

## **THE ORGANIZATIONAL STRUCTURE OF THE MEDICINAL HERB GROWING SECTOR AND ITS ANALYSIS**

NORBERT PÁSZK

*University of Miskolc, Faculty of Health Sciences*  
*University of Miskolc, Faculty of Economics*

**Summary:** Medicinal plant cultivation is a sector that can be found both in Hungary and abroad too. However, its characteristics may be different from area to area. However, the organizational structure of the sector is the same in most countries. And the profiles of medicinal plant growing enterprises are also identical, as they can carry out the same economic activities in the sector in most countries. The purpose of this literature research is to map, analyze and present the organizational structure of the medicinal plant growing sector.

**Keywords:** *medicinal plant, medicinal plant cultivation, enterprise, organizational structure*

### **INTRODUCTION**

Medicinal plants appear in many areas of life, such as the health sector (e.g.: in the case of the active ingredients of medicines), the food industry (e.g.: in the case of herbal flavorings) or even agriculture (e.g.: in the case of cultivation). Cultivation of medicinal plants is the basis of everything, because if people did not grow medicinal plants of the right quality and quantity, there would not be sufficient quantities of certain plants for the various sectors, because they cannot cover everything from the collection [1].

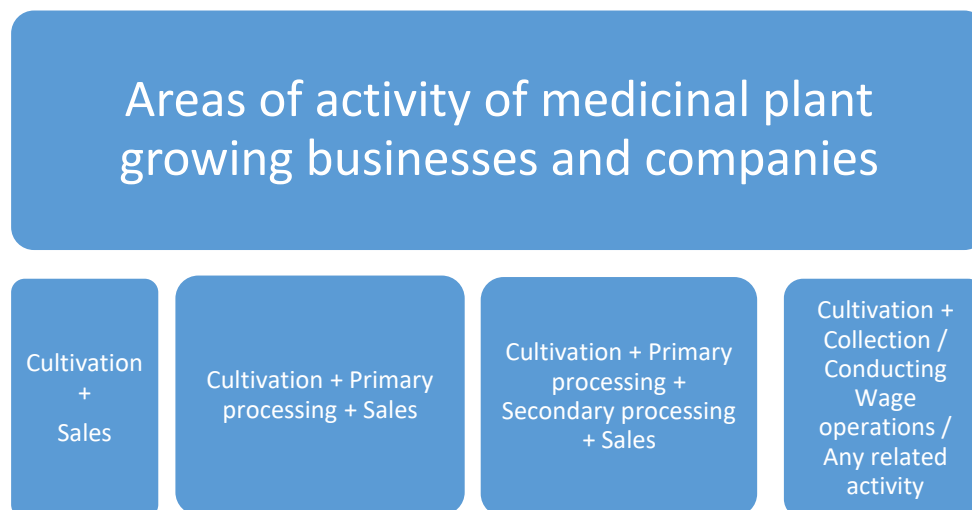
The medicinal plant growing sector is an extremely versatile field, which requires great knowledge, adequate infrastructure, and the existence of many other factors. However, this sector could not function without a well-organized, appropriate organizational structure and hierarchy [2].

The purpose of this literature research is to map, analyze and present the organizational structure of the medicinal plant growing sector.

### **THE ORGANIZATIONAL STRUCTURE OF THE MEDICINAL PLANT GROWING SECTOR**

Medicinal plant growing enterprises and companies do not have a uniform profile, because not all of them perform the same activities (*Figure 1*).

Some only grow and sell. There are those that grow, carry out primary processing and then sell. Some grow, carry out primary and secondary processing, and then sell. And there are those, in addition to cultivation, are also involved in collection or in the performance of contract operations (e.g. contract packaging, quality control) or other activities related to the sector [3].



**Figure 1.** Areas of activity of medicinal plant growing companies and enterprises (source: own editing)

Cultivation and sales are the most common categories, because these activities are the simplest and require fewer permits, expertise and equipment.

