



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 1/2/2001

GAIN Report #HU1001

Hungary

Retail Food Sector

Report

2001

Approved by:

Paul Spencer-MacGregor

U.S. Embassy Vienna

Prepared by:

Dr. Ferenc Nemes

Report Highlights: Hungary's grocery trade sector continues modernize and consolidate. Multinational retail chains drive this change with huge levels of investment and running battles for market share. Increasing real consumer income and changes brought by multinational hypermarkets open new opportunities for some U.S. food and beverage exporters. Domestic and European competition is strong. Complicated imports rules still exist. Exporters must be well informed and be prepared to implement marketing plans rapidly in order to exploit the opportunities in this growing market.

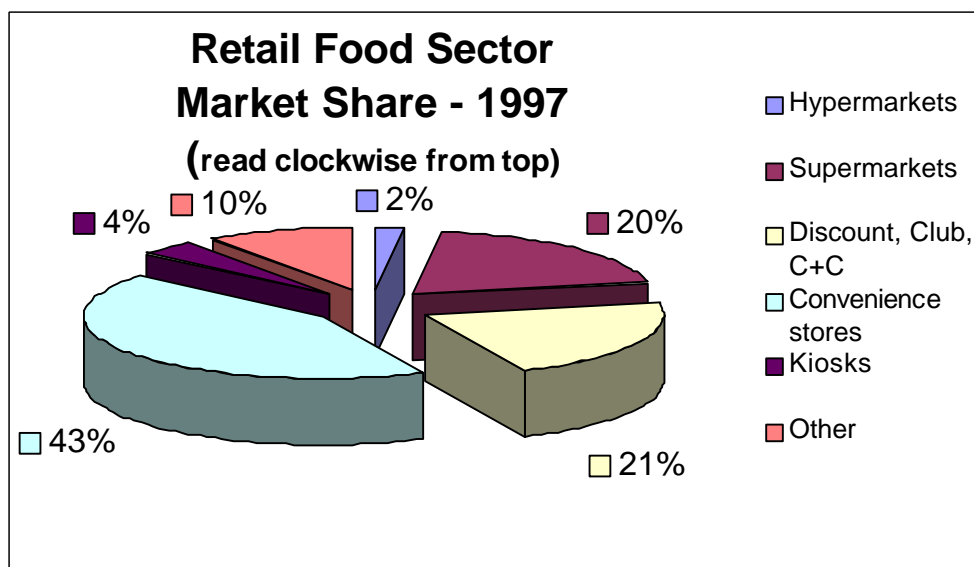
Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Vienna [AU1], HU

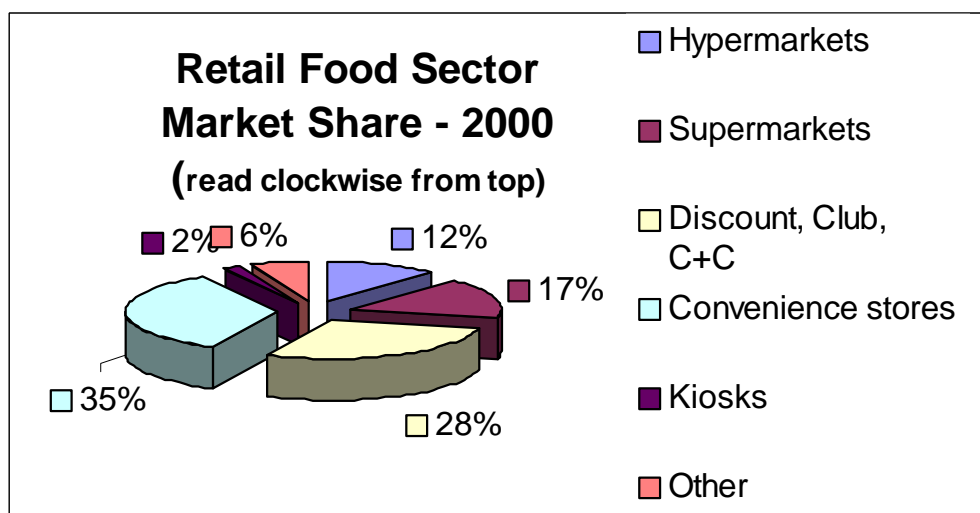
| | |
|--|-----------------------------|
| Market Summary | Page 1 of 9 |
| Road Map for Market Entry | Page 3 of 9 |
| Major Supermarket Profile | Page 4 of 9 |
| Major Convenience Type Store Profile | Page 5 of 9 |
| Competition | Page 6 of 9 |
| Best Product Prospects | Page 7 of 9 |
| Post Contact and Further Information | Page 8 of 9 |

I. Market Summary

Turnover in the food retail sector declined between 1988 and 1996 (this corresponded with a drop in food consumption). However, the value of retail food sales increased from \$6.0 billion in 1998 and to \$6.42 billion in 1999. This represents only a 7 percent increase in dollar terms but the growth figure is somewhat understated because of the appreciation of the dollar. The year 2000 will likely bring a 2 percent drop in grocery sales, due mostly to domestic increases in food price rises (prices rose 22.6 percent in the first ten months of 2000 vs. the 10 percent for general inflation). Higher food prices are in part attributable to grain and energy price increases.

