Interfirm Networks in the Hungarian Wine Industry*

Working Paper

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*****Prepared by the Interfirm Networks Project Team at the Center for Business and Society, CEU Business School. Team members: Diana Sidlovits, PhD, Councilor, National Council of Wine Communities, Budapest; Krisztina Büti, Senior Lecturer of Finance, CEU Business School, Budapest; and Team Leader Peter Hardi, PhD, Professor and Director, Center for Business and Society, CEU Business School, Budapest
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I.GENERAL ECONOMIC CONTEXT

The Hungarian section of the research on inter-firm networks in the European wine industry has concerned the totality of wine growing regions while we can find similar economic context and production structures in the different regions because of the importance of Hungarian wine production in the European level.

National wine production averaged 3,8 million hl in the last 5 years (2004-2008) *(HNT, 2008)*. It made up a mere 2% of total EU wine production that is equivalent of the 8th rank in the EU and 16-18th rank worldwide.

The national surface dedicated to grape growing was 81 852 ha of vineyard in 2008 *(HNT, 2008)*. Vineyard surface decreased significantly by 12% from 1999 to 2008 due to the implementation of abandonment premium of the wine-CMO after the EU accession, the motivating grubbing-up policy of the new wine-CMO, increasing competition of the imported cheap red bulk wines, and the low overall profitability of viticulture.

The majority of vineyards can be found in 22 wine appellations (delimited zones) (*Figure 1*) where Hungary produces mainly PDO wines on 48,898 ha, PGI wines on 20,014 ha and table wines on 12,939 ha. Regarding wine-growing areas classification, Hungary produces 60% of PDO, 24% of PGI and 16% table wines *(HNT 2008, FVM, 2008)*. Proportion of different qualities can vary by delimited regions. We can find the highest ration of PDO wines in Tokaj, Szekszárd, Villány, Sopron, Pécs regions, where this ration is more than 90%, while in Kunság region the PGI and table wines are the most important with 62%, and PDO wines represent only 38% of total vineyard surface.

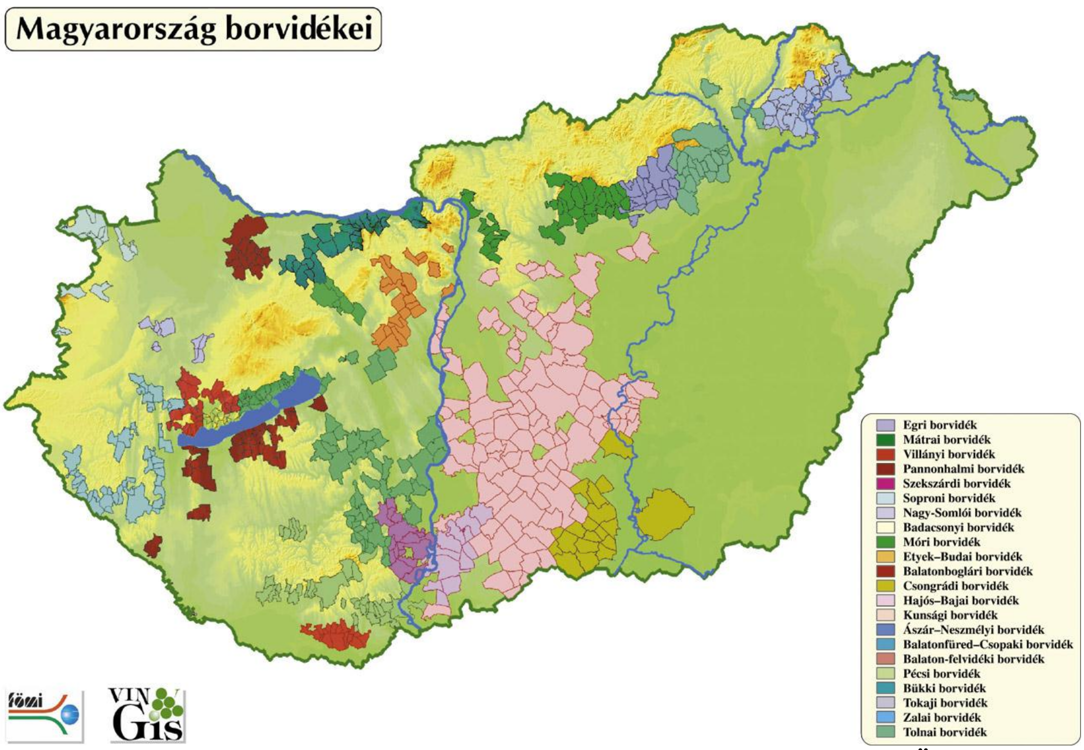

Figure 1: Delimited wine production regions in Hungary (source: FÖMI - Institute of Geodesy, Cartography and Remote Sensing, 2008)

Regarding the quality of vintage, 300 000 tons of grape are classified in PDO category. This represents 68% of total grape production in Hungary. We can observe a robust improvement in harvest quality: the share of PDO category has grown by 10% during last 10 years (from 58% to 68%) (HNT, 2008).

The total volume of imported wine amounted to 546 324 hl in 2007 (Eurostat, 2007), equivalent to 14,3% of total wine production. Traditionally imported wine accounted for only a marginal share (30,000-60,000 hl/year) of the domestic market (3 million hl), and served merely to complete the national wine assortment, particularly in case of red wines. However, after Hungary's accession to the EU, wine import increased: the tendency shows tenfold growth from 2004 to 2007(!) largely due to the expansion of very cheap Italian red bulk wine imports.

Hungarian wine export volume reached 707 116 hl in 2007(Eurostat, 2007), which corresponds to 18,8% of total wine production. Wine export volume fell 50% during the last 10 years. EU countries represent the most important market for Hungarian wines, the main export destinations are in order: Germany, Czech Republic, Slovakia, Russia, Great-Britain, Poland, Lithuania and Finland.

Total domestic wine consumption amounts to 3 million hl per year. We can observe an opposite tendency of wine consumption in Hungary in comparison with the other European traditional wine producer and consumer member states where the consumption has been decreasing for 30 years. In Hungary it increased sharply in the first decade following the collapse of communism, and it remained relatively stable during the last 10 years and a rising demand of quality wines has been registered during last period *(Totth and Hofmeister-Tóth, 2005)*. Hungary is a traditional wine consumer country, where individual average wine consumption is relatively high: 32 litres /capita/year. This quantity is very close to the European average (34 litres/capita/year) *(KSH, 2008)*.

Structure of grape-wine production and the ownership structure of wine-growing formed after the privatisation of Hungarian wine sector are the relevant factor in inter-firm collaborations. The ownership-structure of Hungarian wine production changed very rapidly during a rather short period after the transition*:* considering the registered capital of companies in 1995 42% of capital was still in state propriety and 58% were in private ownership (*Lakner and Hajdu, 2002)*, however, for 2000, the state propriety represented 8% (*Lakner and Hajdu, 2002)*. One part of wine making firms has been bought up by foreign (12% of registered capital of companies in 2000) or Hungarian investors (80%), while the other part has failed or has been divided.

While before transition, 30 state companies and 50 cooperatives assured the Hungarian wine production, which represented a very integrated system, because these entities assured every stage of technical itinerary of wine production, actually, nearly 7,000 enterprises (in 2008) deal with grape-vine transformation, wine-making and wine-trade, where 80% are the micro enterprises that produce less than 80 hl of wine per year and only 35 enterprises can be considered as great wine-growers with more than 10,000 hl of wine production. We can observe certain abandonment of viticultural activity and domain concentration during last years, because Hungarian extra-sectoral investors arrive to the wine sector, and form their own wine estate with several ten hectares of vineyard in their own propriety.

As a result of the Hungarian wine sector privatisation, grape-vine production and transformation have been completely separated and fragmented. The majority of lands and vineyards are in ownership of natural persons and in use of wine-growers. Companies have no right to buy lands and there are only a few wineries that possess their own vineyards. So this institutional constraint contributed to define a particular track of production structure development of the wine sector. Conversely, in case of wine production, wine growers possess only 20% of grape-vine transformation and vinification capacity, while companies dispose 80% of vine transformation and wine-making capacity (*Radóczné, 2002*). Consequently, the two sides of wine production itinerary are rather interdependent.

In this situation, logically, the cooperative cellar system should be well-developed, but because of unpleasant memories of collective propriety of socialist cooperatives and the lack of confidence in each other, Hungarian wine growers are unwilling to cooperate. The problem is that producers do not believe in the efficiency of collective decision making since the partial and personal interests are stronger than the collective interests and opportunist behaviour of producers causes conflicts in the relationships. The other interpretation of the lack of cooperation is that the viticulturists, who received back their own vineyard with land restitution, have strong emotion for their propriety and "at last after 40 years" they can make their own decision linked to their activity. They are attached to the independency, even if its consequences are less efficient than the cooperation.

The third factor of unsuccessfulness of cooperation is the lack of capital at the level of grape vine growers and the unfavourable credit conditions in order to investments in transformation and vinification installations. The most important critique of the Hungarian wine sector privatization emphasizes that the raw material producers did not obtain transformation capacity, because the cellars were privatised separately from vineyards. Cellars were mainly purchased by the management of that time, by extra-sectoral investors or by foreign investors. Therefore, the developed ownership structure in the wine enterprises is not favourable to create cooperatives. Furthermore, the low profitability of the viticulture does not permit producers to accumulate capital and purchase a cellar or invest to the wine-making technology.

The recent analysis covers the vertical coordination forms in the Hungarian wine sector (*Montaigne and al, 2005; Sidlovits and Kator, 2007)*, focusing on the vineyard and vine production control. In Hungary, we can find various organisational models in the supply system and distribution policy of enterprises that can be regroup in three categories:

1. *Owners and development of signatures:* these companies could obtain vineyard and cellars as well during the privatisation or alternatively, some vineyard owners formed a group to set up wine producer-merchants enterprises. Now these are the greatest Hungarian wine producer and merchant enterprises, the most important exporters as well. Mostly, they function with foreign capital (German, French, Spain FDI) or with the investments of Hungarian investor groups. They produce the large part of their own grape-vines (50-90%) that they process and bottle, thus they assure their supply of raw material and control entirely the quality. In some cases, the companies outsource viticulture. These enterprises create their own signature (brand name) beside the indication of appellations. These companies hold vineyards (20-900 ha) in several appellations that cover a large part of their supply; the rest is bought from the producers of appellations with medium or long-term contracts, or purchased on the spot market depending on the requested quality. In several appellations, they are the most important merchants.

