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ATINER's Conference Paper Series

SME2012-0352

**Access to Competitive Strategy,
Medium-Sized Enterprise in the
Dairy Sector in the Slovak Republic**

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URL Conference Papers Series: www.atiner.gr/papers.htm

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ISSN 2241-2891

22/11/2012

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This paper should be cited as follows:

Pružinský, M. and Kerekeš, R. (2012) “Access to Competitive Strategy, Medium-Sized Enterprise in the Dairy Sector in the Slovak Republic”

Athens: ATINER'S Conference Paper Series, No: SME2012-0352.

Access to Competitive Strategy, Medium-Sized Enterprise in the Dairy Sector in the Slovak Republic

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Abstract

In today's globalized world and fierce competition, we have adopted statements of Experts in Economics, Management and Marketing, the undertaking has the right strategy to survive. Foundation of any business strategy, enterprise, regardless of the sector in which it operates, is based on Competitive Strategy. The main role of „Competitive Strategy” is to establish techniques and competing to achieve market success. Competitive Strategy, addresses the question: how to compete? We give an example; the company in the dairy sector is demonstrated taking into account competing strategic objectives. We base it on marketing strategy. To formulate a marketing strategy, we must take care to cater for competition – strategic goals. This means that we must build on the competitive environment analysis and analysis of strengths and weaknesses of the company. In our contribution we investigate the relationship of price and performance. In our case it means, the principle of „proper execution served at the right price“. Afterwards, we notice the relationship between time and space. „Proper sales space at the right time”.

Keywords: competition, strategy, market, marketing

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INTRODUCTION

Experts in the field of food stress that milk is an essential part of nutrition. Nevertheless, the consumption of milk is low in Slovakia and significantly lags behind other European Union Countries. Milk is important for humans because it contains a sufficient proportion of many nutritional substances, for example: fats, proteins, minerals, vitamins, enzymes and other components. Production and consumption of milk and milk products is recommended by the consultant who confirmed the contribution of drinking milk for human health. With milk and selected dairy products, we can treat some health problems, e.g. with digestive own metabolism, blood pressure. Not enough milk in the diet especially threatens the healthy development of children's skeletons. Long-term low milk consumption does not only lower purchasing power, but low consumer awareness of the irreplaceable role of milk in nutrition. Declining sales have an impact on dairy farming.

1 DAIRY IN SLOVAKIA

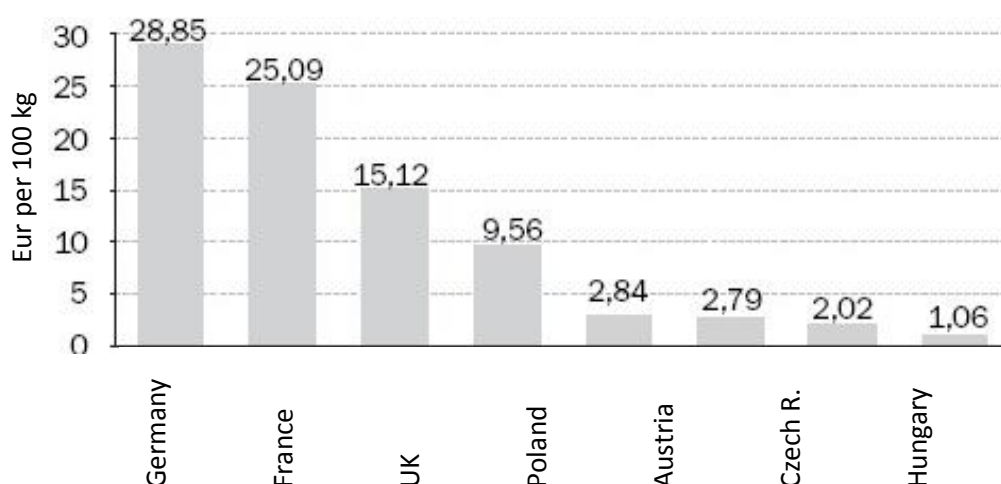
Dairy is one of the leading sectors of the National Economy. Developed countries are seeking self-sufficiency in basic food production; the most important advice is milk and dairy products. The actual production of milk and its consumption is important not only as a food article. It has immense importance in the society regarding the existence of livestock in the primary, manufacturing economy, the employment of people in rural areas, social and environmental program, the processing of Agricultural Products. According to Pavol Ganzarčík (2012) in Slovakia engaged in the production of milk 156 000 cows and sheep. Compared to 2005, their number decreased by 28.6%. According to the web site: *Za slovenské mliečne výrobky* (<http://www.zaskmliecnovyrobky.sk/data/files/INDIVIDUALNE%20KVOTY%20MLIEKA.pdf> 2012) **in the document** „*Individuálne kvóty mlieka k 31.03.2012 (kvótový rok 2011/2012)*“ there are **669 manufacturers** listed in milk production quotas by April 1, 2012. It shows that despite the decline of dairy cows in 2012 compared to 2011 in Slovakia increases milk production in line with Act No. 72/2009 of Council of Europe. It rises from 1,093,771,416 kg to 1,104,709,130 kg, what difference is +1,093,772 kg of milk per year. But the fact is that the milk production sector is the third year in a loss. In the area of production and distribution of milk and dairy products in the Slovak Republic operates 171 large, medium and small businesses. The state interest in Slovakia is keeping production executive agro-food industry. Its economic stability and the consolidation is a long process in which the influence of factors external and internal environment. The dairy industry is significantly concentrated and globalization through the strong clustering of businesses those enter and operate in an international environment, making them competitive for domestic entrepreneurs. The dairy industry is one of the most stable industrial sectors in the agro-food complex.

