CONCENTRATION PROCESSES IN THE MEAT SECTOR IN POLAND

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Abstract. The aim of the analysis was to identify the concentration processes in the meat sector in Poland in the years 2015-2018. The main source of information was the Thomson Reuters base, which was the source of data on the mergers and acquisitions in the meat sector in Poland. The study also made use of some press interviews with the experts in the meat industry and data storage statistics. The analysis show that structure of operators in the meat market in Poland is very fragmented. The small scale of production limits the competitiveness of operators in the country and abroad. In this situation, concentration processes take place on the market. They take different forms and types. In particular, the share of large foreign companies with a global scale of operations increases. Foreign capital is attracted by relatively low production costs, high quality meat and sTable markets. The entry of foreign companies on the Polish market was countered by the concentration of domestic enterprises. In the future concentration processes in the meat industry should have a greater coverage of supply chains. All in all, the global measure of the market efficiency, as well as the competitiveness, will be the functioning of the entire supply chain rather than individual elements.

Key words: meat sector, concentration processes, merger, acquisition, Poland.

JEL code: L14, P13, Q13.

Introduction

Production and processing of meat is the largest sector of Polish food economy. In 2017, the production of livestock for slaughter amounted to 6857 thou. tons and accounted for 28.4 % of global agricultural production and 35.4 % of commodity production (Small..., 2018). Poland is a significant producer of meat in the European Union. In 2016, it was the largest producer of poultry, 4th pork producer and 7th beef producer. However, the meat sector is characterized by considerable fragmentation of pork producers and companies involved in livestock slaughter and meat processing. Based on the data of Polish CSO (GUS) and IAFE (IERiGZ) it is estimated that currently there are about 1250 companies operating in the meat processing industry. In this group 1100 plants are engaged in the processing of red meat, and there are 170 operators processing poultry meat. About 40 % of the companies are small firms employing less than 9 employees (Rawa, 2017a). The small scale of production reduces the competitiveness of these operators in the country and abroad. In the last period, however, the meat market undergoes important changes. Production is in the process of concentration, which is manifested by the acquisition of Polish companies by foreign and domestic strategic, financial or industry investors. This is encouraged by the growing consumption of meat and a sTable economic situation in the country.

The phenomenon of economic concentration is analysed from the market or company perspective. Market concentration determines the degree of dominance of one company in a given market. The essence of this kind of concentration is the increased share of products of a company or group in the relevant market. A relevant market means the market of goods, which, considering their intended use, price and features are regarded by the buyers as substitutes (Czerwonka, 2003). In this sense, the process of concentration can lead to a monopoly (Wawrzyniak, 2000, p.27)

The aim of the concentrations between undertakings is to increase competitiveness of enterprises primarily through the increase of production scale and exploiting economies of scale (horizontal concentration) or by taking over other production downstream products: raw materials extraction,

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processing activities, up to sales (vertical concentration). This results in the increased levels of concentration of production, property and capital.

Concentrations between undertakings is a natural economic phenomenon, in principle non-interfering with the competition in the market. As a result, operators have the opportunity to strengthen their market position, e.g. by increasing their market share or extending the offer to new markets. This kind of process can also have numerous positive effects on the functioning of the entire economy and on all consumers, e.g. due to the increased availability, innovation and variety of their products. It can also lead to the restructuring of loss-making business or respond to the competition from other companies with a high potential. The aim of the analysis was to identify the concentration processes in the meat sector in Poland in the years 2015-2018.

Materials and methods

The main source of information was the Thomson Reuters base, which was the source of data on the mergers and acquisitions in the meat sector in Poland in the years 2015-2018. The study also made use of some press interviews with the experts in the meat industry and data storage statistics. In addition, the author undertook the review of literature related to the concentration processes. On the basis the author correlated the forms and types of concentrations processes between undertakings, along with the reasons lying behind them and the effects. In addition, the paper analyses the most important transactions in the meat market in Poland. On the ground of the analysis a set of conclusions have been made. The presentation of the research results uses descriptive and tabular methods.