Concentration in the grocery trade continued over the last few years. By 1997, 52 percent of the turnover was attributable to just six percent of all retail companies and international retail chains controlled 43 percent of the market. The number of food shops is decreasing (from 25,000 in 1995 to 23,600 in 1998), and the average size of outlets and the number of hypermarkets are on the rise.





Over the past few years, a number of hypermarkets, supermarkets, and Cash and Carry stores have been built in prime locations around Budapest and other cities. Their wide variety of meats, fruits, vegetables, and bakeries have reduced sales for traditional retailers, butchers, green grocers, wet markets and others. Consumers are shopping less often and tend to stock up and buy food for use over a longer period of time. This trend is being supported by more (and larger) cars and the increasing presence of freezers at home. For example, 1999 41 percent of households had cars and 61 percent had freezers. These tendencies support the larger stores. As just one example, TESCO recently opened a 240,000 square foot hypermarket with 1,500 parking spaces, 60 checkout lanes, and 24 hour service. Stores of this scale are becoming the norm in Hungary.

Value added products represent a small but increasing part of the agricultural products exported to Hungary. The country's export oriented food processing industry (which has also benefitted from American investment) imports raw materials from United States for further processing. Consumer oriented products account for nearly one fourth of total agricultural exports from the United States to Hungary (USD 49 million) in 1999.

Advantages and challenges faced by U.S. food exporters in Hungary

| Advantages | Challenges |
|---|---|
| Increasing consumption | Domestic food processing is very competitive |
| Western consumption patterns are emerging | Strong European competition |
| There is growth potential in the development of retail sector, especially in suburban and rural areas | Slow increase of real incomes |
| There are unexplored commodity areas | Bureaucratic import administration (mandatory product registration) |

| | |
|---|---|
| Domestic industry needs certain ingredients | Many traders are inexperienced in conducting business with foreign companies |
| Purchases by tourists and transit shoppers are large and growing | High transport costs |
| Several experienced, multinational retailers | Relatively small delivery volumes |
| Innovative products and packaging are appreciated | Hungarian consumers are unfamiliar with the value of many U.S. products |
| Importers are open to new products and technologies and have been willing to participate in U.S. sponsored events (e.g. the Cochran Fellowship Program and visits to U.S. food shows) | Importers have difficult time accessing reasonable local finance terms |
| Hyper- and supermarkets are popular among consumers | Introduction to retail shops of a new product is costly (registration, commission fee, “slotting fee” etc). |

II. Road Map for Market Entry

A. Hypermarkets, Supermarkets, Shopping centers, Cash and Carry and Club (Wholesale) Outlets

Entry Strategy

Because of the product registration requirement for processed products and the competitive market environment, the introduction of a new product to the Hungarian market demands planning and some market analysis. The help of a local agent may be necessary, both to advise on market conditions and to help with the required legal legwork. Participation in local food shows is a low cost gauge of product interest. The Agricultural Office in Budapest (contact information below) provides importer and distributors lists, as well as information on food shows.

Market Structure

The follow points describe market the market structure and give tips for importing foods into Hungary:

—Many importers mostly the bigger ones, are wholesalers and/or distributors themselves.

—Some products enter via the European distribution network of multinational retail chains. Consolidators in Austria, the Netherlands or Germany may also supply some products e.g. rice and almonds. (See A Guide to European importers of U.S. food and beverage Products at <http://www.american-foods.org>).

—Importers usually specialize in a product area, i.e. dry groceries, frozen products, brand name items, beverages, meat and poultry, seafood, bakery ingredients, etc.

—The use of local agents is recommended. The local representative of a product must be authorized to discuss prices and conditions of sale as retailers are rather “picky” and the market is rather price sensitive and competitive.