2 PRODUCTIONS, CONSUMPTION AND MARKETING OF MILK IN THE SLOVAK REPUBLIC

The above data on milk production complemented the data by reducing the number of dairy cows in 2011 a further 5,200 units. In Slovakia they now have 156,000 units. From the milk we produce 928,000 tons of milk per year, representing less than one percent (0.67% exactly) of the total European production, which reached 138.2572 million tons. Growth in milk production in the European Union in 2011 was greater than in Slovakia. We learned that overall Milk production in the EU in 2011 increased by 2.1% over 2010. In France, this meant an increase of 5.5%, Austria 4.4%, but also in neighbouring Poland by 3.4%. The increased supply will not meet with sufficient demand. Problems in the development of the global economy are reflected in the downward pressure on milk prices. Bergevoet, R.H.M. (2005) stressed, that the farmers are being called to account more for the entrepreneurial element of their farming behaviour. Up till now it was unclear how dairy farmers score on entrepreneurial characteristics and whether their entrepreneurial competencies can be improved. EU has established the quota of milk production for Individual Countries. Figure 1 shows the quotas for countries in the region of interest of the Slovak Dairy Producers.

As Margita Štefániková (2012, SZPM), she is executive director of the Slovak Union of Dairy Farmers, pointed out: „Slovak prices are about 2.5 to 3.5 cents per kg lower than average prices in the European Union.” At the same time Slovak government reduced in 2011, state support calculated per kilogram of raw cow's milk producing at 2.1 cents. Before one year it was 3.1 cents in 2009 and even 6.2 cents. The increasing in milk production in Europe is taking its toll here in Slovakia.

Figure 1. European Union quotas on milk production in nearby countries in million tons



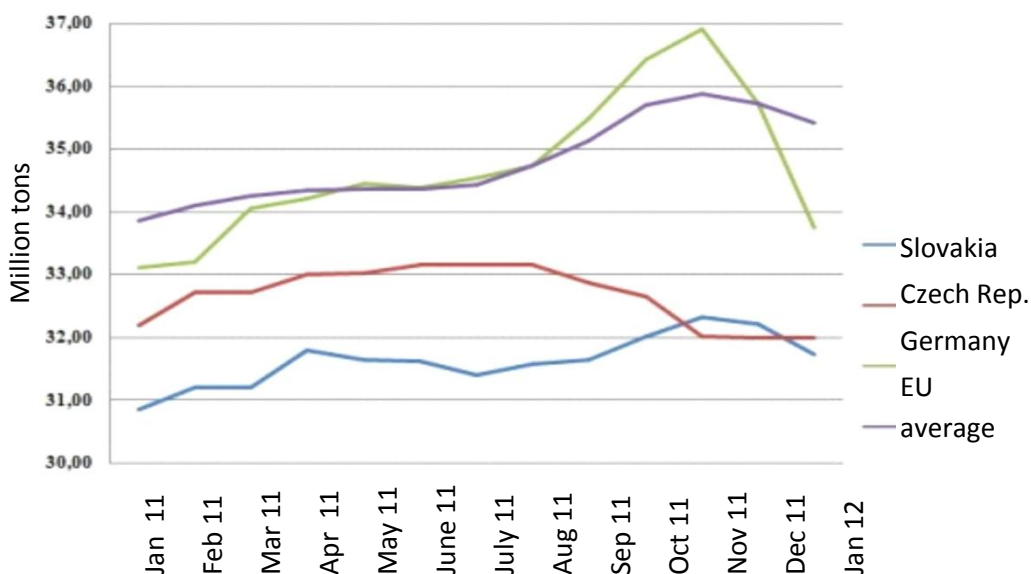
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Processors announcing reductions in purchase prices of milk. Overview of the purchase prices in selected countries is shown in Figure 2. The current development of weather is expected to show shortfall of cereals and fodder production (about 9%) and the consequent increase in their prices. Along with the increase in prices of other inputs, particularly fuel and reducing subsidies to unfold the price scissors.

