

Flóra KATONA,
Vilmos LAKATOS,
Péter HORVÁTH

Faculty of Economics, University of Debrecen, Debrecen, Hungary

COMPARISON OF THE LEADING FRUIT JUICE MANUFACTURERS OF HUNGARY BASED ON THEIR FINANCIAL POSITION

*Review
Article*

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Abstract

Nowadays, due to the intensified market competition, it is essential for businesses to be well aware of their capabilities and limitations. When preparing their financial statements, they not only comply with legal obligations, but also provide important information to stakeholders on the successfulness of their operations. Based on the data obtained from the balance sheet and profit and loss account, annual statements also contribute to the facilitation of managerial decision-making and the development of the company with the help of indicators. In the case presented below, the aim was to compare the financial position of two companies that have a significant market share in their sector in Hungary. The two companies to be compared are Sió-Eckes Ltd. And Rauch Hungária Ltd., which are outstanding market players in the field of fruit juice production. Companies think similarly about the importance of maintaining continuous technological development, product development, and competitiveness, but the significant difference between them is that they achieve their goals with a different strategy. The sales revenue of Sió-Eckes Ltd. comes mostly from the domestic market, in contrast, Rauch Hungária Ltd. also sells significant quantities abroad, which greatly contributes to maintaining its competitiveness and economic results, as well as maintaining its solvency.

INTRODUCTION

In recent years, domestic fruit juice consumption has shown a steady increase based on data collected by the AIJN, i.e. the European Fruit Juice Association, as illustrated in Figure 1. Furthermore, according to their report, Sió, produced by Sió-Eckes Ltd., and Happy Day, produced by Rauch Hungária Ltd. can both be found among the most popular brands (AIJN, 2020).

It is essential for market-leading companies to be aware of their capabilities and limitations in order to maintain or possibly further develop their competitiveness. In the course of analysing their operation, they can get a more accurate picture with the detailed analysis of their balance sheet and profit and loss account, thus helping their own planning and intervention processes.

It is possible to obtain a more accurate picture of the financial position of companies by means of vertical and horizontal balance sheet analysis. In the case of vertical balance sheet analysis, only the asset-side or only the liability-side data are used. From these, the composition of the asset or liability portfolio can be deduced and their changes can be tracked. In the case of horizontal balance sheet analysis, the respective asset-side and liability-side data of the balance sheet are compared to each other. The resulting indicators can be, among others, capital strength, debt to equity, the proportion of liabilities and the rate of increase in equity.

In the course of profitability analysis, a result category is compared to a base of calculation. The most frequently used result category in creating indicators is the after-tax profit. The result is the indicator of return on sales (ROS) when compared to net sales revenue, return on assets (ROA) when compared to total assets, and return on equity (ROE) in the case of equity (Bíró, Kresalek, Pucsek, & Sztanó, 2016).

One of the purposes of analysing the financial position might be to reveal the stability of the operation of the business. If there is a liquidity problem in the life of the company, production cannot be ensured in the long run either, as it cannot procure materials and pay wages (Adorján, Lukács, Róth & Veit, 2011). It is useless if a company can make a profit and is still unable to pay its debts, which is why maintaining short-term liquidity is of paramount importance in the life of businesses (Böcskei & Deres, 2015; Fenyves, Petó, Szenderák & Harangi-Rákos, 2020). The first step in assessing the financial situation is to calculate the net working capital, which is essential for determining short-term liquidity. Net working capital is obtained by subtracting the value of short-term liabilities from the value of current assets. This way it can be revealed what proportion of current assets is covered by short-term liabilities.

The higher the value, the more can it be concluded that the company has a stable liquidity, although it may also indicate that the company prefers to cover its current assets from long-term liabilities or equity (Tarnóczy, Fenyves & Vörös, 2014).

This can be followed by the calculation of liquidity ratios, in the course of which the value of current liabilities and liquid assets, i.e. current assets, including inventories or receivables, are compared to each other. A high value of the indicator assumes that the company is able to finance its operating costs steadily, but a low value indicates operational difficulties (Fenyves, Tarnóczy, & Bács, 2016).

The general liquidity ratio is usually calculated in the scope of a liquidity analysis, the percentage of which shows the proportion to which assets that can be monetised in the short term cover short term liabilities. The higher the value of the ratio, the more stable the liquidity situation of the company. Furthermore, its positive value also predicts that net working capital will also develop positively (Fenyves, 2014).

