

## COMPETITIVE MARKET FORMATION OF AGRICULTURAL PRODUCTS: UKRAINIAN MEASUREMENT

### ФОРМУВАННЯ КОНКУРЕНТОСПРОМОЖНОГО РИНКУ АГРОПРОДОВОЛЬЧОЇ ПРОДУКЦІЇ: УКРАЇНСЬКИЙ ВИМІР

*The study of the competitive market formation problem for agro-food products in the conditions of globalization in the state made it possible to identify a complex of problems and contradictions that are associated with the new conditions of management. In Ukraine, the agricultural sector faces the challenge of increasing competitiveness on both the state and the world markets. Today, globalization and the integration of business processes are characteristic for the improvement of the global agricultural industry, which means prosperity of the enterprises operating in agriculture. Regarding agricultural enterprises, it should be noted that the activities of these enterprises have certain features: uneven production, seasonality and dynamic changes. Separate regions have differences in the availability of territorial resources, geography of demand, and the number of enterprises in this profile. The author determines that the main problems of forming a competitive market for agro-food products lie outside the sphere of institutional reforms, but in the area of increasing demand for products of the industry. Growth of sales of agricultural products by producers will increase financial income in the industry and largely solve the problem of insolvency and accumulated debts.*

**Key words:** strategy, agricultural products, competition, commodity producers, factors.

*Исследование проблемы формирования конкурентоспособного рынка агропродовольственной продукции в условиях глобализации в государстве позволило выявить*

*цельный комплекс проблем и противоречий, связанных с новыми условиями хозяйствования. В Украине сельскохозяйственная отрасль сталкивается с проблематикой повышения конкурентоспособности как на государственном, так и на мировом рынках. В настоящее время для совершенствования мировой сельскохозяйственной индустрии характерны глобализация и интеграция бизнес-процессов, что означает перспективность процветания предприятий, функционирующих в сельском хозяйстве. Относительно предприятий сельского хозяйства следует отметить, что деятельность этих предприятий имеет определенные особенности: неравномерный характер производства, сезонность и динамические изменения. Отдельные регионы имеют различия в наличии территориальных ресурсов, географии спроса, количестве предприятий данного профиля. Автором определено, что основные проблемы формирования конкурентоспособного рынка агропродовольственной продукции сегодня лежат вне сферы институциональных преобразований, но в области увеличения спроса на продукцию отрасли. Рост реализации продукции сельскохозяйственными производителями позволит увеличить финансовые поступления в отрасль и в значительной мере решить проблему неплатежеспособности и накопленных долгов.*

**Ключевые слова:** стратегия, сельскохозяйственная продукция, конкуренция, товаропроизводители, факторы.

УДК 338.439.5

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*Дослідження проблеми формування конкурентоспроможного ринку агропродовольчої продукції в умовах глобалізації у державі дало можливість виявити цілий комплекс проблем і протиріч, які пов'язані з новими умовами господарювання. В Україні сільськогосподарська галузь стикається з проблематикою підвищення конкурентоспроможності як на державному, так і на світовому ринках. Нині для вдосконалення світової сільськогосподарської індустрії характерні глобалізація та інтеграція бізнесових процесів, що означає перспективність процвітання підприємств, які функціонують у сільському господарстві. Стосовно підприємств сільського господарства слід зазначити, що діяльність цих підприємств має певні риси: нерівномірний характер виробництва, сезонність та динамічні зміни. Окремі регіони мають відмінності у наявності територіальних ресурсів, географії попиту, кількості підприємств даного профілю. Отже, сільське господарство України стикається з багатьма проблемами, що ускладнює досягнення своєї основної мети – забезпечувати населення продуктами харчування кожен рік. Зростання попиту на сільськогосподарську продукцію та зміни в раціоні дедалі більше загрожують деградацією земель, зміною клімату та іншими стресовими чинниками. Невизначеності існують на регіональних та локальних рівнях як наслідки зміни клімату, але загальна глобальна ситуація вказує на те, що стабільність економічного розвитку сільського господарства буде мати більший ризик через короткочасну мінливість харчування. За десятирічний період відбулися зміни й у порядку встановлення цін на сільськогосподарському ринку. Дослідження показали, що в окремі роки дрібні виробники, як правило, отримували за свій товар більш низькі ціни, ніж великі господарства. Покупці-переробники і заготівельники надавали перевагу великим постачальникам, заощаджуючи тим самим на трансакційних витратах. Автором визначено, що основні проблеми формування конкурентоспроможного ринку агропродовольчої продукції, сьогодні лежать поза сферою інституційних перетворень, але у сфері збільшення попиту на продукцію галузі.*