Primary producers will have only two choices - stop breeding cattle and sell the harvested forage for expensive prices or continue in dairy and consciously deepen high loss of milk production as in previous years. It remains to hope that there will be no liquidation of the Dairy Industry, which has a long tradition in Slovakia. Slovak production of milk and dairy products is reduced, but in the Slovak supermarkets we cannot see it. Thanks to the import of dairy products. The customers fill, that everything is OK. We have enough of both Milk and Dairy Products as well. But in our rural areas will increase the number of unemployed.

Figure 2. Average purchase prices of milk in nearby countries



Source: own proceedings

3 RISKS OF THE DAIRY BUSINESS

Every business has risks. It does the processing of Milk and Cheese production. Milk production, in which the only alternative is to sell its to industrial dairy farmer leads to dependence on a few large buyers of Milk in

Slovakia. The economic difficulties of industrial milk processors and their dependence on the international market may cause the existential problems of farmers with sales and purchase prices. By eliminating the strong dependence of farmers on dairies is to diversify farming activities towards finalizing the materials on farms. Stimulus to such diversification is supported by the sale of agricultural products (raw materials) of the form Sale from the Yard. Yet we see in the farming agro-processing large reserves. Farm dairy products, although it may be supported by strong Slovak traditions, but their continuity has been disrupted for 4 decades, if not interrupted. Education dairy, trade in milk and milk products, science and politics were focused on centralized industrial systems, industrialization and intensification of production. This trend is also appearing 23 years after the Velvet Revolution and transformation to the free market economy. We learned that in addition to the continuity of production in traditional production and disappeared drinking habits of customers, the farmers producing their traditional products need to raise new consumer-friendly awareness of Dairy Products.

The dairy industry of the Slovak Republic in the first half of 2011 recorded a loss of more than 3.2 millions EUR. The unfavorable economic situation is also reflected in the manufacturing sector and may lead to the gradual disappearance of Slovak Agriculture and Food Industry.

World production of cow's milk should, according to Slovak Press Agency (TASR, 10.09.2011, 17:56 Bratislava) in 2020 to rise by 153 million tons to around 710 million tons. The increase in milk supply, however, was very different in different regions of the world, depending on the market, policy, cost of feed and the competition for soil water, respectively. This results from the current message agrarian market intelligence Slovakia (ATIS). The European Union, after the expiry of milk quotas in 2015, milk production should increase annually by 0.3%. Supplies of milk, however, until 2020, did not reach higher amounts than established national quotas. The reason should be the high production costs in EU countries. The high cost of energy and feed are expected to Oceania (i.e. Australia, New Zealand) and Latin America will have an advantage due to milk production based on the use of grazing versus feeding system based on cereals.

New Zealand should increase average production of cows' milk in the usual weather and grazing conditions improve in 2020 by 2.3%. In Australia remains a crucial factor in milk production availability of water, the total expected average annual increase of 1.2%. The U.S. should increase annual milk production by 1.4%, mainly due to increase in the average milk yield of dairy cows. Argentine milk production should increase annually by 3% and Brazil 1.7%, both driven by domestic demand.

The Dairy Industry in China is situated in a difficult situation (melamine scandal, infectious disease), but nevertheless are expected to average 3.3% annual increase in milk production with the strong support of this sector by the domestic government. In other developing and emerging countries is likely to develop milk production significantly. If India is projected 3% annual increase.

