

Internationalization process and changes in Slovak milk industry

Procesu internacionalizácie a zmeny v slovenskom mliekarenskom priemysle

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Abstract: The Slovak milk industry has overcome substantial changes during last period and has achieved many criteria comparable with the Western Europe. From this viewpoint, we can state that the quality of milk and milk products, technological equipment and labour efficiency has been improved. Entering of the foreign capital into the Slovak milk processing enterprises increases the quality of products and the volume of processed raw material. The foreign investors choose Slovak enterprises for many reasons. These are: the limited assortment of milk products, cheap labour force in comparison with its value in the EU, cheaper material for production and the necessary energy. In the world, the process of internationalization is necessary together with fusion, strategic alliances and acquisitions, including the private or co-operative companies. The biggest foreign strategic investors are in the following joint stock companies, for example – Liptovská mliekareň, a.s. Liptovský Mikuláš (Bongrain France), Milsy, a.s. Bánovce nad Bebravou (Lactoprot Austria), Rajo, a.s. Bratislava (Meggle Austria and Germany), former Zempmilk, a.s. Michalovce, now Syräreň Bel Slovensko, a.s. (Fromageries Bel France) and others. These companies include more than 52% of the number of big industrial milk processing enterprises in total and during the last period they bought more than 52.5% of the whole milk production in Slovakia.

Key words: milk processing industry, milk products, internationalization, international companies

Abstrakt: Mliekarenský priemysel na Slovensku prekonal za posledné roky veľmi podstatné zmeny a dosiahol mnohé porovnateľné kritériá so západnou Európou. Podstatne sa zlepšila kvalita mlieka aj mliečnych výrobkov, technické vybavenie na úrovni vyspelých krajín ako aj efektívnosť práce. Vstup zahraničného kapitálu do slovenských mliekarenských podnikov zvyšuje kvalitu výrobkov a objem spracovanej suroviny. Najväčší zahraniční investori sú v nasledovných mliekarniach – Liptovská mliekareň, a.s. Liptovský Mikuláš (Bongrain Francúzsko), Milsy, a.s. Bánovce nad Bebravou (Lactoprot Rakúsko), Rajo, a.s. (Meggle Rakúsko a Nemecko), predtým Zempmilk, a.s. Michalovce, od marca 2004 Syräreň Bel Slovensko, a.s. (Fromageries Bel Francúzsko) a iné. Zahraniční investori vyhľadávajú slovenské podniky z viacerých dôvodov. Medzi tie najdôležitejšie patria úzky sortiment mliečnych výrobkov, lacná pracovná sila v porovnaní s jej hodnotou v Európskej únii, lacnejší materiál na výrobu a potrebná energia. Pre väčšinu mliekarenských spoločností v celosvetovom meradle rast je a bude nevyhnutnosťou, spolu s jeho fúziami, akvizíciami a strategickými alianciami. Bez ohľadu nato, či sú to súkromné spoločnosti alebo družstevné skupiny.

Kľúčové slová: mliekarenský priemysel, mliečne výrobky, internacionalizácia, medzinárodné spoločnosti

INTRODUCTION

In the present time, from the viewpoint of concentration of the Slovak food enterprises with regard to the fusion, acquisitions, joint ventures and strategic relationships, the Slovak milk processing industry had more advanced according to international evaluation. The multinational companies belong to the international companies with the flexible response to

the changes of the external environment. The companies have to adapt to the competitive environment. Increasing competition in the Slovak agricultural and food complex is the preparation for the open market with food products after the accession of Slovakia into the EU. It requires to search for new technological processes, production of new products, the change of consumer behavior, etc. The development, competition as well as the quality of products

demand the effective managerial tools with regard to the conditions in the market environment.

The present Common Agricultural Policy of the Slovak Republic deals with several problems, solutions of which require an implementation of the different effective measures. It is necessary to build a model of multifunctional agriculture, which would secure quality and sufficient nutrition of foodstuffs for inhabitants, the competitive and efficient agricultural sector in order to be able to penetrate the common European market.