**Ключові слова:** стратегія, сільськогосподарська продукція, конкуренція, товаровиробники, чинники.

**Introduction.** Agro-food markets of different countries are marked not only by the offer of assortment of products and resources, the diversity of which is related to the natural-geographical factor, but also the level of economic development and extent of involvement in the processes of globalization. In this regard, the prospects for the development of the national market are determined not only by the objective state, but also by the influence of global factors, without which it is impossible to solve food problems and create food security.

Ukraine, with its extremely favorable climatic conditions and fertile lands, has the necessary prerequisites for the effective development of the agro-sector. However, the lack of an efficient market for agricultural products constrains the ability of agrarian enterprises and other enterprises to increase productivity and output. Therefore, the actual issue is the creation of an effective or transformation of the existing infrastructure, especially in markets of strategically important products, with the aim of organizing the work of efficient wholesale operators capable of ensuring the

necessary volume of sales of products, reproduction of invested funds and promoting the implementation of the state regulatory policy.

**Analysis of recent research and publications.**

Problems of the agrarian sector, in particular the formation of a competitive agro-food market in order to improve the economic situation in the industry, were considered in the works of many scientists, in particular S.V. Ishchenko, D. Plekhanov, L.V. Salovska, A.G. Babenko, K.V. Bondarevskaya, A.P. Makarenko, T.E. Kucherenko and others.

**The purpose** of the article is to analyze the market of agro-food products and to identify key constraints on the marketing of agricultural products and areas for solving urgent problems.

**Research results.** It is necessary to recognize that agricultural production plays an important role in the overall structure of Ukraine's GDP, although in 2017 its value fell by 0.4%, in spite of all the prerequisites for increasing agricultural output.

Today, the agro-food market is able to fully ensure consumption of basic food products of the crop production sector at the expense of its own production, while the deficit is observed in providing the population with food products of animal origin. Undoubtedly, part of the agricultural production and products of its processing are directed for export, but these resources can always be reoriented to the domestic market if necessary [1].

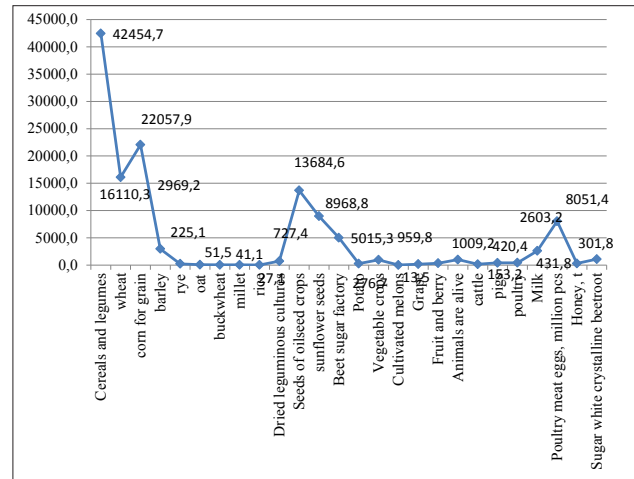
The source of commodity products, which then the agricultural company sells, is, of course, its own production. Our studies in 2017 showed a certain decrease in the number of channels used. The state agrarian policy should focus on creating a competitive environment in the food chain. This supports far more farmers than direct subsidies and price regulation.

In our opinion, the priority directions of state measures for the development of agro-food markets are: reduction of the share of state purchases in direct and indirect form; removal of trade barriers; reduction of measures of influence on the level of prices in the food chain; reduction of state programs of commodity credit, mutual settlements and other surrogate forms of communication of market agents; support of competition in the markets, including through the formation of an effective system of market information, the abolition of preferences by state trading intermediaries; creation of a system of guarantees of contract execution.

