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**BREAK OUT OPPORTUNITIES AND DEVELOPMENT  
OF ALTERNATIVES FOR THE HUNGARIAN WINE MAKERS  
AND SMALL DAIRY FARMS THROUGH DIRECT SELLING**

*MOŻLIWOŚCI ROZWOJU ALTERNATYWNYCH FORM SPRZEDAŻY  
DLA PRODUCENTÓW WINA I MAŁYCH GOSPODARSTW MLECZNYCH  
NA WĘGRZECH PRZEZ SPRZEDAŻ BEZPOŚREDNIĄ*

**Key words: direct selling, small farms, vine, wine, milk, dairy products**

*Słowa kluczowe: sprzedaż bezpośrednia, wino, mleko, produkty mleczne*

**Abstract.** In recent years the analyses of direct sales has been a very difficult task for our department because of the lack of statistical data. As the domestic small and medium-sized food companies struggle to gain market access we decided to write a study about direct sales. As part of the study Author visited farmers personally and carried out face to face interviews. In this paper it was aimed to focus on introducing the direct selling of Hungarian wine and dairy products and on defining its potential development pathways. Examining the possible development levels, it was established that the certain stages of development do not necessarily mean that a new stage of business results in more success, however the possibilities of selling and options could be expanded. So, before development the managers should consider and map out the new possibilities and impacts. An uncontrolled development or investment, the cost of which has to be paid over several years, could cut off the future evolution of the company.

## **Introduction**

In recent years we have carried out several studies in our institute on the topic of the food industry. The analysis of direct sales was a very difficult task, because of the lack of statistical data and professional literature. As the domestic small and medium-sized food companies struggle to gain market access we decided to write a study about direct sales. On the other hand, the Hungarian government would like to increase direct sales in the coming years to support the small and medium sized Hungarian enterprises [Ángyán 2012]. During our study we were interested in the fact that either globalisation is an inevitable path we walk, or there are countries where the popularity of direct sales is great also. If the answer is yes, what market and administrative conditions could this cause? Our study therefore is looking for the answer to the following questions: What is the importance of direct sales in the specific food sectors? What are the possible legal framework and facilities for the direct sales of the food producers? What kind of experiences and developmental pathways can be used by the direct selling companies? In this article – due to space limitations – I would like to introduce only the direct selling of Hungarian wine and milk products and define its potential development pathways.

## **Materials and methods**

In Europe the wine sector is closely connected to direct sales [Juhász et. al 2012]. This is due to the fact that small and medium family farms account for a significant share of the sector and these farms place a large emphasis on the sale and catering at the cellar. In Hungary the development of the sector started after the political and economic transition, i.e. in the middle of the 1990's; however, its extent and development varies significantly across the wine regions of Hungary [Alpári et. al. 2008]. It was not possible to map all of these regions<sup>1</sup>, therefore I selected the Eger Wine Region as an example. The reason for this was that this is one of the most well-known and largest (by size in fourth place) wine region in Hungary and its product, the Bull's Blood of Eger, is a speciality of the region with geographical indication (Hungaricum). Furthermore, in the Eger Wine Region small-, medium- and large-scale wineries can all be found, and thereby each stakeholder of the sector can be analysed. I aimed to conduct a representative survey and accordingly the wine production of the wineries queried represented more than 60% of the total production of the regions.

<sup>1</sup> In Hungary there are 22 wine regions at present.

In the frame of direct selling of milk and milk products I visited seven farms selling directly all or a part of its milk or milk products to its customers. The interviews were carried out personally at the location of the company; therefore I had a chance to visit the farms.

In both of the surveys semi-structured questionnaires were used. Closed questions were asked on the characteristics of the plant and forms of sale, while open questions were asked on the practice of direct sale. This was necessary because the producers sometimes applied special methods and ideas in the implementation and the use of open questions offered the respondents an opportunity to provide an explanation. Furthermore, attention can be paid to topics which otherwise would not come to the attention of the respondents.

I created one flow chart by sectors based on the interviews, which shows the possible development of alternatives in each sector. Three stages of development were devised. It is important to note that the certain stages of development do not necessarily mean that a new stage of business results more success, however the possibilities of selling and options could be expanded.

