

„OTDK-dolgozat”

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BA

2013

A világgazdasági válság hatásai a Pedrollo Hungária Kft-re

The impact of the global economic crisis on Pedrollo Hungária Kft.

Kézirat lezárása: 2012. november 27.

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INTRODUCTION

Not only people but also companies are posed in front of serious trials by the global economic crisis. They have to deal with sharp decline in customers' demand, late payments of buyers and accumulated stocks in warehouses which is coupled with the limitation of credit opportunities that cause liquidity problems for them. Many companies cannot bear this difficult situation on the markets, easily give up and go out of business, others try to fight against the negative impacts of the crisis and some of them are really successful in that. Like Pedrollo S.p.A. which has been operating since 1974 and we can say, very prosperously.

The motivation of my choice of this topic is that I spent my placement at Pedrollo Hungária Kft. which is one of the subsidiaries of Pedrollo S.p.A. As I experienced, the business is going very well, even now, when many companies are in trouble and I wanted to find out the secret of their success.

The aim of this study is to find out how companies are affected and what are their responses to the challenges of the economic crisis, how they change (or not) their operational strategies through an example of this company which is outstandingly overcoming the arising difficulties. This fact is very important in case of the eastern part of Hungary, where agriculture plays an important role in spite of its contribution to GDP. Irrigation – where these types of pumps can be used – can help in getting better yields of plant cultivation.

First of all, I will introduce what kind of environmental factors influence the operation of companies, as economic crisis is one of the elements of them. Secondly, the effects of the crisis on companies and their general reactions will be showed by interesting, up-to-date studies I chose, made by the Corvinus University and Harvard Business School. Thirdly, with the help of company materials, company website and the branch manager, I will introduce Pedrollo S.p.A., its history, how it became so well-known in the world and how it created and preserve its position on the pump market.

As the focus of my study is on its Hungarian subsidiary, Pedrollo Hungária Kft., which belongs to the small and medium-sized companies, I also want to give a picture of the Hungarian SME market, as this company is operating here. After that, I will analyse the strengths, weaknesses, opportunities and threats of the company by the SWOT analysis and its macroeconomic environment by PEST analysis.

In order to measure how much effect has the economic crisis on the financial situation of the company, I examined the sales of two chosen products in 2006, 2008, 2009 and 2011.

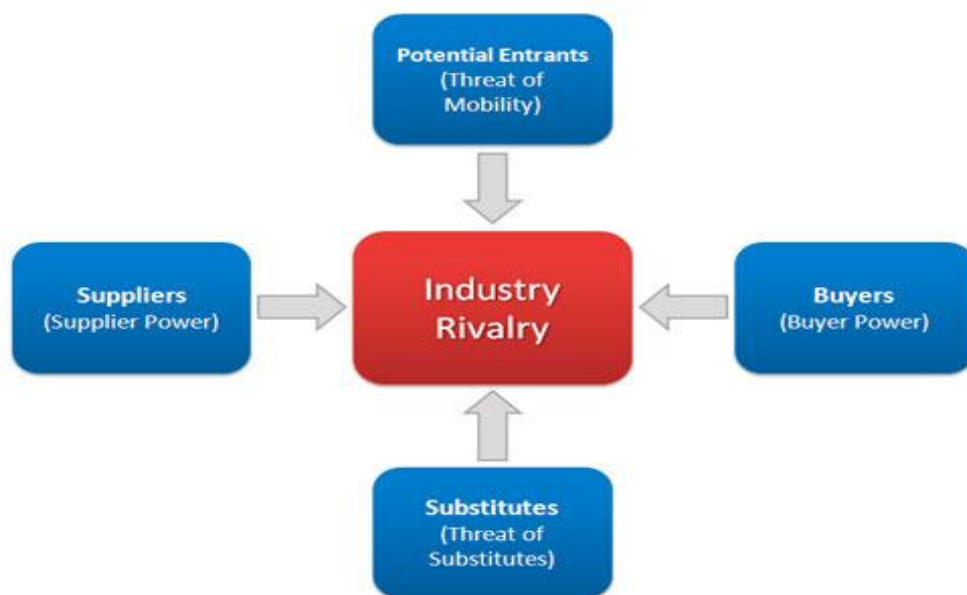
Finally, in the light of my findings, I will make some recommendations in connection with the operation of the Hungarian branch.

1. IMPACT OF THE ENVIRONMENT ON COMPANIES

The effective operation of a company depends not only on the work of the employees but also on the external environment in which it operates. The description, analysis and monitoring of environmental factors are important tasks in the life of businesses to take the necessary steps in time.

The macroeconomic environment consists of many factors which have direct or indirect effects on the enterprises such as political and legal environment, economic environment, social and cultural environment, technological environment and other environmental factors. The second big group of factors influencing the operation of companies is the microeconomic environment. The direct ambience of undertakings is made up of factors like employees, customers, suppliers etc. Competitors also belong to this group and they have very big influence on the activity of a company.¹

Figure 1.: Porter's five forces model



Source: <http://notesdesk.com>

As it can be seen on the picture above, the most evident influential factor of competition is the constant fight between companies selling on the same market. This fight can concern only one key factor (e.g. price) or more factors (e.g. services, product quality, advertising activity, product innovation etc.).²

¹Bonne, L. – Kurtz, D. [1992]: Management, McGraw Hill, New York pp. 55-58.

²Bowman, C. [1993]: Strategic management (Stratégiai menedzsment), Novotrade Kiadó Kft., Budapest, pp. 33-34.

The intensity of competition is affected by the following industry characteristics: number of firms, market growth, costs (fixed, storage, switching), level of product differentiation, exit barriers, the diversity of rivals.³

If a company can enter the industry without difficulty, it will do so in case of favourable profit possibilities. The appearance of new firms on the market may also have impacts on competition. If demand will not grow as the production capacity, it is almost sure that prices will fall in parallel with profits. So, potential new entrants mean threat because they can determine the upper level of profitability of the industry. But they have to face barriers such as the experience in cost savings of older companies, brand loyalty, big capital requirements, difficulties in the accession of sales channels, patents and government policy.⁴ It can also deter rivals from entering the market if prices are falling because individual firms keep prices artificially low and if the entering involves high start-up costs.⁵

Substitutes are those products which satisfy the same needs like other products in the industry. The threat of substitutes exists when demand toward a product is influenced by the change of price of the substitute product. With the appearance of more substitutes the demand becomes more elastic because buyers have more alternatives. Substitutes can constrain companies to raise prices and to develop their products.⁶

Customers can have impact on the industry as they can force companies to bid under each other's prices to gain orders. They also have the possibility to gain other advantages like quality improvement or loans. Buyers can be influential if: their number is significant and they order in big volumes, if their acquisitions represent big share in sales of the industry, if the industry involves many sellers, if the product is standardise enough to make it easy for the customers to find other suppliers and the cost of change is zero or very low etc.⁷

For the production, raw materials, labour, energy, capital, components and other supplies are necessary which are provided by suppliers which lead to buyer-supplier relationships. Like in case of buyers, suppliers can also affect the amount of profit of the industry. By determining higher prices they can reduce it. They can have strong influence if the input, provided by them is very important for the company, if there are only a few suppliers in the industry and if it would be expensive to switch from one supplier to another.⁸

³Porter's five forces Retrieved 15 October, 2012 from <http://www.quickmba.com/strategy/porter.shtml>

⁴Bowman, C. [1993]: Strategic management (Stratégiai menedzsment), Novotrade Kiadó Kft., Budapest, pp. 34-35.

⁵Porter's five forces Retrieved 15 October, 2012 from <http://www.quickmba.com/strategy/porter.shtml>

⁶Retrieved 15 October, 2012 from <http://www.quickmba.com/strategy/porter.shtml>

⁷Bowman [1993] p.36.

⁸Bowman [1993] pp. 36-37.

The acts, regulations, taxes and subsidies for SMEs also have serious impact on the decision making of enterprises. It is important to know governmental programmes as soon as possible to elaborate fast responses.⁹

From the standpoint of the operation of businesses, the structure of the *ownership* organization and the share of the State ownership are decisive issues.¹⁰

Groups of interest can be found in the direct environment of firms which can support or obstruct their operation. Employers' and employees' organizations (chambers, employers' alliances, trade unions etc.) occupy a significant position in the interest harmonisation mechanism, so they can have dominant position in the run of the companies' operational conditions.¹¹

As I see, firms are operating in a fast changing, dynamic environment. The outer environment ensures the opportunities for the future but it is also the source of threats which can obstruct firms to take advantage of chances, so, external environment substantially determines the competitiveness and profitability of them.

⁹Roóz József [2002] p. 63.

¹⁰Roóz József [2002] p. 62.

¹¹Roóz József [2002] pp. 61-63.

2. CRISIS AND THE REACTIONS OF COMPANIES

2.1. Crisis and the economy

From the point of view of SMEs, the international and domestic economic processes had gone wrong during the period of 2007-2010. To the effect of the global economic crisis which begun in 2008, the global GDP growth slowed down from 5,4% (in 2007) to 2,9% which switched to a 0,5% recession in 2009. In developed countries the volume of GDP declined with 3,4%. The volume of global trade fell with 10,8% in 2009, there was no example for this after the World War II. The most distressed area was the Baltic States, where the decline exceeded the 10%. The gross savings of households decreased with 12,4% in the European Union. In 2010, the signs of recovery showed up, the Gross Domestic Product increased in the EU with 1,8%, the consumption of households expanded with 0,8%. But the recovery of the economic situation was overshadowed by that in case of some member states the state of the national budget was not sustainable. This problem appeared the most stressfully in case of Greece which floated at the edge of bankruptcy in 2010.¹²

2.2. Effects of the crisis on companies and their reactions

In this chapter I will represent the responses of enterprises in a crisis situation, which is described very well in one of the studies, written in Corvinus University.

Enterprises are operating in constant uncertainty. Examining the sources of uncertainty, distinguishes three levels: the general environmental, the industrial and company level. According to this, the handling of risks deriving from insecurity must be multilevel. Of course, the three levels have effect on each other. For example, crisis affects industrial inputs, the markets of products or competition, so the industrial insecurity, and it does not leave untouched the operation of the company and its credit situation. This means, that although companies are influenced by the same environmental stimuli, their industrial characteristics also affect the impacts of these stimuli.

As obscurity, strategic responses can be diverse, as well. The following acts can be identified: avoidance (leaving the market), control, cooperation and flexibility (diversification and/or operational flexibility).

The most significant effect of the crisis that the level of vagueness, the scale of fluctuation of customers' orders increases so much that production cannot handle it with conventional tools. The role of cooperation and flexibility with partners is decisive in this case. The resources (labour, machinery, relationships) and processes of the company must be made more flexible in order to handle these fluctuations.

