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# COMPARISON OF HUNGARIAN AND ROMANIAN SOFT DRINK PRODUCER COMPANIES BASED ON THEIR FINANCIAL SITUATION

*Review  
Article*

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## **Keywords**

*Net working capital;  
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Current assets;  
Soft drinks;  
Industry;  
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## **JEL Classification**

*L66; G32*

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## **Abstract**

*Numerous companies have become global, establishing their operation on fluid intake as a basic human need. Over time, the technology associated with the production of soft drinks has developed dynamically, which has also caused increasing competition among the participants of the sector. However, the intensification of the competitive situation is significantly amplified by the rapidly changing and increasingly diverse consumer needs. Based on the above, examination of the industry and examination and comparison of each country's sectoral performance is essential for successful operation. There is more and more competition among the companies operating in the sector to attract and retain the attention of consumers; thus, it is essential to constantly innovate and monitor the activities of the competitors. In the current case, the aim is to compare the short-term liquidity of the Hungarian and Romanian soft drink sector in the period between 2015 and 2019. In the course of the study, the main question is which companies (of which country) performed better in terms of liquidity in the short term within the dynamically changing competitive environment.*

## INTRODUCTION

The group of soft drinks includes the production of non-alcoholic beverages (except beer and wine), bottled waters, carbonated soft drinks (cola, energy drink, sports drink) and non-carbonated coloured, sweetened soft drinks, as well as flavoured waters and finished coffee products (Statista, 2020). In Hungary, the most significant market participants are Coca-Cola and Hell Energy, while in Romania, they are Coca-Cola and RedBull (EMIS, 2020).

The level of soft drink consumption was clearly characterized by an increase in Hungary and Romania between 2013 and 2018, as evidenced by Figure 1 (Unesda, 2019).

There may be several reasons behind this growth. It is characteristic in both countries that the industry participants perform intensive marketing activities, which clearly have a positive impact on sales. In addition, manufacturers are constantly entering the market with new flavours, thus arousing consumers' interest and curiosity. As the number of people living a healthy lifestyle grows, companies are increasingly looking to cater to the needs of those on a diet, leading to reduced, low-calorie or completely calorie-free soft drinks, resulting in new consumers who have previously avoided soft drinks due to their high sugar content (Szűcs, 2019).

In this highly competitive environment, maintaining short-term liquidity is one of the most important aspects of companies' continued operation. To determine this, the analysis of working capital is a fundamental task, since working capital can also be considered a vital element of a business enterprise. In the short term, a company is able to survive without making a profit, but in the absence of working capital, the implementation of day-to-day activities can also be jeopardized, and the company can quickly close to bankruptcy (Leeson & Boopathi, 2016). From the higher value of working capital, it can be concluded that the company has stable liquidity in the short term, will be able to meet its payment obligations within one year, even to finance its assets from long-term liabilities (Tarnóczy, Fenyves & Vörös, 2014).

Working capital is closely related to liquidity ratios. In fact, net working capital can also be interpreted as a certain type of liquidity indicator. If it is insufficient, the risk of insolvency threatens the company in the short term (Zsidó, 2014). Liquidity ratios indicate the ability of a company to settle short-term liabilities. Maintaining liquidity is a condition of survival for companies, as failing to settle due supplier invoices, interest and principal debts, and other short-term liabilities can actually jeopardize its operations and, on the other hand, have a detrimental effect on its reputation (Katits, 2002). A company faces liquidity risk if its liquid assets are insufficient to finance day-to-day

operating costs (Horváth, 2020). The basic task of liquidity management is to minimize this risk. In addition, efficient liquidity management ensures adequate profitability as well as determines opportunities for development in the long run. On the one hand, it can be caused by a shortage of liquid assets, i.e. assets that can be easily monetized, if the liabilities' payment date can be set earlier than the collection date of its receivables thus the settlement time of receivables and liabilities are not harmonized. However, liquidity risk can be caused by a shortage and an excessive amount of funds, although this is less risky. In this case, the situation arises where the company does not invest its available funds in securities that would provide a return opportunity outside its business activities (Fenyves & Zsidó, 2014). Suppose a company intends to reduce the risk of insolvency. In that case, it relies primarily on its own resources; for instance, borrowing can mean other permanent obligations like having to pay interest (Tarnóczy, 2015).