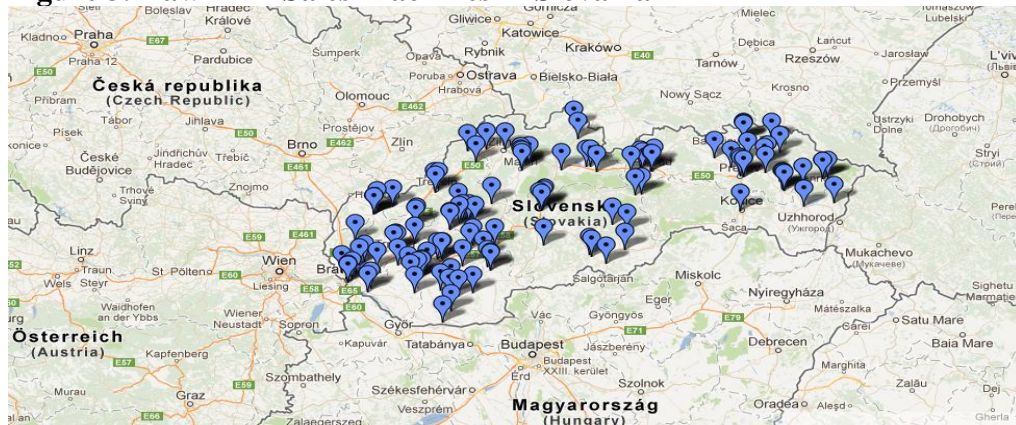
The other Asian countries will continue in an effort to meet growing domestic demand to expand its own production of milk.

The World Health Organization recommends consumption of 220 kg milk per person per year. But in 2010, according to Slovak Statistical Office data, we consumed 154.5 kg milk per capita. In 2009 it was 153.8 kg of milk consumption per person per year and in 2008 the average milk consumption per capita per year was 153 kg only.

To increase milk consumption in Slovakia and support milk producers in 2009 put into operation in place dairy vending machines. Milk producers, who wished to address the sale of raw cow's milk through a milk machines, received the government grants to buy and install machines in operation. Together there were installed nearly one hundred dairy machines. Almost three quarters of them are owned by agricultural cooperatives. In figure 3 we see the Slovakia map in which are the places with milk sale machines.

Dairy machines have their supporters, but opponents and critics of fresh or raw (unpasteurized) milk may contain pathogenic organisms, and therefore is not for immediate consumption. The milk may contain a number of bacteria capable of causing human disease. On each machine (see Figure 4) must be alert boil milk before its consumption, and that raw milk is not suitable for children, sick and elderly.

Figure 3. Raw Milk Sales Machines in Slovakia



Source: own processing

Figure 4. Sales of milk from the milk mach



Source: own processing

4 EVALUATION OF THE ECONOMIC ENVIRONMENT OF THE DAIRY INDUSTRY

The main task of examining and analyzing the external environment is to reveal strategic opportunities and threats arising from it.

THE MACROECONOMIC ENVIRONMENT is characterized by fundamental factors to consider as: the economic growth rate, provided interest rates, exchange rates and inflation. **ECONOMIC GROWTH** contributes to increased production because firms earn a higher return from selling their products. Consumers can choose from a wide range of products. If yogurts (such as Rajo, Danone, Jogobella and cheese Karička) have gradually become „leaders“ on the market today they are beginning to compete with other types of dairy products. For most local producers to market and sell dairy products consumed *Whittmann and son Ltd. Zvolen, Laktis, a.s., Mliekopol a.s. Nové Zámky, PDM Prievidza and Zempmilk a.s.* Efforts are directed along the modernization of production to improve the quality and diversification of cheese, dairy, flavored milk products, yogurt, cottage cheese curds and cream. **INFLATION** may slow economic growth and **RAISE INTEREST RATES**. When inflation is high the risk for business to invest in technology is high because the production becomes risky as well.

TECHNICAL ENVIRONMENT is influenced by changes in technology areas that can be partially predicted. Businesses must respond flexibly to it so that their products were competitive. Product innovation and the means of production companies produce a wide range of products for optimum pricing. Changes in environmental science and technology enterprises are investments, whose return to the management of effective and economically calculated over a longer period of time and will be financially rewarding. It is encouraging that most businesses, focusing on the production of drinking milk and milk products gradually begins to apply the global trend of packaging technology, i.e. return of glass containers for milk, cream and some yogurt. The situation on the Slovak market allows to assume that the next major capital ties 4-6 with

dairy processing capacity from 150 to 200,000 litres of milk, to apply from 5 to 10 medium and according to industry consolidation and 100 small (or micro) with specialized dairy production. In addition to concentration and specialization of production is necessary to focus on diversification and innovation in the manufacture and production of programs with a focus on product packaging, improving shelf life and transport of raw materials, machinery and transport assessment of milk quality.

THE POLITICAL ENVIRONMENT affects business opportunities and threatens of the dairy industry. It is necessary to comply with methodological quality of the testing guidelines of purchased raw cow's milk, the activities of central laboratories, other laws and regulations. Have been shown to be more persistent economic stabilization transforming the Agro-Food Complex and the Slovak economy is a free enterprise restructuring in accordance with production conditions, production and support of selective regional segments are impossible.

