

FACTORS OF DEVELOPMENT OF COMPETITIVE ADVANTAGES OF AGRICULTURAL ENTERPRISES OF UKRAINE²

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The formation of competitive advantages depends on the level of competition in the industry. In addition, the state and structure of demand in domestic and foreign markets within a particular industry allow us to assess the possibility of creating and implementing specific strategies of competitive advantage. That is why the analysis of these elements within the «diamond model» of M. Porter is considered a reasonable and effective source of management information. The peculiarity of the agricultural sector are its own special features, characteristics, operating conditions and the appropriate level of competition. The structure of supply and demand, price dynamics, market stability and predictability allow to characterize the industry in terms of efficiency of ensuring the desired level of competitiveness. The development of competition and demand conditions should be considered in parallel, taking into account the peculiarities of the agricultural market.

The agricultural market is often seen as seasonal, volatile and inelastic. In fact, this characteristic does not fully correspond to the current state of affairs. In fact, this characteristic does not fully correspond to the current state of affairs. For example, the wheat grain market [1] as one of the most important in the context of food security of our country and the world as a whole is characterized as follows: worldwide average annual production grows in parallel with consumption with a moderate increase in final stocks; world prices are very unstable, where elements of seasonality and cyclicity appear and manifest themselves, but dependence on yield and level of demand prevails in the context of price determination; retrospective analysis of changes in production and consumption allows us to predict a significant slowdown in the trend of increasing wheat production, which should lead to stabilization of prices and a shift in emphasis on product quality. For Ukraine, these trends are difficult to consider positive, because, despite the 5th place among the world's exporters of this crop product. Ukraine occupies the lowest price segment with the worst level of quality.

Thus, in the near future Ukraine risks to lose its share of the foreign market. In this aspect, when analyzing the elasticity of demand in the foreign market with the activation of competitors regarding the cultivation of higher quality wheat varieties, it can be considered as moderately elastic. In the domestic market, given the constant consumption of bakery products, demand for wheat remains inelastic, but relatively stable. Regarding seasonality, in the domestic market it is observed depending on the period of greatest demand.

Other markets, such as the consumption of meat, milk and dairy products, and potatoes, despite their inelasticity, are characterized by significant underconsumption compared to the standards. The dynamics of consumption indicators is presented in Figure 1.

The presented results allow us to conclude that there is a share of unmet demand in the domestic market for food. Given these trends, it is considered promising to increase the production of these goods with a decrease in price. Underconsumption of key foods is associated with excessive cost.

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The nature of competition also depends on the type of market for a particular product. Among agricultural production there is a model close to perfect competition, the quality of power by small producers – the economy of the population engaged in the cultivation of vegetables, berries, viticulture, dairy farming. Their number is very large, they do not have information on the behavior of competitors, there are virtually no barriers to market entry. But pricing is based on a scheme that differs from perfect competition – due to underdeveloped market infrastructure, some products, such as milk, are sold by producers to processors or intermediaries at dumped prices due to the inability to communicate with direct consumers. In general, such a model prevails in the production of primary agricultural products. Monopolistic competition is more inherent in processed products, the difference in quality of which creates advantages for end users.