The liquidity capabilities of a manufacturing firm are closely related to its time of stocking, collection, and indebtedness periods. Holding stocks can mean, on the one hand, that the company invests in assets that are easy to turn into cash, which increases short-term liquidity, and on the other hand, that the value of tied-up capital in stocks is significant, which can cause operational problems with long inventory periods. As stocking time increases, so does the operating cycle, so more time elapses between the acquisition of inventories and the collection of trade receivables. The speed of processes over time, and the turnover speed of inventory and receivables, can be as much a competitive advantage for companies as a risk of liquidity problems (Matyusz, 2017).

MATERIAL AND METHOD

The first products of Sió were placed on the shelves of the shops in 1977: first by the Siófok State Farm, then the activities were outsourced to Sió-Nektár Ltd. Its product range expanded rapidly and the brand enjoyed great popularity, selling nearly ten million pieces of its products annually by the end of the 1970s. It was acquired by Eckes AG in 1993 as a professional investor, after which the company's technological and product development began. Today, more than ten product types can be purchased in many flavours abroad, but only a fraction of the sales revenue comes from foreign sales. In the examined years, the company made a number of investments to increase its competitiveness. The company prepares an annual statement report and prepares its profit and loss account using the full cost method (Sió-Eckes, 2020).

The other company serving as the basis for comparison is Rauch Hungária Ltd. The plant that was originally started as a family business has grown into a leading fruit juice producing company at European level. The company, which is still owned by the Austrian Rauch family also started operating in Hungary in 1993. Over the past nearly 30 years, it has become the largest fruit processor, and like Sió, is constantly striving for development and maintaining competitiveness. The company purchases fruit from many Hungarian producers, keeping in mind the high quality raw materials (Rauch, 2020).

The data of the companies can be downloaded from the e-beszamolo.im.gov.hu website, as the companies publish their annual statements in compliance with their legal obligations.

In the course of analysing the financial position, the first step was the examination of net working capital, which shows how much of current assets is tied up by current liabilities. Perhaps the most important step in analysing the financial position is to calculate various liquidity ratios. When calculating liquidity ratios, liquid assets are compared, i.e. the value of current assets or stocks within them, to short term liabilities. In this way, indicators such as the general liquidity ratio, the quick liquidity ratio or liquidity at the cash level can be obtained (Bíró et al., 2016).

These indicators are closely related to how quickly a business is able to sell its inventories, recover its receivables, and pay off its current liabilities. Traditional liquidity ratios cannot sufficiently consider these, so it is advisable to compare them with other indicators representing the turnover rate of balance sheet items (Fenyves & Zsidó, 2014).

RESULTS

The comparison of the financial position of the two companies started with the calculation of their net working capital as well as the general liquidity ratio. There are striking differences in terms of short-term liquidity already in the first calculations, which are shown in Figure 2. Rauch Hungária Ltd. had a very high net working capital, while the values of Sió-Eckes Ltd. were extremely low and even had a negative net working capital in some years. This means that the current assets of Sió-Eckes Ltd. were rather financed from short-term liabilities, and in the case of the other company they were probably financed from long-term liabilities. From the result, it can be assumed that Rauch Hungária Ltd. will achieve better values in terms of liquidity ratios as well. Figure 3 shows the values of the general liquidity ratio of the two companies.

The values of Rauch Hungária Ltd. fluctuate strongly in the examined period, but a certain

increase can still be observed. Year after year, its values were above the range considered acceptable, and they were significantly higher than in the other company, due to the fact that a company larger in size has a significant working capital stock. The unfavourable development of the values of Sió-Eckes Ltd. is probably due to the unprofitable production in previous years, due to which the company had a significant short-term liability in this period, thus their role in the financing of current assets has also increased.

The next step in the analysis was to compare the inventory, collection, and debt periods of the firms, which first required the calculation of turnover rates. It can also be clearly seen in Figure 4 that the stocking period of Rauch Hungária Ltd. is much longer than that of the other company. Longer stocking period poses risks to companies as much as too short stocking periods, as logistics costs increase and significant tied-up capital can be kept in inventory (Balogh, Lajos & Kozma, 2020). More precisely, the stocking period of Rauch Hungária Ltd. fluctuates between 102 and 147 days in the period between 2011 and 2018, and it is an average of 122 days.

This value is double the average stocking time of Sió-Eckes Ltd. in the examined period, even the highest stocking time of the company is also close to 70 days. The possible reason for this may be that Rauch mainly processes apples from domestic fruits. Processing takes place in the autumn, when a significant amount of apple juice is produced, which is later sold continuously. The situation is similar with tropical fruits, which are stored in refrigerated containers and their juices are made from it during the year, which increases stocking time. Regarding the inventory period, the data of Sió-Eckes Ltd. proved to be more favourable; it can be assumed that it stores less semi-finished products than its competitor. However, it is important to point out that the balance sheet shows data for a given date, so the date of entry into stock may be different for the two companies.