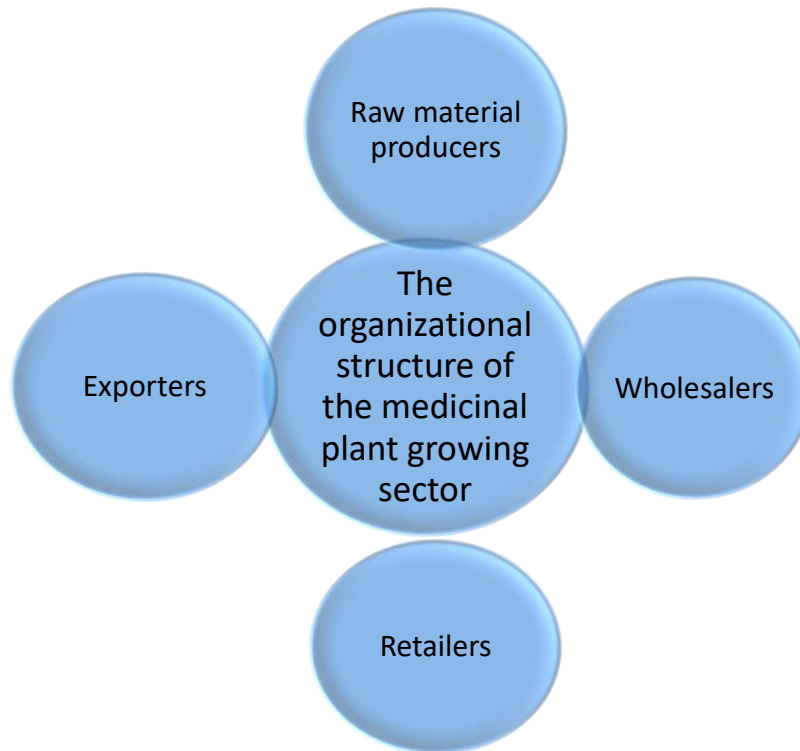
During cultivation, primary processing, and sales, some processing permits are required. Fewer entrepreneurs have these permits, which means that there are fewer in the category.

Cultivation, primary and secondary processing, and sales are perhaps the rarest category, with the fewest market participants, because even food-grade medicinal products are produced here, which requires compliance with quality assurance systems, obtaining permits, and strictly controlled hygienic conditions.

In the case of the last category, when other operations are carried out in addition to cultivation, it has a variable appearance. Collection activities in addition to cultivation are limited to areas where there are a relatively large number of collectable medicinal plants. Contract work and contract operations are mostly carried out by those who have the appropriate permits and who are able to test and package medicinal plants, or who have the possibility of contract cultivation in their area. There are often cases where foreign partners ask the domestic grower to grow certain species [4].

The organizational structure of the medicinal plant growing sector is also quite complex, as shown in *Figure 2*.

It is basically made up of 4 parts, which are the follows: Raw material production; Wholesale trade; Retail trade and Export [5].

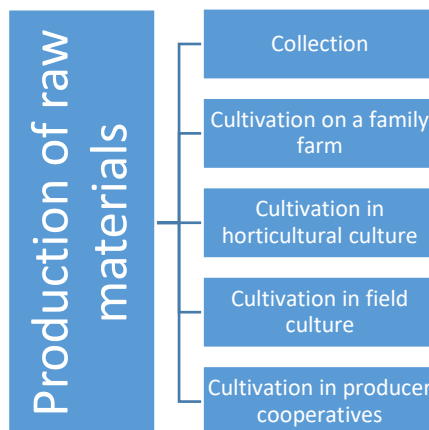


**Figure 2.** The organizational structure of the medicinal plant growing sector (source: own editing, based on [5])

Raw materials can be produced in different forms, such as family farms, agricultural producers with horticultural crops, agricultural producers with arable crops or in producer cooperatives (*Figure 3*). Production takes place by processing species grown or collected during raw material production. According to the current trend, cultivation yields approximately 2-3 times more than collection in our country [6].