The Common Agricultural Policy would be a stable solution for countries of the EU. Its first aim is to ensure the independence of producing foodstuff in the EU. The specific agricultural sector is influenced not only by traditions but mostly by the price fluctuation of agricultural products. Its price increase will lead to inflation and a decrease will cause that farmers will be forced to run into debts and an increase of unemployment will be an inevitable consequence from the long-term view.

The Common Agricultural Policy pursues its goals by the means of technological development, sophisticated equipment and labour force to be taken chance effectively. All these factors will take effect on the increase of productivity in agriculture, the improvement of standard of living in the country, the rise of the wages of farmers, the stability of markets and ensuring of reasonable prices of products for consumers. The Common Agricultural Policy protects the European farmers against cheaper imported products and applies the principle of financial solidarity.

If a producer does not follow them, it is his responsibility to prove that his product are safe. All disputable foodstuffs can be sold on the local market and they cannot get to the common European market. If the Slovak Republic wants to offer its products with a special taste and smell, it has to offer the best quality, because the supply is really rich. The problems of the Common Agricultural Policy are dealt with, for example, in the publication of Bielik et al. (2003), Blaas (2003) and Jachnik (2004).

Based on the information above, the main goal of this paper is to evaluate the possibilities and conditions of the adaptation of Slovak food products, mainly milk products in the European market. The authors Hambalková (2000), Hudák, Ubrežiová (2003) and Šimo (2002) deal with this situation of agricultural and food complex in the scientific publications. Horská et al. (2004) have concerned with regional specialities and typical Slovak products in the domestic market. Krasnodebski et al. (2004) described the situation in Polish market because dairy industry occupies an important position in Polish agricultural and food sector.

MATERIAL AND METHODS

The main goal of this article is connected with the solution of problems in the institutional research "Competitiveness of the Selected Agrarian Commodities in Slovakia before the Entrance into the EU" with regard to the stage E VIII "Managerial and Marketing Analysis of Raw Milk Processing and Milk Product Market in the Slovak Republic". On the other hand, the information was obtained from the Custom's Statistics of the Slovak Republic during the period of 2000–2004. We used the standard mathematical methods, Index method and data comparison. The subject of research created the selected set of enterprises from milk processing industry with or without foreign capital investors.

RESULTS AND DISCUSSION

The period to 2005 is very important for the milk sector from the viewpoint of the restoration in the European market conditions. At the present time, the process of internationalization, concentration and globalization is expressed by the group of strong entrepreneurial subjects which operate in the international environment and they are the competition for the domestic entrepreneurs. The increasing competition in the milk industry serves as a preparation for the open market with milk products after accession of Slovakia into the EU. Foreign investments are helpful at solving new technological or managerial projects. The selected Slovak milk processing entities reached the biggest volume of foreign capital in year 2000. The Fromageries Bell became the owner of Zempmilk, joint stock company, Michalovce. Bongrain Europe SAS has the majority in the Liptovská mliekareň, joint stock company, Liptovský Mikuláš and I. Wittmann & son in Zvolen. One of the important foreign acquisitions is the purchase of 94% shares from the Prievidzská mliekareň, joint stock company, Prievidza, by the Austrian holding Artax AG in the Slovak milk market in year 2001.

The number of milk processing capacities will depend on the demographic composition, the structure of settlement and accessibility to production sources. The population changes have influenced the sale of milk products. The consumption of milk and milk products was about 161 kg per 1 inhabitant in Slovakia during the last 6 years. According to the information from the Slovak Milk Union, the average Slovak inhabitant has the following consumption of acid milk products (12.5 kg) and cheese (9.5 kg) in 2003. It is lower than in the EU countries where the consump-

tion of acid milk products was more than 25 kg per 1 inhabitant and cheese 18 kg per 1 inhabitant. In the last year, the Slovak milk processing enterprises purchased 902 million liters of milk which was produced by agricultural cooperatives and self-private farmers. The business entities with production of milk and milk products have to turn attention to the changes on the international markets. The Liptovská mliekareň, joint stock company, Liptovský Mikuláš, belongs to the best producers of cheese with long production tradition, high quality and fulfillment of international hygienic demands on the production. Liptov's cheeses are also known in the countries of the pretentious consumers, such as the Netherlands, Germany, Austria, the U.S.A. and Denmark. Important are the markets of Croatia, Russia and the Czech Republic. Tatranská mliekareň, joint stock company, Kežmarok exported about 34% of cheese production on the Czech market in 2003. Top managers want to broaden the volume of export on foreign markets and to place the milk products in new business network such as Poland and Hungary. The former milk entity Mliekospol, joint stock company Nové Zámky, realized about 40% of white cheese Akawi, dry milk and full-cream milk in India, the U.S.A., Japan, Denmark and in other countries up to the 2003.