¹²Report J/8112. on the situation of SMEs in the period of 2009-2010 (J/8112. számú jelentés a kis-és középvállalkozások 2009-2010 évi helyzetéről), Magyarország kormánya Retrieved 19 october, 2012 from <http://www.parlament.hu/irom39/08112/08112.pdf>

The expected amount of future income of the population fell. As a result of financial difficulties, stuck stocks and drastic drop in demand, the volume of produced products fell back which caused that the significant part of the workforce became unnecessary, mainly in production process. That's why undertakings had to give up many employees. The others are kept by shortened working hours, periodic necessary pauses. Companies which could afford themselves, spent the remaining time on trainings and development of processes.

As to the drop of demand, companies often try to decrease their prices to generate higher demand. Naturally, the reduction of prices is not the only strategic response to win the narrowing customer demand. The expansion of the range of services, so the 'expanded product on the same price' approach is also can be operable.

Under the impact of the crisis, many companies try to offer favourable services to its products. Simultaneously this also means that the issue of new products is slowing down. It is not typical that companies improve their position on the market with aggressive strategy, with the increase of innovation. For this, big capital strength and strong liquidity is needed, which very few companies possess. The innovativeness of companies is obstructed by the lack of capital.

Because of the decline in demand, the perspectives are also deteriorating. Crisis retards planned investments, many of them has been postponed or stopped for indefinite period. The other impact of the crisis on the business sector is the shrinking of financial markets, the deterioration of liquidity and the temporary loss of confidence between banks.¹³

Production is becoming more and more expensive because the world market prices of raw materials increased steadily since 2003. The factor took part in this is that in the last two decades of the second millennium, in the raw material sector, because of the relative low price of raw materials, producers did not invest enough and the supply cannot be increased in a short period of time. Another reason is the weakening of the US dollar comparing to the main currencies – the Euro and Yen (the world price of raw materials dominated in dollars).¹⁴

Although the crisis occurs all around the world, its extent and temporal evolution differ by countries. Because of this, a company which presents on more markets, which is able to rearrange

¹³Demeter Krisztina-Szász Levente [2011]: The impacts of the crisis on production (A válság hatása a termelési tevékenységre)- Műhelytanulmány, Budapesti Corvinus Egyetem, Retrieved 10 October, 2012 from http://www.google.hu/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&sqi=2&ved=0CCAQFjAA&url=http%3A%2F%2Fwww.uni-corvinus.hu%2Findex.php%3Fid%3D41618%26type%3Dp%26file_id%3D651&ei=lnaGUMP5H4nOsway34HYCA&usg=AFQjCNEh7AezteU16-5Q7R2KzuoZpQgZTg pp. 5-8.

¹⁴MTA Világgazdasági Kutatóintézet [2009]: The global economic crisis: effects, economic policy responses and prospects (A globális válság: hatások, gazdaságpolitikai válaszok és kilátások), Vol. 3., Budapest, p. 11. Retrieved 1 October, 2012 from <http://old.vki.hu/kot/ecostat/03-Szalavetz.pdf>

its resources between other countries and which has relationships with banks in more countries has bigger opportunities to avoid or at least to temper the effects of the crisis.¹⁵

In 2008, two professors of Harvard Business School and a PhD student of Kellogg School of Management started a project with the aim of preparing an empirical study about the strategies companies used in the times of recession and their effectiveness. They examined the performance and strategic movements of 4700 firms during three previous economic recessions: the periods of 1980-1982, 1990-1991 and 2000-2002.

To identify strategies, by the observation of six indexes of the annual reports of these companies they analysed how resource allocation changed comparing to the period before the crisis. These indexes were the followings: the number of employees, the acquisition cost of sold products, R&D costs and expenses in connection with sales, capital investments and fixed assets.

The study classifies companies and their strategic reactions in four groups: prevention focused, promotion focused, pragmatic and progressive companies.

➤ **Prevention focused**

These enterprises primarily take defensive steps and they are more attentive to the avoidance of losses and the minimization of risks than their rivals. The directors of these companies introduce policies with which they can reduce their operating costs, narrow the range of discretionary costs, cut the workforce and keep cash reserves. In addition, they postpone new R&D investments, the development of new enterprises or the buying of machinery or plants. So, these companies save money on costs and investments. This was the strategy Sony used in the economic recession of 2002. The Japanese giant pushed down the number of employees with 11%, the R&D costs with 12% and the capital investments with 23%. These limitations helped Sony to increase its profits with 8% in 1999 and with 12% in 2002 but the rate of the increase of its sales dropped to 1% from 11%. It invested in products like e-readers and OLED TV sets but Amazon and Samsung preceded it.

According to this study, only a few prevention focused companies perform well after the crisis.

➤ **Promotion focused**

Promotion focused companies invest in offensive steps more than their competitors. Some business leaders exploit recession to make changes, to get closer to customers neglected by the competitors. For example, at the culmination of the crisis in 2000, despite the decline in profits and sales, Hewlett-Packard acquainted Compaq for 25 billion dollars and raised its R&D costs with 9%. Furthermore, it spent 200 million dollars on corporate brand building campaign and 1 billion dollars on the creation of more wide-spread accession of information technology in developing countries.

¹⁵Demeter-Szász [2011] p.8.

These initiatives burdened the organization and tied the attention of the management. At the end of the recession, the company could not really compete with IBM and Dell. To 2004, the 8,4% operating profit of HP lagged behind the results of IBM (16,8%) and Dell (9,3%).

In promotion concentrated companies the culture of optimism is formed which leads to that they do not recognize the seriousness of the crisis for a long time. They ignore the warning signs such the shrinking of customers' budget. Even if buyers claim lower prices and more value for their money, these companies add more extras to their products. If the investments return in a longer time than it is expected, or the innovations are not welcomed among consumers, these companies ride for a fall.

➤ **Pragmatic**

These companies combine the defensive and offensive steps. They have the biggest opportunity to outperform their rivals after a recession. The directors of these firms realize that for the survival of the recession it is essential to cut costs and investments are also very important to promote improvement. Therefore they have to handle both of them at the same time. The organizations take selective defensive steps. They try to decrease purchasing costs and they cut their workforce in bigger extent than their rivals.

In contrast with other businesses, they decrease costs also with the improvement of operational effectiveness. Offensive moves are comprehensive. These firms implement significant research, development and marketing investments, invest in assets like plants and machinery, they catch new business opportunities at higher level than the competitors. After a recession, the sales and operating profit results are the highest among those companies belonging to this group.

➤ **Progressive**

Progressive firms use the optimal combination of offensive and defensive steps. These undertakings also cut the number of their employees, but they take less advantage of it than the competitors. Only 23% of progressive companies cut their workforce in contrast with the 56% of the prevention focused ones and on the whole, they dismissed much less people. During the recession of 2000, Office Depot and Staples practiced different cost management approaches. Office Depot sent away 6% of its employees but did not manage to decrease operational costs. Staples closed some of its underperforming plants and extended its stuff with 10% during the recession in order to support the most modern product categories and services. At the same time, the company narrowed the operational costs and got out of the crisis as a bigger, stronger and more profitable firm like it was in 1999. Between 1997 and 2003 their sales doubled (from 7,1 billion to 14,6 billion dollars), while in the same period, the sales of Office Depot rose only with 50%: from 8,7 billion to 13,4 billion dollars. Three years after the recession, Staples was 30% more profitable than Office Depot.

Progressive firms always search for new markets and invest to increase their assets during a recession. Taking advantage of low prices, they buy plants and assets. This helps them at the times

of recession and after that, to react the accelerating demand faster than their rivals. As they get access to assets at much lower prices than the competitors (which did not invest), they can realize relatively higher operating profit. These enterprises prudentially rise the R&D and marketing costs, which results small-scale profit during the recession, but after that, they significantly contribute to sales and profits.¹⁶

Based on the studies I investigated above I drew the consequence that at the time of a crisis, flexibility is one of the most important things that companies have to acquire in order to survive. Of course, it is always necessary to adapt to the constant changes of the environment. Companies which operate on more markets also have bigger chance to continue their activity, even if they lose some markets. But as I see, there is no concrete receipt for success. While in case of progressive and pragmatic companies e.g. the launch of a new product works, in case of Sony which despite managed to push down its operation costs and invested in new products, finally Amazon and Samsung outperformed it. I think a company has to be very innovative, attentive to the needs of customers and very strong financially to surpass its rivals.

I would not agree completely with the statement in the Corvinus study which says that crisis retards investments because many companies can take advantage of e.g. the lower prices of real estates and other assets, like progressive companies do.

2.3. SMEs and the crisis

As Pedrollo Hungária Kft. belongs to the group of SMEs, firstly, I would like to find out in general, what kind of problems this type of companies has to face in a recession period. Nowadays, for the creation, survival and growth of SMEs, one of the biggest challenges is the access to financing. This problem is aggravated by the financial and economic crisis as there is a drastic drop in demand for goods and services and the severity in credit terms.

At the time of the crisis, SMEs have been seriously hit because these undertakings are very vulnerable for many reasons:

- “it is more difficult for them to downsize as they are already small;
- they are individually less diversified in their economic activities;
- they have a weaker financial structure (i.e. lower capitalisation);
- they have a lower or no credit rating;
- they are heavily dependent on credit and

¹⁶ Ranjai Gulati-Nitin Nohria-Franz Wohlgezogen [2010]: Roaring out of recession (Kitörés a recesszióból), Harvard Business School, Publishing Corporation pp. 26-31. Retrieved 25 October, 2012 from <http://www.vg.hu/hirlevel/aktival/496211462863856754084915/monschus@freemail.hu>

- they have fewer financing options.”¹⁷

So, in contrast with big, international companies, SMEs are in a much more difficult situation at the time of a crisis. Their operation depend a lot on credit possibilities which are very limited, furthermore the drop in demand and the late payments of customers cause them more serious liquidity problems than in case of a financially strong, big company.

¹⁷OECD: The impact of the global crisis on SME and entrepreneurship financing and policy responses Retrieved 23 September, 2012 from <http://www.oecd.org/industry/smesandentrepreneurship/43183090.pdf> p. 7.