However, when examining liquidity, the level at which liquidity is being examined is of major importance. While the general liquidity ratio can be defined as the quotient of current assets and current liabilities, the quick liquidity ratio no longer includes inventories' value (Takács, 2015). This provides more accurate information on liquidity, as it filters out the distortive effects of inventories, which are considered to be the most difficult assets to monetize. The general liquidity ratio's accepted value is between 1.3 and 1.7, and the favourable range of the quick liquidity ratio is between 0.8 and 1 (Sztanó & Korom, 2002). Calculating the liquidity ratio at the cash level is one of the most important examinations in terms of liquidity as it shows the business's immediate liquidity. It only takes into account the value of cash and securities opposed to short-term liabilities. Its accepted value is between 0.25 and 0.3, which means that the company would be immediately able to pay 25-30% of its liabilities due within a year. Taking all the above into account, it is advisable for companies to calculate all three liquidity ratios in their analyses (Fenyves & Zsidó, 2014).

## MATERIAL AND METHOD

To perform the sectoral analysis, specialized company data was required, which is available in the EMIS (Emerging Market Research, Data and News) database. The analyzed database contains the most important balance sheet and profit and loss account data of the involved companies from the two countries, expressed in thousands of euros, for the period between 2015 and 2019. 64 companies from Romania and 32 companies from Hungary were included in the database and in the

analysis scope. It is true for both countries that the vast majority of the analyzed companies operate as limited liability companies or private limited companies.

Comparison of the Romanian and Hungarian soft drink producers was performed by creating indicators. One of the most important indicators is net working capital, which is the difference between the current assets and short-term liabilities of a company, therefore it shows the proportion of current assets that is not burdened by short-term liabilities (Brealey, Myers & Allen, 2011). This was followed by the calculation of the most essential liquidity ratios. These are the already mentioned general liquidity ratio, quick liquidity ratio and cash level liquidity.

To better understand the indicators obtained during the examination of liquidity, the companies' asset composition was also part of the study. First, the vertical analysis of the balance sheet's asset side was performed, using distribution ratios. The most important part of the asset-side examination was the analysis of the composition of current assets, as they affect companies' liquidity in the short run.

## RESULTS

Before demonstrating short-term liquidity, the asset composition of the soft drink companies from the two countries is presented, which will help understand the development of liquidity.

Examining the composition of current assets revealed that the proportion of Hungarian companies' inventories significantly exceeds the proportion of inventories of Romanian companies. Almost 40% of the current assets of Hungarian soft drink companies are inventories, with the exception of 2019, when their share is the lowest, 32%. In contrast, the share of inventories of Romanian soft drink companies within current assets is balanced between 22-24% over the analyzed five years. Another significant difference between the participants of the two countries' sectors is that a significant part of the current assets of Romanian companies - almost 20% - are securities, thus in addition to their normal operating activities, they can achieve extra returns from their securities. In contrast, Hungarian companies within the sector have a negligible proportion or almost no securities. It will be presented that the value of inventories and securities has a significant impact on the value and development of liquidity ratios. The examination of short-term liquidity first began with the examination of net working capital. The net working capital of Romanian soft drink companies was able to reach only 80% of the previous year in 2016, but started to grow after that. An outstanding value was recorded in 2018, which is also illustrated in Figure 2. This is due to a

