

SHORT FOOD SUPPLY CHAINS AS OPPORTUNITIES FOR HUNGARIAN PARAGASTRO SOCIAL ENTERPRISES**ÁRON TÖRÖK¹, IRMA AGÁRDI²**

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ABSTRACT

In the recent years the alternative food networks gained a significant importance, mainly due to the need of consumers to get closer to the farmers both in terms of physical distance and in number of intermediaries. The concept of building a reliable food system tries to balance the mistrust in the industrialized food production that is dominating in the developed countries. Social enterprises are enterprises pursuing primarily social objectives in business environment. In 2015, in Hungary more than 13.000 social enterprises were registered according to the statistics with many different social missions. However, the number of social enterprises in the catering sector is quite limited. The Hungarian para-gastro movement consists of 7 different organisations, operating in the catering sector and employing handicapped and/or disabled workforce. Against this background, in our paper we would like to investigate the business models of Hungarian social enterprises in the catering sector, somehow connected and related to short food supply chains. To the best of our knowledge, currently only 3 companies fulfil all these criteria: Ízlelő Restaurant from Szekszárd, Hatpötytös Restaurant from Székesfehérvár and the Batyu-Téka from Miskolc. In order to understand the business models of these three companies, we applied an expert interview based, qualitative approach. We also analysed the publicly available financial statements of them and calculate the most important (financial) ratios. Altogether we tried to analyse the role of direct sourcing, the niche market of local foods and obviously the advantages and the disadvantages of the social entrepreneurship. Results show that currently the social enterprises requires (state) subsidy to survive, the average share of subsidies was 19-49% of the total income among the investigated companies. However, all have their unique way to pursue the survival and the level of commitment to short food supply chains is very different. Altogether we could identify possible synergies where social gastro enterprises can benefit from direct sourcing.

Keywords: social innovation, short food supply chain, paragastro social enterprises

INTRODUCTION

Short food supply chains (SFSC) try to solve the recent problems of the modern food industry manifested in several food scandals (e.g. salmonella infections, BSE crisis, dioxin residues etc.). SFSCs are defined as an initiative focusing on informative food products instead of anonym mass products (MARSDEN ET AL., 2000). In the classification of the several types of SFSC (MARSDEN ET AL., 2000; RENTING, MARSDEN – BANKS, 2003) restaurants using local food resources are considered as quasi-local supply chains connecting the local producers with the final consumers. These restaurants provide conveniently fresh and healthy food products for their consumers. Consumers value both the fresh and healthy food and restaurants with SFSC suppliers can meet these expectations (CRAVEN – KREJCI, 2016). The producers can also benefit from this cooperation as many

restaurants demonstrated their eagerness to seek out and pay premiums for trusted and transparent inputs (Fleury et al., 2016). On the other hand, this could be also an opportunity for small producers, as in these cases the entry barrier is lower for small and beginner farmers, who are often scaled-out of the restaurant market by the volume requirements of food service distributors (GIVENS – DUNNING, 2018).

Social innovations can be considered as the interaction between social and market economy enabling autonomous evolution (LAVILLE – NYSSSENS, 2001). These initiatives are new solutions that are suitable for satisfying collective needs (MOULAERT, 2010). The collective activities and social transformation help to develop new governance mechanisms, create and legitimize communities, enforces participation and develops new capabilities (MULGAN ET AL., 2007).

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In this research we would like to investigate the business models of Hungarian social enterprises in the catering sector, somehow connected and related to short food supply chains. To the best of our knowledge, currently only 3 companies fulfil all these criteria: Ízlelő Restaurant from Szekszárd, Hatpöttyös Restaurant from Székesfehérvár and the Batyu-Téka from Miskolc.

MATERIAL AND METHOD

The research used a qualitative approach by applying expert interviews of selected paragastro enterprises' stakeholders and their suppliers. The three firms selected all fulfil social objective by employing disabled workforce in the catering sector. The three companies (Ízlelő Restaurant, Hatpöttyös Restaurant, Batyu-Téka) operate in several parts of Hungary, in the Southern-Danubian Region, in the Central-Danubian Region, and in Northern Hungary, respectively, and their main characteristics are summarized in *Table 1*.