2. *Coordinators and cooperatives*: this group includes enterprises whose vineyard capacity does not produce the required amount of raw material supply, but they own cellars obtained during the privatisation, transformation, vinification and bottling equipments. It is not allowed for companies to buy land, it is limited by the Hungarian Land Act since 1994, for this reason, they are obliged to purchase grape-vines from the wine growers of appellations who possess the vineyards. These are large companies that play an important role in the coordination of wine growers in several production regions. The coordination is realised by medium or long-term contracts or annual contracts with a stable group of suppliers. These enterprises function with foreign or Hungarian capital.

In the Hungarian wine sector, actually there are only 11 recognized producers' groups (Ministry of Agriculture and Rural Development, 2008), but the majority of them do cooperate only for marketing grapes or bulk wines collected from members; or they were founded with an objective to purchase inputs and assure services for viticulture or vinification. There is only one cooperative that works as a real cooperative cellar that collects grapes from its members and deals with transformation, vinification, bottling and marketing of its products. Cooperative cellars and producer organisations cover 1,700 producers and 5,200 ha of vineyard *(HNT, 2006)* that is not so considerable in size, since they represent only 6% of the totality of the Hungarian vineyards. For this reason, grape-vine and wine suppliers are rather weakly concentrated in the Hungarian wine sector in comparison with the other European traditional wine producer countries, like France, Italy or the New World's producers.

3. *Independents*: In this group we can find the independent small and medium sized family owned enterprises which have been developing step by step since the beginning of 1990's. They founded wine production on their own vineyard obtained during the land redistribution and privatisation or they (the members of family) bought up land adapted for wine-growing and created new plantations. The size of these enterprises varies between some hectares and 120 ha. They strive for independence in raw material supply and to control entirely the quality of grape-vine. Therefore, they buy less and less grape-vine from the little wine-growers and withdraw from the coordination in order to solve the quality problems of raw material. They are specialised in quality and high quality wine production, they aim at "niche" and luxury products where the name of the owner of cellar is utilized as brand name.

II.INTER-FIRM COLLABORATION ALONG THE PRODUCTION CHAIN

II.1. General overview and inter-firm collaboration along the production chain

Regarding fragmentation and integration of production chain, overall we can describe the **Hungarian wine industry with the intermediate integration model**:

- Grape-growing is very fragmented in Hungary considering 120 000 grape vine growers and 0,3 ha of average size of vineyard where 75% of grape-growers use less than 0,5 ha of vineyard. In the delimited production regions, the average size of vineyard a slightly bigger, but it reaches only 0,5 ha used by grape growers *(HNT, 2007)*.
- Transformation, vinification, bottling, labelling and distribution are highly integrated, the same circle of enterprises undertakes these activities.

We have to emphasize that **the situation is more sophisticated** compared to the general model *(Figure 2)*. Family owned small or medium size enterprises (*Figure 3)* and some foreigner owned medium sized companies (*Figure 4,5,6)* can be described by the highly integrated production chain model. These enterprises employ the following solutions to assure their raw material supply with their own grape growing coming from their controlled vineyard with the:

- vineyard renting from land owners or from the State (actually 1482 ha of state property land are used for viticulture)
- owners of winery – as physical persons – are owners of vineyards and deal with grape growing as well.

T**he intermediate model is typical for medium or large enterprises (wineries)** held by investor groups that do not possess adequate vineyard capacity to guarantee their grape supply.

Figure 2 shows the general vertical model (intermediate model) of the Hungarian wine industry. Grape growers supply the winery enterprises with raw material usually by making annual exchange contracts (written or oral) or sometimes with long term agreements. The enterprises integrate grape growing as well by possessing their own vineyards, but their own grape production covers only a small part of their grape demand. These enterprises deal with transformation, vinification, bottling and distribution (on domestic and often on export market). In this manner, these activities are integrated by the same enterprise. Usually wineries negotiate directly with large scale department stores and HORECAs.

Sometimes grape growers form a producers group (under a legal form of grape supplier cooperative or limited company linked to a specific winery like in Eger or Kunság region), where owners of the winery - as natural persons and owners of vineyard and grape growers – are members of producers group. The objectives of grape growers' cooperation are the followings:

- Purchase of inputs and technical services for a specific price or coordination of technical support (advise for pruning, plant protection etc.),
- Obtain state and EU (co financed) subsidy for administrative costs of function,
- Assure grape supply of a specific winery. Typically there is no exclusive exchange contract between the member of producers group and winery. If the grape grower finds another merchant who proposes a better price for grape, he can sell it for this latter winery.

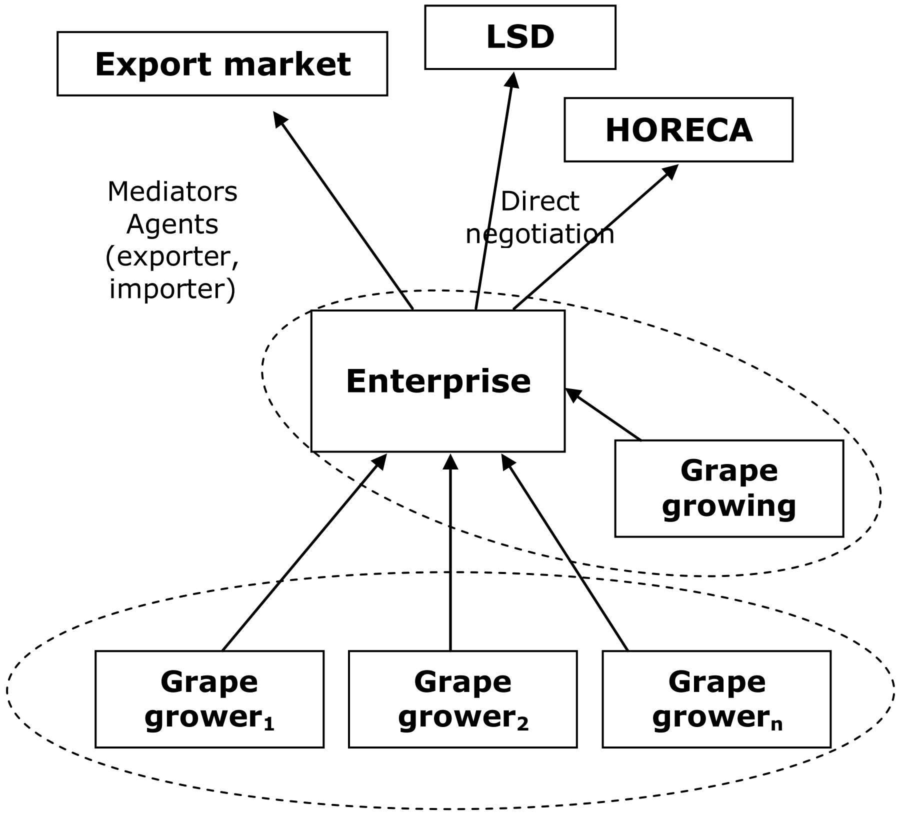

Figure 2: Intermediate model of vertical relationship in the Hungarian wine industry

In the case of **family owned and small or medium sized enterprises, the integrated production model** is prevalent: grape growing is integrated into the same enterprise, therefore it realizes an entire vineyard control. This control has several forms of implementation:

– Typically vineyards are rented from land owners (who would not like to deal with viticulture or agriculture – or

– from the Hungarian State. Actually 1 482 ha of state owned agricultural area are used for viticulture. It means that 1.8% of total vineyard surface of Hungary is state property.

– Common solution, when the owners of winery or family members – as physical persons – are owners of vineyard and they let vineyard to the enterprise or they themselves are grape growers as well.

These enterprises integrate the whole wine production: grape growing, transformation, vinification, aging, bottling and distribution (on domestic and export market). They negotiate directly with LSD and HORECA on the domestic market and with importers on the export markets.

Financial investors outside the wine sector are those who accumulated capital with the activity in another sector than wine industry, but they invest in wineries. These investors typically **choose the integrated production model** and create their own wine estate. Generally, they specialize in high quality wine production and position their products in the "niche" market segment, where the owner's name or the name of the domain functions as a trade mark. Therefore, they aim at controlling the entire process to avoid the risk of quality problems. Consequently they do not purchase grapes from local viticulturists or on the spot market.

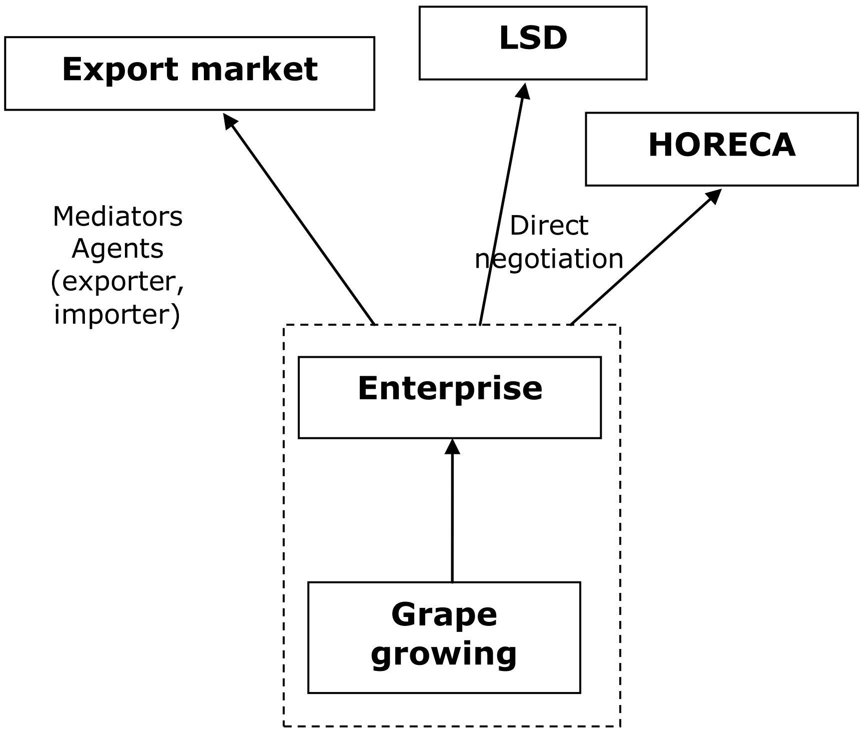

Figure 3: Integrated model of production in the Hungarian wine industry

Regarding foreign property enterprises created after the privatization, several types of solutions emerged for the organization of production and distribution. Here we present some interesting cases.

