

**Willingness to co-financing Collective Agricultural Marketing
in Hungary**

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Willingness to co-financing Collective Agricultural Marketing in Hungary

Abstract

Research has been undertaken in Hungary asking representatives of food industrial companies, new-type co-operations, associations and other agents in connection with their trust to business partners, making collective actions and development of collective agricultural marketing (CAM). It has also been examined whether food industry businesses would undertake a larger amount of financing and a deeper involvement arranging CAM actions. Arguments were supposed to be found concerning their willingness of cooperation, propensity of investing their own money and involvement in activities of collective actions. Based on findings one can say that agents in the food industry are ready to take part in developing collective agricultural marketing and, they are open for co-financing collective actions. Having an increased budget of co-financing and using modern marketing tools backed by a mid term agricultural collective marketing strategy would ensure the competitiveness of food products and strengthening the patriot approach of consumers.

Key words: collective actions, collective agricultural marketing, satisfaction

1. Introduction

Collective agricultural marketing can be an effective tool for food industrial companies and farmers to improve their positions within vertical agri-food chains. Despite of relative importance of collective marketing in developed countries' agriculture, both theoretical and empirical research on this topic is still limited. The welfare effects of geographical indications are analysed by Lence et al. (2007) and Moschini et al. (2008). Warner (2007) investigates the impacts of geographical branding of Californian wine grapes on sustainability. The recent empirical literature on developing countries emphasises that collective actions of farmers are able to improve accountability and reduce the transactions costs that frequently discourage rural traders, input suppliers, and output marketing companies from doing business with farmers (e.g. Bingen et al 2003; Kruijssen et al 2008). The process of collective actions are initiated by an external factor, which catalyses the collective thinking and collective moving (Kruijssen et al 2008) In the agricultural and food sector, for example, a food contamination or a special market situation which can be a driver of the collective process. After joining the European Union the open market derived from the free movement of goods generated hard

situation for marketing of some food products of Hungarian origin. The level of import products and the hard competition enforced the sector to change its mind and enforced agents to collective actions. The lack of collective action among farmers and partners along agri-food chains including participation in collective agricultural marketing is also important issue in transition agriculture. Although, different aspects of vertical relationships between farmers and processors/retailers in transition countries' agriculture are relatively well documented (e.g. Gow et al. 2000; Boger and Beckmann 2004; Zaharieva et al 2003; Falkowski et al 2008), however, until now there is no research on the collective agricultural marketing in these countries. The study tries to fill this gap using Hungarian experience as an example. The structure of the paper is as follows. In the next section, we briefly outline the importance and development of collective agricultural marketing in Hungary. We describe the survey design and data in Section 3. After then the empirical results on collective agricultural marketing will be presented. Final section summarizes our conclusions.

2. The development of collective agricultural marketing in Hungary

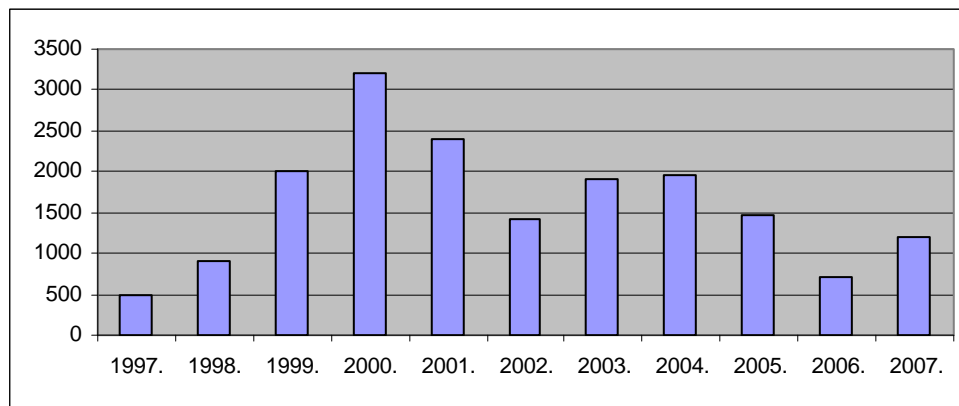
Roots of collective agricultural marketing in Hungary go back to 1984, the common program (named "Gutes aus Ungarn") of Agricultural and Food Ministry and Foreign Trade Ministry. Since terminating the program (1994), there have been parallel collective marketing programs in different ministries till 1996 when, with German support, the Hungarian Collective Agricultural Marketing Centre Kht (AMC Kht., later on AMC) was established.