significant increase in the value of inventories, which had already decreased by 2019, as a result of which the value of net working capital also declined again. Overall, the net working capital of Romanian soft drink companies developed favourably during the analyzed period. However, the value of the net working capital of their Hungarian competitors, developed less favourably, as shown in Figure 2. In 2015, the indicator had a negative value, meaning that companies' short-term liabilities in the sector exceeded the value of available liquid assets. By 2016, there has already been a significant increase, and from 2017 onwards, the value of the indicator moved in a favourable direction. From the analysis of the composition of current assets, it is known that the value of net working capital was significantly affected by the value of trade receivables. In 2019, the indicator almost doubled compared to the previous year, mainly due to a significant decrease in inventories, which at the same time increased the value of cash and receivables. In addition, supplier liabilities have been significantly reduced. Therefore, it can be assumed that inventories accumulated at sectoral level could be sold by the companies on favourable terms in 2019. Overall, by comparing net working capital, Romanian soft drink companies reveal more stable liquidity. Their values developed in a positive range in every examined year, there was an increasing tendency, and extreme changes were less frequent than in the case of their Hungarian competitors.

The study continued with the analysis of liquidity ratios. Development of the indicators is illustrated in Figure 3. Each year, the general liquidity ratio of Romanian companies in the industry is below the lower limit of the range considered acceptable by scientific literature. At the same time, there was no significant fluctuation, which could cause mistrust; the value of the indicator ranged from 1.14 to 1.26, respectively. The indicator had its highest value in 2018. The analysis of net working capital has already shown that inventories' value increased significantly this year, which is why both indicators show an improvement in short-term liquidity. In the case of their Hungarian competitors, the general liquidity ratio indicates less favourable values. The value of the indicator also does not reach the range that is considered favourable, except in 2019, when it was 1.49. The lowest value was recorded in 2015, (0.8); this year the value of net working capital was negative. Thus it has already projected the unfavourable value of the general liquidity ratio. However, by 2019 there was a significant increase, the value of the indicator increased by almost 25% compared to the previous year. This year, the value and proportion of the significantly accumulated inventories decreased, while the proportion of receivables and cash increased. At the same time, short-term liabilities also decreased, thus it can be

concluded that the stocks accumulated at sectoral level were successfully sold by the companies, from which they were able to pay off their accumulated debts. In the case of the quick liquidity ratio, the Romanian soft drink companies can be said to have developed their values very favourably, each year in the accepted range of 0.8 to 1. Based on this, it can be concluded that without considering the value of inventories, by eliminating their distortive effect, the industry's liquidity will develop more favourably. The quick liquidity ratio in the case of Hungarian soft drink companies developed similarly to the general liquidity ratio. In 2015, it started from a critical value of 0.46, followed by an increase, and by 2019 it reached 1, which is the upper value of the acceptable range. Thus, it can be said that the liquidity of companies is not satisfactory even after eliminating the value of the least liquid assets, inventories, therefore the increase in the value of cash funds and the decrease in trade receivables had the most significant effect on the quick liquidity ratio. Regarding the liquidity of soft drinks companies from the two countries, their immediate liquidity is the largest difference. The values of the affected Romanian companies approached the value of 0.3 between 2015 and 2017. In 2018 the value of their securities increased significantly, as a result of which the ratio rose above 0.4. Based on scientific literature, excessive value of liquidity cannot be considered favourable either, as it might cause a deterioration of profitability. By 2019, the indicator's value fell again to 0.25, while the value of fixed assets increased. The coincidence may also indicate that there has been a significant, high profit investment or development at the sectoral level. In the case of Hungarian soft drink companies, it can be observed that the lack of securities significantly worsens the immediate solvency. The cash level liquidity ratio of the examined Hungarian companies developed critically between 2015 and 2018. Its values were only between 0.03 and 0.1, since in the absence of securities, only the value of the available cash ensures immediate liquidity. However, as in the case of the previous indicators, the value of cash increased significantly in 2019, thus cash level liquidity ratio also reached this favourable range, amounting to 0.27 this year.

## CONCLUSIONS

The aim of the analysis was to compare the short-term liquidity of soft drink companies operating in Hungary and Romania. Regarding the development of net working capital, it can be said that, overall, the data of Romanian enterprises in the industry showed a more favourable picture, as a positive trend was observed in each analyzed year, which was free from fluctuations and increased over time.