The development of milk products will lead to specialization and processing entities are oriented the production on:

- production of cheeses and specialities from cheese (Liptovská mliekareň, a.s., Liptovský Mikuláš; Syráreň Bel Slovensko, a.s., Michalovce; Levické mliekárne, a.s., Levice),
- production of yoghurt and acid milk drinks (Danone, s.r.o, Modranka pri Trnave; Rajo, a.s., Bratislava; Freisland Slovakia, s.r.o, Nitra)
- production of traditional milk products – special creams, curd, milk cakes.

The Slovak Republic has the biggest chance to penetrate the market with its specific products like sheep cheese, bryndza, mouldy cheeses and other. Putting specific products on the saturated European market means that it has been enriched by products, which are demanded by consumers of other states. These products form approximately one fifth of all cheese production on the world level. The advisable way how to launch the Slovak specific product into foreign markets is by means of distribution channel or network of channels of a big investor, who is increasing not only the quality of products but also the volume of processing materials. Foreign investors are seeking the Slovak enterprises for more reasons – there are more factors which make the Slovak business environment attractive: besides specific milk

products assortment, cheaper labour force, advisable tax condition, cheaper resources in general and energy as well. In present a lot of dairies operate with foreign capital in Slovakia.

Recently, many changes in milk industry have happened (modernisation of production, adaptation of milk legislation to the requirements of the EU, also in the structure of production and improving quality of milk products) Herian (2003) as explains. The purpose of the restoration of milk industry is just its adaptation to new technologies, hygiene and economic conditions. Necessary supplement of the restoration process has to be an increasing amount of commodities sold not only on the domestic market, but in the foreign market as well.

The restoration of the Slovak milk processing industry demands the applying of the 4–5 big milk processing plants with the average daily capacity of processing 150–200 (400) thousand litres and 5–10 small or middle milk processing plants with the specialization of production. The global development of milk production and milk products depends on the milk sale and production of the milk products in this industrial branches. The Slovak milk products are in the regional market are competitive, mainly yoghurt (Rajo 24.6%, Danone 12.7%, Jogobela 7.8%, Vitalinea 5.9% and Sabi 5.3%) and cheeses (Eidam 64.4%, Karička 56.1%, Syrokrem 47.5%, Lunex 40.4%). One of the specific Slovak milk products is sheep cheese, which is known as “bryndza” in the Slovak language. To make bryndza, it is necessary to observe hygienic principles which are demanded by the EU, then to introduce sophisticated machines of milking and thermal processing of the sheep-milk. Many countries are trying to keep their first position in production of bryndza: not only Poland and Romania but also Hungary, Bulgaria as well. The truth is that bryndza is the Slovak specific product. Based on this fact, the EU has issued an approval of production and consumption of bryndza which is made of raw sheep cheese (Hajšel 2002).

The period of 2002–2003 is characterized for the Slovak milk processing entities by the entrance of foreign investors. The biggest share of purchased raw milk has international companies with Italian (17.5%) and German capital (15.3%). Two French companies have 15% or work up 6.8% of raw milk.