The mission of AMC consists in the contribution to the enhancement the competitiveness of the Hungarian agriculture, with intensifying marketing orientation, giving of high standard, up-to-date and efficient marketing services. AMC is a public service company established with the aim of expanding the market of Hungarian agricultural and food industry products.

Today the collective agricultural marketing activity embodied in yearly programs. Product councils, institutions of representing the interests of producers give recommendations to the program, which are to be accepted by the minister of agriculture. The company carries out various activities: product promotion programs (product presentations, trade events, information materials, market researches etc.), sales promotion activities (presentations in supermarket chains, restaurants, business meetings etc.), commercial, PR activity, exhibitions and brand management.

During the last 12 years, there has not been any change in financing the activities of collective agricultural marketing actions as they have been financed only from state budget. There are collective events when from the agents some financial contribution is needed, but there is no regulation for their obligatory contribution.

Figure 1: AMC budget between 1997 and 2007 (million HUF)



Source: AMC

As far as different marketing means are concerned, largest part of them represent the domestic and foreign exhibitions, sales-promotion actions and B2B meetings and, then PR actions and programs of the trademark “Quality Food from Hungary”.

Generally in the European Union member states, in the first temporary period CAM actions are financed only by the state, but some years after the companies of the supported sector more or less also play an active role in financing. For example in Germany the sector’s contribution to the Absatzfonds amounts to 0,4 per cent of the total turnover (CMA). This way the level of the support depends on economic output of market players. In Austria a fix amount of money has to be paid by actors under the name of “agrarmarketing-contribution”(AMA-Gesetz 1992). Usually the public support is completed with the paid services given by the collective agricultural marketing company and the contributions of the companies, producers etc. In Great Britain the public support is about 70 per cent, in France it amounts to only 20 per cent of the whole budget. (Totth G. 2007.). In Australia only companies are involved in financing the program. E.g. the wine producers organise and finance the collective wine marketing. Looking at the examples of different countries national collective agricultural marketing companies basically have the same goals, but their ownership structure and financing practice differ from country to country.

3. Survey design and variables

Data has been collected from questionnaires of three areas: food industrial companies (businesses), new-type cooperatives and, institutions of representing producers' interests. The aim was to survey the opinions of companies affected directly and indirectly by collective agricultural marketing. The food industry companies can take the advantage of collective agricultural marketing subsidy directly, they attend exhibitions, sales-promotion actions etc. They can judge the best the efficiency of the collective marketing actions. They know the ways of using profitably the collective marketing and which are the areas to be developed. Becoming familiar with the new-type cooperatives' opinion is of great importance because in their work the cooperation is a real situation, where the aim is to develop marketing conditions and this way the competitiveness of the co-operative. The members of the co-operatives act together; represent their interests commonly, during their operation they have been learning together and recognising the opportunities of joint actions. The third group – producers' associations, product councils etc. – can mediate the producer's conception of how to develop the collective agricultural marketing. Having their opinions of satisfaction one can see their preferences in connection with CAM activity and it can be found how much the producers are content to contribute to collective actions.