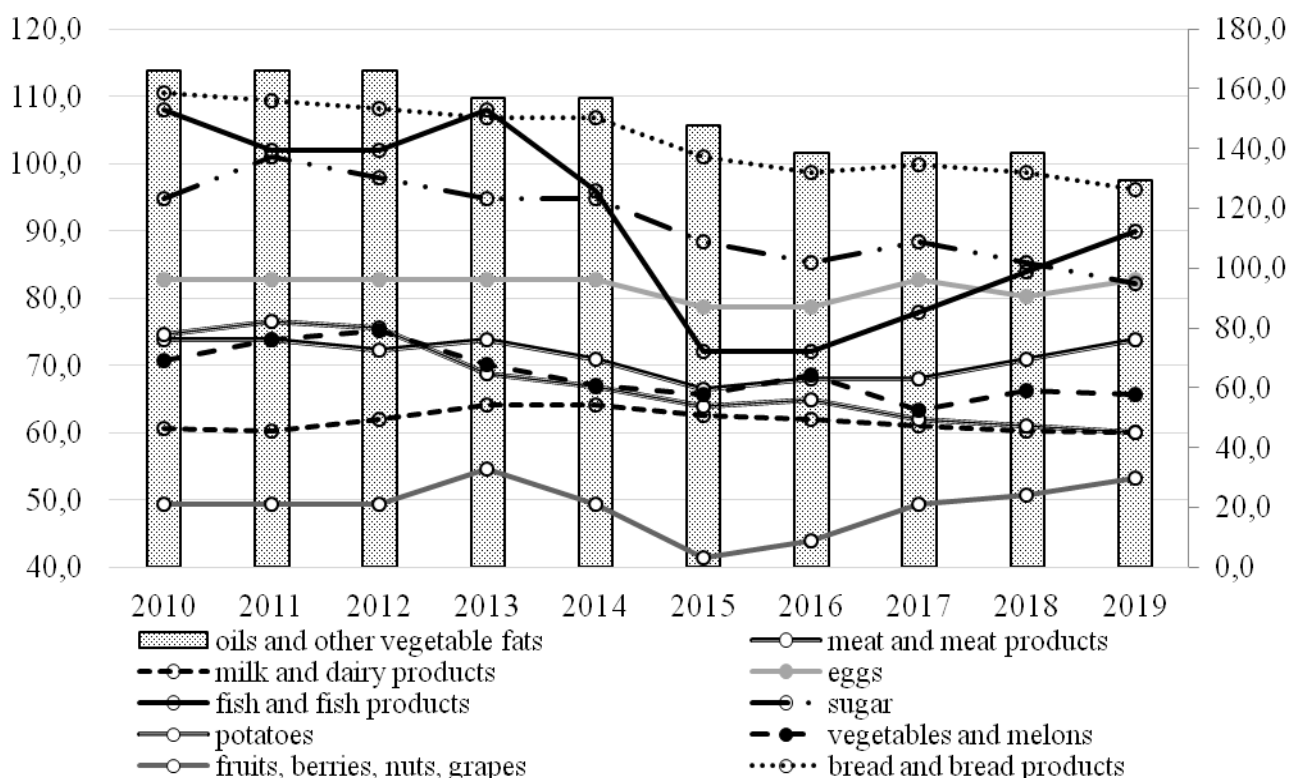


Figure 1. The share of food consumption Ukraine from the recommended norms

An important feature of the market and competition in it is a direct dependence on demand for products, ie market conditions, due to the complexity of storage, long production cycle, diversion of working capital and the need to return them when selling products.

Regarding distribution, it should be noted that many products are sold spontaneously, and the sale of cereals and industrial crops is more coordinated by the activities of intermediaries and the current situation in world markets.

The disadvantage of the current state of the agricultural market is the overestimation of the price of products, which do not allow producers to receive a reasonable profit, and consumers to receive quality inexpensive products. This situation is due to the underdeveloped infrastructure of the market, the lack of reliable information on the level of demand, the underdevelopment of organizational structures capable of implementing effective marketing activities for the combined small producers.

A key aspect in the analysis of competition and demand in the agricultural market is the impact of economies of scale. Most products of the agricultural sector are profitable to produce and sell by large enterprises and vertically integrated structures that produce both primary raw materials and final consumer products. A separate market segment is created by the so-called «niche» products, the profitability of which can be achieved even with a small scale of production and, accordingly, in small areas. The obstacles to the development of these industries are the same underdeveloped market

infrastructure, the lack of a culture of consumption of certain new products, regulatory barriers to exports (limited quotas). This suggests that in the future, the trend of merging producers into holdings will only spread, and the level of competition, respectively, will decrease, which may lead to difficulties in the formation of competitive advantages. On the other hand, the process of creating holdings is gradual, which gives grounds to consider the current structure of competition in the market as a constant.

The last component in M. Porter's «diamond model» is state regulation of the relevant industry. This issue is especially important for agriculture, as in developed countries, despite the effectiveness of the market mechanism and competition, agriculture itself is often considered in the context of state support.