3. CRISIS AND THE HUNGARIAN ECONOMY

The European and global economic boom and bust cycles have remarkable influence on the economic performance of Hungary because of its size and openness. Hungary is a country with a small, opened economy which export-guided growth depends significantly on the economic changes of Western-Europe, especially Germany as it is one of the main markets of the Hungarian export.¹⁸

After the millennium till 2006, a dynamic, between 3-6% economic growth characterized Hungary, and after the demand reducing austerity measures of 2006 the tempo of this growth decreased with almost 3% (0,8%).¹⁹

The crisis has had particularly negative effects in Hungary. The country was the first European Union member state which asked for urgent loan package from the IMF, the EU and the World Bank in order to avoid currency collapse in October 2008.²⁰ The impacts of the global economic crisis became visible in the statistical data of Hungary from the second quarter of 2008. This manifested itself in the moderation of domestic and foreign demand, the cut of production because of sales problems, the recoil of foreign trade, the stagnating consumption, the decreasing number of investments, the increase of the number of unemployed people and the moderation of inflation. The growth of the Gross Domestic Product slowed down at the beginning of 2008 already, in the third quarter it stagnated and at the end of the year it started to decline sharply. At that time, the performance of the Hungarian economy was determined basically by the global economic recession and the domestic expenditure reducing and balance improvement aimed measures.²¹

Since 2008, to the effect of the global economic crisis, not just the domestic, but also the demand of our export markets fell down and as a result, the GDP fell with 6,7% in 2009. This year, the decline of the spending of households decreased was 8,1% which was much higher than the average of the EU (-1,8%). As far as foreign trade is concerned, the volume of export slowed down significantly, in 2009 exports decreased with 16,9% and import with 20,2%. 2010 brought upgrade comparing to the bottom of 2009. A 1,2% increase of GDP was noticed mainly thanks to the favourable change of foreign trade. On the other hand, the consumption of households decreased forward with 2,1%. In parallel with this, on the side of foreign trade an important improvement begun: the volume of

¹⁸ MKIK Gazdaság- és vállalkozáskutató Intézet [2010]: Corporate responses to the economic crisis (Vállalati válaszok a gazdasági válságra), p. 4.

http://www.gvi.hu/data/papers/vallalatok_valsgban_2010_ciret_tanulmany_100708_boritoval.pdf

¹⁹ Report J/8112. on the situation of SMEs in the period of 2009-2010(J/8112. számú jelentés a kis-és középvállalkozások 2009-2010 évi helyzetéről), Magyarország kormánya Retrieved 19 October, 2012 from <http://www.parlament.hu/irom39/08112/08112.pdf> p. 26.

²⁰ Vezetéstudomány [2012]– Dallago, B.: SME policy and competitiveness in Hungary, Budapest, Vol. 7-8. p. 91.

²¹ MKIK Gazdaság- és vállalkozáskutató Intézet [2010]: Corporate responses to the economic crisis (Vállalati válaszok a gazdasági válságra), p. 4.

export increased with 12,9% and the volume of import with 14% and the balance of trade showed surplus.

Comparing to the tendency of 2009, in 2010, on the areas of industry, transportation, tourism a quite positive change happened. In contrast with these good results, the public debt was moving away from the 60% prescribed in the Maastricht criterions: in 2009 it reached the 78,4% and in 2010 the 80,2%.²²

The crisis had negative impact also on the volume of national investments. In 2008, the drop was only 2% and in 2009, the disadvantageous tendency had continued: in the last quarter the level of investments was 11% lower than at the end of 2008. In 2010, the tempo of downturn slowed down, it was 6%. Many experts expected that the crisis will break the high inflation in Hungary. While prices got under a strong pressure throughout the world, this effect only partially appeared in Hungary. The increase of salaries in the private sector retarded, the elevation of VAT and the regulated prices offset this tendency, thus the crisis did not cause decrease in price level. The corporate loans had showed a steady increase until 2009, when in the first quarter it started to fall, mainly in case of foreign currency loans. In the background the break of the confidence in financial markets, the liquidity problems of commercial banks and the severity of borrowing conditions stood.²³

As to 2011, the performance of the Hungarian economy was weaker than it was expected by the government. The state budget got into deficit again and the increase of the structural deficit was continuing. The consumption of households stagnated and the amount of savings decreased which led to less import than export. Thanks to the higher level of export, the GDP and the balance of foreign trade increased. As far as investments are concerned, the conditions of getting loans got stricter, the increasing distrust toward foreign capital encouraged profit repatriation instead of reinvestment in Hungary.²⁴

Taking everything into consideration, I can state that the period of 2008-2011 provided an unfavourable macroeconomic environment for the SMEs.

²² Report J/8112. on the situation of SMEs in the period of 2009-2010 (J/8112. számú jelentés a kis-és középvállalkozások 2009-2010 évi helyzetéről), Magyarország kormánya Retrieved 19 October, 2012 from <http://www.parlament.hu/irom39/08112/08112.pdf> p.27.

²³ MKIK Gazdaság- és vállalkozáskutató Intézet [2010]: Corporate responses to the economic crisis (Vállalati válaszok a gazdasági válságra) p. 5.

²⁴ Pénzügykutató Zrt. [2012]: The situation and perspectives of the Hungarian economy 2011-2012 (A magyar gazdaság helyzete és kilátásai 2011-2012) Retrieved 11 November, 2012 from http://www.penzugykutato.hu/files/Sajt%C3%B3t%C3%A1j%C3%A9koztat%C3%B3,%202012.%20m%C3%A1rcius%2023_0.pdf pp. 3-4.

4. PEDROLLO S.P.A.

In this chapter I will introduce Pedrollo S.p.A., the parent company, based on the documents of the company I managed to have access to and on the interview I made with Matteo Zenari, the Hungarian branch manager. As this business is operating on the pump market, I will also give a little insight into the market of the countries where the company has interest..

Picture 1.: Headquarters of Pedrollo S.p.A. in San Bonifacio



Source: The introduction of Pedrollo S.p.A. and Pedrollo Hungária ppt. presentation (CD)

4.1. History of the company

“Water! You have no taste, no colour, no flavour, you are indefinable, people taste you without getting to know you. You are not only necessary in this life: you are life itself.”

/Antoine de Saint-Exupéry/

Water is the true wealth of humanity, not petroleum. People are ready to fight for the possession of the "blue gold" of the planet. Without water there is no safety or well-being, much less progress/development.

In 1974, Silvano Pedrollo, founder of Pedrollo S.p.A., visited Dubai, where water is more expensive than oil, and where people have begun to consider the latter as a resource, which is destined to run out. Mr. Pedrollo was looking for investors who are interested in modern pumps, he intended to manufacture in Italy. He managed to find them and at that time one of the largest electric pump manufacturing company was established with the commitment of the solution of the water shortage problem.

In a few years, the market of Pedrollo pumps has grown significantly; after Dubai, the company has become known in Europe, in the Middle East, Latin America and Africa. Later also in Bangladesh where Silvano Pedrollo was asked to design a low cost, low energy consuming pump which could

be sold for thousands of people. After its creation, then peasants no longer had to depend on rain and that year the rice crop was more plentiful than it had ever been.

For almost 40 years, Pedrollo is continuously expanding worldwide and has been designing and producing electric pumps that help to deliver the water where it is the most needed. Nowadays Pedrollo S.p.A. group is a global benchmark in the sector of water moving machines. The range consists of 50 families of pumps (from drainage, surface and submersible). Pedrollo S.p.A. designs and manufactures pumps for domestic, civil, agricultural, and industrial markets in Italy and internationally. Pedrollo products are present in more than 160 countries and testify everywhere to the best values of Italian entrepreneurship, where quality and reliability is outstanding. The group has subsidiaries in Hungary, France, Romania, Colombia, Mexico, Dubai.

Being presented at global level allows the company to expand employment levels (approximately 500 the direct collaborators) and to maintain a constant focus on social issues at international level.

4.2. Review of the pump market

First of all, it is necessary to lay down that pump market is different from the markets like car or other luxuries. Pump is necessary to use for the conveyance of water which is definitely essential for everyday life. People can renounce cosmetics, fashionable clothes and shoes, of buying a new car or house but they cannot give up water. So, the demand for electric pumps is not so elastic as in case of the products mentioned above. Of course, the demand for a certain brand can change thanks to the competition on the market.

In 2008, the world market for Pedrollo pumps reached \$45 billion with an average yearly growth rate of 4-5% worldwide. Among various fields of use, the chemical industry and petrochemicals (including gas extraction and oil refining), water treatment and the energy production represent a fundamental role.

The United States of America is the biggest market with a 13.9% share of the global share; China follows it with at about 15%. Asia accounts for nearly 37% of the world market. In Western Europe, the biggest consumer country is Germany with a 27.4% share of total consumption in this region.

Among the various types of pumps, the most commonly used are the centrifugal pumps. In parallel with this, the demand for diaphragm and turbine pumps is also increasing.

The growth rates are varying by region with an increase highly above the world average in Asia (excluding Japan). At global level, the pump supply is stabilising, at the beginning of the 90's, the size of industrial companies were at about thousand, and more than hundred niche players.

In the late 90's and the early 2000's, approximately 800 companies covered 90% of global demand for pumps. In 2009, after numerous mergers and acquisitions, at global level, the number of

operating companies and companies specialised on the niche market - which can operate local, regional level and also can export - became almost the same.

Then, a total of about a thousand operators but the number of the so called “internationals” (in the true sense of the word – production units in multiple geographic locations) is decreasing.

In this number, the small craftsmen, assemblers which are “proliferating”, especially in Asian countries such as India and China are not considered.

In the global context of the pumps, Italy, despite the increasing competition from Asian countries (primarily China, followed by India) still occupies a significant role. With exports representing approximately 69% of the total national production, Italy remains the third largest exporter after Germany and the USA, with a market share very close to the latter country and representing about 10% of the export of pumps worldwide.

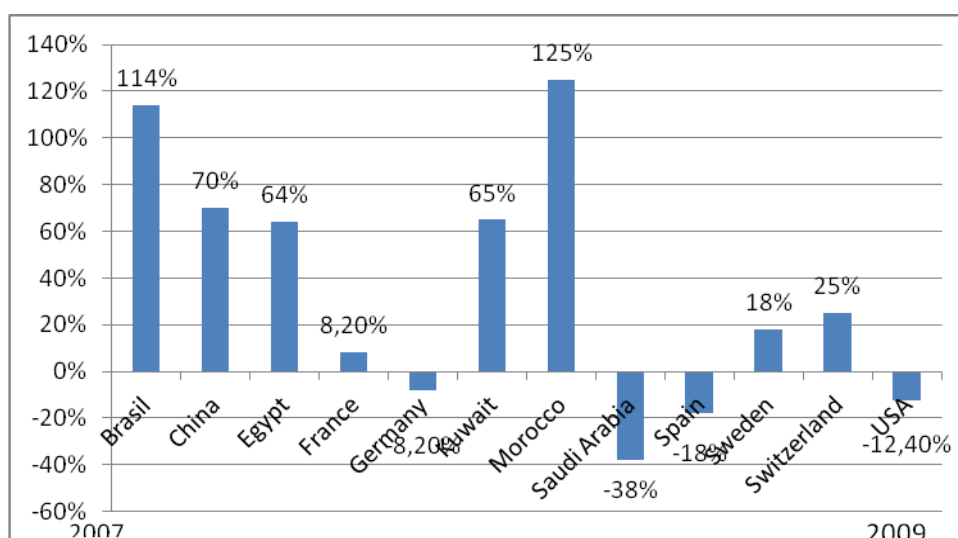
Exports of pumps and compressors from Italy are directed mainly to Germany, France and the USA, these three countries together account for roughly one quarter of exports of pumps and compressors.