1. The case of Danubiana Ltd.

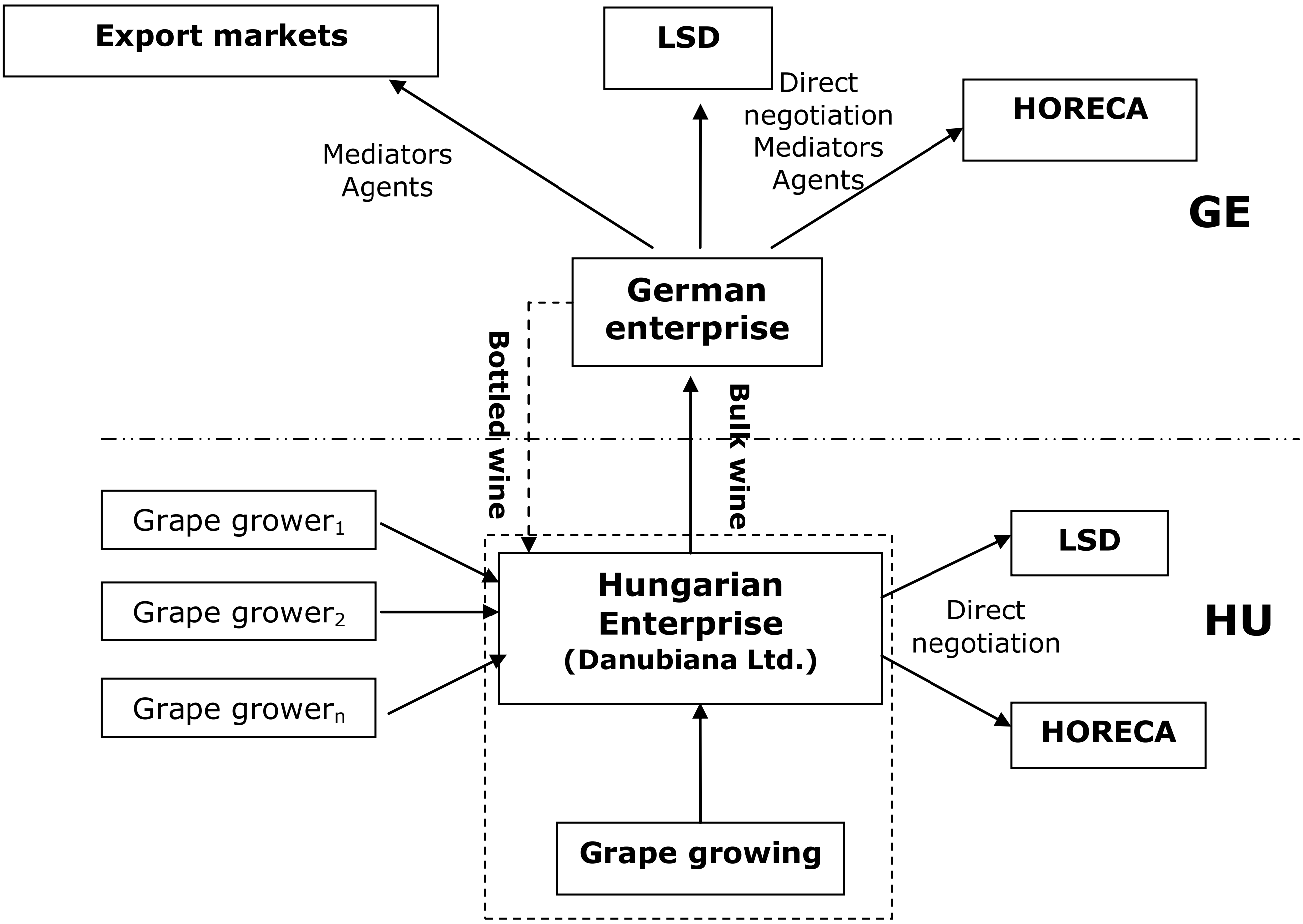

Figure 4: Danubiana-type model of vertical coordination of production and distribution

Danubiana Ltd., founded in 1991, is 100% owned by a German wine producer enterprise. This firm purchased a cellar of a State firm during privatization in the Mátra region. They founded an estate, a new investment in Tolna region in order to assure the raw material for red wines, while they produced grapes for white wines in the Mátra region.

The Hungarian enterprise assures a share of the grape supply with integrated grape growing on 316 ha of vineyard (276 ha in Mátra and 40 ha in Tolna). This surface is rented from the Hungarian state with long term lease contract. Grape production is complemented by purchasing grapes from regional grape growers based on a long term partnership agreement. This agreement is a declaration of coordination intention for 5 years complemented by annual exchange contracts on grapes.

In addition to grape growing and purchase, the Hungarian enterprise produces bulk wine that is "exported" to the German parent enterprise that deals with bottling of bulk wine, distribution in Germany and on other export markets and sends back bottled wines to Hungary. On the Hungarian market, which plays only a marginal role for Danubiana, the company deals with the distribution (of bottled wines).

In this case the German parent enterprise assumes the essential organization of distribution on the export markets of wines produced by Danubiana Ltd. Consequently the Hungarian enterprise profits from the marketing relationships of the foreign owner company.

2. The case of Törley Co.

Törley Co. is the most important wine and sparkling wine producer society in Hungary. By controlling 90% of the Hungarian sparkling wine production, Törley occupies the first place in Hungarian wine production, and bottled wine distribution on the domestic market. It is one of the most important actors of the Hungarian wine export as well.

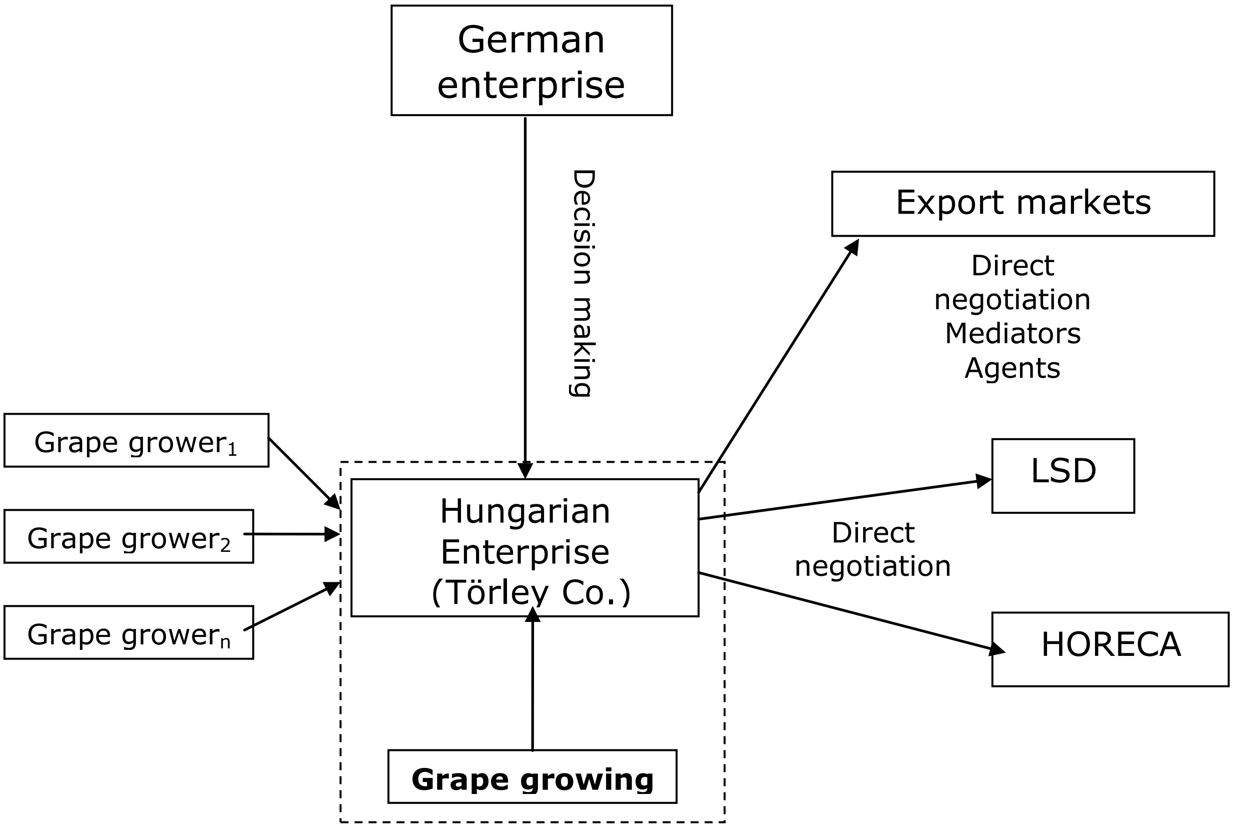

Figure 5: Model of vertical coordination of production and distribution in case of Törley Co.

During the privatisation in 1992, one of the greatest European sparkling wine producer society, the German Henkell & Söhnlein bought Hungarovin Co. and its cellars, which was a large state company at that time. The group of companies was renamed Törley Co. in 2005.