Regarding the collection period, Rauch Hungária Ltd. shows more favourable values, from which it is concluded that this company applies a better collection policy. The length of the collection period of the two companies was the closest to each other in 2014, which is due to the fact that the trade receivables of Rauch Hungária Ltd. increased significantly compared to the previous period. This year, the indicator of Rauch was 33 days, which is an exceptionally high value, as it fluctuated the most between 22-26 days in previous years. The length of the collection period for Sió was 35 days, which was lower than average compared to previous years.

Regarding the debt period, it can be stated that Sió-Eckes Ltd. had longer debt periods. However, for both companies, the collection periods were longer

than the debt periods, so they had to settle their trade receivables earlier than they were able to recover their claims from their customers.

Finally, on the basis of the above-mentioned inventory, collection and debt periods, the operating and cash cycle of the enterprises can be calculated, which shows the time from the purchase of inventory to the collection of trade receivables. In the examined years, the operating cycle of Rauch Hungária Ltd. was longer, which is due to the fact that the inventory period is significantly longer than that of its competitor, despite the fact that the collection period was longer in the case of Sió-Eckes Ltd. Presumably, this result is due to the more modern production lines and technological developments of Sió-Eckes Ltd.

The cash cycle, which shows the time between the payment of suppliers and the payment by customers, was more favourable for Sió-Eckes Ltd., although both companies had to pay their suppliers sooner than they were able to collect their receivables. It can be said about its competitor that its funds were tied up much longer in the production and sales processes due to the longer money cycle; its money cycle fluctuated between 130 and 160 days in the examined years. Furthermore, a decrease in the inventory period could have a positive effect on the external financing needs of the company, as its short-term liabilities to its associate also increased significantly in 2012 during the longest cash cycle. As for the cash cycle of Sió-Eckes Ltd., which fluctuated between 100 and 50 days in the examined period, it was more volatile, compared to the other company, after 2013 there was a noticeable increase. At that time, the sales contract concluded with Szentkirályi Ásványvíz Ltd. was not extended, which had an adverse effect on the inventory period, so the company's cash cycle also increased.

CONCLUSIONS

The aim of the analysis was to compare the wealth, financial and profitability situation of two companies with a significant market share in Hungarian fruit juice manufacturing sector. An important difference between the two companies is that while Sió-Eckes Ltd. sells its products mostly in Hungary, Rauch Hungária Ltd. obtains a significant part of its sales revenue from foreign sales. The analysis showed that fluctuations in demand can be more easily coped with by a company that offers its products both abroad and at home. Despite the decline in demand, Rauch Hungária Ltd. did not run into any liquidity problems, but the liquidity of Sió-Eckes Ltd., which sells mainly domestically, deteriorated.

In terms of the operating and money cycle, on the other hand, the values of Sió-Eckes Ltd. proved to be better, as its money is in its stocks for a shorter period of time. The favourable indicators can be attributed to the fact that the company has one of the most modern production lines in Europe, as a result of which the lead times are also shorter than the average. Another important reason for the differences may be the different manufacturing technology and product mix of the two companies. Finally, both companies can be said to be meeting the highest possible level of consumer needs, to which the procurement of quality raw materials contributes. They strive for continuous innovation, technology and product development in order to make their competitiveness sustainable.

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LIST OF FIGURES

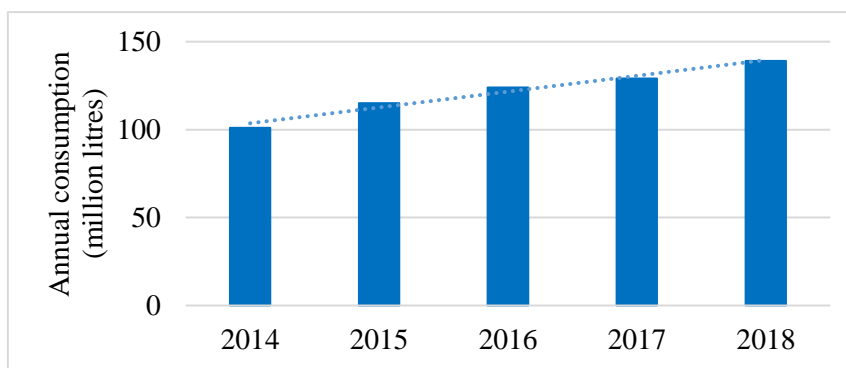


Figure 1

Volume of fruit juice consumption in Hungary between 2014 and 2018 (million litres)