For the development of agriculture it is important to have a healthy competitive environment. This sphere in developed countries is regulated by special state antimonopoly structures. Their task is to prevent the rise of monopolies and to promote the maximum development of small and medium-sized producers. These measures allow keeping prices for agricultural products at an acceptable level.

Agricultural products are products that are obtained when plants or animals are treated to main-

tain or improve human life. Food is the most widespread agricultural product, and in fact, the total amount of food per person (measured in calories per person) over the past 50 years has increased by more than 20 percent [2; 3]. But many agricultural products are also used daily for other purposes, ranging from clothing to paper and plastics manufacturing.



**Fig. 1. The volume of agricultural products is sold by enterprises in 2018, thousand tons**

Source: calculated by the author according to the State Statistics Committee of Ukraine

Thus, Ukraine's agriculture faces many problems, which complicates the achievement of its main goal - to provide food to the population each year. Growing demand for agricultural products and changes in the diet are increasingly threatened by land degradation, climate change and other stressors. Uncertainties exist at regional and local levels as a consequence of climate change, but the overall global situation suggests that the stability of economic development of agriculture will be more at risk due to short-term variability in nutrition.

The financial situation in agricultural enterprises also determines the following forms of settlement in the agricultural market: through bank accounts of enterprises, payment in cash, in the form of barter, commission or netting. Cash payments are usually made at lower prices than non-cash. Barter proportions are also often not in favor of agriculture, especially when it comes to commodity credit. As a rule, the implementation of finished products provides a higher return on the unit of primary production than the sale of the very primary products. Such a divergence of return on capital in the sale of finished products and agricultural raw materials, of course, indicates the inefficiency of markets for agricultural products and food. This creates incentives for tolling operations, as well as for the development of own processing by agricultural producers and vertical integration.

Mutual payments are a widespread form of payments in the modern economy of Ukraine, and agricultural markets are no exception here. The peculiar-

ity of agriculture is that it is one of the most subsidized from the budget of the branches of the economy. Counterflows of obligations of state and local budgets to agriculture, on the one hand, and agriculture to budgets and budget organizations on the other, allow them to make these credits with the least iterations. In particular, in the studied areas for several years, budget subsidies to agriculture are practically not paid by cash.

During the ten-year period there were changes in the order of setting prices for the agricultural market. Studies have shown that in some years, small producers, as a rule, received for their goods lower prices than large farms. Purchasers-processors and purchasers have preferred large vendors, thus saving on transaction costs. However, production in large farms continued to decrease everywhere, became increasingly unstable, the raw materials market was constantly narrowing. On the other hand, the individual manufacturer increasingly adapted to the market and found their own sales channels of products [4].

The standard analysis of the degree of competition in the agrarian market involves identifying the boundaries of the commodity market, identifying all market agents, determining the degree of concentration of production, the existence of barriers to entry, the level of availability of market information for all agents, etc. Our research does not allow us to solve this problem in full; however, some of the competition side among agricultural producers at the level of the local agricultural market has been studied quite thoroughly.

In the course of reforms in agriculture, a new market infrastructure has been formed, which includes all the main components of commodity flows. The role of the state, as a direct agent in the distribution of agri-

cultural products, has sharply decreased. There are new types of agents in this market. The sector of private intermediaries, which shows the greatest mobility and adaptability to the current economic conditions, is particularly rapidly developing. The channels for selling agro-food products have become more diversified. Farmers, as a rule, have several buyers of their products, which refutes the widespread view of the a priori monopoly of the processing industry.

The market for agricultural raw materials today is shorter and less competitive than the food market. This is partly due to the reduction in the supply of goods by agricultural producers. As you know, the supply in the agricultural sector is asymmetric, that is, the reaction of production to the increase in prices is faster than their decline. Effective adaptation of agricultural producers is a prerequisite for maintaining their competitiveness, a way of survival in a changing market environment, and a form of achievement of the set strategic goal. In Ukraine, the process of forming a competitive strategy for the development of the agro-food market, in our opinion, can be reflected in such a scheme (Figure 2).