The society assures the majority of its grape supply with control of nearly 900 ha of vineyard in several Hungarian wine growing regions. These plots are rented from the Hungarian state by a long term lease contract. Raw material supply is complemented by a long term agreement for grape purchase with regional grape growers represented by a declaration of coordination intention for 5 years completed by annual exchange contracts on grapes as well as by grape purchases on the spot market, depending on the purpose of the final production position on the consumer market.

3. The case of foreign estates in the Tokaj appellation

In the Tokaj wine appellation several foreign societies (p.ex. AXA, GAN, GMF, Vega Sicilia) purchased cellars of the formerly state owned Tokaji Borkombinát during privatization in the early 1990s. The State firm was split into several enterprises: the most valuable cellars were sold to foreign investors, the rest of the company remained in state property (currently it is called to Tokaj Kereskedőház Co. - Tokaj Merchant House Co.).

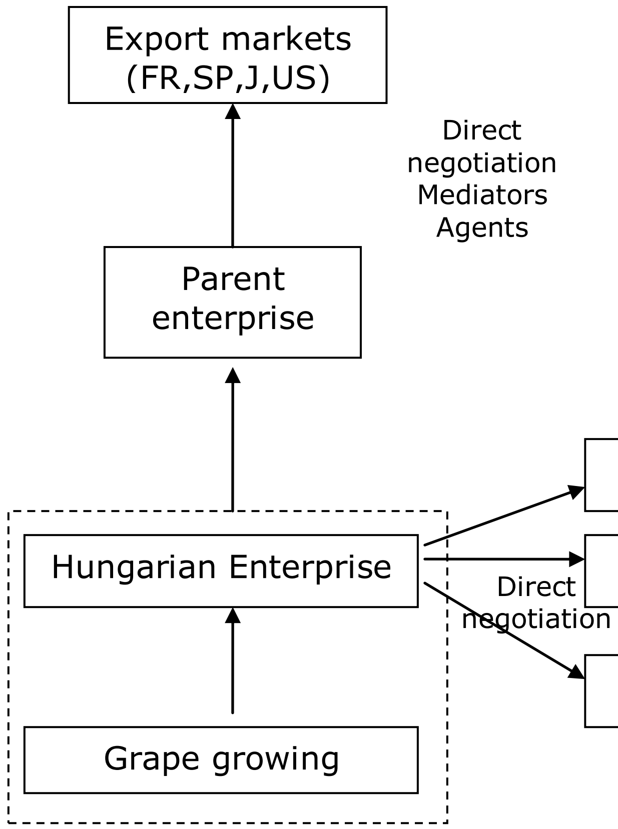

Figure 6: Model of vertical coordination of production and distribution in case of enterprises in foreign property in the Tokaj appellation

The foreign owned firms possess their own vineyards as well (mainly rented from the Hungarian state), so they can entirely control the quality of raw material. They purchase only “aszú” berries for the most valuable Tokaj wine specialty called “Tokaji aszú” in order to complete their own aszú berry production.

These enterprises at the time of installation in Hungary, invested huge amount of funds in the quality reconversion of vineyards and created new plantations as well. They upgraded cellars, created new buildings, employed new grape transformation and oenological technology. Among them many were so called “greenfield site” investments (such as Disznókő or Oremus Ltd.).

In addition to financing investments, parent enterprises offer their distribution network on certain export markets (e.g. in France, Spain, US, Japan) and the Hungarian subsidiary can profit from the market relationships of the owner society in addition to finding new export markets. However the pressure for export is not as strong as that of similar Hungarian owned enterprises. The latter societies are specialized at “niche” or luxury products and target mainly export markets in addition to distribution on the domestic market where they position their products in the HORECA and in the hyper- and supermarkets as well.

Overall we can conclude that Hungarian enterprises owned by foreigners follow the integrated model of producing wine by controlling the entire process from grape growing to the distribution.

II.2. Emergence of long term relationships

Considering the production chain in the Hungarian wine industry, we can observe the increasing importance of long term relationships which involve a higher degree of collaboration with parties exchanging grapes more than bulk wine and undertaking high quality production projects.

In Hungary, in general, the grape market is more important than bulk wine market for quality wine production. On the one hand grape production is highly fragmented and cooperatives formed by grape growers making and selling bulk wine make up a minority of producers. Cooperatives as a form of enterprise are not prevalent in the Hungarian wine sector. On the other hand the wineries prefer buying grapes as raw material, because it is easier to control the quality of grapes (viticulture techniques, plant protection, state of health of harvest, ripeness, intrinsic value etc.) than the quality of bulk wine. Therefore, when a winery targets the high quality, premium wine market segment, it chooses buying grapes rather than bulk wine. Recently creating a firm's own vineyard in order to control grape and wine quality entirely is becoming more and more important. This trend means that enterprises increasingly buy bulk wine for completing their product assortment in a case limited to specific varieties or for products destined to cheaper wine categories.

Contractual long term relationships are relatively rare at the production and distribution level. Some wineries apply this supply system, but we can speak about rather a medium (3 years) or a long term (5 years) declaration of intention of collaboration than a real contract, because - in most of the cases – elements guaranteeing execution are missing from this agreement. Obviously this leads to a high risk of opportunistic behaviour of parties. There is not enough motivation for execution in the agreements. Consequently long term relationships are not based on contracts, but rather on confidence, trust and familiarity. Loyalty is more important for certain wineries than a long term contract. Wineries possess a mainly stable supplier circle: the majority of suppliers are permanent, with mild fluctuation among the rest of suppliers.

II.3. Contractual rules in production contracts

The *table 1* summarizes the contractual rules observed in the production contracts.

Fresh grape market is dominant among raw material markets due to fragmented grape production structure, integrated transformation and vinification structure and the insignificant number of cooperatives in the Hungarian wine industry. Bulk wine market plays a marginal role because of the difficulty of quality control. Consequently wineries purchase grapes rather than bulk wine (or create their own vineyard) that drives to the regression of the bulk wine market.

Grapes are sold mainly on the spot market with oral agreement or exchange contract (agreed during vintage period) on the basis of the spot market. We can find long term, written, but not highly detailed agreements in some cases, mainly in the case of large wineries without enough vineyards to assure their grape supply. These agreements are not real long term contracts; but rather declarations of intention of long term collaboration. These agreements do not define strategic coordination elements of collaboration, guarantee system, risk sharing or price definition (e. g. purchasing price indexation). As a result they are complemented by yearly exchange contracts based on the spot market price of vintage period (this is the case of e.g the Varsányi Pince, Danubiana Ltd., Törley Co., Szőlőskert Co.). We found an example of a large winery (like Hilltop Co.), where the long term relationship for purchasing quality raw material (grapes) is based on confidence and loyalty. The winery works with yearly exchange contracts (agreed during vintage period) but it offers higher price for suppliers than the spot market price of vintage. Another winery (like Vinárium Co.) has no long term contract, but it makes an agreement with grape growers on grape purchasing long before vintage (generally during spring).

	Sale of grapes	***Sale of bulk wine****
Legal form (in writing and highly detailed, totally oral, orders in writing only including price, quantity, type of goods)	- Marginally writing agreement but not highly detailed (intention of coordination) completed by yearly sale contract on the basis of spot market, including price, quantity and type of goods or oral agreement - Mainly sale contract (on the prompt market)	- Mainly sale contract on the prompt market or oral agreement
Stability (in terms of duration and/or renewal policy)	Marginally - In case of agreements: 3 or 5 years coordination but without guarantee of purchasing during this period - Renewal policy: after 3 or 5 years but both parts can interrupt the renewal of agreement	- Stability is marginal - Mainly not stable, prompt market rules function
Allocation of power (is the main decision power exercised by the seller or the buyer?)	Mainly the buyer exercises the main decision power	- Mainly the buyer exercises the main decision power
Exclusivity	There is no exclusivity in the agreements (if another buyer proposes a higher price, grape grower sells grapes despite of signed agreement), high risk of opportunist behavior	There is no exclusivity in the agreements
Employ of "mediators" to match offer and demand	- Never (mediator does not exist in Hungary in case of grape): the buyer wineries organize the producers or the grape producers contact wineries directly	- marginal (bulk wine mediators have a marginal role in the Hungarian wine industry)

*N.b. In Hungary the bulk wine market is more and more restraint, because of the difficulty of quality control. Therefore enterprises purchase grapes rather than bulk wine. Grape market is more important, bulk wine market became marginal.

Table 1: Characteristics of production contracts in the Hungarian wine industry

Stability of written contracts is considered relatively marginal. Long term relationships work on the basis of confidence and familiarity. The duration of written long term agreements is typically 3 or 5 years, but they do not include elements guaranteeing execution, therefore these agreements are weak. In spite of the fact that these agreements do not contain clauses for sharing revenues, risks or formulating a collective strategy, the relative marketing safety offers motivation for the contracted grape growers in case of over-production even if the winery offers a low price.

In Hungary, it is generally true that buyers exercise the main decision power. Sellers have weak bargaining power, because grape growers are not well organized – they are too fragmented, their offer is too atomized and variable – for the negotiation with wineries. Therefore the latter has dominant position in the negotiation.

These agreements do not grant exclusivity: if another buyer proposes a higher price for grape grower, he can sell grapes for this latter buyer despite of signed agreement. Consequently they include a high risk of opportunistic behavior of signing parties.

In Hungary, the mediators (grape or wine brokers) like actors in the wine industry do not exist. It happens that a winery or trade company deals with mediator activity of bulk wine, but this is the exception rather than the norm. Direct negotiation is prevalent between winery and grape grower (or sometimes with producer group).

While emphasizing that contractual relationships are relatively rare in the Hungarian wine industry, we have to mention that the contractualization depends on the individual strategy of wineries. It becomes important when the marketing objective of a winery is to obtain high quality grapes and wine because of the positioning of final products. Positioning can be considered different ways: either the final product is positioned in the high price segment of the wine market, or it is positioned in the premium category but on the export markets, where the quality requirements are very demanding for example in the hypermarket chains (like Marks & Spencer in case of Hilltop Co.). Grapes and wines with denominations of origin are important determinants of contractualization in case of certain specialties like „Tokaji wine specialties", „Egri bikavér", „Villányi" denomination, or quality sparkling wines, or „late harvest" products.