Major Supermarket Profile

| Name of Retailer | Ownership | Food Sales | Number of | Total sales area | Number of Food |
|------------------------------|--------------------|-------------|-----------|------------------|----------------|
| Type of Outlet | | CY 1999 | Outlets | square foot | Items |
| | | USD million | | | |
| Tesco (Hyper) | UK | 205 | 9 | 435,780 | 30,000 |
| Interspar (Hyper) | Austria/UK | | 10 | | |
| Spar (Super) | | 140 | 105 | 933,000 | 35,000 |
| Cora (Hyper) | France | 64 | 4 | 322,800 | 30,000 |
| Auchan (Hyper) | France | 24 | 2 | 215,200 | 35,000 |
| Kaiser's (Super) | Germany | 60 | 22 | 269,000 | 12,000 |
| Plus (Super) | Germany | 90 | 110 | 539,000 | 1,600 |
| Coop Hungary Super & Conv | domestic | 486 | 5,547 | 11,115,000 | 4,500 |
| | | | | | |
| CBA (Super) | domestic | 519 | 720 | n/a | 5,000 |
| | | | | | |
| Profi (Super) * | Belgian/ France | 91 | 75 | n/a | 1,500 |
| Penny Market (Super) | Germany | 63 | 150 | n/a | 1,000 |
| C+C Interfuct | Germany | 58 | 13 | 280,000 | 6,000 |
| Metro (Club, C+C) | Germany | 450 | 9 | 721,000 | 800 |

* Delhaize Group, the owner of the Profi supermarket chain, bought the Csemege Julius-Meini chain with 18 supermarkets, 31 grocery stores and 56 C+C stores in 1999. The shops were re-opened under the name of "Match."

B. Convenience Stores, Gas Station Shops, Kiosks

Entry Strategy

Sources of imported products for convenience stores are the same importers-distributors used by supermarkets. Small independent shops purchase niche products from wholesalers and at C+C shops as well. Suppliers of Convenience Stores, particularly specialty shops (gourmet food, sweets shops, organic and health food shops, beverages shops etc.) are more likely to stock specialty import items than supermarkets.

Market Structure

- Convenience stores and other stores in this category receive products from importer distributors and/or wholesalers and C+C warehouses.
- Gas station shops are ready to sell high value, brand name, and convenience products.

Major Convenience Type Store Profile

| Name of Retailer | Ownership | Food Sales | Number of | Total sales area | Number of Food |
|--|-----------|-------------|-----------|------------------|----------------|
| Type of Outlet | | CY 1999 | Outlets | square foot | Items |
| | | USD million | | | |
| CBA * | | | | | |
| Coop Hungary * | | | | | |
| BEE Foods Ltd. | Domestic | 101 | 200 | 247,480 | 4,800 |
| Tempo | Domestic | 32 | 39 | 193,700 | 4,500 |
| Heliker Rt. | Domestic | 40 | 72 | n/a | 4,500 |
| Slager (Franchise) | Domestic | 29 | 250 | 160,000 | 3,000 |
| Rema 1000 | Sweden | 4 | 11 | 37,600 | 1,750 |
| * Although primarily supermarkets, these two chains are also strong in the convenience grocery shop category | | | | | |

Gas Station MiniMarts

Most of the 900+ gas stations in Hungary have a convenience shop that is an important profit center. Market space of these convenience shops vary from 200-1,300 square feet. According to a recent survey, 35-45 percent of shop sales are food and beverage items. Most of Hungary's ten major gas station companies have shops. However, Shell Hungary runs its "Select" stores under a franchise partnership with CBA, a major domestic grocery chain.

Kiosks

Kiosks concentrate on sales in pedestrian-only areas of cities, subways, recreation areas and shopping malls. Sales have been declining for some time. Kiosks typically sell sweets, fruits, vegetables, beverages, and finger food. Kiosks and simple road side stalls are particularly active in selling tropical fruit and several seasonal sweets and gift items around Christmas, Easter and New Year's Eve.

C. Traditional Markets

Entry Strategy

Traditional markets in Hungary are either open-air "farmer's" markets or market halls, both with booths for traders. The most important commodities in these markets are fresh meat and poultry, processed meats, fish, fruits and vegetables. A wide variety of cooking ingredients, spices, dry fruits, nuts, and imported specialties (e.g. flowers) are also typical traditional market items. As with specialized convenience shops, traders in traditional markets handle

smaller volumes and specialty products. One example of a product sold through traditional markets are California raisins. These are imported bulk for confectionary and sweets. They did not prove to be competitive in standard American retail packages. California raisins now can only be bought at farmers markets "out of the box."