The constant decline in production in agriculture during the years of reforms has led to a long under-utilization of fixed assets, their near-complete depreciation and, ultimately, a sharp fall in supply, inadequate to the real state of demand. For livestock production, agricultural producers are becoming price makers today. On the other hand, the uncompetitive state of agrarian markets is linked to the regulatory influence of regional administrations, which narrow down the choices of buyers for agricultural producers [1].

The analysis of competition in the agrarian market involves determining its type and assessing the

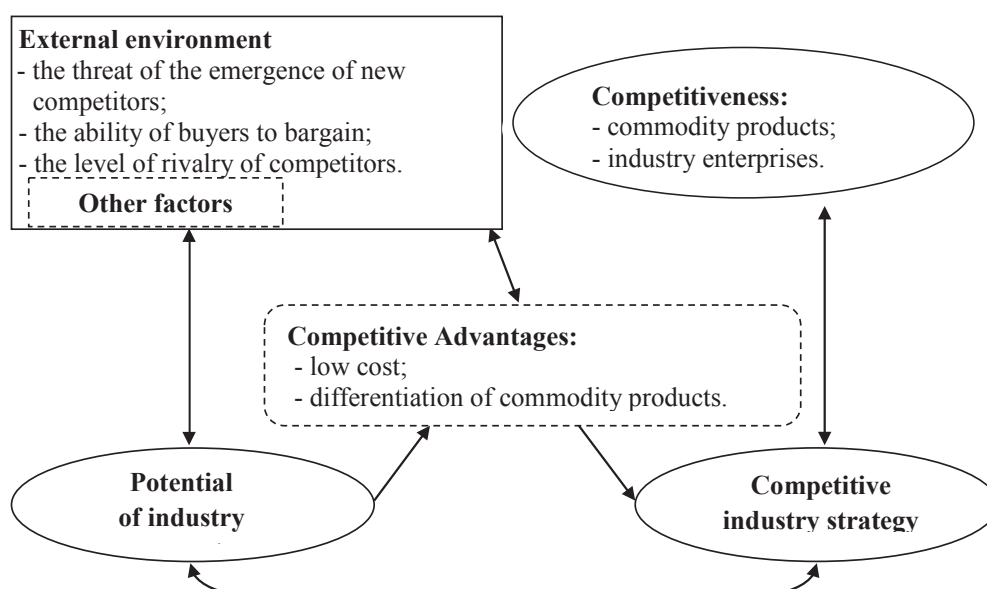
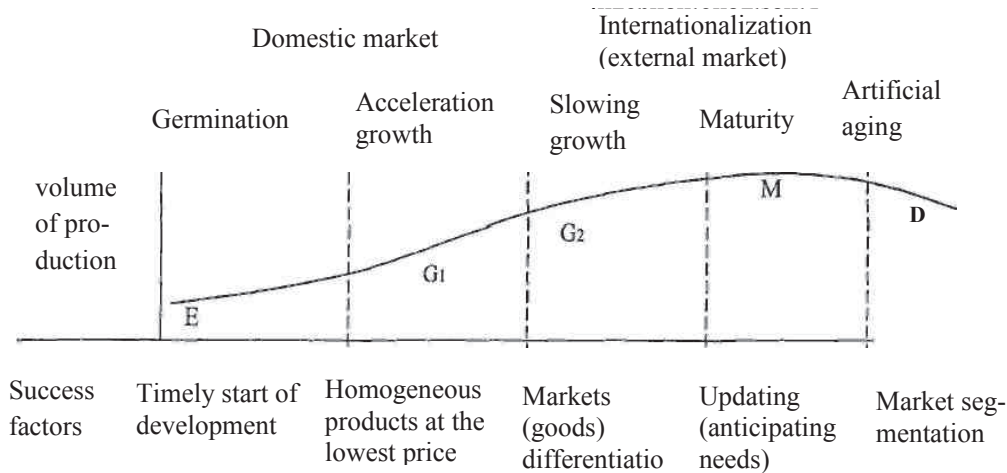


Fig. 2. Formation of a competitive component of the strategy for development of the agro-food market in Ukraine