The value of general liquidity ratios of the sector did not reach the favourable range in any of the countries during the period under review. In contrast, the quick liquidity ratio and the cash-level liquidity ratio were also more favourable in the case of Romanian soft drink companies, falling in the expected range each year. The values of the two indicators in the case of their Hungarian competitors did not reach the desired range, but their tendency is definitely favourable, as they produced improving liquidity from year to year. Further studies are needed on sectoral liquidity, which may be based on examining the turnover rate of inventories, inventory time, and the analysis of operating and cash cycle.

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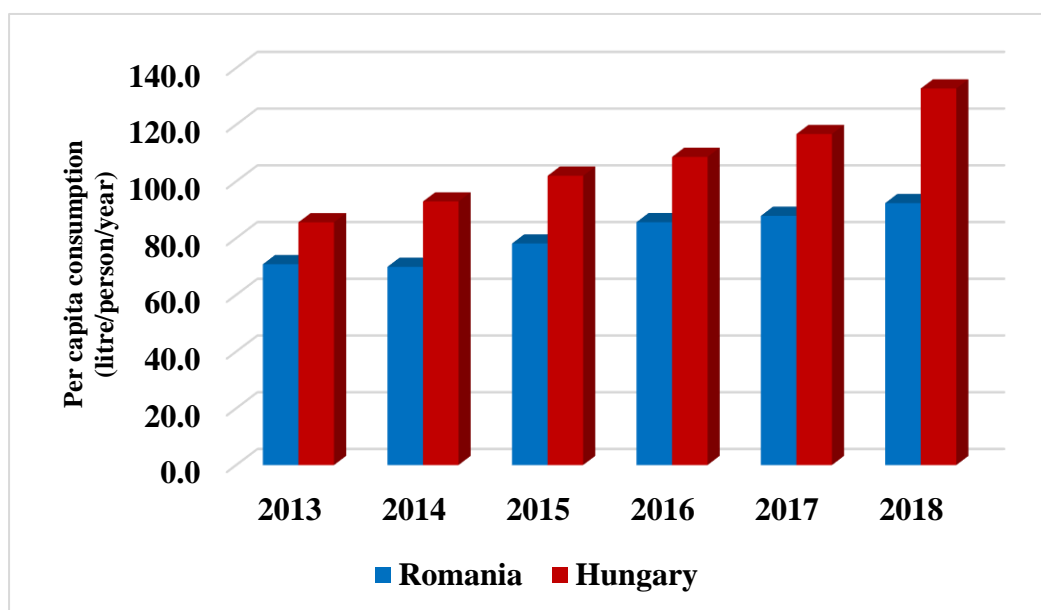


Figure 1  
**Per capita consumption of soft drinks in Romania and Hungary  
between 2013 and 2018**