The processing of medicinal herbs can be primary or secondary processing. During primary processing, only the most basic operations are carried out with the herbs, such as harvesting and drying. During secondary processing, finished products are even produced from herbs, for example by distilling essential oils or packaging them as tea [7].

Relatively many people are engaged in the production of raw materials in our country, because it is an activity that can be carried out even without a degree and with the involvement of cheaper labor, however, the disadvantage is that it requires a lot of manual work or mechanization and the risk of exposure to the weather is quite high. Nowadays, mainly family farms deal with raw material production in our country [8].



**Figure 3.** *Types of raw material production* (source: own editing, based on [5])

The 2nd level of the organizational structure is the level of the wholesalers, when the wholesalers purchase the produced and harvested, processed plant parts or finished products from the raw material producers. Until the early 1970s, Herbária was the only domestic wholesaler in Hungary. Then, in the following decades, other wholesalers appeared on the market. There are currently 4-5 national wholesale companies in Hungary, and 20-30 smaller regional companies. At the level of wholesalers, the level of expertise and knowledge is perhaps the highest, because in many cases engineers already work here during product production.

Then the wholesaler usually sells the products to the retailer at a higher price, which is the 3rd level of the structure. This can happen in the same state or after development, repackaging, or conversion into a product. From the 1990s, more and more herbal medicine shops opened in Hungary, the disadvantage of this was that almost anyone could open a shop, even without professional qualifications, which, among other things, led the quality, as well as the possibility of assistance and advice, in a negative direction. Nowadays, the workers in most herbal medicine shops, or at least the managers, have at least an intermediate qualification related to medicinal herbs.

The 4th structural element of the sectoral structure is export. Because domestic medicinal plants have very high quality, both in terms of cultivated and collected raw materials, they are very willing to buy them abroad. Hungary is present on the international market with many plants. For example, the medical chamomile or even the various mint species and the thyme species. Most of the exported products and plant parts come from the raw material production level, fewer finished products are sold abroad. Until the beginning of the 1980s, Medimpex had the sole right to export medicinal herbs in Hungary, in the 90s a few other companies also received this right, and since 1992 any company has been able to obtain export rights in the sector [5].

Entering the market is not easy at any structural level. At the raw material producer level, it requires expertise, experience, land, tools, machines, equipment, among other things, as well as a lot of work, that is why quite a few people choose this profession these days. In the case of the retail level, it is a minimally capital-intensive area, since opening a store and establishing a network requires more initial capital. In our country, you can often find herbal medicine shops operating in a franchise system (e.g.: Herbária). The level of wholesalers is the most difficult to enter, the few domestic herbal medicinal wholesale companies dominate the sector and do not allow new competitors. However, there would not be much opportunity for new competitors to appear, either due to the lack of capital or the lack of necessary permits since the processing, sale, and packaging of medicinal herbs is subject to numerous licenses in almost all product categories. In order to have these permits, it is necessary to establish infrastructure and comply with quality assurance systems, which neither retailers nor raw material producers can finance [9].

## DISCUSSION

The herb growing sector is also present in Hungary and employs a relatively large number of people, businesses, and companies. Medicinal plants can be grown on family farms, in horticulture, in field crops, and in producer cooperatives. The main determining factor and risk factor of the sector is the weather. The production of better quality and larger quantities is necessary for the various sectors, which they can no longer manage by collecting, thus the cultivation of medicinal plants has a great future.

The organizational structure of the medicinal plant growing sector is made up from 4 parts, these are raw material producers, retailers, wholesalers, and participants in the export sector. The number, knowledge and capital of the market participants are different at each level, as some levels require a large capital investment from the participants. The organizational level of export is also significant in our country, because there is a great demand for high-quality, high-active ingredients collected and grown Hungarian medicinal plants abroad.

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