Research results and discussion

Concentrations between undertakings in the market can take many forms. The most important are (Mergers..., 2009):

- a merger a combination of at least two companies into one. It consists of one company being
 absorbed by another e.g. as a result of transfer of all assets of one company to another in return
 for shares which the acquiring company issues to the shareholders of the company being acquired
 or through the creation of a completely new company out of the combined companies. The
 combining entities then lose their current legal status and formally cease to exist;
- the acquisition of control one company obtaining the possibility to exercise decisive influence on
 economic activity of another, so far independent entity. Most often it occurs as a result of the
 takeover of majority share;
- creation of a joint undertaking called a joint venture by two or more independent companies while maintaining the companies' current capacities;
- A business acquiring a part or entirety of the assets of another undertaking.
 Considering the potential impact on competition in the market the following types of concentration can be distinguished (Mergers..., 2009):
- horizontal concentration a transaction in which participate the operators already active in this
 industry. As a result, it may lead to the creation of an entity with significant market power or to
 the market activity of a few remaining undertakings which cease to compete and settle for the
 existing status quo;
- vertical concentration a transaction between undertakings operating at different levels of the
 product marketing (e.g. between a producer and a distributor). A potential threat to the
 competition in this situation may be hindering the competitors' access to the products or services

offered by the undertaking participating in the concentration, operating at a lower or higher level of trade;

a conglomerate - a transaction in which there are neither horizontal nor vertical links between its
participants. Their products or services are generally complementary to each other and purchased
by consumers in view of similar use. A possible consequence of such a concentration may be the
emergence of the so-called product tying, i.e. subordinating the purchase of one product to buying
other products, as well as the possibility to offer several products at competitive prices.

In the literature, there is also a concept of spatial concentration, that is concentration of production units and undertakings in a particular location. This may result from the need to locate the business near the stocks of raw materials, cooperate with other enterprises or to exploit special conditions of economic zones or technology parks (Haus, 2000, p. 67).

Concentrations between undertakings entails the necessity to manage larger and larger organizations and concentration of power. The interconnectedness of operators contributes to the optimization of activities. It also leads to the reduction of unnecessary production factors, the companies' specialization and focus on core competencies. In many cases, it is then possible to minimize costs, increase the scope of activity and economic strength, as well as to achieve synergy effects (Management..., 2004, p. 213-214).

The reasons behind the mergers and acquisitions can be defined in terms of strategies and policies adopted by the acquiring company (Table 1). Frequently a decision to take this form of development is prompted by the need to increase the company's position in the market and by the prospect of achieving a higher profit out of the combined businesses. One way to classify these guiding policies is to group them based on technical and operational criteria (here these reasons relate mainly to the increase of management efficiency and the effects of operational synergy, such as economies of scale), on market and marketing criteria (these reasons relate to the increased participation in the existing markets and entering new markets), on financial criteria (relating to the reduction of financial costs, tax benefits and the acquisition of surplus cash) and on managerial reasons (which relate to the growth of wages and strengthening of the executives' prestige). The reasons for which combining transactions are made can be divided into economic or non-economic ones. Often, the companies conclude transactions in order to achieve a synergy by way of improving management efficiency, obtaining more efficient management and the use of additional growth potential. Increasing the management efficiency is most often the result of restructuring leading to cost savings. Mergers and acquisitions are also supposed to bring savings by eliminating overlapping areas and some job positions or to get rid of redundant assets and increase the revenue (the scale of sales grows, the number of distribution channels increases) (Rozwadowska, 2012, p. 23).

The reasons behind the mergers and acquisitions can also be divided into offensive and defensive ones. Offensive reasons are conducive to the acquisition of a large number of companies operating in different segments of the market in the shortest possible time. The purpose of this type of acquisition is to increase the selling markets and reduce production costs, while defensive reasons help the company defend its position against the increasing competition, protect its export markets, allow the transfer of technology and allow for bypassing trade barriers (Szczepankowski, 2000, p. 111).

