

CRISIS AND PROCUREMENT IN HUNGARIAN INDEPENDENT RETAILING

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Abstract:

The crisis management is one of the most important keys for all the companies which are in Hungary or in other countries mostly affected by the crisis. In Hungary all the companies try to adapt the new market conditions but it is a really big challenge for them. Since 2008 the Hungarian consumers' customs have been really changed so the companies had to develop a new strategy and a new logistics strategy. These changes quickly affected the Hungarian retailing.

This article is intended to present the most important figure keys of Hungarian retailing in crisis and results of a qualitative research focused crisis management about independent retailers' purchasing logistics.

Keywords: Crisis, risk, procurement, retailing, logistics strategy, Hungary

Introduction

The global crisis occurred in Hungary in 2008, mainly in the second half of the year the macro data could also be detected in the negative changes. Unfortunately for businesses it became a long and difficult period. They used to adapt new crisis management strategies because of the changed market environment.

The public has been largely affected by closing factories and the high level of indebtedness as well. That is why they went out quickly to changes in consumer behavior, which was first seen in the retail sector. Before the crisis the independent retailers had had smaller and smaller rate of retailing and they had worse conditions caused by the crisis. They have changed a lot of their processes and have been concentrating procurement logistics.

The Hungarian retailing in crisis

First of all, there is a short market outlook because the Hungarian macro figures present the particular crisis processes. The economic summary in Q2 of 2008 presented the affects of

the crisis. Unfortunately there are serious problems nowadays because of several disadvantageous processes such as inflation, leverage of forint or GDP.

ECONOMIC INDICATORS*	2009	2010	2011	2012 F	2013 F
GDP growth	-6.7	1.3	1.7	-0.9	1.1
Consumer spending	-6.2	-2.2	0.0	-1.5	0.2
Industrial production	-17.7	10.3	5.6	1.6	4.6
Investment	-11.0	-9.7	-5.5	-4.3	0.1
Unemployment rate (%)	10.0	11.2	11.0	11.5	11.7
Inflation	4.5	4.9	3.8	5.6	3.8
HUF/€(average)	280.6	275.3	279.3	296.9	278.4
HUF/US\$ (average)	202.3	207.9	201.0	230.0	217.3
Money market rate (%)	8.6	5.5	6.2	7.1	6.5
Interest rates 10-year (%)	9.4	7.3	7.8	8.3	7.7

NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

1. table The Hungarian economic indicators

Because of these processes the retail sale growth was -4 % from 2009 to 2010 and about 0 from 2011 to 2012 (Cushman and Wakefield 2012). The number of stores has been decreasing too. There were about 69,170 shops in Hungary and nowadays there are about 50,000 (KSH). In contrast, the floor areas of retail stores are enlarging because of the hypermarkets and shopping centers due to the increasing role.

VOLUME INDICES OF RETAIL SALE (2002–)									
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
108,6	107,8	105,4	105,1	104,7	97,9	98,4	94,7	97,9	100,2

NOTE: growth rate from year to year

Source: KSH

2. table The Hungarian volume indices of retail sale

The volume indices present that the consumers have stopped their consumptions. It could be caused by the inflation, the unemployment rate (11.2 % in 2010), the taxes, public and external debt too. The buying power is now 4.884 €/year in Hungary but the European average is 12.802 €/year presented by the GFK.

The GFK forecasted about the concentrating retailing in Hungary. It presents that in 2015 the rate of retail chains will be 64 % and in 2020 it will be about 70 % and the rate of independent retailing would be only 7 %.

The role of independent retailers has been decreasing because of the retail chains. The most important advantages of chains are about the procurement logistics with larger

purchasing quantities and management solutions. The independents are usually too small to be able to press or force in the supply chains, so they lose the quantity-discounts and other advantages.

The retailing and logistics

The previously known characteristics of crisis forced retailers to rethink their strategies and logistics as well.

The retailing purchasing tasks to meet the following objectives: the right product, the right time, the right quantity, the right quality, the right place with minimized costs (Gutha-Randwaha). Retailing and logistics are concerned with **product availability**.

The retailers usually make decisions about their logistics mix (Ferne-Sparks):

- storage facilities to react the consumer demanded as soon as possible,
- inventory to manage the stocks to meet the demand with minimized costs in quantity and range of goods too – and purchasing,
- transportation with incoming goods – planning inward-handling periods and human resource,
- opportunity of unitization and packaging,
- managing communication – information management.

The retailer logistics strategies are classified into three basic modes (Wang-Zhou): the supplier leading logistics mode, the retailer leading logistics mode and the logistics provider leading logistics mode. In the case of the supplier leading logistics mode, there are large-scale suppliers or suppliers with strong logistics capability. The second mode is the usual for retail chains. The logistics provider leading logistics modes are suitable for retailers to avoid risk, focus their own core competencies.

Aim and methodology

The research focused on to explore the effects of the crisis in commercial ventures' procurement logistics. Using qualitative methods the typical changes were explored in the sector with several (35) structured interviews.

These independent retailers are located in Eastern Hungary - this region is strongly affected by the crisis. The businesses are in SME sector and deal with FMCG, fashion, fruit and other products. The results present only minor differences in these segments.