ECOLOGICAL ENVIRONMENT in the production of food requires a positive attitude to the business environment. Otherwise, the public rejected its products. Neglect of environmental protection should be reflected in the financial situation of the decline in sales and fines for polluting the environment; the public perception is very sensitive.

DEMOGRAPHIC ENVIRONMENT in the market affects the amount of milk sold to milk. The settlement structure and accessibility of resources limits the applicability of the production market. Changes in the composition of the population are reflected in the number of units sold, but also to focus on a particular age group population, which would be a way to narrow specialization.

THE INTERNATIONAL ENVIRONMENT in which businesses engaged in the processing of milk requires a flexible response from businesses. Penetrating the international market requires quality products. A significant achievement in the production and sale of cheese reaches *Liptovská mliekareň* stock company, *a.s. Liptovský Mikuláš* to meet stringent international hygiene requirements. Its cheeses are known in the country's most demanding consumers in the Netherlands, Germany, France, USA and Czech Republic.

5 RESULTS & DISCUSSION – COMPETITIVE STRATEGY OF HUMENSKÁ MLIEKAREŇ, a.s. – DAIRY BUSINESS RESULTS

Souček (1992, p. 13) mentioned, that business, which doesn't have a strategy „will not survive“. The basis of every business strategy of any company is a „Competitive Strategy“, whose main role is to provide a variety of techniques and methods to competition to achieve market success. Mihalčová (2002) pointed out, that Competitive Strategy addresses the question: how to compete? If you choose a marketing strategy, we must take care to take into account competing strategic goals. This means that the choice of „Marketing Strategies“, procedures and to comply with the competitive environment and

competitive strategies of the industry. There are two basic strategic competitive tools, as shown in Figure 5.

According to Michael Porter there are three basic types of generic business (competitive) strategies representing various methods of competition that apply to businesses in all sectors. They are:

First strategy of cost leadership (low cost strategy).

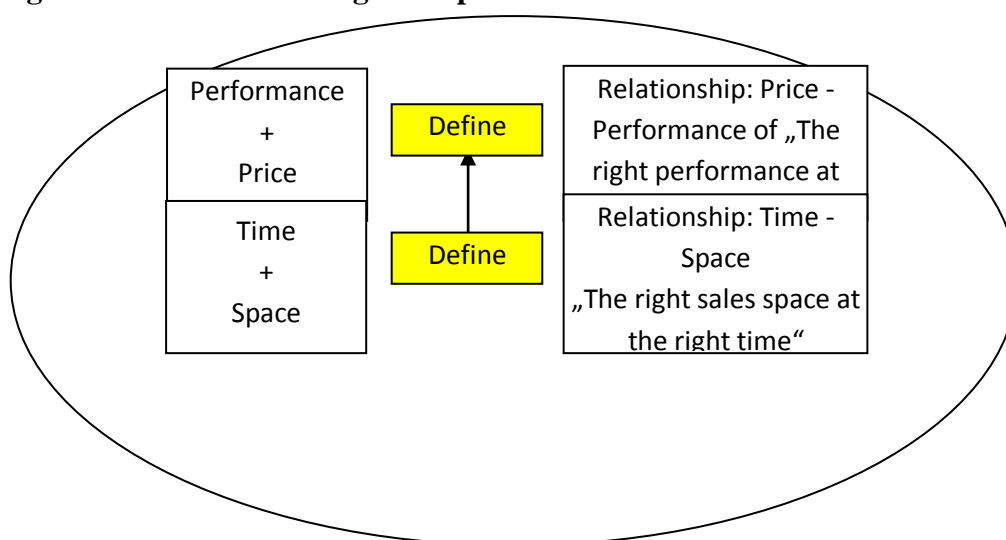
Second differentiation strategy (which seeks to achieve competitive advantage).

Third specialization strategy (focal).

COST LEADERSHIP means that the company has concentrated on achieving the lowest cost of production and distribution and has the ability to set prices at lower levels than its competitors.

DIFFERENTIATING BUSINESS puts emphasis on a particular tool or element of the marketing mix that customers consider important and provides a rational basis for competitive advantage.

Figure 5. Two basic strategic competitive tools



Source: own processing

CONCENTRATION AND SPECIALIZATION are focused on one or several smaller market segments. The company will gradually decide whether to use a strategy of cost leadership or differentiation.

Humenská mliekareň – the Dairy is gradually building up its position on the Slovak Market. Currently manufactures all types of dairy products, milk and cheese. Milk is purchased from farmers' cooperatives. Milk is processed in the dairy since 1964. New company history goes back to 1992 when it became independent.