427 questionnaires were sent out to above mentioned three different groups. 300 questionnaires were mailed to food industrial companies, 40 to the new-type co-operatives, and 87 to the producers' associations, product councils. The analysis is based on 108 fulfilled questionnaires. In case of 86 per cent of the questionnaires the institution (company, association etc.) had identification. 62 per cent of the identified questionnaires were fulfilled by the first group (food industrial companies), 13 per cent by the second (TÉSZ) and 25 per cent by the third group (producers' associations, product councils). 84 per cent of the whole respondents are men, 60 per cent of them aged between 45-59. 90 per cent of them have university or college degree, 72 per cent are managers and more than 60 per cent of them have been in his/her position for more than 10 years.

Table 1 shows the most important variables of the research. As we can see the food industrial agents' participation in CAM actions is relatively high. It can be stated that they take part in CAM actions mostly occasionally.

Professional contentment is higher than financial one. Companies have some problems with the implementations and organisations of CAM actions, but they have more or less good

experiences. Contrary to this the level of financial contentment is really low; they think that the CAM support is not enough. But as it seems they are ready for taking part in co-financing CAM. Most of them know what collective agricultural marketing means, they know its goals, what is it for and, how it works. Their opinions about the others' participation in CAM actions are almost the same as their attendance. As they have lack of strategic thinking of CAM, they don't expect it from the others to have it either. Concerning the number of employees we can say that the respondents have average 100-501 employees.

Table 1: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Participation in CAM actions	106	0.00	1.00	0.688	0.465
Participation frequency	73	1.00	3.00	1.986	0.634
Professional contentment	73	1.00	5.00	3.082	1.050
Financial contentment	72	1.00	4.00	1.625	0.777
Total contentment	73	1.00	5.00	2.904	0.852
CAM knowledge	107	1.00	4.00	2.925	0.865
Judgement of partners in connection with CAM participation	107	1.00	3.00	1.929	0.314
Willingness of co-financing CAM actions	95	0.00	1.00	0.768	0.424
Number of employees	108	1.00	6.00	4.175	1.903

4. Hypothesis, results

4.1. Participation in collective agricultural marketing actions

We assumed, that a membership in an interest-representing (lobby) organisation influences the participation in collective actions. This way the membership has a positive effect to the collective participation.

Our assumption was that the higher the degree of organisation and the level of cooperation the more often the companies attend CAM actions.

When we searched the motivations of the participations we supposed that companies with higher sales join CAM actions more than the smaller ones.

We estimate the following probit model to explain why respondents join to collective agricultural marketing programmes:

$\text{Prob}(\text{Participation})=f(\text{Memberships, Degree of organisation, Level of cooperation, Level of lobby power, Net sales, Food industrial companies, Producers associations})$.

The dependent variable in our model is Participation, where Participation =1 if respondents have joined to any collective agricultural marketing action, and zero otherwise.

Membership takes the value of one if the respondent is a member of a lobby group and zero otherwise.

Organisation measures how respondents think on the degree of organisation of players in agriculture using following scales: Organisation=1 if companies are not organised at all; Organisation =2 if companies are organised at medium level; Organisation=3 if companies are strongly organised.

The level of cooperation means that most of the companies are ready to give a hand to others and join together when it is needed. Level of cooperation=1, if companies disagree with it; Level of cooperation=2 if companies think sometimes it happens and sometimes not; Level of cooperation=3 if companies fully agree with it.

The level of lobby power refers to the efficiency of the collective actions. Lobby power=1 if the interests can't be carried out in collective way; Lobby power=2 if companies think that their interests can be carried out sometimes in collective way; Lobby power=3 if the respondents really believe in collective moving and they think that the interest often can be carried out through collective way.

Net sales measure the size of respondents. Ranges are between 1-6. Net sales=1 if net sales are lower than 100 million HUF. Net sales=6 if net sales of the company are more than 3 billion HUF.

Finally, we employ two dummy variables to control the affiliation of respondents: food industry and producer association.