It is also interesting to note the following information on the trend of the flow of exports of pumps between 2007 and 2009 (Figure 3):

- globally considered exports showed a stable, slightly higher increase
- between the three major importer countries (Germany, France, USA) there was a slight decrease in exports to Germany (-8,2%), the sharpest decline was in case of the USA (-12,4%). On the other hand a slight increase can be observed in exports to France (+8,2%)
- exports to Spain decreased by around 18%
- exports to Saudi Arabia, which is traditionally a stable, not negligible target market, fell with 38%
- in case of Kuwait, a sharp, 65% increase can be noticed during these two years
- there was a strong growth in exports to South Korea
- to Sweden and Switzerland exports increased significantly (+18% and +25%)
- the biggest increase can be noted in the export toward China which was 70% in this period
- among minor countries a substantial growth of export flows can be reported, in particular to Brazil (+114%), Egypt (+64%), Morocco (+125%).²⁵

²⁵Pedrollo S.p.A. [2009]: Company documentation pp. 9-11.

Figure 3.: Flow of exports of Pedrollo pumps between 2007 and 2009



Source: Own compilation based on company documentation [2009]

Basically, Italy defends its position and if it loses some share in some markets, it consistently recovers on new markets and with higher prospects of development.

Imports were stable between 2007 and 2009, with 30%, Germany was the largest exporter of Italy, followed by France also with stable export flows.

China, with a leap of about 34% got to the third place among pump exporter countries in Italy.²⁶

²⁶Pedrollo S.p.A. [2009]: Company documentation p. 11.

5. PEDROLLO HUNGÁRIA KFT AND THE RECESSION

In this chapter, after the introduction of Pedrollo Hungária Kft., to give a deeper insight into this subsidiary, I made its SWOT analysis. As the main aim of this study is to show how the economic crisis affected this company, I made some research about the changes of sales in 2006, 2008, 2009 and 2011 and I analyzed the results, after this, I visualized on charts how the sold quantities, the average yearly prices and the turnover of sales of the two chosen products changed in these periods. Finally, based on the in-depth interview with Mr. Zenari I introduce the strategies of this branch and what kind of changes it gone through.

5.1. Introduction of the company

Location

The Hungarian subsidiary is located in Szolnok, Újszászi út 11.

Picture 5.: Pedrollo Hungária Kft.



Source: The introduction of Pedrollo S.p.A. and Pedrollo Hungária ppt. presentation (CD-ROM)

History of the company

Pedrollo opened its Hungarian subsidiary – **Pedrollo Hungária Ltd.** in Szolnok, in 2005. However, the Italian company's relationship with Hungary goes back much further, Pedrollo products have been presented in the Hungarian market since 1992. The company's products would have appeared on the Hungarian market earlier, but during the years of the Cold War (1947-1991) the Soviet interests limited the foreign political and economic relations of Hungary. The Warsaw Pact (1955) and the Comecon (1949) did not allow the member states to keep contact with Western organizations. There was no link even between the Comecon and the European Economic Community. The softening of the Eastern and Western relations gradually moderated the obstacles. The relationship improved so much that in 1991, the EEC signed an Association Agreement with

Hungary. Under the terms of this agreement, all tariff and quota in the trade of manufactures will be abolished until 2001.²⁷

At that time, the biggest wholesaler of Pedrollo was Golf Kereskedelmi Kft, in Szolnok. However, in 2004, this strong relationship ceased between the two companies because the Golf company, despite the exclusive contract, bought thousands of counterfeit electric pumps from China. In 2005, the lawsuit was won by Pedrollo S.p.A. which led to the establishment of Pedrollo Hungária Kft., in order to maintain the presence of Pedrollo products in Hungary. The branch was born, then, by a commercial emergency situation which they had to face suddenly, they tried to limit the loss in the revenue. At that time Pedrollo became one of the leaders in the Hungarian market. In 2008, the outbreak of the global economic crisis challenged also this company, as a consequence, it was forced to redundancies and the number of staff was cut significantly but since that, it has been constant.

The structure of the company

This is a very small company which consists of 8 persons (with the branch manager), so the structure of the firm is quite simple: three persons are working in the warehouse, two at the sales department and two employees are dealing with the administrative tasks and orders.

The Hungarian pump market

Both the entry to the Hungarian market and the survival is very difficult as the company has to face the multitude of competitors. As in case of other countries, the biggest threat is the presence of Chinese products because they are sold at a much lower price and although their quality is quite poor, in the years of the crisis, people tend to buy cheaper pumps. But in the pump sector it is difficult to analyse the competition. There are many competitors here, smaller and bigger companies but they are not operating in the same sector. Some of them are specialised on hot water or cold water, waste water, others are selling pumps for the industrial, civil or domestic sector etc. Generally it can be said that the biggest competitors of the company in our country among others are: Grundfos, Wilo, KSB, Elpumps Kft., DAB, Ebara etc. In the domestic sector, Pedrollo is one of the leaders in Hungary while Wilo and Grundfos rule the industrial and civil sector where Pedrollo also would like to enter.

²⁷Marusa Zoltán [2007]: Studies on the European Union (Tanulmányok az Európai Unióról), Eötvös József Főiskolai Kiadó, Baja, pp. 29 -30.

Activity of the company

Nowadays, the activity of the Hungarian branch is oriented exclusively to the selling of Pedrollo pumps in the domestic market of Hungary. The sale of Pedrollo pumps is mainly directed to the household sector but it started to enter the industrial (e.g. fuel) and civil sector. The company distributes its products through wholesalers, retailers, in addition, agricultural companies and hotels are also belonging to its clientele. The products are delivered by the vehicles of the company, by GLS currier but customers can buy the pumps at the company, as well.

Charitable activities

As far as charitable activities are concerned, in 2007, Pedrollo Hungária Ltd. donated a considerable amount of money to the “Foundation for the Leukemia Children”, in 2008, to the preschoolers of the Pető Institute thorough the “Peace Dove Foundation”, furthermore it donated pumps to the areas damaged by the flood of the Tisza in 2010.

5.2. SWOT analysis of the company

Based on my own observations and on the interview I made with the branch manager, I tried to reveal the strengths, weaknesses, opportunities and threats of Pedrollo Hungária Kft.

Table 1.: SWOT analysis of Pedrollo Hungária Kft.

Strengths - geographical position - good reputation of the brand in Hungary - good quality products at affordable prices - fast supply of products - garage service - well-established service partner system - no expired loans, debts at banks - well-organized relationship with the parent company - 6 wholesalers	Weaknesses - young company - little company - only two sales persons - little use of marketing tools - high dependence on wholesalers
Opportunities - industrial market - increasing demand toward pumps - projects concerning the civil sector - exhibitions every year - use of EU resources	Threats - lot of competitors - Chinese products - late payments of customers - worsening of the economic situation of Hungary - decreasing demand - bad weather conditions

Source: own research

In the light of the findings in the table above, it can be said that this company possesses many strengths. Starting with its geographical location, which is very favourable. Szolnok has a quite

central position in the country, situated in the middle of the Plain, it is connected to Budapest by the main road no.4 and two international railway lines go through the town.²⁸

The brand name “Pedrollo” represents good quality in Hungary. Although it is not so well-known among average people (which are not involved in e.g. agriculture or heating technology), persons and organizations using these products have trust in this brand, that’s why they buy from the company again and again. Pedrollo Hungária sells only the products of the parent company, which are made solely in Italy, so they can guarantee that they supply Hungarian customers with high quality products at acceptable prices, which are formed taking into consideration the Hungarians’ current purchasing power and of course, the prices of the competitors. The other competitive factor of the company is that they supply the buyers in short time with the help of GLS courier, but products are often passed to customers by the sales persons and one of the warehouse employees. By this method, consumers are served with the ordered products within 1-2 days. As far as after sales service is concerned, the company offers garage service, so if the buyer has problem with the pump, he can send it to the Szolnok located subsidiary for repair, or to any of the service partners of the company which can be found in each region of the country.

In contrast with many SMEs in Hungary, this firm currently has no loan from any bank, so it does not have to pay credit debts, which is a big advantage. Last but not least the firm has a strong and good relationship with the Italian parent company. The Hungarian branch manager is from Pedrollo S.p.A., so they can communicate and cooperate very well and effectively.

As every coin has two sides, the enterprise has negative points, as well. It has been operating in Szolnok only since 2005, so we can say that this is a quite young subsidiary. Fortunately Pedrollo products have presented on the Hungarian market since 1992, so this brand had been already known when they opened this branch, but a lot of efforts have to be made to make them more wide-spread and to gain new customers’ attention. It has to get a lot of experience in connection with the characteristics and the structure of the Hungarian market.

The other weak point is the size of the company, which is very small. It is closely related to the size of the company that only two sales persons are employed and they have to deal with the whole territory of the country. This makes very difficult and time consuming to pay attention and keep relationship with the customers. This is true especially for personal visits of them which is rarely feasible in case of e.g. Transdanubia.

The other weakness I would mention is the little use of marketing tools. For example the firm had a website only with some mobile phone numbers and they restored the old website only a few weeks before, but the information people can find is not updated yet. It is not such a fatal mistake as the

²⁸Logiszol: Szolnok városról Retrieved 30 October, 2012
http://www.logiszol.hu/?menu_id=11&action=showarticle&id=13

company sells products which are necessary for the everyday life (for heating, irrigation, wastewater drainage etc.) and as I have already mentioned, its customers, who know these products, trust them. But in this accelerated world with a lot of competitors, it is very important to get new markets and customers. The market is continuously moving, some of its customers are hunted by the competitors from one day to another and this is true inversely. But to gain the attention of new buyers, more effective advertising would be needed.

Finally, the company has six big wholesalers which buy its products in remarkable quantities. Because of this, the firm relies on them very much and cares relationship mainly with them. This is understandable and having wholesalers is one of the strengths of the company but also very risky, because if only one of them fall out from their customers, the company will have big losses. In this case the salespersons would search and get the customers of that wholesaler which can be a solution but it would be quite difficult and for this a lot of time and efforts are needed.

The civil and industrial sector is also giving the opportunity for the company to enter however some big firms like Grundfos and Wilo already rule them. Some types of the electric pumps are suitable to convey certain kind of chemical fluids and there are many projects throughout the country in which Pedrollo has the chance to participate.

Weather conditions can cause increase in the demand for pumps. E.g. thanks to the dry summer months, there was a huge demand for pumps.

With the use of more marketing tools, it could make itself more well-known. For example many exhibitions are held every year this company could participate. For example HungaroTherm building engineering exhibition next year which is a good opportunity to popularize the firm.

Being member of the European Union, the company can have access to EU resources.