A special feature is the company that is one of the few Slovak Dairies, which is owned by Slovak owners solely. In addition, there is no business depending

on foreign capital. *Humenská mliekareň* – the Dairy production program currently consists of 37 articles. The most important products are the products of Daily Consumption like milk, curd, cream and butter. Second pillar is sour milk products. This is a yogurt that is flavored with more fruits and chocolate, cream, sour cream, whipped buttermilk and sour starter. Since 1988, the company had a modern manufacture of cheese, which ranks among the largest in Slovakia. It produces mature semi-natural cheeses such as Humenská brick, Eidam brick, Eidam block, Moravian block and Skimmed. Available ranges of products are also for children who curd dessert is known as Kubko, Maľko, Humenáčik, quality is the main characteristic of this company.

Humenská mliekareň – the Dairy won many different awards (e.g., Gold Design, Slovak Gold Grand Prix, Agroforum Košice, Golden Sickle, Top Agro Slovakia, Grand Prix Gastro Best Exporter of The Year, or „Product of The Year”). The interest of consumers of Dairy Products is examined in three own supermarket-type stores in *Humenné* City. Delivery of products by own Transport Company consists of 8 modern refrigerated Lorries. Humenská mliekareň dairy in the near term plans to invest in new production technology, the technology for the packaging of children's desserts. The team aims to increase its market share.

The dairy intends to maintain the current momentum of growth. The main objective is to produce the highest quality products and keep customers satisfied. Meeting this objective the dairy ensures long-term impact on the dairy market and to promote the dairy nationwide market. In following tables 1 – 4 we valued 4 basic variables of external and internal environment of the Company. STRENGTH – WEAKNESS represent internal abilities influenced mainly by company efficiency. OPPORTUNITY – THREAT tell us how external environment react on company effort. An acronym SWOT is created by first letters of 4 words mentioned above (further only „SWOT”).

Table 1. Strength factors of SWOT analyses

Strength factors	Weight [%]	STRENGTH 1 - 10	Value factor
1 st reliable employees	10	10	100
2 nd possibility of further education	15	9	90
3 rd quality products (awards)	15	10	150
4 th low competition	10	10	100
5 th continuous innovation in technology	11	8	88
6 th customer orientation	10	7	70
7 th good reputation among buyers (goodwill)	10	9	90
8 th leadership on regional markets	10	8	80
9 th marketing activities	9	7	63
Σ (Total)	100		831

Table 2. Weakness factors of SWOT analyses

WEAKNESS - FACTORS	Weight [%]	STRENGTH 1 - 10	Value factor
1 st price of milk as raw material	20	10	200
2 nd geographic location - high unemployment	10	7	70
3 rd lack of promotion	15	8	120
4 th quality control of products	15	10	150
5 th poor communication between different levels of government	15	6	90
6 th disadvantageous position in the national perspective	10	7	70
7 th unstable cooperation with foreign suppliers	15	8	120
Σ (Total)	100		820

Table 3. Opportunity factors of SWOT analyses

Opportunity factors	Weight [%]	STRENGTH 1 - 10	Value factor
1 st attending trade fairs	15	7	105
2 nd penetration of foreign markets	15	9	135
3 rd own network of stores - MILKA	15	10	150
4 th expansion of the portfolio of new customers	10	7	70
5 th acquisition of key customers are supermarket chains	10	9	90
6 th business growth, extending the range	10	8	80
7 th scientific - technical progress	10	6	60
8 th expansion of the Internet network	5	5	25
9 th possibility of exports and other products	10	7	70
Σ (Total)	100		785