Market Structure

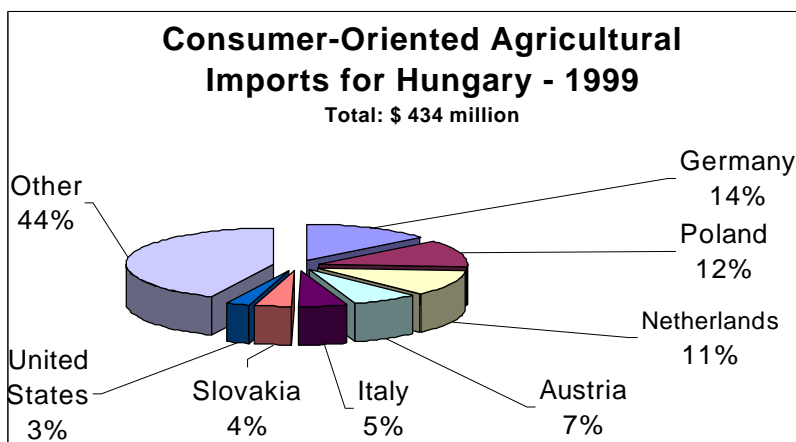
- Traditional markets sell domestic and imported produce obtained through local wholesale markets.
- Meat, poultry and grocery items are usually supplied by the same wholesalers that supply bigger food stores. For really small vendors, there may be an additional middleman consolidating orders.
- The share of wet markets sales dropped to less than five percent of total grocery sales in 2000.

III. Competition

The main competitors to U.S. exports of consumer oriented agricultural products are the EU countries and other nearby Eastern European countries. Purchases from these traditional sources are facilitated by not only by geography and traditions but special trade agreements. Such free trade agreements that use mutual trade concessions had been made with the EU, Turkey, Israel and the CEFTA countries (Bulgaria, Czech Republic, Estonia, Latvia, Poland, Romania, Slovakia, and Slovenia). The Hungarian WTO tariff schedule, showing MFN tariffs for U.S. agricultural products, is available at http://www.fas.usda.gov/scripts/wtopdf/wtopdf_frm.idc.

Both the domestic food processing and the food trade are dominated by strong multinational food companies. Distribution of their finished products and the re-export of their raw materials from western Europe (including the U.S. products such as almonds and rice) strongly influences Hungary's direct imports from the USA.

EU firms also tend to spend heavily on food promotions, such as in-store promotions, supermarket training, trade servicing and trade missions.



IV. Best Product Prospects

1. Raisins
2. Dried Fruit
3. Almonds
5. Peanuts
6. Rice
7. Meat (Pork and Beef)
8. Seafood
9. Distilled Liquors
10. Wine
11. Spices & Condiments
12. Pet Food
13. Fruit Juice Concentrates
14. Instant Food
15. Misc. Grocery Items (Snacks, Peanut Butter etc.)

The fastest growing consumer oriented import commodities are snacks, breakfast cereals, dairy products, out of season fruits and vegetables, nuts and alcoholic beverages where the changing consumer tastes and way of life and the demand for wider choice open new markets.

Temporary shortages on the domestic market (meat, poultry) or limited availability of a given commodity or quality provide temporary U.S. sales opportunities, e.g., fruit juice concentrate, rice, tobacco, peanuts, seafood, raisins, tree nuts, dried fruit etc.

V. Post Contact and Further Information

If you need more detailed insight or assistance in doing business with Hungarian partners , contact the Office of Agricultural Affairs in Budapest:

Dr. Ferenc Nemes
Agricultural Specialist, Foreign Agricultural Service
Bank Center Building
Szabadsag Ter 7
H-1054-Budapest Hungary
Tel: 36-1-475-4162
Fax: 36-1-475-4676
E-Mail: agbudapest@compuserve.com

We recommend you to use our website [Http://www.usembassy-vienna.at/usda](http://www.usembassy-vienna.at/usda) or ask the following organizations for specific information:

Ministry of Agriculture and Regional Development
H-1055 Budapest
Kossuth Lajos ter 11.
Web Address: [Http://www.fvm.hu](http://www.fvm.hu)

International Affairs
Mr. Ferenc Sulyok, Head of Department
Tel: 361 301-4661
Fax: 361 301-4662

Veterinary and Food Hygiene
Dr. Antal Nemeth, Head of Department
Tel: 361 332-7986
Fax: 361 301-4669

Ministry of Economy

General Information: www.gm.hu

Licensing Office
H-1024 Budapest
Margit krt. 85.

Mr. Gyorgy Gilyan, General Director
Tel: 361 356-5566

Preferential Tariff Quotas

Ms. Eva Pasztor, Chief of Section

Tel: 361 356-5566

E-mail: eva.pasztor@ikm.x400gw.itb.hu

National Institute for Food and Nutrition (OETI)

H-1476 Budapest

Gyali ut 3/A. POB 52

Tel: 361 215-4130

Fax: 361 215-1545

American Chamber of Commerce in Hungary

H-1052 Budapest

Deak Ferenc u. 10.

Mr. Peter Fath, Executive Director

Tel: 361 266-9880

Fax: 361 266-9888

E-mail: amcham@hungary.com

Web Address: www.amcham.hu