### Possible benefits in the direct selling of wine products

At the first level the winery produces only bulk wine, so it is not bottled (Fig. 1). Wine can be sold to other wineries, merchants or directly abroad. Direct contact with consumers could occur in this case, but only bulk wine could be sold, so the selling price is very low. Many consumers reject bulk wine because to them it represents lower quality. In addition bulk wine is a low-value-added product, so the selling price is also low and it can be economically disadvantageous for the winery. As a result, the winery aspired to make bottled wine to achieve higher profit.

With bottling of the wine the sales opportunities are enlarged. Wine can be sold directly to the retail and wholesalers so a higher profit can be achieved. The way opens for the HoReCa sector, which provides the possibility to reach a new consumer segment. The bottled product can be sold abroad with at more favourable terms. The winery is able to sell bottled wine from the cellar, and this can play a big role in reaching consumers of quality wine. Wines are popularised at wine festivals and wine tastings across the country, and thereby useful notices are gained directly from the consumers. In addition, bottled wines can be sold on the internet, which opens a brand new perspective before the winemaker.

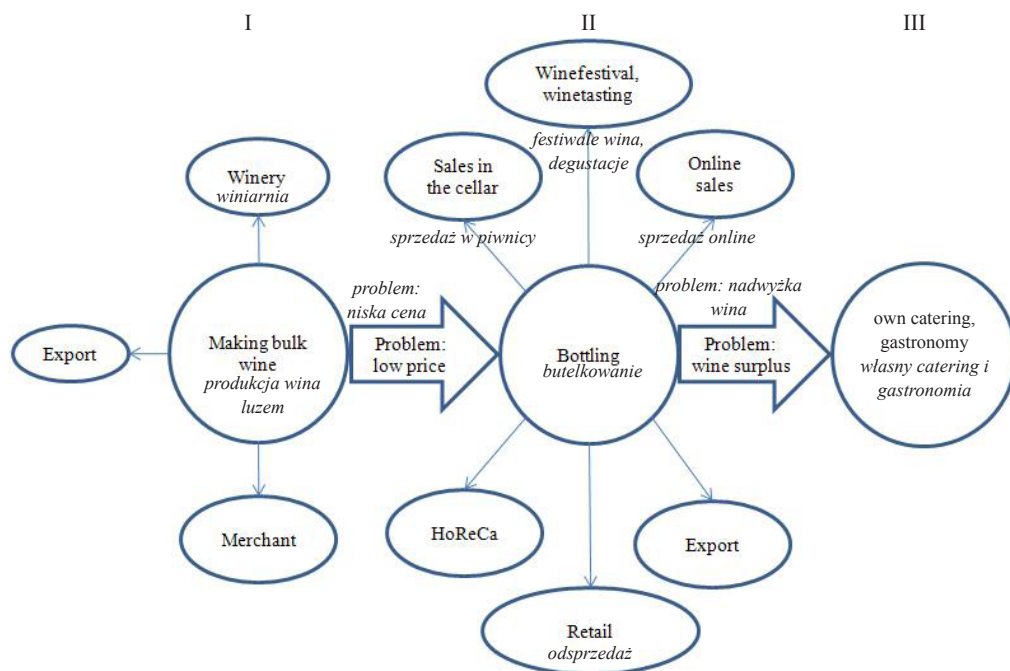
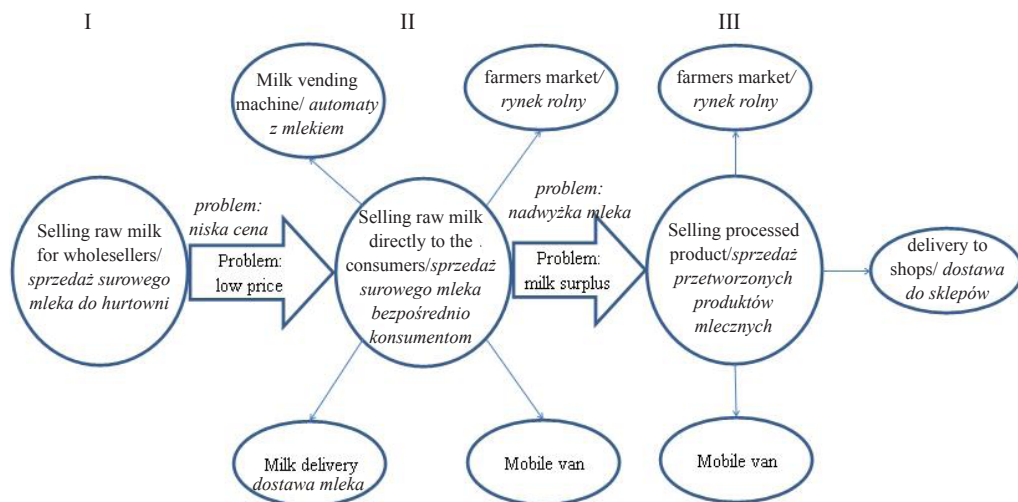