Source: own development of the author

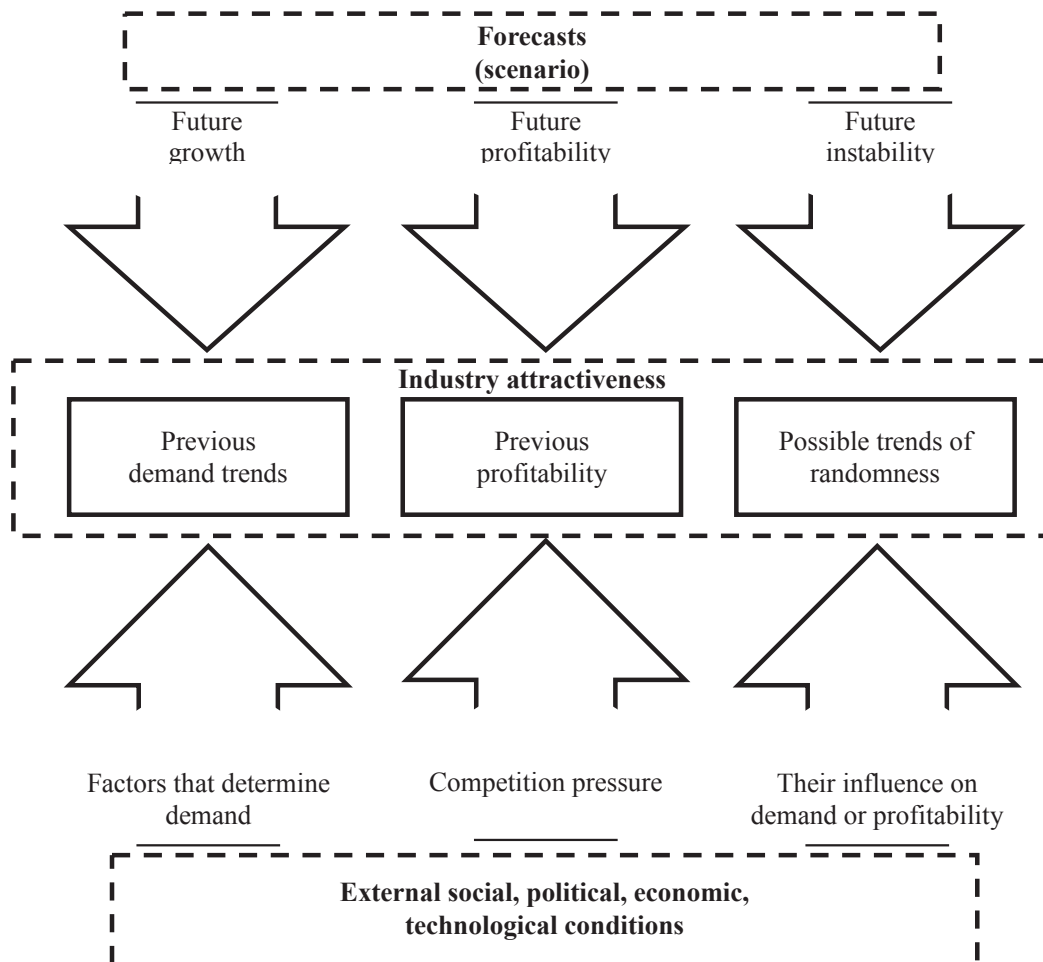
perception of the value of commodity products. In a situation of purely pure competition, the definition of a market price is determined by the price of equilibrium between supply and demand; in the situation of undifferentiated oligopoly the determination of rela-

tive (in the direction of increase or decrease) prices; in the situation of monopolistic competition, the price of perception of the value or the maximum acceptable price of the goods of the enterprise is determined; in the situation of a monopoly or a differentiated oligop-



**Fig. 3. Evolution of competition strategy of agricultural producers**

Source: adapted by the author [2; 3; 4]



**Fig. 4. The process of identifying strategic tasks for the development of the agro-food market in Ukraine**

Source: own development of the author



oly is determined by determining the price of penetration or the price of "removal of cream".

The price policy for new commodity products is determined by the degree of differentiation of the determined competitive advantage and is characterized by two main strategic approaches to price setting: the establishment of a high price for a new product - the price of "removal of cream" and the establishment of a low price level - the price of penetration.