III.INTER-FIRM COLLABORATIONS IN THE DISTRIBUTION

In the following table, we present the forms of distribution chain in case of Hungary:

	National* *(80% of total sale)*	***International**** *(20% of total sale)*
HORECA channel	~15%	marginally (~5%)
Large scale distribution chains	~75%	mainly (~95%)
"Short chains" (sell to consumers)	mainly	mainly
Long chains (sell to retailers)	mainly	mainly
Second-tier distribution chains whose members are short and/or long chains	does not exist	marginally

Direct sale to small surface supermarkets and retailer stores	mainly	-
Direct sale at cellars	~10%	-

*Estimation by professionals; no available statistics concerning wine trade by distribution channels

Table 2: Structure of the Hungarian wine distribution

In Hungary regularly collected and published statistical data on different wine distribution chains does not exist. We can base our analyses on professional estimations and on target market studies made by market research companies (Kiss, 2007), researchers and professional organizations[1].

For the Hungarian wine distribution, the national level has a dominant role that is estimated to 80% regarding total wine sale. International distribution of Hungarian wines represents 20%.

At national level, among the distribution channels HORECA means about 15% of total wine sales. The HORECA category includes not only the restaurants, bars etc. where higher priced, quality bottled wines are offered, but also the special Hungarian wine bars (pubs) where cheap wines are distributed for regular consumers.

Similar to international developments, supermarket chains (LSD) became the most important distribution channels for wines. About 75% of wines are distributed by LSD in Hungary. This distribution channel developed explosively in Hungary after the transition, since the mid-1990s and changed radically the food and drink distribution system in Hungary (*Kisari et Sidlovits, 2004).*

In general in the Hungarian wine distribution the short chain is prevalent: wineries negotiate directly concerning price, type of product, volume and other supplying conditions with the centre of LSD chains (e.g. Lidl, Tesco, Spar, Auchan, Cora etc.) or they agree with the given store on volume, but on price and other conditions with the centre of the retail store chain (such as in the case of CBA, the biggest Hunarian owned chain). In case of LSD distribution between winery and LSD wholesaler can hardly be found, the most significant example is DuplexDrink Ltd. Other wholesalers that deal with wines are specialised at distribution of foreign wines, and they negotiate with LSD in Hungary in order to offer import wines. Nevertheless bottled import wines play a marginal role in certain LSD stores and function as complementary wine offer to Hungarian wines. In other chains (e.g. Lidl) import wine offer is as important as Hungarian one. In this case the foreign wines mean serious competition for Hungarian bottled wines, mainly in the red quality wine category.

Long channels (cash & carry) like Metro, Interfruct, play also important role in case of wine distribution. These were the first chains that appeared as LSD in the Hungarian market in the mid-1990s.

	HORECA	**LSD**
Direct sale	mainly	mainly
Sale via "agents"	-	-
Sale via "mediators"	marginally	marginally

[1] Interview with National Council of Wine Communities (HNT), Federation of Hungarian Vine- and Wine-growers

Sale to importers who sell to retailers	mainly	mainly
Sale to importers > to distribution companies > to retailers	marginally	marginally
Sale to "cash and carry" (LSD – long chain) > to retailers	mainly	never
Sale to distribution companies owned in partnership with other companies	does not exist	does not exist
Sale to distribution companies controlled by the final producer	marginally	marginally

Table 3: Wine distribution chains in case of HORECA and LSD in Hungary

On the domestic market, we have to mention the importance of direct sale to consumers in the cellars. This activity constitutes about 10% of total wine sales. This channel represents a traditional distribution form of wines among micro-enterprises and individual wine growers (below 80 hl of wine production). These enterprises sell wines at the cellar to local consumers and acquaintances. In case of small family enterprises direct sales is becoming more and more important because of development of wine tourism in several wine appellations (Tokaj, Villány, Eger, around Lake Balaton, Sopron, Szekszárd, Kunság). These domains are ready for reception of tourists and visitors. They offer a wide range of services and programs for visitors: wine tasting, guest-house, restaurant, wellness and recreation services.

Finally, wine distribution models are complemented with wine clubs like Bortársaság ("Wine Society"), where high quality wines and services are offered for a special price for members. We found a new and innovative type of high quality wine distribution model that offers a solution for wine friends – members of Dominium Vini - to obtain their own micro vineyard by a lease contract (the lease contract offers units of vine-stocks, one unit = 10 vine-stocks = 12 bottles of wine) at a celebrated domain in a wine region of high reputation that deals with separate wine making for leaseholder. This wine is bottled and labelled with the name of leaseholder and the trade mark of "Dominium Vini". Slogan of Dominium Vini can be expressed as "Let you have your own wine!". With this initiative Dominium Vini would like to enlarge the market segment of high quality wines on the Hungarian market.

The observed contracts in the distribution chain in case of Hungarian wineries are summarized in the following table:

	HORECA	**LSD**
Legal form (in writing and highly detailed, totally oral, orders in writing only including price, quantity, type of goods)	Mainly: oral agreement with orders in writing including price, volume, type of goods Marginally: writing contract	Mainly: in writing and highly detailed
Stability (in terms of duration and/or renewal policy)	Stability mainly for quality wines and in case of restaurants, depending on confidence	Marginal

	Pubs: stability is marginal	
Allocation of power (is the main decision power exercised by the final producer or the distributor?)	More equalized between producer and distributor because it is based on previous relations	SE and ME: decision power is mainly exercised by distributor ME and LE: decision power is more equalized (they can prove price)
Exclusivity (mainly with respect to territory and type of product)	Marginally	Marginally

Size of enterprise:
SE = small enterprise
ME = medium enterprise
LE = large enterprise

Table 4: Contracts in the HORECA and LSD sector in the Hungarian wine industry

III.1. Contracts in the HORECA sector

In Hungary, contracts in the HORECA sector are mainly oral agreements based on long-term acquaintance and relationship. Exchange happens with a simple order including price, volume and type of good. Stability of supply relationship depends on the quality and long-term contact between the winery and HORECA. High quality restaurants enjoy a more stable relationship, but confidence plays an essential role in the supply. In case of pubs, wine bars that offer cheap table wines for less discriminating regular consumers, stability is marginal, but existing long-term supplier relationships make a difference in this category as well. The allocation of power between final producer or wholesaler and HORECA is more equalized, because wine supply is essentially based on previous relationships and confidence. Exclusivity is not prevalent in these contracts regarding appellations or type of products.

III.2. Contracts with LSD

In case of LSD, in Hungary supplier agreements are highly detailed written contracts. Producers criticize these contracts, because international LSD chains present in Hungary demand several types of contribution from producers including sale, promotion, store opening contribution, “shelf charge” fee etc.. These mean high additional costs for producers. Stability of this supply contract is marginal. If another producer can offer a similar wine for cheaper price in the same category, the LSD lists out the product of the former supplier. Contract renewals require hard negotiation procedures.

According to the declaration of small and certain medium size enterprises the decision power is exercised by LSD chains, they feel their position defenceless against retail chains. Other medium size enterprises and large wineries declare more level of bargaining power with LSDs and they can validate their costs in the price agreement.

Practically there is no exclusivity in the contracts regarding type of product or territory. LSDs create strong competition among wine suppliers, however, in most cases, producers contact LSD directly for listing their products. In summary it is not the LSD who is looking for wines, but the producers targeting LSD demand declaring what kind of products they can offer for what price.

In terms of contractual rules, on the one hand LSDs have a dominant position and can largely influence the production chain, on the other hand producers influence wine offer of retail chains, because it is them who offer wines for LSD and not the LSD looking for wines. The logic is not based on the consumer search for types of product; consumers choose from the very large wine offer of retail store. In summary the wine market of LSD can still be described as a "push" market, where the wine supply is determinant instead of wine demand.

In Hungary LSDs, have no special quality requirements, but if there is a serious quality problem with a product, it is listed off from the store. Actually, it is Lidl that demands several requirements especially concerning wine packaging (bottle type, labelling rules, boxes etc.), that requests special investments and large volume of wine from producer for a profitable collaboration.

We can say that both sides affect each other: in production method, packaging, quality, price positioning and private labels. In case of private labels, in general LSDs have no specific rules, they request that producers offer certain products for LSD private labelled wine. In the best case the LSD can tell that it is looking for red or white wine for private label, but not more.

III.3. Determination of distribution of surplus along the chain

Between grape-growers and wineries, in most cases distribution of surplus is determined one sided by the merchant winery, because of the week bargaining power of grape-growers, of the low differentiation of grape purchase price in spite of the quality development (except in cases of certain icon appellations such as Tokaj, Villány), and because of the price positioning and distribution strategy. So margins are very restrained at the level of grape-growing. The profitability of this activity remains at low level. Therefore, many grape-growers abandon this activity and profit from the grubbing up premium of new wine-CMO (in 2008/2009 demands arrived for grubbing-up 3 300 ha of vineyard). Between the grape-grower and the winery it is the latter that captures margin.

Between wineries and LSD, we observed that LSD has more negotiation power than suppliers (but several medium and large enterprises said that they can negotiate appropriate price), so margins became more and more distributed between winery and LSD. The intensive competition contributes also to this phenomenon.

Between wineries and wholesalers, we can say that generally wholesaler captures the margin.