In parallel with the opportunities, many factors threaten the progression of Pedrollo Hungária Kft. One of the biggest threats is the strong presence of competitors. The most dangerous ones are Grundfos and Wilo. Grundfos is one of the leader pump producers in the world. The Danish company has been operating in Hungary since 1996.²⁹ Wilo is a Germany based pump manufacturer, has been running its Hungarian subsidiary since 1991.³⁰ These two companies rule the civil and industrial sector in Hungary, where Pedrollo would like to enter.

The appearance of Chinese pumps is also a quite big danger as they offer their products at very low prices; however, their quality is also very low.

Thanks to the crisis, many customers have financial problems and cannot pay on time. The company tries to be patient but if the number and value of late payments increase in the future, it will cause financial problems for the company, as well.

²⁹Retrieved 30 October, 2012 from <http://www.grundfos.hu/>

³⁰Retrieved 30 October, 2012 from http://www.wilo.hu/hu/kezdolap/wilo-magyarorszag-kft/rolunk/#.UI_VwG9mLSg

As every company, the success of Pedrollo depends also on the economic situation of the country. If the economic crisis deepens in the future, there is the threat that people, with less income and purchasing power, will choose the cheaper Chinese products instead of Pedrollo pumps and the demand will decrease toward the products of this company.

This year, weather conditions were very favourable for the company as the summer was very hot and dry, so there was an outstanding demand for pumps used for irrigation. In case of rainy summer, the demand will be more moderated.

5.3. PEST analysis

The most important factors of the environment influencing the operation of a company were already introduced in my thesis. And now, I will examine these factors concerning Pedrollo Hungária Kft.

- **Political factors**

According to the World Competitiveness Index survey of IMD, in 2010, Hungary was one of the countries where the opportunities to the access to credit are the most unfavourable. Political instability, the frequent change of regulations are the weak points of Hungarian politics which is not attractive for foreign investors. The social framework is considered as inefficient and the tax burden on employees is outstandingly high. The effective personal income tax burden is still the highest among the examined 57 countries and the amount of social security contributions is among the highest values. On the other hand, Hungarian economy is opened to foreign trade and foreign direct investments, furthermore corporate taxes and the rate of state ownership is very favourable here. Low administrative costs and the low time requirement concerning company establishment is also mentioned as our advantage.³¹

The establishment of Pedrollo Hungária Kft. was quite easy thanks to the openness of the Hungarian economy toward foreign investors. But the management is not satisfied with the level of the social contributions that have to be paid after workers, not to mention the difficult access to external financial resources.

- **Economic factors**

The Hungarian economy was hit the global economic crisis very hard. and although in 2011 there was a slight improvement in most of the member states of the European Union, this development was significantly slower in our country. Besides the slowdown of the economic growth in Hungary, the economy has serious difficulties due to the negative evaluation of the acts of the government

³¹ Hétfa Kutatóintézet [2010]: International measurments on administrative burdens (Nemzetközi felmérések az adminisztratív terhekről), Budapest p. 11. Retrieved 2 November, 2012 from. http://hetfa.hu/wp-content/uploads/HSZH03_Nemzetk%C3%B6zi_felm%C3%A9r%C3%A9sek_adminterhekr%C5%91l_ISSN.pdf

from the side of the foreign investment market. Especially last year, the government made numerous decisions in order to maintain the balance of the budget which drew criticism.³² The biggest weakness of the Hungarian economy is the high level of government debt comparing to the GDP.³³

- **Social factors**

As a result of the current situation of the Hungarian political and economic environment described above cannot be stated as favourable for the society. The austerity measures of the government, the high unemployment rate (10,4%)³⁴ and the high level of personal income tax are all barriers to the increase of the consumption of households. People have low income and decreasing savings which causes lower demand.

From this point of view this company is lucky, because it is involved in the distribution of pumps which are essential to use (not like e.g. perfumes), so the demand toward them is not so heavily affected by the changes in the income level of consumers. Of course, people tend to buy less expensive products, especially if they have less income, so demand is more influenced by the offers of the competitors. But those customers who know the products of this company and trust them are usually loyal to this brand.

- **Technological factors**

As the production of Pedrollo pumps takes place exclusively in Italy, the technological environment is not decisive from the aspect of this company. What can be mentioned here is the garage service network of the company in the whole country. In case of malfunction of pumps, the customer can send them back to the Hungarian branch, Szolnok or to any of the garage partners of the company where trained experts can repair them in most cases. The well-established garage service network throughout the country is a big advantage of the company, most of the customers are satisfied with their services and they are more courage to buy pumps anywhere in the country because they know that in case of any problem they can turn to the service partners of the company which can be found in each region.

³² Doing business in Hungary [2012], Nemzeti Külgazdasági Hivatal, 9.p. Retrieved 24 October, 2012 from <http://www.hita.hu/hu/Content.aspx?ContentID=a5c33f50-5a44-42d1-81c9-162d42fc92a6>

³³ Hétfa Kutatóintézet [2010]: International measurments on administrative burdens (Nemzetközi felmérések az adminisztratív terhekről), Budapest 11.p.

³⁴ HVG [2012] – The unemployment rate is 10,4 percent Retrieved 14 November, 2012 from http://hvg.hu/gazdasag/20121030_KSH_04_szazalek_a_munkanelkulisegi_rata

5.4. Selling of Pedrollo Hungária Kft.

With the help of the branch manager, and the use of the so called “Cognos”, which is a software for managing all data concerning the firm and for the analysis of financial performance, I examined the selling of the company in Hungary through two chosen pumps which I will call “Pump 1” and “Pump 2” in the followings. The examined years are 2006, 2008, 2009 and 2011. I chose these years, because as the company started to operate in Hungary in 2005, I could get results for a whole year, close to the beginning of the operation, only from 2006. The other reason is that I wanted to analyse a year before the outburst of the global economic crisis. This year will be the basis, when according to my assumption the company was in a favourable position. The next investigated years 2008 and 2009 are the darkest years of the crisis and I was interested in, how the demand toward these two pumps changed at that time. In order to get fresh data about sales, I chose also 2011. Naturally, I could not get information for the whole 2012 as it hasn’t finished yet.

I received information about the sold quantity of the chosen products, the turnover from them and how much was their average price in those years. Based on the given data, I prepared also value, price and volume index counts.

➤ Period A: 2006-2008

Firstly, I observed how much the sold quantity and the price of the two products changed from 2006, before the crisis, to 2008, when the crisis burst.

Table 2.: data of the sold Pump 1 and Pump 2 products at Pedrollo Hungária Kft.
in 2006 and 2008

	2006		2008	
	sold quantity	price	sold quantity	price
Pump 1	1612	€ 24,52	1350	€ 28,87
Pump 2	486	€ 47,70	486	€ 51,10

Source: Cognos statistics

Volume index:

$$I_q = \frac{\sum q_1 \cdot p_1}{\sum q_0 \cdot p_1} = \frac{(1.350 \cdot 28,87) + (486 \cdot 51,1)}{(1612 \cdot 28,87) + (486 \cdot 51,1)} = \frac{63.809}{71.373} = 0,89 \Rightarrow 89\%$$

In average, the sold quantities decreased with 11% between 2006 and 2008.

Price index:

$$I_p = \frac{\sum q_0 \cdot p_1}{\sum q_0 \cdot p_0} = \frac{(1612 \cdot 28,87) + (486 \cdot 51,1)}{(1612 \cdot 24,52) + (486 \cdot 47,7)} = \frac{71.373}{62.708} = 1,138 \Rightarrow 113,8\%$$

As a response to the economic downturn, the company increased its prices with 13,8%.

Value index:

$$I_v = \frac{\sum q_1 \cdot p_1}{\sum q_0 \cdot p_0} = \frac{(1350 \cdot 28,87) + (486 \cdot 51,1)}{(1612 \cdot 24,52) + (486 \cdot 47,7)} = \frac{63.809}{62.708} = 1,017 \Rightarrow 101,7\%$$

The received value means that the turnover of Pedrollo Hungária Kft. increased in general with 1,7% from 2006 to 2008. This result shows that the economic crisis had not affected seriously the activity of the company yet. At least, its sales did not fall. What is more, in spite of the crisis, the turnover rose, although very slightly.

Relationships between aggregates:

$$K_p = \sum q_0 \cdot p_1 - \sum q_0 \cdot p_0 = 71.373 - 62.708 = 8.665 \text{ Eur}$$

The increase of prices had positive impact on turnover which grew with 8.665 Euros.

$$K_q = \sum q_1 \cdot p_1 - \sum q_0 \cdot p_1 = 63.809 - 71.373 = -7.564 \text{ Eur}$$

According to this, the decline of the quantity of sold pumps resulted a 7.564 Euros decrease of turnover in 2008.

$$K_v = \sum q_1 \cdot p_1 - \sum q_0 \cdot p_0 = 63.809 - 62.708 = -1.101 \text{ Eur}$$

According to this result, thanks to the parallel changes of the two factors (quantity, price), the turnover of this firm decreased with 1,101 Euros in 2008.

On the whole it can be said that the burst of the global economic crisis caused a 11% decrease in the turnover from Pump 1 and Pump 2 which was a 1.101 Euros loss.

➤ **Period B: 2008-2009**

The next period I analysed is 2008 and 2009.

Table 3.: data of the sold Pump 1 and Pump 2 products at Pedrollo Hungária Kft. in 2008 and 2009

	2008		2009	
	sold quantity	price	sold quantity	price
Pump 1	1350	€ 28,87	688	€ 25,53
Pump 2	486	€ 51,10	262	€ 51,75

Source: Cognos statistics

According to this result, in 2009, thanks to the parallel changes of the two factors (quantity, price), the turnover of this firm -from these two products- decreased with 32.686 Euros.

All in all, generally I can state that the evolvement of the crisis had quite serious effects on the turnover of these products between 2008 and 2009. Both the sold quantities and the turnover fell seriously in this period, although the firm tried to reduce its prices, it was not enough to interfere this negative tendency.