In order to deeply analyse the business model of the selected companies we also investigated the financial statements to get comparable financial indicators.

Table 1. Main characteristics of the selected paragastro firms

	Ízlelő Restaurant	Hatpötyös Restaurant	Batyu-Téka
Location	Szekszárd	Székesfehérvár	Miskolc
Main activity	restaurant + catering	restaurant + public catering	public catering + restaurant
Year of foundation	2009	2009	2007
Market activity	education	education	social care
Social focus	employment of disabled and/or handicapped people		
SFSC relation	local suppliers	local suppliers + box scheme	own inputs

RESULTS

The selected paragastro companies are all operating in the catering sector and all related somehow to the local food suppliers but their business models are quite different.

In case of the Ízlelő Restaurant, the main strategy is to focus on the top quality gastronomy. Their niche market is to reach health conscious consumers that are willing to pay a higher price for products made from high quality inputs. They use only unprocessed raw materials requiring more labour and the share of the local inputs reaches 60-70% during the summer season while in wintertime it is 30-40%. In a franchise system they plan to open their second restaurant in Budapest.

The Hatpötyös Restaurant focuses on the daily lunch catering, also serving as public caterer. Due to quality and quantity issues their attachment to local suppliers decreased recently, only meat products and seasonal fruits are purchased locally. They also used to host a community supported food basket scheme as an exchange point.

Batyu-Téka is highly involved to public catering and they also owns their social farms where several inputs (mainly fruits, vegetables and dairy products) of the restaurant is produced, representing 20% of the total supply. The company faces with high price competition as their competitors get direct subsidies in the public catering, therefore they cannot afford to buy other local inputs than their own production.

The financial performance of the companies (indicated in *Table 2*) clearly shows that the paragastro companies heavily depend on subsidies received from national and/or EU funds. However, the high level of subsidies usually covers the loss of the business operations: out of the three selected firms the one with the highest share of real market incomes seems to be financially viable. On the other hand it should be bear in mind that the social goal (employing disabled and/or handicapped workforce) is reached by all the companies.

Table 2. Financial characteristics of the selected companies

	Ízlelő Restaurant	Hatpötyös Restaurant	Batyu-Téka
Revenues from market activities (average, million HUF)	14.7	16.5	33.9
Total revenues (average, million HUF)	22.5	30.3	70.5
Share of subsidies in total revenues	19%	44%	49%
EBIT (average, million HUF)	2.3	-3.2	-0.1
Number of business years with profit	9/9	2/6	7/10
Number of employees	7	18	21
Per capita subsidies (average, million HUF)	0.6	0.8	1.7
Per capita gross margin (average, million HUF)	0.8	-0.2	-0.1

CONCLUSIONS

Based on the expert interviews and the financial analysis, paragasro companies can benefit from both their social innovation and the SFSC commitment. The possible interactions are summarized in *Table 3*.

The high entry barriers of the catering sector can be compensated by low rental fees provided by the local governments and their support is usually socially validated. The high cost of the workforce accessibility (e.g. when the restaurant staff is with wheelchair) can be covered by EU funds. The low labour productivity of the handicapped workforce often accompanied with loyalty, the grateful employees makes the level of fluctuation very low that is unique in the catering sector. On the other hand, using (exclusively) unprocessed inputs requires higher labour intensity that can be covered. Due to the inputs coming from SFSC a more health conscious consumer segment can be marketed with higher prices that can compensate the higher cost levels. Last but not least the supplementary, labour intensive activities (e.g.: chocolate manufacture in the Ízlelő Restaurant, goat cheese production in Batyu-Téka) can be considered as additional income sources where the employees can get involved for a meaningful but also market oriented value creation.

In sum, the Hungarian paragasro social enterprises can find their ways combining social innovation with short food supply chains, however the individual approaches have to be adjusted according to the local and organizational characteristics.

Table 3. Possible interactions

	Social innovation	SFSC
High entry barriers	support of the local municipalities	-
Workforce accessibility	EU funds	-
Low labour productivity	support for training low level of fluctuation	using (exclusively) unprocessed and/or local inputs
Targeting niche markets	-	higher prices because of healthier and more sustainable inputs
Supplementary, labour intensive activities	-	food manufactories

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