Table 1

Motives of mergers and acquisitions

On the side of the acquiring entity	On the side of the acquired entity		
Technical and operational themes: increasing the efficiency of management, obtaining more effective management, restructuring, strengthening of control, operational synergy.	Strategic themes: getting rid of unnecessary assets, acquiring a business partner, protection against hostile takeover, improving the competitive position.		
 Market and marketing themes: increasing market share, entering the new market, developing the product range, securing the supply of raw materials, ensuring effective distribution of own products, eliminating competition, diversification of business risk. 	Market and marketing themes: securing the supply of raw materials, ensuring effective distribution of own products, access to the buyer's know-how, using the strength of the parent brand.		
Financial themes: reduction of financial costs, tax benefits, increasing creditworthiness, reducing transaction costs, increase in the value of shares on the capital market.	Financial themes: Ioss cover, increasing the debt capacity, raising capital for investments.		
 Managerial themes: increase in remuneration and prestige of the management, increasing the freedom of action, reducing the risk of management, new management positions. 	Managerial themes: the separation of the company may lead to the creation of new management positions, managers may want to become independent.		

Source: author's study based on Rozwadowska, 2012, s. 25; Ambukita, 2014, s. 719

In some cases, an incentive for mergers and acquisitions can be a desire to obtain a more efficient management or to remove inefficient management. A frequently cited reason for mergers and acquisitions are the prospects of the post-merger increase of the company's value, which is expected to result from the economies of scale, diversification of risk, strengthening of the market position etc. The reasons for consolidation are numerous (market and marketing ones, technical, operational, financial and those related to investment), whereby all of them are becoming more and more complex and variable as they depend on the area of the undertaking's operation and the extent to which the consolidations are conducted) (Szczepankowski, 2000, p. 110).

In the meat industry the main causes of concentrations between undertakings are:

- the difficulty to find successors who would like to operate in such a difficult environment as the meat market;
- limited financial resources to bear the costs associated with further investments. Some companies are already heavily burdened with loans due to the financing of already completed investments in increasing the production volume and in new technologies. Their aim was to meet the demands of the market and the EU requirements;

Polish trade situation, particularly an increased number of supermarkets and discount stores, and their growing impact. Increasingly strong price pressure forces the meat plants to strengthen their position in relation to these entities and the retailers whose share in the sales is still large. According to a recent survey by GfK, specialized meat and cold cuts stores, as well as traditional sales points, accounted for the sale of 53 % of meat and 47 % of cold cuts (Rawa, 2017b);

temporary increase in the raw material prices, the exchange rates and import of livestock, meat
and meat products from other countries. The synergy effect achieved as a result of mergers and
acquisitions and pertaining to the area of know-how, the offer, operational efficiency and the
company image allows for limiting negative effects of these phenomena;

- livestock diseases such as avian influenza in poultry flocks, mad cow disease (BSE) in cattle and African swine fever (ASF) in herds of pigs. The ensuing restrictive policy of veterinary authorities currently puts many plants at risk of bankruptcy;
- increasingly strong competition in the EU, which is the main market for the Polish meat.

At present, some enterprises have higher production capacity than sales capacity, and some do not produce or sell as much as they should due to shortage of raw material. In this situation most companies, trying to adapt to new conditions, change the organization of work and reduce further investments.

The merger process entails some specific problems that arise from the development of the company, prospecting certain benefits, which do not reflect reality, the lack of experience in managing a large company, the need to change the organizational culture of combined entities and the necessity to reduce employment. One of the key problems, however, is still the quality of the legal system in which businesses operate (Szymanska, 2018).

The recent years have shown that the fastest concentration occurred in those undertakings that were engaged in livestock slaughtering and carcass cutting. This is a segment of relatively low margins, which makes it very sensitive to adverse changes in the market. In addition, particularly in the case of plants engaged in the slaughter of pigs and cutting of pig carcasses, this is a highly fragmented segment. Only additional activities of the small slaughterhouses allow these companies to remain on the market.