➤ **Period C: 2009-2011**

Table 4.: data of the sold Pump 1 and Pump 2 products at Pedrollo Hungária Kft. in 2009 and 2011

	2009		2011	
	sold quantity	price	sold quantity	price
Pump 1	688	€ 25,53	950	€ 32,82
Pump 2	262	€ 51,75	360	€ 50,27

Source: Cognos statistics

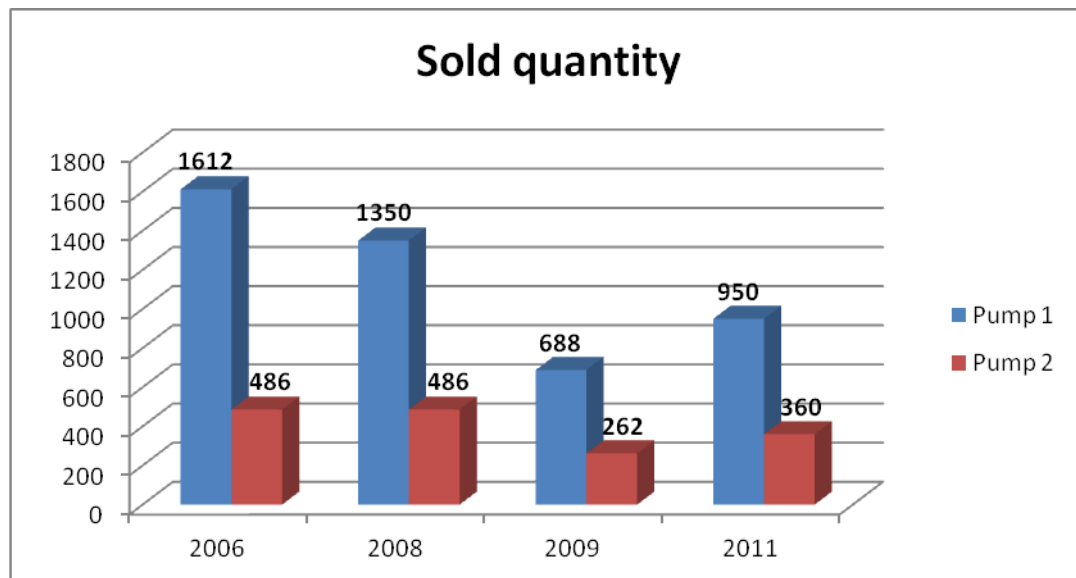
According to this result, in 2011, thanks to the parallel changes of the two factors (quantity, price), the turnover of this firm increased with 18.153 Euros.

We can say that the signs of recovery appeared between 2009 and 2011. The firm reached a +37,8%, a 18.153 Euros development in sales of these products.

After the examination of value-, price- and volume indexes I observe the changes in sold quantities, prices and the reached turnover separately.

Sold quantities

Figure 4.: Sold quantities of Pump1 and Pump2 in 2006, 2008, 2009 and 2011



Source: Cognos statistics

As the chart shows above, remarkable changes happened in the period of 2006 and 2011 in terms of sold quantities of the two chosen products. At the beginning of the operation of the business, in 2006, the company sold quite high numbers from Pump1 and Pump2. To the effect of the outburst of the global economic crisis, these numbers did not change a lot, the sales of Pump1 fell with 16% and the number of sold Pump2 did not change at all.

A serious deterioration of sales can be noticed between 2008 and 2009, between these years the company suffered a sharp decline, exactly from 1350 to 688 (-49%) in case of Pump1 and from 486 to 262 (-46%) in case of Pump2.

After the deepest recession these results started to develop, the number of sold Pump1 rose from 688 to 950 which is a 38% increase, and in case of Pump2 this number grew with 37%, from 262 to 360 between 2009 and 2011.

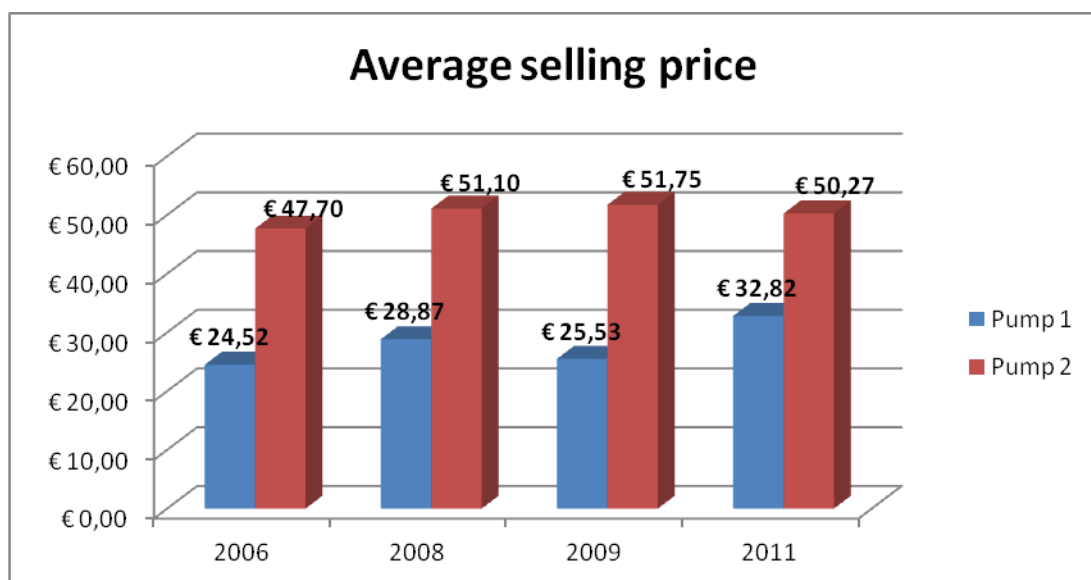
These results were expected as thanks to the crisis, the spending of customers changed, more precisely they have less income which causes lower demand or less money dedicated to spend on products. But the decrease and low number of sold products is not just the fault of the crisis. As I already clarified, this company innovates constantly and they launch more and more new products on the market. In parallel with the expansion of the product range the demand toward certain types of pumps may fall. Naturally, if there are only a few products from which consumers can opt, they

will buy big quantities from those products they can, as they have no more options. If new products appear, the demand may change if customers choose the new products instead of the old ones. During the 7 years of operation of the company in Hungary, the variety of pumps in one pump group has been increased, that can cause drop of sales in case of products which have been presented on the market for long years. The firm produces more and more sophisticated products in order to satisfy the different needs of buyers.

Prices

A strong correlation can be between the price and the demand for products. But as it will turn out, price is not the only factor which influences demand.

Figure 5.: Yearly average prices of Pump1 and Pump2 in 2006, 2008, 2009 and 2011



Source: Cognos statistics

As can be seen in the chart above, slight fluctuation can be observed in the annual average price of the two products. From 2006 to 2008 the price of both pumps were elevated: Pump1 from 24,52 € to 28,87 € which was a 18% increase, and the price of Pump2 from 47,7€ to 51,1€ which was a 7% growth. This can be a reason for the decrease of demand toward these products between 2006 and 2008. In the next period, between 2008 and 2009, Pedrollo decreased the price of Pump1 (-12%), while the average price of Pump2 was slightly raised from 51,1€ to 51,75€ (+1%). The sold quantity of both products almost halved in this period but only the price of Pump1 was decreased. It is interesting to note that albeit the price of Pump1 was lowered with 12% the sold quantity of this product decreased in a bigger extent (-49%) than in case of Pump2 which price was elevated but the sold quantity fell in smaller extent (-46%). As the branch manager mentioned, in the

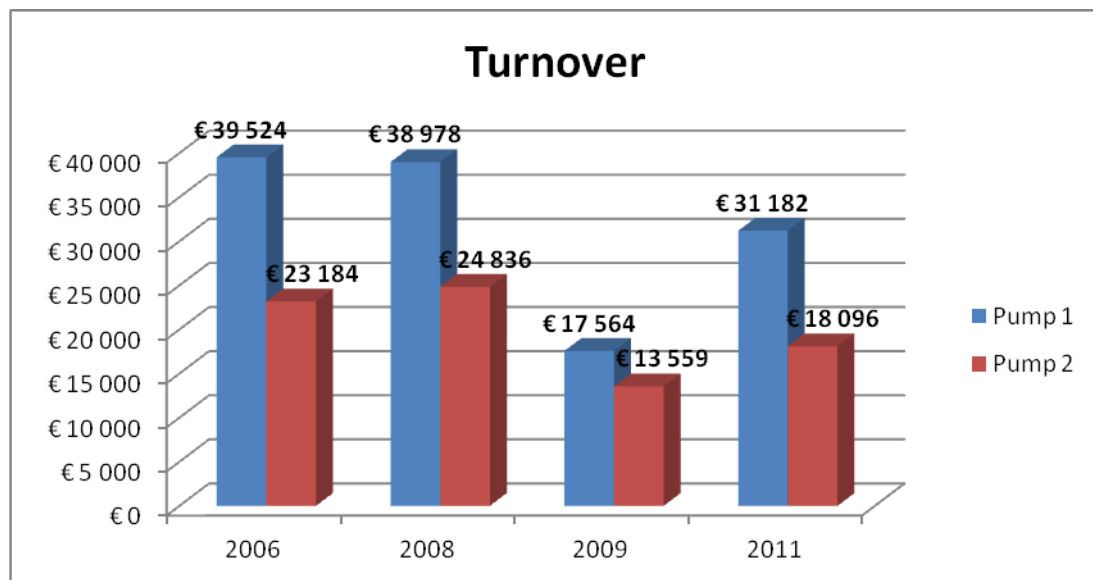
examination of sold quantities it must be taken into consideration that in 2009 the management made a special offer in case of some pumps which was that e.g. buying 10 pieces from a certain type of electric pump, the customer got one additional for free. This can be a reason for that although the price of Pump2 was elevated, the sold quantity decreased in smaller extent than in case of Pump1.

In the next period, between 2009 and 2011 the situation changed: the average price of Pump1 was elevated with a significant amount, with 29% from 25,53€ to 32,82€ and the price of Pump2 was decreased with 3%. In spite of these changes in price, demand did not break, the number of sold quantities developed in both cases: Pump1 increased with 38% and Pump2 with 37%. So, demand was inelastic in this period. This result can be ascribed not only to the changes of the economic situation, but also to the competition. If competition is not so strong, the company can keep or improve its position on the market.

Turnover

Finally, I wanted to find out how turnover (from the chosen products) changed between 2006 and 2011. (Figure 6)

Figure 6: Turnover from the sales of Pump1 and Pump2 in 2006, 2008, 2009 and 2011



Source: Cognos statistics

As shown above, like sold quantity and prices, in the first period (2006-2008), slight changes can be noticed concerning the turnover. The income of the selling of Pump1 fell with 1,38%, from 39.524€ to 38.978€, but in case of Pump2 turnover increased with 7,13% (from 23.184€ to 24.836€) thanks to the although the price of this product was increased with 7%, the sold quantity did not change,

people were willing to buy this pump for a higher price. The crisis did not spare the turnover from these two products, this tendency radically changed in 2009 as a 54,94% drop occurred in case of Pump1 and an also very serious drop in turnover of Pump2 which fell with 45,41%. This is natural, because the number of sold quantities decreased seriously, as well (-49% and -46%) and the price of Pump1 was decreased with 12%, so low turnover could be expected. In contrast with these dark years, in 2011, a fantastic jump happened in turnover, especially in case of Pump1, where it grew from 17.564€ to 31.182€ which is a +77,5% positive change. A quite encouraging improvement can be noticed also in case of the second product, its turnover increased from 13.559€ to 18.096€ which is a +33,5% change comparing to 2009. The much bigger development in turnover of Pump1 is the result of that in this period, the number of sales increased significantly (+38%) in parallel with the price (+29%).