The Law of Ukraine «On State Support of Agriculture of Ukraine» [2] regulates public policy in budget, credit, pricing, regulatory and other areas of public administration to stimulate agricultural production and market development, as well as food security. This normative act regulates the powers of the agrarian exchange; determines the list of agricultural products, wholesale prices for which are regulated by the state; determines the minimum and maximum intervention prices; substantiates commodity and financial interventions, temporary administrative regulation of prices and temporary budget subsidy; determines the purpose of the agricultural fund; substantiates other types of support for agricultural producers: state mortgage purchases of grain, financial support of economic entities of the agro-industrial complex, financial support for family farms, market deregulation; provides the principles of state support for producers of livestock products in the form of direct subsidies, certification of budget subsidies for their export; determines the directions of state support for producers of certain types of agricultural products.

In general, state support for agricultural enterprises can be divided into areas, forms and methods. Directions are directly defined in the Law of Ukraine «On state support of agriculture of Ukraine» (as amended from 07/10/2018).

Forms are divided into direct, indirect and indirect. Direct include loans, subsidies and grants, as well as insurance costs. Indirect include the intervention of agricultural products, setting prices and customs tariffs. Indirect include the intervention of agricultural products, setting prices and customs tariffs. Indirect ones include the write-off and restructuring of tax arrears, the establishment of a special tax regime and government incentives for research. Methods are divided into administrative and economic. Administrative are related to antitrust regulation, compliance with standards and regulations, implementation of targeted development programs. Economic relate to market pricing, subsidies, preferential taxation and lending, rationing of production costs [3].

Among the priority areas of state support for the development of agricultural production are fiscal, budgetary and credit policies. Fiscal policy provides for the establishment of a tax regime for transactions with changes in land ownership, the transformation of the tax system, a special tax regime, the development of new tools for taxation of agricultural businesses. Budget support includes the introduction of medium-term indicative budget planning, giving preference to state-owned enterprises for efficient allocation of resources, targeted support on a revolving basis, transition to compensation payments against the application principle, priority of financing innovative projects on public-private partnership, establishing criteria for direct access to funds taking into account the level of environmental friendliness. Credit policy provides for the creation of an effective system of land mortgages and the development of a credit system for agricultural production on the basis of agricultural receipts and electronic warehouse certificates [4].

For a direct analysis of the degree of state support should consider the dynamics of state budget expenditures on the agricultural sector (Fig. 2).

As we can see from the above dynamics, the lowest share of expenditures fell on 2015-2016. In the future there is an increase in spending on the Ministry to pre-crisis level, but, unfortunately, this trend is not directly related to support for farmers – the share of expenditures decreased to 0.478% with a slight increase in 2019 to 0.555%. This shows that within the Ministry, the priorities have not changed in favor of the agricultural sector. Regarding the growth rate, during the period up to and including 2016 there was a decrease, especially in 2015 – 74.5%; further in 2017 there was an unprecedented increase of 8.4 times, and in 2018 again a decrease, in 2019 there is an increase of 30%.

A significant shortcoming in state support is the incomplete implementation of planned indicators. At the moment, funding is not fully $\frac{3}{4}$ implemented, and in the livestock sector only by 45.7%.