In relation to the entire range of goods, their interchangeability and complementarity should be taken into account. This circumstance requires the positioning of the goods of the agricultural enterprise not only on competing goods, but also on their own. The development of a separate agricultural commodity producer is a long-term business management. The struggle for a consistent increase in competitive advantage generates a competitive development strategy that requires constant review of strategic plans and adaptation to changing conditions. Competitive business development is a long-term plan for an agricultural commodity producer, covering the key business segments: sales and marketing, investment and production, organizational structure and management system. For today in agriculture the most effective is a tough competition. The evolution of the competition strategy can be represented as follows (Fig. 3).

The choice of strategy is influenced by many factors: consumer tastes, preferences, purchasing habits, technological changes, competitive impact, investment needs, relevant profit expectations, financial opportunities (or conditions), assessment of qualifications and managerial qualities in terms of their adequacy to succeed on the market, diversification, the personal composition of the management unit and its purposefulness, state acts of regulation, the obligations of the agricultural enterprise to the segment of society, as well as social and political and cultural conditions that limit or expand the spectrum of its action.

According to fig. 3 competition strategy should take into account the processes of mobilization, distribution and redistribution of resource opportunities of agricultural commodity producers, which justify measures and target functions for prediction of tactics and strategy of competitive behavior in conditions of dynamic influence of the market environment, in order to strengthen competitive positions, which requires consideration of organizational, economic and managerial approaches to planning the expected payments and cash inflows in the economic system of agriculture.

The process of identifying strategic tasks by agricultural enterprises is schematically depicted in fig. 4, on the basis of the choice of goals formed strategic objectives. The process of forming a commodity strategy for an agricultural enterprise is a complex of important interrelated management decisions. Such

a process begins with the linking of global and local goals. When they are developed by the management of the industry, the range of commodity products with which they enter the market is determined.

The initiators of strategic goal-setting in this case are the power structures of the state and local levels. Representatives of various forms of management of regional agriculture can also initiate such goals. For agriculture as whole and individual enterprises, it is important to have such a composition of the product range that would ensure for a long period of continuous over-income over expenditure, that is, the solution of strategic goals and objectives of agriculture.

Consequently, when solving strategic problems using standard methods and tools of the economy there is a number of difficulties due to the specifics of the functioning of agriculture as an object of management: ill-researched nature of the response of the object of management to control factors; Long cycle of management; fragmentation of the source information; the absence of electronic databases that could be the basis for making managerial decisions. The economic reality faced by agriculture in the conditions of a market economy system prompts the use of fundamentally new approaches to the organization of all production and marketing activities.

**Conclusions and perspectives of further research.** The generalization of the results of the conducted research gives grounds to assert that the formation of a competitive agro-food market plays an important role in ensuring the effective functioning of the system of commodity rotation of the state. Organizational elements of the infrastructure of the agro-food market are credit-financial, information-organizational, regulatory subsystems. Foreign experience and practice of domestic agrarian enterprises confirm the opinion that the problem of food supply of the country must first of all be addressed by a major commodity producer with a higher financial, material and technical potential, opportunities for the introduction of new technologies and access to foreign markets.

Ukrainian farms remain very attractive in terms of investments. Prospects for the development and receipt of investment have not only medium and large commodity producers; the future is also small farmers. However, they need to develop unoccupied market niches, for example, the production of dairy products, the cultivation of fruits, vegetables, berries.

To further develop the agro-food market, a number of tasks are needed: implementation of a consistent and well-balanced state policy on the development of the agrarian sector as a whole; improving the functioning of the market infrastructure; introduction of world standards and safety and quality assessments of agricultural products; ensuring high competitiveness of Ukrainian agricultural products due to the transition to advanced production technologies, improvement of work with consumers and other market players.

The key constraints on the development of a competitive domestic agricultural market are the inconsistency of state policy in this area, the monopolization of the market by intermediary structures and processing enterprises, market inertia and mistrust of newly created structures by producers. Formation of an effective competitive agro-food market is a complex process involving the use of world experience, regulating the regulatory framework, stimulating investment flows, harmonizing the interests of all participants in market relations, and increasing the business mobility of agricultural producers.

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