*Source: Own editing based on the data of Unesda (2019)*

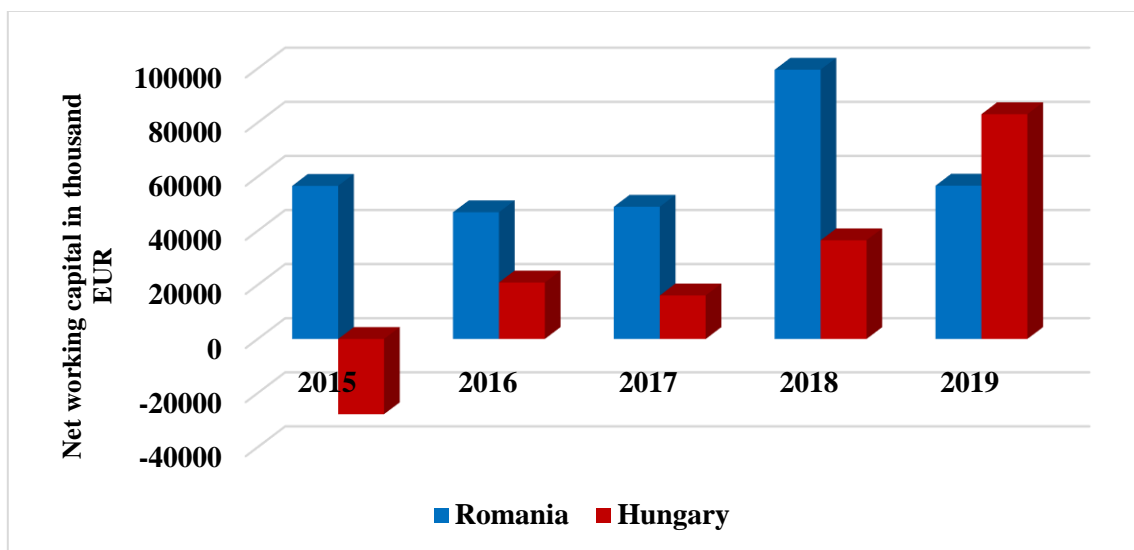


Figure 2  
**Development of the net working capital of Hungarian and Romanian soft drink companies between 2015  
and 2019**

*Source: Own editing based on the data of EMIS (2020)*

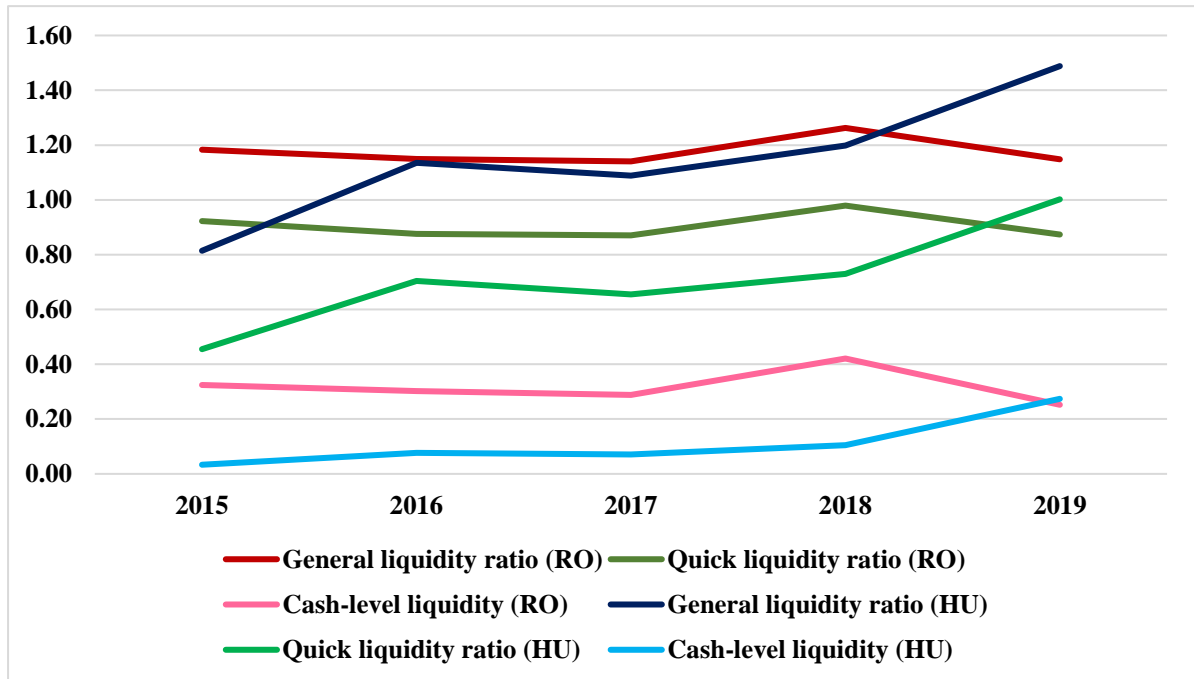


Figure 3

**Development of liquidity ratios of Hungarian and Romanian soft drink companies between 2015 and 2019**

*Source: Own editing based on the data of EMIS (2020)*