Based on hypothesis the expected signs of the variables are as follows:

$f_1 > 0$, $f_2 < 0$, $f_3 > 0$, $f_4 < 0$ and $f_5 > 0$

Table 2 Participation in collective agricultural marketing actions

Memberships	0.853**
The degree of organisation	-0.226
The level of cooperation	0.214
The level of lobby power	0.004

Net sales	0.097
Food industry	1.142**
Producers associations	1.200**
Constant	-1.872*
N	80
Pseudo R ²	0.1164

Source: own calculations based on the survey

Estimation shows that being member in a lobby group positively influences the participation in collective agricultural programmes (Table 2). Similarly, affiliation of food industry and producer associations have also positive impact on the participation in collective agricultural marketing actions. Other variables are not significant.

4.2. Satisfaction with collective agricultural marketing

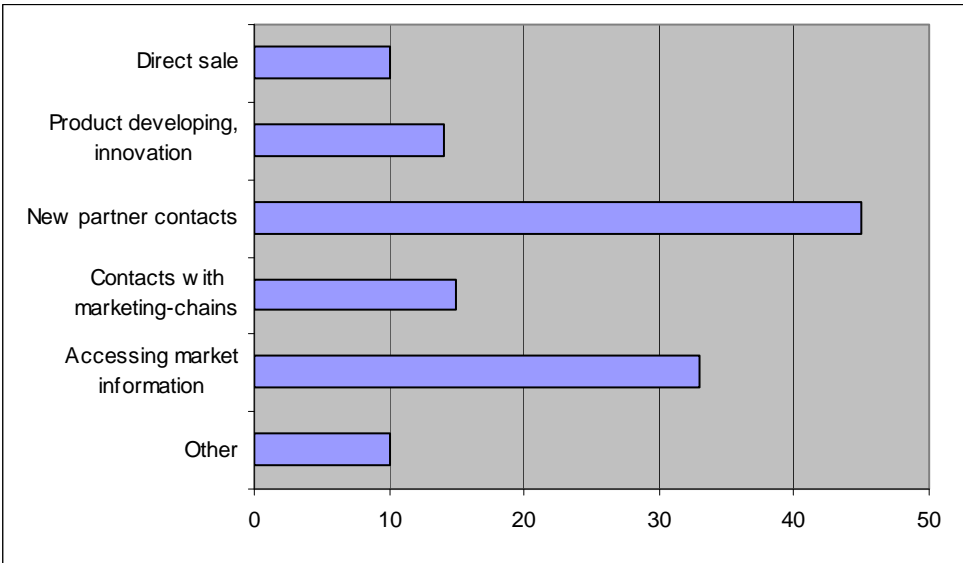
In the questionnaire several questions focused on measuring the satisfaction of agents with the CAM programs. Based on our former information we assumed that the respondents aren't satisfied with the financial CAM support, but they participate in actions in order to find new partners and get the necessary information about the market.

One question dealt with financial contentment and one focused on professional supports. We also asked companies about their total contentment as well. It has to be underlined that the answers to these questions are quite different. About half of the companies were ambivalent (partly satisfied and partly not), 21 per cent were mostly satisfied and 27 per cent mostly dissatisfied with CAM services. Thus 70 per cent of the responses were contented in some extent.

We asked the respondents about the benefits of the CAM actions. As it is showed in Figure 2., most of them found contacts with new partners. Thanks to the CAM programs 33 per cent of them got the necessary market information. On the 3rd place we can find the contacts with marketing chains and product developing, innovation. This way it has to be stressed, that the CAM actions are judged as most beneficial in connection with establishing new contacts and getting useful market information. It is important, because one can be sure that the companies don't expect direct marketing possibilities from the collective marketing actions and they know that the programs themselves don't bring a direct, immediate measurable effect. So the aim of the participation in an exhibition is introducing the company and the product to the

customers or establishing business contacts in sales promotion actions. Improving competitiveness and development of product image needs long-term efforts.

Figure 2: Benefits of collective agricultural marketing actions



Companies not satisfying with CAM programs mostly complained about the lack of its professional usefulness. They couldn't find trading contacts what they needed or couldn't get proper market information.