We observed significant changes in the allocation of power between production and distribution in the last ten years. The negotiation power of LSDs has increased, because the position of LSDs in the wine distribution has become dominant in Hungary (explosive growth of LSDs in the wine distribution in Hungary since 1995). LSDs use several tactics in order to surcharge wine suppliers; however, it has a negative effect on wine quality. In spite of their exposed situation, we cannot observe any case of collaboration between suppliers, final producers, distributors to protect themselves and/or create a better bargaining position; there is no inter-phase collaboration between the different actors of the wine sector. Short-sightedness, distrust and individual interest are dominant factors in the sector and mainly in the wine distribution (*see below the explanation).*

IV.EMERGENCE OF NETWORKS

IV.1. Type of networks

We have to emphasize that networks are relatively rare in the Hungarian wine industry, but they exist in certain wine regions. These networks are coordinated by certain wineries. Among the few existing networks we can observe the following types:

Regarding the type of **networks per function** we can distinguish the followings:

- **Networks in production** exist in the Hungarian wine industry. This is the prevalent form of networks which includes mainly coordinated grape-growing, coordinated grapes sale, sometimes joint vinification and coordinated bulk wine sale (*see Figure 2)*.
- **Networks in distribution** like coordinated wine distribution systems, practically do not exist on the domestic market, because wineries negotiate individually and directly with the LSDs (even small businesses). They do not form networks in order to facilitate their negotiation or unite their wine offer or marketing activities. We can find only one example – Dominium Vini – of a distribution network (*Figure 7*), but actually it represents a marginal share in wine distribution. In this case, Dominium Vini coordinates wine production with selection of domains, offers vine-stock for members, organize their membership, coordinates contract of lease between members and wine-growers, finds new members, manages the uniform appearance of wines like the specific registered bottle shape, "Dominium Vini" registered trade mark, and other packaging material, and organize delivery of wines - labeled with the name of leaseholder – for the member (= leaseholder). In this manner, Dominium Vini has a complex activity: coordination of production, distribution, service, marketing and advising. This is an innovative way of coordination of production and distribution.

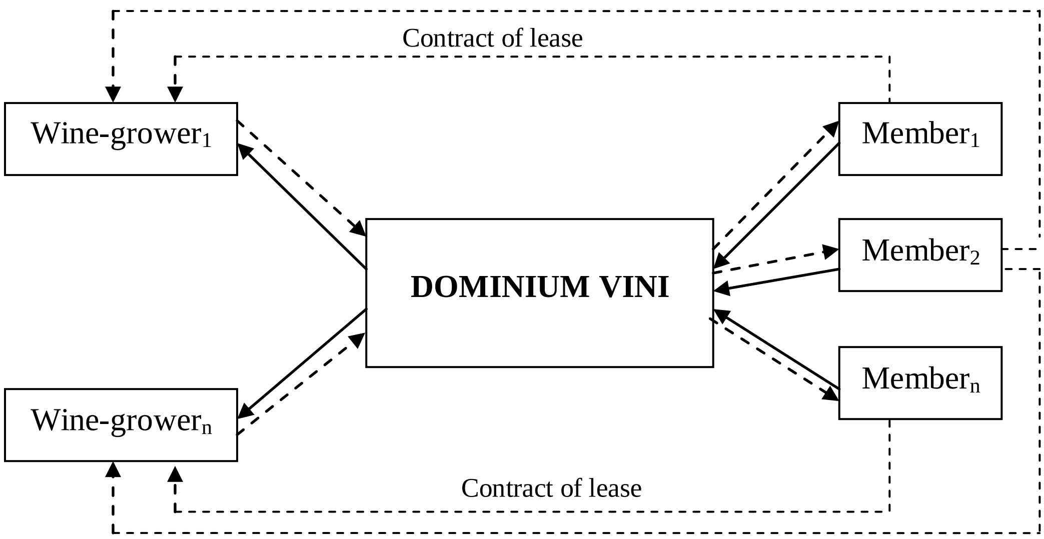

Figure 7: Coordination of production and distribution in case of Dominum Vini

Export distribution networks do not exist either. There were some initiations to create informal network between exporter wineries on the German or British market, but the opportunistic behavior of collaborators impeded the success of this cooperation. It exist that an exporter company represents several wineries on specific export market (like China) but it is not a real network, it is a food and drink exporter agent.

- **Networks supplying services** where the objective is supplying services related to grape production are a prevalent network type in the Hungarian wine industry. They provide the following tasks:
  - Joint input material purchasing or purchasing with reduced tariff: bottles, chemicals, fertilization etc. In this case the cooperative or the producers' group purchases materials for its members (grape-growers) or it makes an agreement with material suppliers that the members can buy input materials for a special reduced price.
  - Technical support: vintage machine, mechanical works. In this case as well, cooperative or producers' group negotiates with service suppliers and organize services, then grape growers make an order individually with supplier.
  - Organization of plant protection advising for grape growers: the same method is used as in the case of technical support.
- **Marketing network:** this network type becomes more and more important in the Hungarian wine industry. Several consortia have been founded recently for collective marketing between two or more wine regions or producer associations in order to obtain European wine marketing subsidy that target the markets of other member states or third countries (CEE regulation of 3/2008) and to achieve Hungarian state subsidy for wine promotion. Other relevant marketing networks have been formed on the field of wine tourism. During the last ten years several associations were established for the coordination and organization of wine tourism, wine fairs for consumers and their promotion such as the "Wine Festival", "Wine Village", Villány-Siklós Wine Route Association, Duna Region Wine Route Association, Tokaj Wine Route Association, Wine Marketing Workshop of Sopron, Hungarian Wine Marketing Association.

Regarding type of **network per legal forms** we can observe the followings:

- Set of **bilateral contracts** coordinated for the implementation of a specific project or the satisfaction of a common interest exists mainly for collective marketing projects or research projects, but informal networks are more prevalent than written agreements.
- We can observe **multilateral contracts** in case of consortia for collective marketing projects or research projects concerning viticulture, terroirs, varieties or oenology. However, informal networks are more prevalent in case of the few existing multilateral coordination.
- (Newly created or already existing) organization (as a separate legal entity) with a coordination function:
- **For profit organization** (lucrative company or others): Only one example exists in the coordination of distribution (*Dominium Vini*) as a newly created society.
- **Co-operative company:** producers' groups are relatively rare in the Hungarian wine industry despite the fragmented grape and wine-growing. Actually, only 11 producers' groups are recognised in the Hungarian wine sector that covers 5 200 ha of vineyard (6% of the total vine surface of Hungary). Only one example can be found for co-opertaive company (called *"project firm")* – ex-*Helibor*, now *Royal Sekt*, that unites 3 cooperatives of grape-growers in the Kunság region (Izsák sub-region) with 800 members and 2,500 ha of vineyard. However, the three cooperatives are the minority owners of the co-operative company, and actually in order to replace the bank guarantee of the Hungarian state, they are looking for a new majority owner.

- **Non-profit organization** (association, foundation, etc.):

– The most important association is the *Wine Community* organization at production level that is a public body and a special association with compulsory membership of grape-growers, wine-growers and wineries. It is the inter-branch organization that represents the interest of the Hungarian wine sector

– *Federation of Hungarian Wine-growers* is an association of the most important wineries (wine producers and exporters) of Hungary

– Wine-growers' associations, e..g. *Pannon Wine-growers' Corporation*, *Vindependent*, *Tokaj Renaissance*

– Wine marketing associations at regional (ex. Sopron, Szekszárd, Tokaj, Eger) and national level (*Hungarian Wine Marketing Association*).

– Oenotourism associations at regional (ex. Villány, Duna region, Balaton, Tokaj) and national level (*Association of Hungarian Wine Routes*).

	Set of coordinated bilateral contracts	*Multilateral contracts*	*For-profit companies among firms*	*Co-operative companies among firms*	*Non-profit organizations among firms*
Production	1 example: between Dominium Vini and domains (wine-growers)	not existing	not existing	1 example: ex-Helibor – Royal Sekt	Wine Community organization
Distribution	1 example: between Dominium Vini and members (leaseholders)	not existing	1 example: Dominium Vini	not existing	not existing
Others	Elaboration of collective marketing projects	Elaboration of collective marketing, research projects in order to obtain subsidies (EU and national)	not existing	not existing	Elaboration of collective marketing or research projects in order to obtain subsidies (EU and national) and elaboration of promotional campaigns

					Associations to represent interest of certain groups of producers (wine-growers, wineries, exporters, wine tourism, high quality wine producers)

Table 5: Type of networks in the Hungarian wine industry

IV.2. Describing networks

We demonstrated that networks are formed rarely and mainly informally in the wine production and distribution in Hungary. With the exception of a few examples (one production and distribution network, one co-operative firm and the wine community organizations), they focus on marketing, research programs and representation of interest of certain groups of wine-growers. During our research we have found several explanatory factors for the absence of networks and reticence from creation of networks in the Hungarian wine industry:

- Bad memories of cooperation during the communist era: after 40 years of communism, forced membership, working of socialist cooperatives (otherwise, at that time they were relatively efficient organizations of agriculture and food production coordination) and bad memories of collective property, grape and wine-growers preferred private ownership, independent decision making even if this production structure is less efficient and less profitable (and even it is a visibly irrational decision for the organization of grape and wine production);
- Production organization and property structure as a heritage of privatization:
  – The integrated wine domains in foreign and in Hungarian property formed during privatization avoid the creation of networks at production and distribution level. They rather form associations in order to further their interests.
  – Wineries without covering their total grape supply – except some example – do not motivate grape-growers to create co-operations and networks, because they can take advantage of the fragmented grape growing structure and low level of bargaining power of grape-growers (and can force prices down).
- Lack of capital of the actors in the wine sector: It is a huge problem to create cooperatives at the level of wine production and creation of co-operative cellars, while cellar investments require lots of capital, credit and profitable activity (volume and market);
- Mistrust and non-confidence between actors hinder the creation of networks. Grape and wine-growers are very attached to their property; whenever the possibility of a collaboration arises the actors are preoccupied with the fear that the collaborator partner might have an advantage over them at their expense;
- Opportunistic behavior coming from the most widespread strategy of short–term thinking. The actors search for the better price and do not hesitate to break their word (oral agreement) for short-term advantages;
- Neglecting contracts is the consequence of the opportunistic behavior and of the fact that there is not enough motivation for making and no real sanctions against breaking contracts.