Figure 1. Evaluating the possible alternatives in wineries

*Rysunek 1. Ocena możliwości rozwoju dla winiarzy*

Source: own study

Źródło: opracowanie własne



**Figure 2. Evaluating the possible alternatives in dairy products**  
**Rysunek 2. Ocena możliwości rozwoju dla producentów wyrobów mlecznych**  
 Source: own study  
 Źródło: opracowanie własne

Wine consumption is closely related to diet, the gastronomy, so it is appropriate to pair food with wine. Tasting room and catering facilities need to be built to achieve this, which is the first step to holding family or official events there. Due to the spread of motorisation and the introduction of zero tolerance large number of consumers would like to spend at least one night locally. A winery can increase the added value of wine by providing accommodation services and it is a good way to win new consumers.

### Possible benefits in the direct selling of dairy products

At the beginning the interviewed farms sold their raw milk directly to processors (Fig. 2). However the purchase price decreased from year to year, while the input prices increased sharply. Nevertheless the payment for the raw milk was delayed. As a result, the farmers began to think about alternative solutions, one of which was a form of direct sales.

The simplest form of direct sales is selling at farmers' markets (level 2). Its initial form was realised in the late 1980's and the early 1990's. The other form of sales started only in the middle of last decade. The low raw milk prices and the increase in feed prices drove some farmers to purchase – using EU subsidies – special refrigerated mobile vans from where they can sell their milk. From 2007 – again with an EU subsidy – farmers started to buy milk vending machines. The number of these was over 100 by the end of 2008. A new form of direct sales is the milk delivery. The consumer calls the farmer and tells him/her how much milk – the minimum ordered quantity is 1 litre – he/she would like to order at what address and the next day the product is delivered. The milk is packaged at the farm, so the hygiene is fully secured; only the suitable temperature (below 8°C) has to be provided in the car. The advantage of this form of sale is that the transport can be solved by a simple car, while the price of a special refrigerated mobile van is EUR 30-40 thousand.

The biggest problem of these forms of sale is that the production of the farm is almost fixed, while the demand for milk moves wildly. Therefore, a milk surplus can be generated. The manufacturer makes a contract with the supplier mostly for a pre-set volume. As the level of the milk consumption is indeterminate, farmer will make a decision how to dispose of the remaining surplus. One of the possible solutions is that the farmer processes the milk surplus.

Making and selling processed products has a lot of advantages. These products have more added value, the shelf life is increased and the farmer can produce unique (additive free, craft, traditional or regional) goods. The average size of the range is relatively large, because the main aspect is to satisfy consumer demands. The processed products can be sold at the farmers' markets and from mobile vans. The limited interior of the mobile van can cause problems so if a new mobile van is bought it is important to take into account the possible future developments.

## Conclusions

Based on the interviews several common points were found among the possible development alternatives. At the first level the farmer sells the raw (or bulk) product directly to the wholesalers or from the farm to consumers. At the second level new alternative possibilities (selling at festivals, mobile or home selling) can be applied. In this case, the producers focus on the consumer. At the third level, the products are combined with services such as catering, accommodation or online ordering. However, the product may be processed, which increases the added value of the product and helps to meet the needs of the consumers. It is important for the farmer to think ahead when planning the increase of sales. A development carried out without planning can make the future possibilities difficult or even paralyse them. It is important to note that the certain stages of development do not necessarily mean that a new stage of business brings more success, however the possibilities of selling and options could be expanded.

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## Streszczenie

*W artykule podjęto próbę analizy możliwości wprowadzenia sprzedaży bezpośredniej w sektorze produkcji wina i produktów mlecznych na Węgrzech oraz określono potencjalne ścieżki rozwoju tej formy sprzedaży. Stwierdzono, że niekontrolowany rozwój i wieloletnie inwestycje wymagane przy wprowadzaniu zmian, mogą stanowić istotne ograniczenie dla rozwoju firm w zakresie tej formy sprzedaży.*

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