The Slovak Republic belongs, from the viewpoint of size and number of inhabitants, to the average states among new members in the European Union. The Czech Republic and Poland are bigger than Slovakia. According to the expert estimation, the number of dairy cows increased about 25% after May 1, 2005 but milk production increases only about 18%. “The

Table 1. Development of the selected indicators at the milk production

Year	Average number of cows		Average milk yield		Milk production		Purchase of milk	
	thousand heads	index	litres	index	million litres	index	million litres	index
1999	262	100.0	4 101	100.0	1 073	100.0	902	100.0
2000	246	93.9	4 337	105.8	1 067	99.4	903	100.1
2001	239	91.2	4 654	113.4	1 114	103.8	952	105.5
2002	236	90.1	4 900	119.5	1 163	108.4	1 000	110.9
2003	220	83.9	5 028	122.6	1 109	103.4	1 008	115.3
2004*	206	78.6	5 048	123.1	1 040	96.9	954	105.8

Source: Ješko (2004), www.vuepp.sk

old EU states” produced 326 kilograms of milk per inhabitant, “new EU states” 300 kilograms of milk per inhabitant. The average milk yield was 6 050 kilograms milk per dairy cow in the older EU countries and in the “new EU member” it is only 4 050 kilograms per dairy cow. The similar portion is in the production of consumer milk as well as consumption of milk products. In total, the production will increase by about 15%, production of cheeses about 10% and dry milk about 11%.

Table 1 shows the indicators in the primary agricultural production and its purchase with regard to the raw cow milk.

Based on the obtained results from the recent situation, we take into consideration the fact that the economic stabilization of agricultural and food complex as well as the Slovak economy in total is not possible without the enterprise restoration in connection with production conditions. Figure 1 explains the share of

purchase of raw cow milk by foreign milk processing companies on the Slovak market.

Figure 1 shows that multinational companies have created 52% of total number of big milk processing entities. The Slovak Republic has to adapt to the new EU conditions from the viewpoint of raw cow milk. The Direction of Council EU No. 92/46 about hygienic order for production of milk and milk products, the Direction EU No. 93/43 of food hygiene as well as other supplements belong to the basic orders for the Slovak legislation. At the end of this article, we can explain that the Slovak milk processing entities do not avoid the European trends in total, including the production concentration of the biggest milk processing ones.

CONCLUSION

The internationalization process is in connection with the access of the foreign investors to these com-

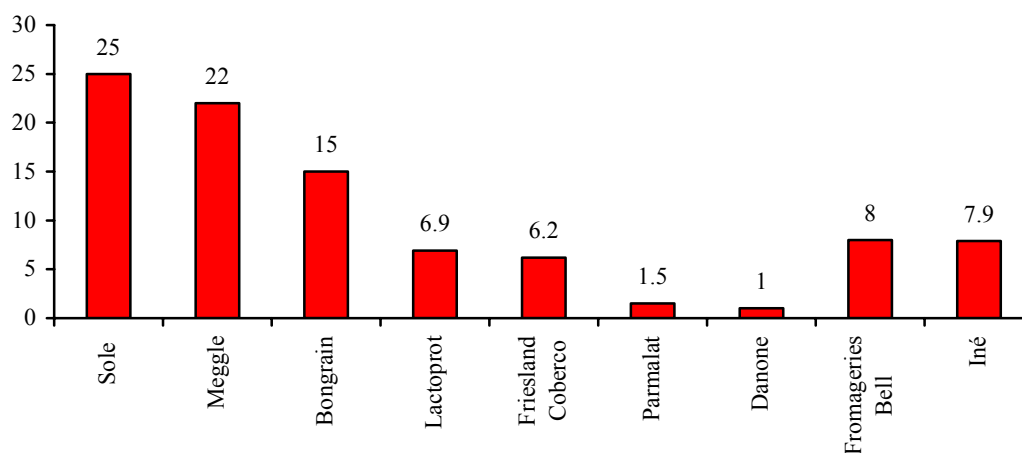


Figure 1. Market share and capital group of the milk processing entities in years 2002–2003 in %

Source: Own research

panies which production is aimed to the production of consumer milk and milk products. From the viewpoint of situation in the Slovak milk processing industry, we can define the present problems:

- to secure the restoration and modernization of milk processing entities, respecting its competitiveness,
- to improve managerial communication of the top and middle managers with external environment, including the improvement of language skills and to increase the level of production management,
- to improve the utilization of processing capacities and to remove seasonal production of raw cow milk,
- to increase the competitiveness with foreign countries in milk quality,
- to adapt production and processing processes at the export milk products to the new EU conditions.

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