However, it is important to point out and to make it clear to the participants that attendance in almost 40 per cent of the dissatisfied participants indicated imperfections in the organization field and/or in implementation of the programs. That means tasks for the CAM coordinator organization choosing an animator for a program or refining the requirements for them. At that point the professional organizations could give remarkable assistance and, with their widespread experience they could organize the CAM actions according to the needs of the participants.

Besides the advantages and disadvantages of CAM we extended our survey to the factors which can influence the whole satisfaction of the activity. We combine the benefits of collective agricultural marketing programme with respondents' characteristics to explain the satisfaction of them. Thus we estimate the following ordered probit model to explain why respondents are satisfied with the collective agricultural marketing actions (Table 3).

Table 3: Influencing factors of CAM satisfaction

Variable	Sign.
Financial satisfaction	0.649***
Direct marketing possibilities	0.118
Product developing, innovation	0.973**
New partner contacts	0.586*
Contacts with marketing-chain	0.702*
Accessing market information	0.162
Number of employees	0.248
Food industrial company	0.211
Producers associations	0.230
Number of answers	58
Pseudo R2	0.1770
McKelvey & Zavoina's R2	0.416
Approximate likelihood-ratio test of equality of coefficients across response categories:	
chi2(18)	58.88
Prob > chi2	0.0002

Source: own calculations based on the survey

Likelihood-ratio test confirms that we can reject the parallel regression assumption. Estimation indicates that the higher the financial support the higher is the satisfaction of CAM actions. Product developing, finding partner contacts with marketing chains and new partners have strong explanatory effect in the satisfaction. These factors mean the most evaluated benefits of CAM. These are the most important reasons of attending a CAM action. As we can see there is no such difference between food industrial companies and producers associations, and the number of employees doesn't seem significant. Larger and smaller companies can be more or less contented as well.

4.3. Willingness of co-financing collective agricultural marketing actions

In connection with the willingness of co-financing CAM actions we didn't have good expectations because of our former experiences, so we assumed that the companies do not wish to co-finance CAM actions. We expected that the degree of organisation and the level of cooperation influence positively the willingness of co-finance as well as the membership of a

lobby group. Referring to the size of a company we assumed that companies with higher sales will much more contented in co-financing CAM actions.

We estimate the following probit model to explain the respondents' willingness to pay for collective agricultural marketing programmes.

$\text{Prob}(\text{WTP}) = f(\text{Memberships, Degree of organisation, Level of cooperation, Level of lobby power, Net sales, Food industrial companies, Producers associations})$.

Dependent variable is WTP takes value one if respondent is willing to pay for collective marketing actions and zero otherwise. Independent variables are the same as for participation equation.

Table 4: Willingness to pay for collective marketing actions

Memberships	0.694*
The degree of organisation	-0.335
The level of cooperation	0.162
The level of lobby power	-0.062
Net sales	0.480*
Food industry	1.988*
Producers associations	-1.160**
Constant	-2.303
N	81
Pseudo R ²	0.2398

Source: own calculations based on the survey

Estimation shows that the membership of a lobby group and the size of firms or associations have positive impact on the willingness to pay for collective marketing actions (Table 4). Working in the food industry positively affects, while working at the producers associations negatively influences the willingness to pay for collective agricultural marketing programmes.

5. Conclusions

Based on the research it can be stated that the majority of the companies in the food industries have already participated in CAM programs although, their participation is not permanent and only 21 per cent of them regard CAM actions as part of their corporate strategy.

Three quarters of agents support to form a system, which is financed partly by the state and partly by the food industry sector, however, their financial contribution to CAM budget has to be accompanied by their participation in the decision-making as well.

The higher the financial support, the higher is the complacency of CAM actions. Product developing, finding partner contacts with marketing chains and new partners are the most relevant benefits of CAM. These are the most important reasons of attending a CAM action.