The crisis effects on independent retailers' procurement

All in agreement that the crisis management is a strategy for more years and the companies should concentrate on it. The "time" is one of the most important figures to adapt

to the new challenges in the market but in Hungary the crisis has created uncertainty in the markets.

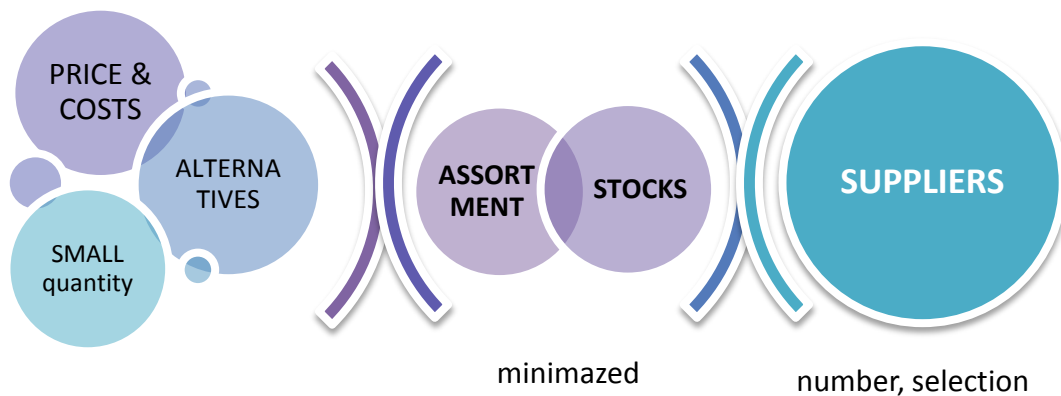
These are the typical processes of the crisis based on interviews:

- reducing the number of companies (this is mostly not only observed in the case of suppliers),
- intensifying the role of retail chains and weakening independent retailers,
- changing consumer needs and product portfolio (less expensive products have been added to the product line while trying to keep quality),
- buying power decreasing,
- decreasing business turnover,
- labor restructuring and / or downsizing,
- having liquidity problems and rising costs.

Most of the interviewees noticed that they always rethink their strategies because of the changed market. One of the most important aims was rethinking the procurement which is the first stage of the companies' functions.

The **procurement logistics** for most retailers has been changed in recent years, seen in the supplier market research, supply scheduling and supplier selection. Usually the number of suppliers decline and their selection process is mostly focused on the prices. The retailers should concentrate on customer needs cleaning their range of products and reducing the size of the **stocks** as well. The stock monitoring and minimizing excess stock became really important to manage stocking.

The independent retailers usually have **centralized purchasing** system but the procurement is not enough quantity to have better conditions.



3. table Retailers' decisions on purchasing (own research)

While decreasing the market participants, the **number of suppliers** is decreasing too (in some cases the suppliers' number is the same). Most of the managers shifted to new suppliers to be cheaper or have better **payment conditions**. Others only renegotiated with their suppliers and tried to force better conditions (lower prices, better discounts, and longer particular payment terms). As an untypical market behavior, some of the retailers decided to have more suppliers - it was caused by the new product groups.

In these negotiations and renegotiations the role of the independent retailers is less than the suppliers in most of the cases. In Hungary the independent retailing is really fragmented so the smallest ones could not enforce there will enough that's why the typical way is to change their suppliers or accept the used conditions.

On the other hand, some of them tried to research new supplying alternatives like the Internet. It could be another breaking point for them.

The **frequency of deliveries** became rarer - this is mainly explained by increases in the cost of shipping.

In the Hungarian market there are some regular changes in these keys – the payment term has been decreased from 30-60 days to 0-30 days, the value added tax has been increased which effects on consumer price, the price is even more important than earlier in the suppliers selection process. In the official **rating system of suppliers** there are no changes, however in all of the interviews the price and discount dominance appear clearly.

The **dependence** between retailers and their suppliers are generally stronger than in 2008 and even more, these market participants are more dependent on each other. The success of co-operation is considered to be similar in 2012 and in 2008. They improve **co-operation** that can be better connections with less participants, but the relationship affects the stringent conditions imposed by the supplier, such as stricter payment behavior or fewer deliveries.

All over the world the crisis effects on the **length of supply chains** like in Hungary. It appears that the supply chain is shortened; managers omitted the distributors and tried to buy directly from the manufacturers or independently obtained from other sources. If the independent retailers are enough 'big' they follow this way.

The supply scheduling and procurement are regulated by **pull strategy** (lots of retailers changed in recent years from the push principle). The speculative procurement related to increasing prices and predictable promotion tools, campaigns are against the pull strategy but it is necessary.

Conclusion

By the research results it is clear that there are changes in the retail supply logistics. In the case of Hungarian independent retailers the role and purchasing product quantity is not significant enough against the retail chains’.

The independents shift their logistics into pull strategy. Their logistics strategy is led by suppliers because they usually have not enough force, capacity, stocks.

These retailers will not be in innovated solution on their own, because they have no money to invest. So they only could adapt their logistics into the new market conditions.

Their purchasing logistics have changed to be able to reduce their costs and be able to cooperate with the suppliers. They rethought their logistics to be competitive and survive these years of crisis.

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