Production of meat is characterized by a slower pace of concentration. In this respect it is the changes in the trade that play a decisive role. In connection with the emergence of large chain stores on the market, the most valued are these meat plants which are able to meet the demands of the retailer in terms of quality and quantity of the meat products. This situation has a particular impact on the operation of medium-sized companies which in order to stay on the market must increase the scale of production or seek a niche market for their products.

The increasingly visible trend in the meat market is also vertical integration, which means building up the entire production chain, from feed and livestock production through slaughtering, processing and, to some extent, trade e.g. in the company's own warehouses. Such processes are particularly advanced in the poultry sector.

The most common forms of concentration are mergers and acquisitions. In 2017 the Chinese holding WH Group took over all Poland-based plants belonging to the Pini Group. In June it was confirmed that the Pini Poland, Royal Chicken and Hamburger Pini companies had been bought out and, as announced in August, 66.5 % of shares in Pini Polonia, to which the modern slaughterhouse in KutNo belongs, had been purchased accordingly. The Pini plants complement the production structure that the WH Group operates in Poland, indirectly through the acquisition of control over the company Smithfield Foods in 2013. This American company controls the activities of such companies as: Animex Foods, Agri Plus and Agri Plus Pasze (Feed Division). In total, the holding WH Group employs 9 thou. workers in Poland and cooperates with 2.3 thou pig farmers.

Table 2

Summary of selected merger and acquisition transactions in the pork meat industry in Poland in 2015-2018

The acquiring company	The country of the transferee	The aim of the acquisition	Date	Package of shares in %
Sokołow S.A. (Danish Crown AS)	Polska	Grupa Miesna Gzella	30.05.2018	100
WH Group Ltd	Hong Kong	Pini Polonia Sp. z o.o.	11.08.2017	100
Animex Foods Sp. z o.o. Sp. K. (Smithfield Foods)	Polska	Pini Group – Meat Processing Facilities	01.06.2017	100
Cargill, Inc., w Polsce Cargill Poland Sp. z o.o.	USA	Grupa Konspol	28,12,2018	100
Charoen Pokphand Foods PCL	Tajlandia	SuperDrob Zakłady Drobiarsko – Miesne S.A.	30.12.2016	33.0
Plukon Food Group BV (Gilde Buy Out Partners BV)	Holandia	L&B Wyrebski Sp. z o.o.	31.07.2018	60.0
Drosed S.A. (Societe LDC)	Polska	Drop S.A.	04.03.2015	97.8

Source: Multanski 2018

Another example of concentration with foreign shareholding is the Danish Crown Group from Denmark which, as the owner of the Sokołow S.A. company, purchased in May 2018 100 % of shares in Gzella Meat Group which consists of three companies: Gzella Osie, Gzella Net and Gzella Logistic. In this way the Danish Crown Group took control of one of the most modern meat processing plants in Europe, with the production capacity of more than 6 thou. tons of meat per month, plus the logistics facilities and the country's largest network of specialized Deli Meat stores.

Its share in the Polish market has also the American company Cargill, which is a global leader in the sectors of agriculture, food production and food processing. Based on the agreement signed on December 28, 2018, the company took over the entities operating within the Konspol Group: Pasz Konspol (feed producer) Konspol Bis (modern chicken slaughterhouse) Konspol Holding (chicken processing plant) and Trans Konspol company that provides logistics facilities.

On the poultry market, the foreign holding Plukon Food Group acquired in July 2018 the control of 60 % of L&B -Wyrebski sp. z o.o. with its registered office in Gruszczyce, the company that is engaged in slaughtering, production and sale of poultry meat. Plukon Group is a Dutch-Belgian-German corporation operating in the meat sector, one of the largest producers and processors of poultry meat in Northern and Central Europe. In connection with the new majority shareholder the company L&B - Wyrebski sp. z o.o. changed its name to Plukon Sieradz.