Table 4. Threat factors of SWOT analyses

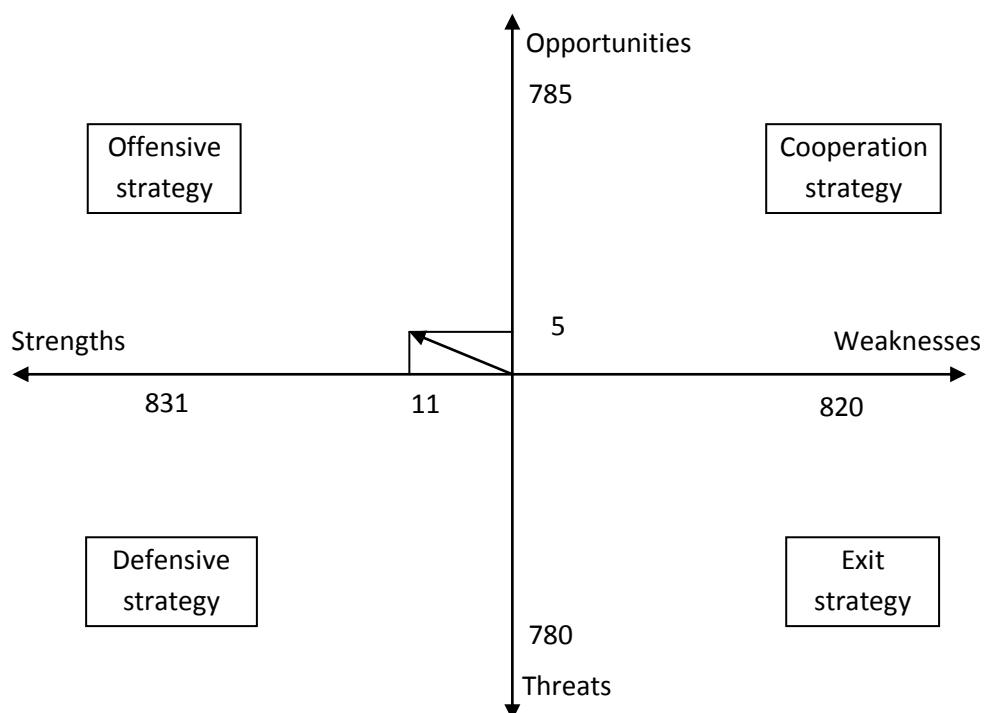
Threat factors	Weight [%]	STRENGTH 1 - 10	Value factor
1 st influx of new competitors	15	10	150
2 nd introduction of EURO	10	7	70
3 rd cheaper substitutes	10	6	60
4 th importation of cheaper products	15	8	120
5 th termination of cooperation with important customers	15	9	135
6 th insolvency of customers	10	8	80
7 th exchange rate risk	5	5	25

8 th changes in legislation	10	6	60
9 th inability to respond to market demands	10	8	80
Σ (Total)	100		780

Based upon of the results of SWOT analyses we create the diagram of competition strategy showed on figure 6.

If *Humenská mliekareň* – the Dairy business doesn't have the forces needed to create an attractive strategy, and management of the company must build the required capabilities.

Figure 6. Determination Humenská mliekareň - dairy business strategy



Source: own processing

6 MODEL FIVE COMPETITIVE FORCES – FINDINGS OF HUMENSKÁ MLIEKÁREŇ – THE DAIRY

We demonstrate *Humenská mliekareň* – the Dairy Model five competitive forces strategies in figure 7. We discuss further main aspects of those 5 forces.

1. NEW COMPETITORS

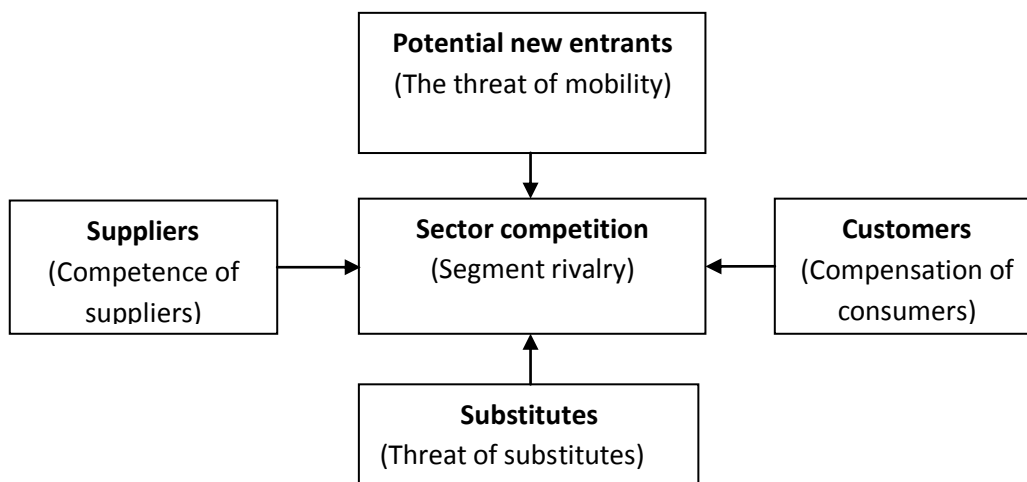
Very interesting area is the dairy business, **and there are very high threats** of new competitors entering the market. The entry of new competitors with the

sufficient capital, advanced technology, broad product assortment and possibilities to fill market gaps are always a serious threat to *Humenská mliekareň* – the Dairy. They in fact are the most important competitors who would like to force *Humenská mliekareň* – the Dairy out from dairy market.

