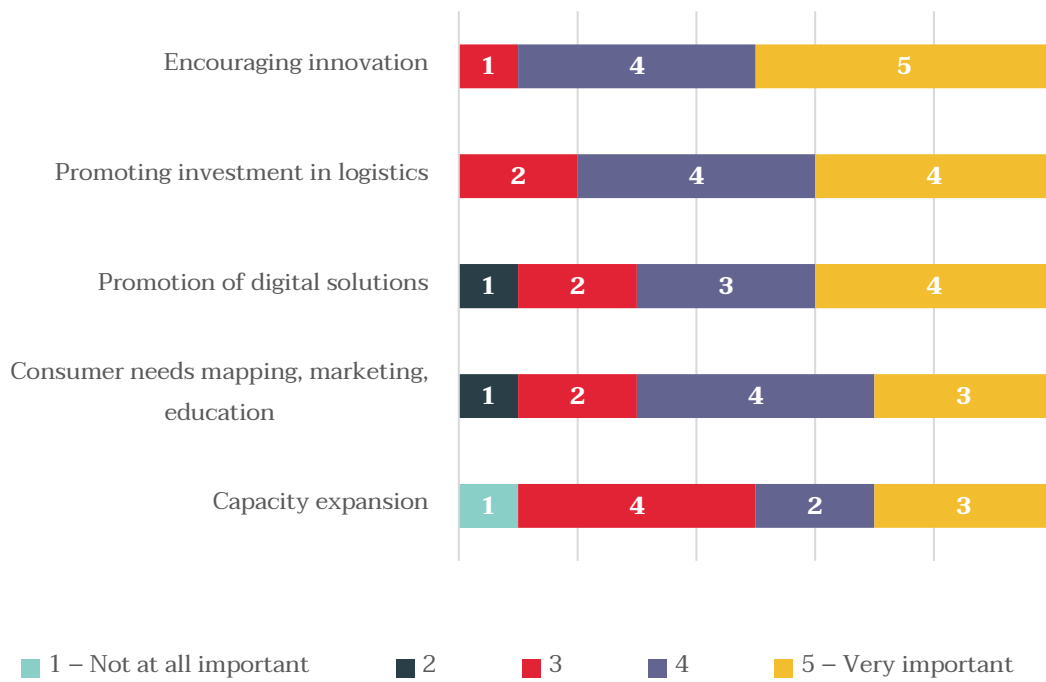
How important do you think the following improvement proposals for the dairy sector are? (person)



Source: Századvég, 2022, CAWI, Hungarian dairy sector (n=46 producers, and n=10 processors)

We also examined potential developments in the processing sector. It can be said that among the managers of milk processing companies, when looking at the development directions affecting the sector, the stimulation of innovation, the incentivisation of logistics investments, and the support of digital solutions are the three that are perceived as the most positive.

How important do you think the following improvement proposals for the dairy sector are? (person)



Source: Századvég, 2022, CAWI, Hungarian dairy sector (n=46 producers, and n=10 processors)

Methodology

During the preparation of the study, we used the following methodological tools.

I. Secondary sources

For situation analysis, presentation of the area, identification of international trends: international. domestic secondary sources (KSH, TGI), international databases (Eurostat) and literature review.

II. Primary quantitative research

As part of the research, we interviewed 53 randomly selected companies using the CAWI method (computer-assisted web interviewing) of which 46 company was milk producer and 10 milk processor.

III. Expert interviews

During the research, we conducted 20 structured interviews with producers, processors, merchants and representatives of advocacy organizations.