Further development needs to work out a medium-term CAM strategy with priorities suiting to the New Hungary Rural Development Strategy Program for the period 2007-2013. Professional alliances and sector organizations have to be involved into the strategy discussion in order to enhance the financial support of the programs and to achieve common goals. In the strategy it must be decided, what kind of role the state intends to give to the CAM program and what are the tasks of the corporations organizing them.

Members of the food industry are content to give financial support for the CAM programs in Hungary that is in line with the development of last decades of other European countries. Since the need for the change and the contractual capacity are conspicuous in the food industry, the reform of the system wouldn't take long time. Once the process starts it will pull the development of the producers, the flare of the marketing possibilities and the sales of the products. After the CAM law will come into force, and the state budget will be enlarged by the contribution of the sector organizations, the CAM organization must be reformed and the adaptation to the market conditions must get a more important function.

Besides the consumer's need for safety and health protection it is important to utilize and taking into account the aspects of the environment protection, to exploit the advantage of the local, regional trademarks and to enhance the marketing counselling in the course of the accommodating the new marketing channels

Beyond participation in the decision-making, professional associations have to get a bigger role in organizing CAM actions. The utilization of the supports must be supervised by independent organizations, so as to ensure the efficient use of the sources and the compliance with the law.

The open-minded companies can gradually take over the role of the state in collective marketing but state guidance ensures the attainment of the goals in the sector strategy. By developing cooperation supported companies place trust in each other, learn to enforce their interests so they will be able to ensure the competitiveness of the food industry and, the protection of the food markets helps to plan and organize the CAM activities inspiring quality production and raising competitive power of food products.

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Introduction



Collective agricultural marketing (CAM) can be an effective tool for food industrial companies and farmers to improve their positions within vertical agri-food chains. Various aspects of the CAM well documented in both developed and developing countries (Lence et al. 2007; and Moschini et al 2008; Bingen et al 2003; Kruijssen et al 2008).

But there is no research on the CAM in transition countries. We try to fill this gap using Hungary as an example.

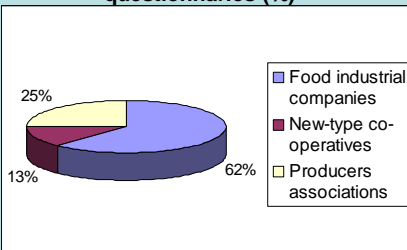
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Data has been collected from questionnaires of three areas: food industrial companies (businesses), new-type cooperatives and institutions of representing producers' interests. The aim was to survey the opinions of companies affected directly and indirectly by collective agricultural marketing.

The analysis is based on 108 fulfilled questionnaires.



Figure 1: Percentage of fulfilled questionnaires (%)



Results

Participation in CAM actions

Table 1: Participation in CAM actions

Membership	0.853**
The degree of organisation	-0.226
The level of cooperation	0.214
The level of lobby power	0.004
Net sales	0.097
Food industry	1.142**
Producers associations	1.200**
Constant	-1.872*
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Source: own calculations based on the survey



Results

Satisfaction with CAM

Figure 2: Benefits of CAM actions

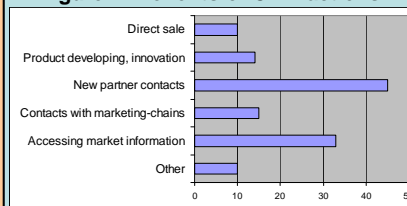


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Conclusions

1. Being member in a lobby group positively influences the participation in CAM programs.
2. Satisfaction with CAM positively associated with financial support, product developing, finding partner contacts with marketing chains and new partners.
3. Membership of a lobby group and the size of firms or associations have positive impact on the willingness to pay for CAM actions.

Further task is working out a medium-term CAM strategy with priorities suiting to the New Hungary Rural Development Strategy Program. Professional alliances and sector organizations have to be involved into the strategy discussion.

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