IV.2.1. Legal form: coordinated bilateral contract

Coordinated bilateral contract in networks are rare in the Hungarian wine industry. We observed only one example: Dominium Vini as a unique example for the coordination of wine production and distribution network realized by bilateral contracts. Goals and purposes pursued of this network is the coordination of high quality wine production and distribution. Activities aimed by this coordination are organization of available vineyard for members of Dominium Vini (leaseholders), coordination of contract of lease between members and wine-growers (domains), organization of wine distribution for members: bottle, labeling, delivering and management of the “Dominium Vini” trade mark.

Duration of contracts is characterized by long term relationship with wine-growers and membership relation with leaseholders. Between leaseholder and wine-grower, duration of contract of lease means 10 years. Exit rules: if the member do not pay yearly fee for Dominium Vini, he is excluded. Yearly member’s fee covers grape-growing, vinification, bottling and delivery costs for a year. Allocation of power is equalized between partners. Exclusivity appears between Dominium Vini and wine grower of a specific appellation. Dominium Vini chooses only one partner (domain) in a given wine appellation or by specific wines for the production agreement and offers his vineyard (unit of vine-stocks) for members (potential leaseholders) and for wines labelled “Dominium Vini”. Naturally, wine-growers (domains) can produce their own products and distribute them with their own labels.

IV.2.2. Legal form: multilateral contract

Goals and purposes pursued of multilateral contracts are collective marketing programs, research project and wine tourism programs. Activity linked to the collaboration are marketing actions on the domestic, EU and third countries market, research and examinations e.g. variety and “terroir” interaction, exploitation of production potential, introduction of new technologies in viticulture and vinification. Duration of contract depends on the period of subsidy finance (3-5 years). Regarding the allocation of power we can observe that partners are mainly institutions, wineries and associations with equalized power in the network. Generally they form a consortium for a specific project. There is no exclusivity in these contracts. It is natural that a new subsidy cannot be obtained with the same topic during the project period. Informal networks are more prevalent, and the EU and national subsidies mean certain motivation to create networks.

IV.2.3. Legal form co-operative company

In this category we observed only one example – ex-Helibor, actually *Royal Sekt Project Company*. Goals and purposes pursued are creation of co-operative cellar (project firm) by three co-operatives of wine-growers for joint vinification, bottling and distribution (sale on domestic market and export). Activities assumed cover grape transformation, vinification, sparkling wine production, bottling, wine sale and marketing. Duration of this network can be described with long-term (undetermined) relationship between three co-operatives and external investors. Allocation of power is determined by external investors (bank, state, other investor) who have dominant position over the grape producer co-operatives. Exclusivity (enterprises participating in the network may not have concurrent relationships with others for the same purpose/activity) is prevalent. Among the other features we have to underline the legal obligations for achieving a recognised “producers group” position (300 million HUF – 1.2 million € turnover, determined by the state) and attain subsidy for functional costs; obtain more favourable ranking in aid applications by producers groups in case of requesting rural development funds.

IV.2.4. Legal form: non profit organization

It is the more prevalent type of networks in the Hungarian wine industry; we observed several types of nonprofit organizations. Their goals and purposes pursued are production and market organization, realized particularly by the Wine Community organization, collective marketing, wine tourism and research projects. Their activities cover market organization, collective marketing actions, development of wine tourism services, research and advising. Duration of collaboration depends on the goals and activities. It can be limited for a project, when duration depends on the period of subsidy finance. In case of associations or wine communities the duration extends to long term (an indeterminate period). Regarding the allocation of power we can say that partners are the actors of wine sector and associations that means equalized power of negotiation in the networks or in certain cases their power depends on their share of property (like *Hungarian Wine Marketing* non profit organization). There is no exclusivity in case of this network. Among the other features we have to emphasize the legal obligation in case of the Wine Community organization as special association for production coordination and market regulation with compulsory membership. It is a law, the Wine Community Act (Law of CII of 1994) that created this professional organization and it functions as a public body.

IV.3. Networks and the role of cooperatives

IV.3.1. Networks and role of cooperatives

We observed only one example, when cooperatives formed as network organizations among firms. We give some data to estimate their role in the wine sector: Former *Helibor* – now *Royal Sekt*, where 3 cooperatives created a project firm for "cooperative cellar" (*see Figure 8)*. It can be a positive example for cooperation in the Hungarian wine sector. This initiative has an important role at sub-regional level (Izsák sub-region in Kunság wine region) with 800 members and 2 500 ha of vineyard (3% of the total domestic vine surface). This firm plays an important role in the coordination of transformation, vinification, bottling and distribution (domestic and export market) and it contributes to spread out integrated grape production and agro-environmental technologies. This firm is the driving force of quality improvements in the sub-region: it was the leader of the elaboration of "Izsák" protected denomination regulation (PDO) for local sparkling and still wines.

Network organizations among firms are not widely present in the Hungarian wine sector. Its explanation is detailed under section IV.2. point: bad memories of communist co-operatives and collective property, property structure heritage of privatization, the lack of capital in the viticulture, mistrust and opportunistic behavior between actors.

The so called 'project firm', created by co-operatives, is linked to a particular economic context: It was established in order to avoid an exposed situation against other wineries in the region, and to achieve special credit finance possibility and access state aids. This firm was founded for grape transformation, vinification, bottling and marketing but because of financial problems, actually it run into severe difficulties. The credit with state guarantee has become too expensive. Furthermore, Helibor was not able to develop the market of their products that required also huge investments during the available time period that was determined by credit repayment terms.

Cooperatives are formed to coordinate grape production (supply services for viticulture and grape vine sale). In collaboration with other cooperatives create cellar (project firm) and assure vinification, bottling, labelling and distribution of products. It deals with commission vinification and sparkling wine production for other enterprises because the production of three cooperatives themselves does not fill the excess capacity of the firm. They operate in favour of members and undertake vinification for other enterprises as a service in the framework of Helibor. Members participate fully in the governance and strategic decision making of the organization. Cooperatives create a project firm together, but they do not participate in other second-tier networks with other types of firms or networks. This form does not exist in Hungary.

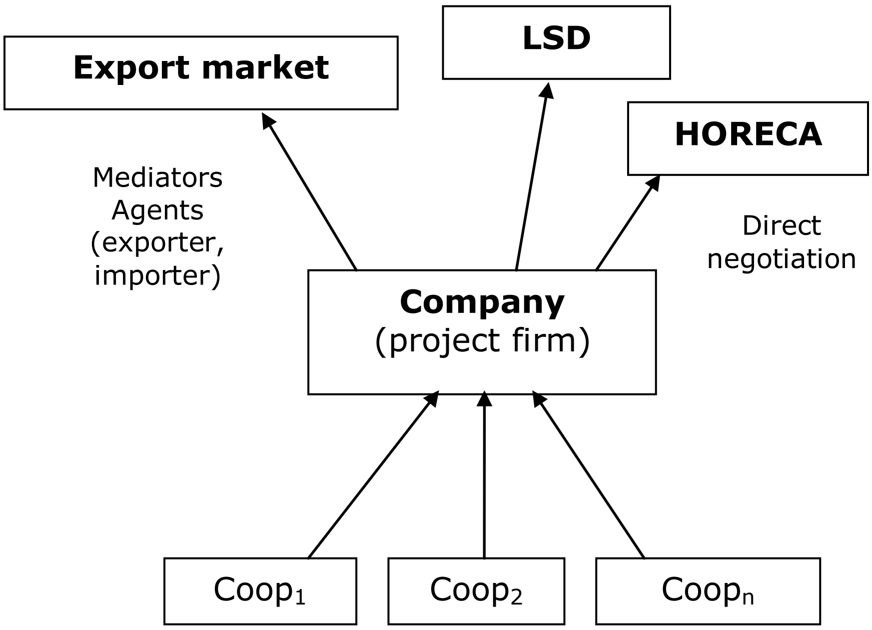

Figure 8: Network created by cooperatives, example ex-Helibor – Royal Sekt

IV.3.2. Co-operative growth patterns: comparing contractual and organizational

Formation of cooperatives is relatively rare in the Hungarian wine industry (see in section IV.1.2. Actually, 11 co-operatives are recognized as producers' group function in the wine industry, mainly they are organized around grape transformer wineries (like *Debrővin 2004*). Fusion among each other does not exist. The association of cooperatives exists in order to be eligible for benefits determined by government regulations and to create project firms as required by eligibility criteria for government funds. Cooperatives do not form corporate groups, they create project firms with other external investor(s). They rarely merge with private companies (not-cooperative companies). We we can observe one example in Hungary: 3 grape grower co-operatives formed the project firm as a co-operative cellar (Helibor-Royal Sekt);

Cooperatives participate in some form of collaboration agreement with "private" actors (non–cooperative companies). E.g.: a grape-growers' cooperative enters a long term contract with a private producer for the supply of a specific quality of grapes in order to allow the buyer to produce a specific type of wine; as a result, the cooperative agrees with some of its members on particular modalities of production and delivery in order to comply with the master agreement; the final buyer may or may not have direct contractual relations with the members of the cooperative with regards to the performance of the master contract.

This type of collaboration exists between a grape grower co-operative and input supplier enterprises in order to purchase inputs for viticulture for special price (contract with local professional stores, that distribute pesticides, fertilizers, machines, equipment etc.) and between a co-operative and service supplier enterprises in order to organise the plant protection and technical service.

IV.3.3. Emergence of network-like forms and inter-firm co-operations

Among the influencing factors of dynamics, where the o*wnership of the firm* influence the emergence of network with different ways:

– More dispersed property does not lead to cooperation or networks in Hungary. The enterprises strive for integrate grape growing and control the quality of raw material. They try to avoid network at production and distribution level, they form rather integrated domains, but they participate in supply service networks or marketing networks of wine tourism;

– Some enterprises (wineries) coordinate grape growers, who form producer organizations (producers' group) in order to supply merchants, and apply long term agreements;

– In spite of extremely dispersed property in the Hungarian wine sector, there are only few co-operatives (it covers only 6% of total vine surface).

Regarding *governance structure* in Hungary, the circles of management and enterprise owners are very closed. It does not influence either positively or negatively the formation of networks. In case of foreign property, the enterprise takes part in the owner company's network and profits from marketing relationships of its owner company. They participate at local collective marketing associations or initiate supplying collaboration (e.g. collective purchase of bottles), but they do not create other production or distribution network. They strive for full integration of their activities.