2. COMPETITION

On the market there are several operators, many companies that the customer chooses, according to their wishes. The company is one of the smaller medium sized dairies in the Slovak Market, but it can strongly influence the Market. The company has a strong position in the eastern region of Slovakia (Prešov and Košice region). These regions are interesting for the company in terms of relative freedom, as the big milk processors are in the middle and Western Slovakia. The biggest competitors in the East are both the *Tatranská mliekareň* – dairy, a.s. *Kežmarok* and cheese production plant *Bel Michalovce*.

Figure 7. Model five competitive forces strategies



Source: KOTLER, P. 1998. *Marketing management*. 9. vyd. Praha : GRADA Publishing, 1998, 208 s. ISBN 80-7169-600-5.

More manufacturers from the eastern part of the country who are known for longer period in dairy business may easily reinforce their positions on the market in western Slovakia. We may see there more manufacturers who sell their products. To consider the so-called indirect competition we may assume justification of the sale of milk and milk sales from vending machines, where customers can directly „tap“ freshly milked milk. Currently on the Slovak market we have many foreign entities that are an unavoidable by competitors. Increased competition may lead to diversification of its dairy products and thus penetrate the market wherever possible. The main threat in the competition sees the company losing customers. The market has continued to accumulate new and foreign manufacturers who will offer their products at lower prices. The dairy is a strong existing competitor that the dairy could result in customers leaving and the associated lower prices and expanded selection than the competition. Dairy with the help of its three stores has a fixed clientele –

regular customers. The advantage over the competition in the dairy products market is that Dairy has products that are wholesome with no artificial ingredients.

3. BARGAINING POWER OF SUPPLIERS

The most important business relationships are just relationships between suppliers and customers. Dairy buys from various suppliers. When selecting suppliers, dairy puts great emphasis on parameters such as level of service, price, quality and ability to deliver a certain quota. Suppliers may cause it to be able to raise prices for inputs for customers and thus reduce the quality to the customer and profit. It may be in favour of competition. Purchase of milk as raw material needed to manufacture all products is carried out by contractors, which are Agricultural Cooperatives which have signed agreements such as dairy cooperative in *Stakčín*. Price of basic raw material (milk) recently increasing, it can be members who are struggling with the decline in milk prices and must fight for survival. Therefore, increases in selling prices of Dairies. Dairy taken into their stores and products produced, manufactured by other companies under their brand *Humenská mliekareň* – the Dairy (i.e. *Turčianske Teplice Bryndza*). To give customers the widest range of commercial goods and such as yeast, puddings, long-life milk, Camembert, mouldy cheese the *Humenská mliekareň* – the Dairy sell products to retail area.

4. BARGAINING POWER OF CUSTOMERS

It is a significant group of customers. Because dairy products sold mainly to customers, which are Schools, Kindergartens, Hospitals, Retirement Homes, Dormitories, Restaurants, Hotels, retail establishments and retail outlets „BALA“. *Humenská mliekareň* – the Dairy to each of these customers has a different approach to build and otherwise to provide, various discounts, rebates. Schools and nurseries are involved in the Milk Industry. And there are seasonal customers who take products only during the school year and have an impact on the amount of sales volume and profit during the summer months and holidays. Recipients of their demands and requirements of the products is highly influenced by the enterprise. The market operates strong competition and therefore consumers can choose from a wide range of suppliers. It must tolerate dairy customers and their requirements. In today's global economic crisis, set a large battle for customers and consumers. It is only in business, what strategy to choose clients and customers.

5. SUBSTITUTES

The possibility of substitution of products dairy *Humenné* is limited due to the specific focus of production. Substitution of these specific products is difficult. *Humenská mliekareň, a.s.* – dairy is primarily focussing in region of Easter Slovakia. This market is very attractive for dairy in terms of better application because the company doesn't have a substantial financial income from exports abroad.

CONCLUSION

Basic and applied research in dairy production takes place in domestic and international projects oriented on experience and recently have been implemented in several areas. The Dairy is involved in research on advanced technologies of dairy products. It participates in solving the fundamental state policies and programs relating to milk through the cooperation with Milk Research Institute in *Žilina*. The Dairy offered participation in solving environmental problems (to minimize contaminants, organic milk) to three others dairy companies. Dairy uses on moderate stage of biotechnology and energy savings appliances. It better utilizes of raw materials, extends the shelf life of dairy products, improves product quality, etc. In its capacity Dairy provides research and verification of operational control of laboratory methods, rationalization of technological processes, application of modern physical methods, application of advanced techniques in dairy, etc. Company provides foreign scientific and technical cooperation within International Dairy Federation (IDF), the validation of certain methodologies, cultures, the statistics, publications and exchange of experts. All of those measures are promising systematic progress of the company on the Slovak Milk Market.

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