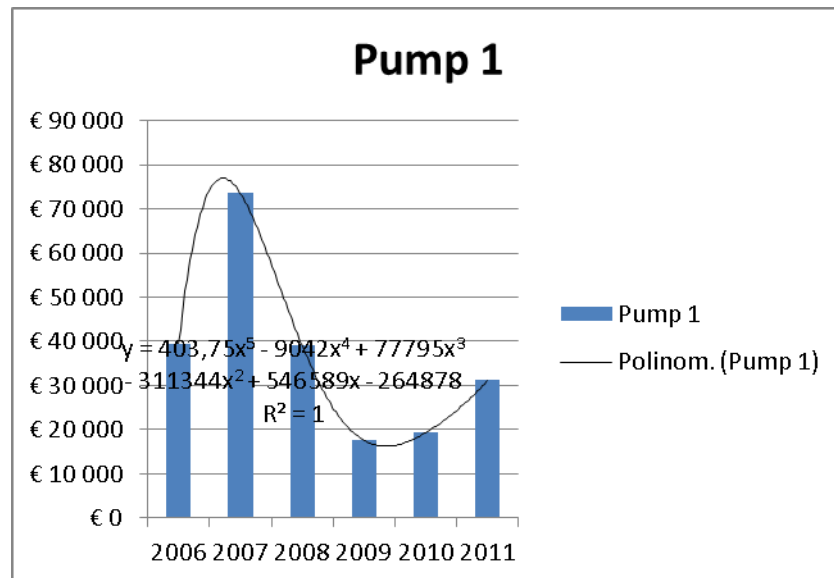
Of course, the sales of the two chosen pumps does not reflect the change in sales of the company as they sell although 500 products. While that serious change happened in 2009 when there was a 54,94% drop in turnover from Pump1 and Pump 2, the net turnover from sales of the company was even higher than in 2008. But the downturn did not wait for a long time, one year later, in 2010, the boom of sales broke; turnover fell with about 35%. But this cannot be ascribed fully to the crisis, it has to be taken into consideration that in 2010, the management laid off almost half of the workforce in order to decrease expenses. The number of sales persons decreased from 5 to 2 which can also be the reason for this decline.

If I compare the situation of this branch with the general situation of SMEs in Hungary I would claim that it has not really followed the trends. While in 2008 the prosperity indexes of SMEs fell dramatically to a very low level, at Pedrollo Hungária Kft. only a little decrease can be noticed in sales and turnover. But in 2011, when the diminution of prosperity indexes of SMEs continued in Hungary, the turnover of the company started to increase again.

I tried to examine the development of the turnover deeper between 2006 and 2011 and to make some forecasts with the use of trend function. In Excel file I fitted different trend functions (linear, exponential, power, logarithmic) on these data. The value of R^2 is very important, because this is the explanatory factor which shows how the trend explains the evolution of the actual value beside seasonality and chance. The fifth grade polynomial trend function is the best fit for the analysis of these data because it shows the development of the turnover in case of the chosen products (Figure 7-8). In this case, R^2 , i.e. the value of the explanatory factor is less than 50%, therefore seasonality and coincidence have a greater influence on the actual value than trend. However, it is necessary to note that this is a simple approach as besides time factor, it does not take other factors into

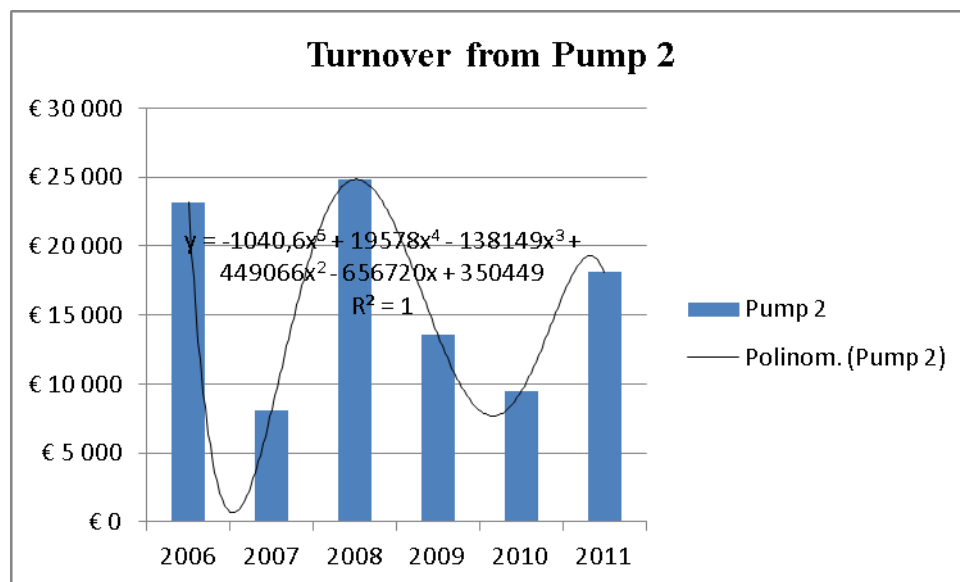
consideration. Polynomials just follow the dot line, the correct use of them for extrapolation is almost impossible which can be the largest source of errors in case of making forecast.

Figure 7: Trend line on the turnover from the sales of Pump1 between 2006 and 2011



Source: Cognos statistics

Figure 8: Trend line on the turnover from the sales of Pump2 between 2006 and 2011



Source: Cognos statistics

Thus I could make forecasts only based on the average growth rate.

Table 5: Average growth rate of the turnover from Pump 1 between 2006 and 2011

Year	Turnover (million Euros)	Chain ratio (%)	Base ratio (%)
2006.	€ 39 524		100
2007.	€ 73 536	186,05	186,05
2008.	€ 38 978	53	98,6
2009.	€ 17 564	45,06	44,43
2010.	€ 19 350	110,17	48,95
2011.	€ 31 182	161,15	78,88

Source: Cognos statistics

The value of the average growth rate of the turnover from Pump1 is 95,2% which means that in the period of 2006-2011 the turnover decreased 4,8% in average year by year.

Calculating with these data: $31182 \cdot 0,952 = 29685$

So, the turnover in 2012 will be 29.685 euros.

Table 6: Average growth rate of the turnover from Pump 2 between 2006 and 2011

Year	Turnover (million Euros)	Chain ratio (%)	Base ratio (%)
2006.	€ 23 184		100
2007.	€ 8 034	34,65	34,65
2008.	€ 24 836	309,14	107,11
2009.	€ 13 559	54,59	58,47
2010.	€ 9 437	69,6	40,7
2011.	€ 18 096	191,76	78,04

Source: Cognos statistics

In case of Pump 2 the value of the average growth rate of the turnover is 95,4%. So, in that period, the turnover decreased with 4,6% in average.

Calculating with these data: $18\,096 \cdot 0,954 = 17263$

The expected turnover in 2012 will be 17.263 euros.

5.5. Findings

Strategy during the crisis

If I would like to summarize the strategy of Pedrollo Hungária Kft. to moderate the negative impacts of the global economic crisis and the changes in demand, I would use one word: *control*. In the followings it will turn out, why.

➤ Debts of customers

In Hungary it is quite common that customers do not pay on time. What is differs from the Western practice is the bigger patience. For example, at this company, the deadline for payment by money transfer is 30 days from the issue of the invoice. For the Italian management this is too much time, but they accept it. However, they take it very seriously which is manifested by the practice which is the following: if the customer exceeds the 30days and he order products without paying the previous invoice, he cannot be supplied with the products till he does not pay the expired invoice. Every week, a report is made to the management about the outstanding debts and those customers who are beyond the tolerable period will be reminded by phone or e-mail.

Before 2010, pumps were sold to retailers also in commission, so they paid for the company only after those pumps they managed to sell. Nowadays the management does not use this method.

➤ Credit limit

The use of credit limit here started later than at the parent company, it has been used only since the beginning of 2012, when Mr. Zenari started to work at his current position. The limit works the same way as in case of Italy. If the customer has expired invoice and with his order he exceeds its credit limit, he will not receive the ordered product till he does not pay that invoice.

➤ Avoiding high amount of products in the warehouse

By the constant check of the current stock, the company can avoid keeping too many products in the warehouse. For this reason, the so called stock list is made on each Monday. It contains the number of sold products by each pumps, the number of products in the warehouse and the number of ordered products. Based on this Excel sheet, the branch manager makes some estimation and determines how many products are necessary to order from Italy. If the company orders more than needed form an expensive pump, it is an unnecessary expense, especially if it cannot be sold and stays in the warehouse for a long time.

➤ Following carefully how the business is going

At the end of each day and each week, the head of the company must be informed about the invoices the company issued. These data are got to the so called Cognos database and based on these lists several statistics are made concerning the sales, turnover, sold products, customers etc. Naturally, the main aim of this step is to monitor continuously how the business is going.

➤ **Pricing**

Before 2010, the pricing of products was absolutely different from the current practice of Pedrollo Hungária. The selling price was not too much higher than the purchase price of the pump and only 6-8-10% discount were given. But in case of buying in bigger quantity, a pump was given free of charge. For example, if the purchase price (from Italy) of a pump was 20.000Ft, it was sold for e.g. 28.000Ft minus the discount.

After 2010 the company started to use much higher prices and bigger discounts to follow the Western habit. They started to use price lists which contains much higher prices e.g. the pump which was bought from Italy for 20.000Ft is sold for 56.000Ft minus 40-45-50% discount. The firm started to use this strategy because it is commonly used in Western Europe, so also in Italy, as it is considered to be more attractive for customers if they get so big rebate.

➤ **Cost reduction**

In contrast with the Pedrollo S.p.A. which managed to keep its employees, at this company, in 2010, the management laid off almost half of the workforce in order to decrease expenses. This seemed to be the only way to radically reduce costs. Some fixed costs were also reduced e.g. by more careful and less use of heating and electricity. The other field of cost reduction was advertisement. Before that time the company spent more money on the advertisement, it was represented on exhibitions and trade fairs very often. The firm also rented a logistics warehouse in Gyál and its products were distributed also from there throughout the country with the use of the services of a logistics company. Nowadays, pumps are kept only in the warehouse of the company and distributed by currier, by the sales persons and customers also can buy and take them also at the subsidiary.

Getting acquainted with the strategies used at Pedrollo Hungária Kft., I would identify this firm as prevention oriented company. Like firms classified in this group do, the management made defensive steps and tried to reduce the costs of operation. The workforce was significantly cut and discretionary costs were diminished.

6. RECOMMENDATIONS

❖ **Human resource development**

As I have already mentioned in the SWOT analysis of this branch, only two sales persons are dealing with the customers of the whole territory of the country. I put this fact among the weaknesses because although they are doing their best and working quite effectively, it is very difficult and time consuming for them to pay attention and keep constant relationship with the buyers, especially with smaller retailers far away from Szolnok. Sales persons try to keep personal contact with customers and visit them as much as they can but these visits are rarely feasible e.g. in case of Trasdanubia. That is why I would recommend the company to employ at least one more person. It would be plus cost but I think, in the long run this cost would return as probably the company could get have access to more customers in the country or at least stronger relationships could be held with the existing ones.