Financial constraints have different interpretation in influence of networks. In Hungary, lack of capital hampers co-operation, but in certain wine regions (e.g. Izsák sub-region of Kunság), it was the motivation to create co-operative. Even the strong competitiveness on the export and domestic markets there is not enough motivation for creating networks at production and distribution level.

Circulation of property rights on land has a strong reaction in emergence of networks. Difficulties in purchasing new land and enlarging one's possession influence negatively the creation of networks. Owners of winery try to form their own vineyard with land purchasing or long time rent and avoid networks with grape growers. It is difficult to buy or change fragmented parcels in spite of higher price offered, because land owners are very attached to their small parcels. In Hungary after the EU accession, foreigners (not Hungarian citizens or residents) have no right to purchase land during 7 years (until 2011), so they are not able to obtain land property that blocks the entry of further foreign capital and giving a new dynamism to the wine industry.

Among the *economic factors* we have to mention the increasing global competitiveness that– until now - did not induce propensity to form networks in the Hungarian wine industry. Even in this context, the actors of the wine sector keep away from co-operation or networks, they become more individualistic (creating domains), or many little grape-growers abandon viticulture and grub-up their vineyard. Actually, there are fewer co-operatives than 5 years ago, they suffer from financial problems and several of them had been dissolved because of the disappearance of several great wineries that played an important role of grape purchasing and transformation. Some local and intra-regional networks formed with the objective of collective marketing and wine tourism in order to attract consumers.

In the chapter IV.2., we have already analyzed the *ownership structure after privatization* that influence negatively co-operation.

We have to emphasize the weight of *state and European subsidies* in the emergence of intra-firm collaboration that influence positively the co-operatation, but do not provide a sufficient incentive to form networks due to dispersed grape growing structure. Subsidy for administrative costs that covers 5 years with a respective contribution of 5%-5%-4%-3%-2% and some additional “scores” in the evaluation of aid eligibility according to the agricultural and rural development subsidy programs do not mean enough motivation for the creation of cooperatives, producers’ groups or networks. In Hungary, a global supporting concept of co-operation is missing: cooperatives and producers’ groups do not receive tax benefits, or higher level of subsidy for qualitative restructuring or technical investments etc. Without this type of facility, the proliferation of co-operatives is not expected.

V.INTERNATIONAL DIMENSION

Concerning the *impact of international orientation of production on the production and distribution chain* we observed that if the final (export) market demands high quality, the enterprise strives for the integration of production and distribution as well. International orientation, however, does not lead to the formation of more networks at the production level in Hungary; actors prefer vertical integrations. Enterprises try to find markets individually with their exporter or importer partners, but the foreign owned enterprises can also profit from the distribution network of their parent companies.

Dependence on the international final market is not characteristic in the Hungarian wine sector. However, internationalisation generates specific type of networks e.g. partnerships among final producers to access new markets, if the producers together can obtain state or European subsidy for wine promotion. For example in 2007 some final producers of Villány and Tokaj region created a consortium, in order to obtain European subsidy (according to the regulation of CEE 3/2008) and carry out a wine promotional project in the American market. These types of consortiums are limited to certain actions, they are not long term networks and they are created for a specific project.

The international orientation of Hungarian actors does not increase the incentive to choose alternative models (e.g. corporate groups) but for legal reasons, for example in the US, some producers have incentives to buy shares in local distribution companies or to create new ones to obtain control over the distribution chain.

We have to underline that generally the networks formed because of international factors are not prevalent in the Hungarian wine sector. They are weakly developed, focusing at collective marketing programs. Foreign owned enterprises, however, can profit from the network of the owner companies.

V.1. Comparing national and international contracts

When we compare national and international cooperation in distribution, we focus on contracts between producer and retail chains. We summarize the results in the following table:

	NATIONAL CONTRACTS	**INTERNATIONAL CONTRACTS**

Legal form (in writing and highly detailed, totally oral, orders in writing only including price, quantity, type of goods)	Mainly: in writing and highly detailed with high requirements of listing and delivery	Mainly: in writing and highly detailed with high requirements of listing, products delivery (e.g. Polish, Slovakian, Czech market) and quality (e.g. German market) Marginally: orders in writing including price, quality, type of goods but in order to entry, producer has to fulfil the very high quality and quality control requirements (e.g. British market)
Stability (in terms of duration and/or renewal policy)	Marginal	Marginal in general, but because of confidence, long term relationships can be formed on certain markets (e.g. German, Polish, British market)
Allocation of power (is the main decision-making power exercised by grapes producers, wine producers, distributors? Please, rank them)	SE and ME*: decision power is mainly exercised by distributor ME and LE*: decision power is more equalized (they can prove price)	ME and LE*: decision power is more equalized (they can prove price), but they confirm distributors have more power
Exclusivity	Marginal	more frequent

*Size of enterprise:
SE = small enterprise
ME = medium enterprise
LE = large enterprise

Table 6 : Comparison of national and international contracts of the Hungarian wine producers

Hungarian wineries focusing on export markets confirm that the supply contract policy of international retail chains (e.g. Tesco, Lidl etc.) in the formerly communist countries (e.g. Poland, Slovakia) is similar to their policy for the Hungarian market. These supply contracts are highly detailed, especially regarding requirements linked to the entry (listing) of products to the retail chain (different type of charges) or to delivery and packaging demands. On the German market beside of these latter requests, high quality requirements and favourable price and value ratio appear as a demand in the retail chains. On the British market, quality and quality control systems represent bottlenecks for entering a retail chain (e.g. Sainsbury, Marks&Spencer). If the producer and distributor trust each other, the contract is limited to orders in writing only including price, quantity and type of goods.

In general, neither national nor international relationships with retail chains are considered stable relations, because of the increasing competitiveness and increasing wine offer on the world wine market. We can observe the same uncertainty in the national and international contracts. However, signs of stability manifest when confidence has been established between producer and retail chains.

Regarding the allocation of power between wine-producers and distributors, actors of the Hungarian wine sector have different opinion on national and international contracts. Small and certain medium size enterprises complain about the dominant position of distributors (LSDs) on the Hungarian wine market and meet with decision power mainly exercised by distributors, while other medium size wineries and large enterprises consider that decision power is rather equalized and they can validate their price in the negotiation with LSDs. The most important wine exporter enterprises – medium and large scale wineries – find that decision power is more equalized in the international contracts, they can assert their prices, but even they confirm distributors have more power than wine producers.

In the following table we summarized the types of distribution chains in the national and international context:

	NATIONAL CONTEXT	**INTERNATIONAL CONTEXT**
Direct sale	mainly	marginally
Sale via "agents"	never	marginally
Sale via "mediators"	marginal	mainly
Sale to importers who sell to retailers	mainly	mainly
Sale to importers > to distribution companies > to retailers	-	mainly
Sale to "cash and carry" (LSD – long chain) > to retailers	mainly	mainly
Sale to distribution companies owned in partnership with other companies	-	marginally
Sale to distribution companies controlled by the final producer	never	never

Table 7 : Comparison of distribution chains of Hungarian wines in national and international context

We have to highlight differences between two markets: On the national level direct sale between wine producer and LSDs is dominant and "cash and carry" plays also an important role in the wine distribution in Hungary. Sale via mediators is uncharacteristic – wholesalers play a marginal role. Wine distribution chain is considered quite short in Hungary. Imported wines arrive via importers to the retail chains. Other distribution forms do not exist on the national level.

In the international context, distribution chains are longer, wine distribution is realized mainly via mediators, importers and "cash and carry" chains. Direct sale and sale via agents plays an insignificant role in the Hungarian wine distribution on the export markets.

We have to underline that international networks of Hungarian wine enterprises do not exist, so we cannot compare national and international forms of networks.

VI.CONCLUSION

In the Hungarian case studies we tried to cover the most important actors concerning the inter-firm collaborations and networks in order receive a most complete picture possible.

Our analysis shows that the inter-firm networks have a very limited use in the Hungarian wine industry. Some inter-firm collaborations emerge in the production chain particularly in the grape-growing, in the grape-growing supply system and wine-making. We can find some rare examples for emergence of networks in the oenological research, wine marketing and oenotourism in order to obtain subsidies. The cooperative system – despite the fragmented vineyard ownership structure and grape-growing – has no significant role in the Hungarian wine industry. At the international level networks are even more limited in the production and distribution chain than in the national level.

The inter-firm collaborations evolved are rather linked to the ownership structure formed after the land, vineyard and winery privatization. Wineries that do not dispose enough vineyards for their grape-vine supply created their networks with the grape-growers while they are dependent on producers in order to assure their raw material needs considering volume and quality. We have to highlight, however, some modification regarding these enterprises, because they have changed in the last ten years in terms of number and size. We observe a decrease of 20% because of abandoning activity among micro-enterprises and individual wine-growers. The most important enterprises remained stable until 2008, but in 2008 three large enterprises that had played an important role in the coordination of grape production, declared bankruptcy. They were among the most important quality wine-producers of the Hungarian wine industry.

We have to underline as well that increasing competitiveness has an opposite effect on cooperation. We can observe evolving of integrated wineries. Instead of cooperation, the vertically integrated forms are expanding in the Hungarian wine industry.

The allocation of power along the value chain linked to the relations between production and distribution reinforces also the integrated models and influences the contractual relationships between grape-growers and wineries. Distribution chain has more and more negotiation power that influences the whole vertical chain. Raw material (grape) prices rest less differentiated, there is no sufficient coordination and efficient long term contracts between grape producers and wineries. The consequence is that price fluctuation rises and stability is reduced. Governance structure is very close to the spot market that - in spite of the quality development in grape growing – leads to a decrease of global value. Wineries (merchants) and mediators capture margin in this structure. Creation of value and its redistribution does not get back to grape growers, which leads to the low profitability of viticulture.

The professional organizations and the inter-branch type organizations (wine community organizations) have an important role in creating opportunities for collaboration of different actors of the Hungarian wine industry.

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