Source: Own editing based on AIJN data

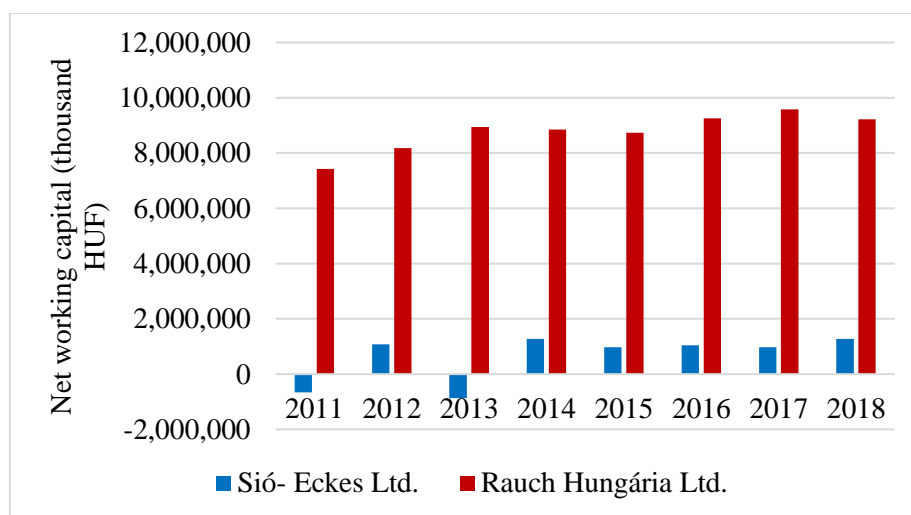


Figure 2

The value of the net working capital of examined enterprises between 2011 and 2018 (data in thousand HUF)

Source: Own editing based on annual statements

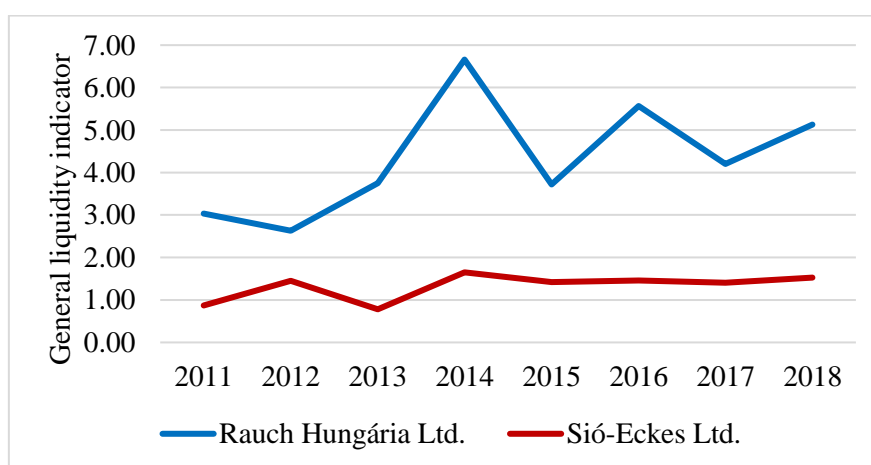


Figure 3

The value of the general liquidity ratios of the examined enterprises between 2011 and 2018

Source: Own editing based on annual statements

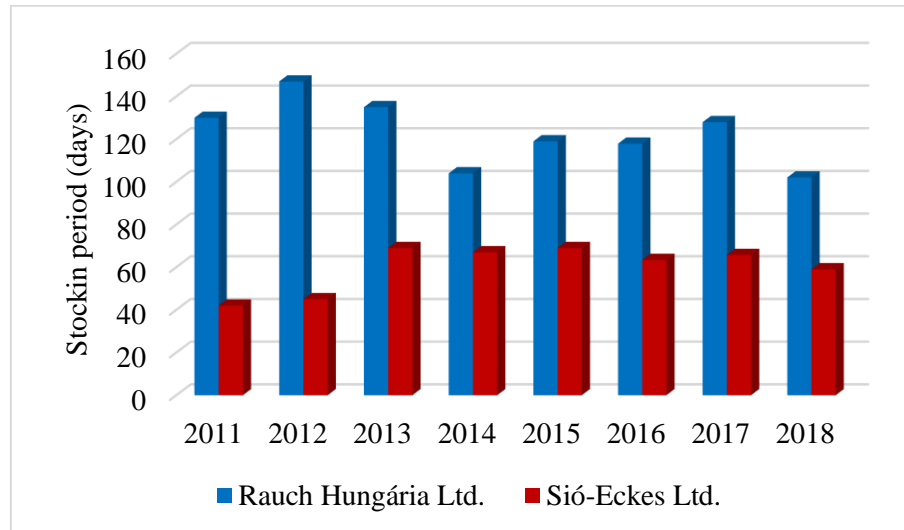


Figure 4
Inventory period (in days) of the examined enterprises in the analysed period
Source: Own editing based on annual statements