❖ **Expansion of the subsidiary**

Another but more expensive option would be the opening of a branch in Trasdanubia but first, the widening of the clientele and the establishment of stable relationship with them is more important.

❖ **Market segmentation**

The other thing I recognized is that the company has six big wholesalers which buy its products in remarkable quantities. Because of this, the firm relies on them very much and cares relationship mainly with them. This is understandable and very positive, that they have these very important partners which contribute so much to the sales of this company. But at the same time, this is also very risky, because if only one of them falls out from their customers, the company will have big losses. Not to mention that these wholesalers sell many other brands, not just Pedrollo and if the others have better promotion and/or more favourable prices, the customer will buy the other product. This is natural, if people have more options they will choose the most favourable one. This is the reason why I recommend to gain the attention of more smaller retailers and technicians because if our sales person seeks out and personally convince them by giving good reasons and discounts, they will use Pedrollo pumps and not search for other brands.

❖ **Development of the marketing activity**

As far as marketing is concerned, the most important thing would be the renovation of the website of the Hungarian branch. A company website is a special promotion. It helps to convey the message of the company to many people. The information it contains is available all day and night, from any point of the world. So, a website eliminates the constraints of space and time, it is never closed and anybody can visit it. The firm has the possibility to present more information and picture about its products like e.g. on a brochure and more information gives more security for customers in their decisions which can lead to purchase. Of course, a site does not necessarily bring success. The accuracy of the information and good quality, attractive pictures are very important. For long months, the website of the company contained only the address and some phone numbers which does not attract customers. It is “refreshed” now, but in its current form, it still does not comply with today’s requirements. It does not include up-to-date information, and which is the worst thing, the product catalogue is not available. So, the company website should be made “alive”. By this, the firm could gain bigger market share and it would not cost so much as e.g. a television advertisement. Naturally, a good website is not enough, it needs promotion.

The use of brochures with actual discounts at the place of wholesalers and retailers of the company can also be a good way of promotion. By the appearance in professional journals the company could arouse the interest and could emphasise the professionalism and reliability of the pumps. Participation in exhibitions is also a good way to make this brand more well-known.

❖ **Monitoring retailers**

As to the competition, I would suggest checking personally the place of selling (retailers, wholesalers) of Pedrollo pumps. As Mr. Zenari said, they always follow the prices and the appearing products of competitors, but this is done only by checking their websites and catalogues. This is not enough because the environment where products are sold can have a big influence on sales. For example the company should monitor whether the leaflets and catalogues in which Pedrollo pumps are advertised are kept in the stores, by which pumps they are surrounded and what is the price of the pumps of other brands.

CONCLUSION

Investigating the operation and strategies of Pedrollo Hungária Kft., I can state the followings.

According to my findings, one of the strategies of this firm, I can state that it is in a quite good position. Although it is young and small, it has a good reputation on the Hungarian market not only because they distribute high quality products at reasonable prices, but also because they supply customers with the ordered pumps outstandingly fast. Furthermore they have a well-built service partner network throughout the country. Another strength of the firm is that it also has 6 wholesalers which buy their products in big quantities.

During my study, I tried to get deeper insight into the changes of sales and the reactions of this firm to the crisis. After my calculations concerning the sales of two chosen pumps in 2006, 2008, 2009 and 2011 generally I can state that the evolvement of the crisis had quite serious affects on the turnover of these products between 2008 and 2009. Both the sold quantities and the turnover fell seriously in this period, although the firm tried to reduce its prices, it was not enough to interfere this negative tendency. The decrease and low number of sold products is not only the fault of the crisis. As I already clarified, this company innovates constantly and they launch more and more new products on the market. In parallel with the expansion of the product range the demand toward certain types of pumps may fall. During the 7 years of operation of the company in Hungary, the variety of pumps in one pump group has been increased, that can cause drop of sales in case of products which have been presented on the market for long years. In the examination of sold quantities it must be taken into consideration that in 2009 the management made a special offer in case of some pumps which was that e.g. buying 10 pieces from a certain type of electric pump, the customer got one additional for free. This can cause bias results. Taking everything into consideration, some fluctuation can be observed in sales in the examined years, but the branch remained stable. Of course, the sales of the two chosen pumps does not reflect the change in sales of the company as they sell although 500 products. While that serious decline happened in 2009, (54,94% drop in turnover from Pump1 and Pump 2), the total net turnover from sales of the company was even higher than in 2008. But the downturn did not wait for a long time, one year later, in 2010, the boom of sales broke; turnover fell with about 35%. But this cannot be ascribed fully to the crisis, it has to be taken into consideration that in 2010, the management laid off almost half of the workforce in order to decrease expenses. The number of sales persons decreased from 5 to 2 which can also be the reason for this decline.

If I compare the situation of this branch with the general situation of SMEs in Hungary I would claim that it has not really followed the trends. While in 2008 the prosperity indexes of SMEs fell dramatically to a very low level, at Pedrollo Hungária Kft. only a little decrease can be noticed in

sales and turnover. But in 2011, when the diminution of prosperity indexes of SMEs continued in Hungary, the turnover of the company started to increase again.

As far as the strategies this company used during the last few years are concerned, it can be said that tried to keep every activity and customers under control. Strict rules were introduced (and they are still used) to retard the negative impacts of the crisis. In order to avoid high value of outstanding debts of customers, the credit limit was introduced also at this branch and the debts of customers are constantly followed. By smaller everyday and more serious statistics, the firm always has up-to-date information about how the business is going. So, they can notice immediately if there is any problem with sales and after analysing it, they can react very fast. By the constant check of the current stock, the company can avoid keeping too many products in the warehouse which is a big problem for many companies.

In my opinion, Pedrollo Hungária Kft. in spite of that it is a small company is quite successful and has been managing to overcome the negative impacts of the crisis thanks to its favourable position on the market which has been built up during the few years of its operation and to the effective steps the management has been taking. Of course, their success also stems from the fact that pump is necessary to use for the conveyance of water which is definitely essential for everyday life, people cannot renounce water. So, the demand for electric pumps is not so elastic as in case of luxurious products.

In any case, this firm is a dynamic, cooperative group of talented employees. These are values which coupled with excellent products can lead a company to success.

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ANNEX

Interview

Subject: Dott. Matteo Zenari

Position: the Hungarian branch manager

Location: Pedrollo Hungária Kft – 5000.Szolnok, Újszászi út 11.

Date: 15.10.2012

Matteo Zenari has been the current branch manager of Pedrollo Hungária Kft. since 2011 January. His career at Pedrollo S.p.A. started in 2009 when he began to work at the sales department of Pedrollo S.p.A. After one year of training and experience he was promoted to be the Area Manager of the Balkan territory. I asked him about how the parent company and the Hungarian branch are operating at the time of the economic crisis.

How could you characterize the performance of Pedrollo Hungária Kft. in the last few years?

Pedrollo Hungária Kft. is a small and quite young firm. I mention this because if we compare it to the parent company, there is a very big difference in performance. This market is much smaller than e.g. the Italian, so the turnover of this branch is much lower. But we can say that similar changes can be observed in sales. 2008 was very fructiferous for this branch but in contrast with the parent company, for which 2009 was the most critical year, at this firm, the turnover was even higher than in 2008. But the downturn did not wait for a long time, one year later, in 2010, the boom of sales broke; turnover fell with about 35%. Last year, slight increase in turnover can be noticed and this year was very prosperous, so we are on the way of recovery.

Do you have to face strong competition in Hungary?

In the pump sector it is difficult to analyse the competition. There are many competitors here, smaller and bigger companies but they are not operating on the same sector. Some of them are specialised on hot water or cold water, waste water, others are selling pumps for the industrial, civil or domestic sector etc. In Hungary, our main competitors are Grundfos and Wilo. But KSB, Elpumps, DAB, Ebara are also some of our competitors. I can say that in the domestic sector, Pedrollo is the leader in Hungary while Wilo and Grundfos rule the industrial and civil sector where we also would like to enter.

How can you compete with them?

We constantly observe the market and check their prices and what kind of products they offer. We try to keep up with them and offer better possibilities.

What is your pricing strategy?

Almost there is always a discount on our products. For our 6 big wholesalers we offer 50% discount, service partners also get -50% for spare parts. Our smaller buyers generally receive

discount between 40 and 50%, depending on how much they buy, how reliable they are and how long is the relationship between them and the company. We also offer special, very big discounts when we want to sell the last pieces of certain products. We introduced this pricing strategy after 2010. Before that time, the pricing of products was absolutely different from the current practice. The selling price was not too much higher than the purchase price of the pump and only 6-8-10% discount were given. But in case of buying in bigger quantity, a pump was given free of charge. For example, if the purchase price (from Italy) of a pump was 20.000Ft, it was sold for e.g. 28.000Ft minus the discount. After 2010 the company started to use much higher prices and bigger discounts to follow the Western habit. They started to use price lists which contains much higher prices e.g. the pump which was bought from Italy for 20.000Ft is sold for 56.000Ft minus 40-45-50% discount. The firm started to use this strategy because it is commonly used in Western Europe, so also in Italy as it is considered to be more attractive for customers if they get so big rebate.

Were any austerity measures made at this company during the deepest period of the crisis?

Unfortunately yes. In contrast with the Pedrollo S.p.A. which managed to keep its employees, at this company, the management at that time laid off almost half of the workforce in order to decrease expenses. This is very sad but this seemed to be the only way to radically reduce costs. Some fixed costs were also reduced e.g. by more careful and less use of heating and electricity. The other field of cost reduction was advertisement. Before that time the company spent more money on the advertisement, it was represented on exhibitions and trade fairs very often. The firm also rented a logistic warehouse in Gyál and its products were distributed also from there throughout the country with the use of the services of a logistics company. Nowadays, pumps are kept only in the warehouse of the company and distributed by currier, by the sales persons and customers also can buy and take them also at the subsidiary.

You talked about the management of orders. Do you use any methods to decrease the risk of late payments?

We take delayed payments very seriously, in Hungary they are very often and this firm cannot allow it. So, credit limit is used also at this company. What is more, in case of not so reliable customers, we fulfil their orders only for cash payment.

How do you see the prospects of the company and what are the future plans?

As I see, this branch has very good prospects for the future. Thanks to our qualified, hard-working and cooperative employees, we have been managing to overcome the arising difficulties effectively.

The demand for our pumps increased significantly this year and hopefully this trend will continue in the next years. That's why we are planning to expand in the near future to serve more and more Hungarian customers' needs. But of course, the future results highly depend on external factors like the competitors and, which is more important, the weather conditions. This year we were lucky as there was a very dry and long summer, so there was a big demand toward our pumps used for irrigation. But nobody knows what the future brings. In any case, we hope the best and continue work as we did so far.