Another important player in the poultry market is the French group LDC, which pursues an active policy of acquisitions of medium-sized enterprises. In Poland, through its subsidiary - Drosed S.A., which is one of the largest producers of poultry and poultry products in the country, it took over in 2015 the company Drop S.A., also one of the largest and most modern companies in the poultry sector in Poland.

The company which also participates in the concentration process in the Polish meat market is Charoen Pokphand Foods from Thailand, one of the leading producers, processors and exporters of meat in South-east Asia and one of the world leaders in the production of livestock feed. In 2016, the company has bought a package of 33 % shares of the company Superdrob. The acquired company is a large modern enterprise in the poultry meat sector, supplying the major retail chains in Poland and Europe. Whereas on 02 January 2019 Superdrob S.A. took over the company Integra sp. z o.o., being in charge of hatcheries and poultry breeder farms.

The entry of foreign companies on the Polish market was countered by the concentration of domestic enterprises. A good example of this process is BruNo Tassi Group which combines, among

others, three major Polish companies in the meat industry: Madej Wrobel, Peklimar oraz Unimies. Another example of the in-market concentration is Cedrob Group, which owns the company Gobarto and meat plants Zakłady Miesne Silesia.

Table 2

Summary of selected merger and acquisition transactions in the poultry meat industry in Poland in 2015-2018

The acquiring company	The country of the transferee	The aim of the acquisition	Date	Package of shares in %
Omega Holding Sp. z o.o. (BruNo Tassi Group)	Polska	Madej Wrobel Sp. z o.o.	27.04.2017	100
Zakłady Miesne Peklimer S.A. (BruNo Tassi Group)	Polska	Unimies Sp. z o.o.	08.06.2016	100
Zakłady Miesne Polonus Sp. z o.o. Sp. K. (BruNo Tassi Group)	Polska	Peklimar Sp. z o.o.	04.05.2015	100
Goparto S.A. (Cedrob S.A)	Polska	Exdrob-Ferma sp. z o.o.	20.11.2018	100
Goparto S.A. (Cedrob S.A)	Polska	Zakłady miesne Silesia S.A.	25.09.2017	100
Goparto S.A. (Cedrob S.A)	Polska	JAMA Sp. z o.o.	27.04.2017	100
Cedrob S.A.	Polska	Goparto S.A.	20.01.2017	16.98
Cedrob S.A.	Polska	Polski Koncern Miesny Duda S.A.	10.07.2015	33.01

Source: Multanski 2018

Further concentration processes are feared especially by the owners of small and medium-sized enterprises and suppliers of raw materials. In their view, such processes can lead to oligopolistic practices, price fixing, the largest players dictating the terms to the entire industry and reducing the traditional appeal and specificity of Polish cold cuts. To prevent such occurrences, the concentration processes in the meat industry should be carefully monitored.

Conclusions, proposals, recommendations

On the ground of these analysis a set of conclusions can be made.

- 1) The structure of operators in the meat market in Poland is very fragmented. Out of approximately 1250 meat processing companies 40 % represent small firms employing less than 9 employees. This is probably due to the late introduction of the market economy in Poland and the business owners' attachment to property. The small scale of production limits the competitiveness of operators in the country and abroad.
- 2) Concentration is a natural process in a free market economy and it also concerns the meat sector in Poland. It is mainly driven by the need to increase the company's market position and the prospects of achieving a higher profit from combining different operators. In economic practice it takes different forms and types depending on market conditions and the situation of the merging companies.
- 3) The meat sector in Poland shows an increasing shareholding of large foreign companies operating on a global scale. Foreign capital is attracted by relatively low production costs, high quality meat and sTable markets. At the same time there can be observed an increased concentration of Polish companies that want to compete on the European and global market. However, small and medium-sized holdings are concerned about the concentration processes as their own negotiating position gets weakened.
- 4) In the future concentration processes in the meat industry should have a greater coverage of supply chains. Such a policy was adopted, among others, by WH Group company. All in all, the global measure of the market efficiency, as well as the competitiveness, will be the functioning of

the entire supply chain rather than individual elements or the quality or price factors considered separately, although the later are also very important parameters.

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