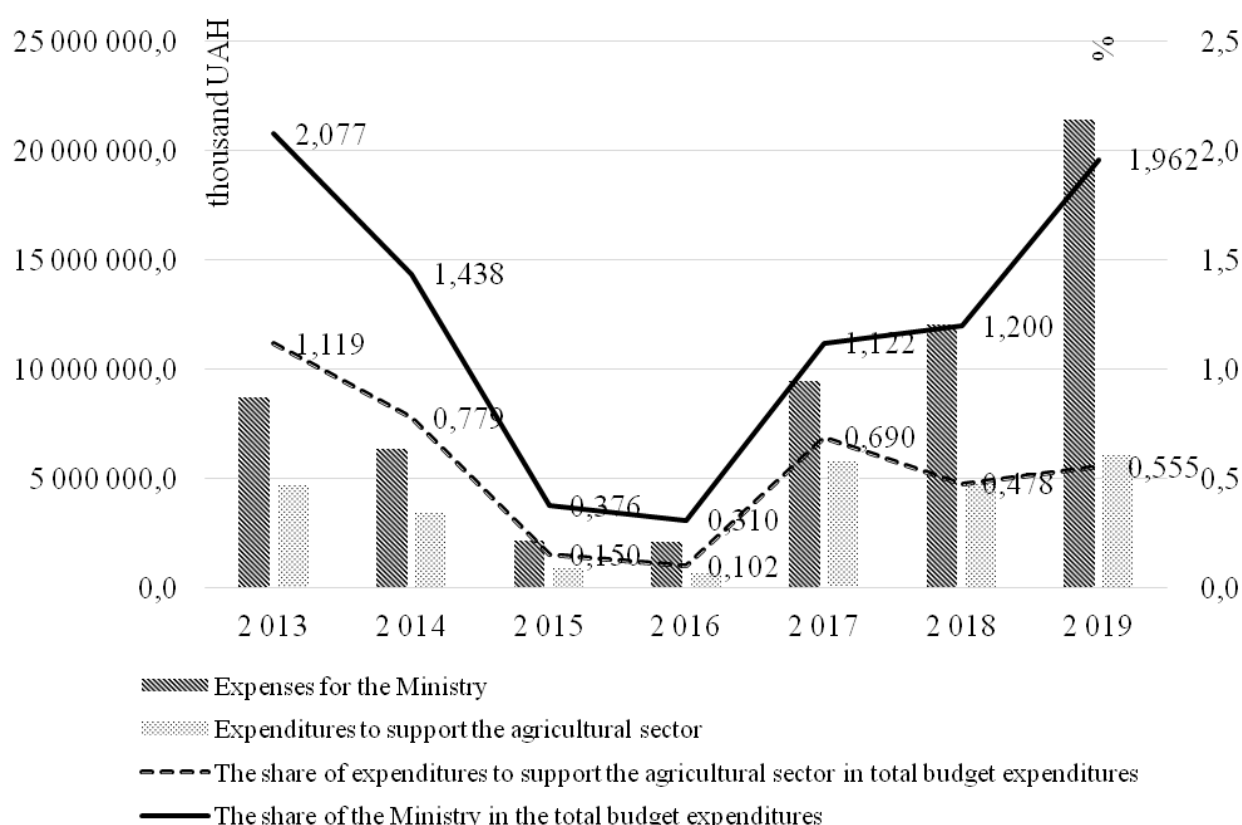


Figure 2. Analysis of expenditures for the Ministry of Agrarian Policy and Food of Ukraine (from 2019 the Ministry of Economic Development, Trade and Agriculture of Ukraine)

Currently, the The Ministry of Economic Development, Trade and Agriculture of Ukraine provides the following support to farming: a budget subsidy for keeping cows (from 5,000 to 250,000 UAH), additional payment in favor of insured members of the SFG (from 0.9 to 0.1 minimum insurance premium), partial reimbursement of costs for advisory services (90% of the cost, but not more than UAH 10,000), subsidy per unit of arable land for newly established farms, financial support for cooperatives (up to UAH 3 million) and support on a repayable basis, but not more 500 thousand UAH). Livestock support includes: a subsidy for the presence of a bee family (from 10 to 300 – 200 UAH each), reimbursement of the cost of purchased breeding animals, bees, sperm and embryos (up to 50% of the cost, but not more than the threshold for each type of animal); reimbursement of the cost of livestock facilities (up to 30% without VAT); compensation for the cost of facilities financed by bank loans (up to 25% of the amount of funds up to 5 years); reimbursement of the cost of facilities and storage and processing of grain (up to 30% of the cost excluding VAT). The development of horticulture, viticulture and hop growing involves reimbursement of the cost of seedlings (up to 80%), reconstruction of fixed assets, purchase of processing lines (up to 30% of the cost). Compensation for the purchase of domestic machinery and equipment for the agro-industrial complex is offered at the level of 25% of their value. The financial support provides for compensation of 1.5 NBU discount rate on loans, but not higher than the amounts provided by loan agreements, reduced by 5% to UAH 15 million for livestock entities and up to UAH 5 million for agricultural enterprises for the implementation of projects on renewal and construction of fixed assets [5].

Thus, the analysis of state support for agricultural producers shows significant changes during the study period in terms of cost structure, the amount of support and the use of indirect forms and economic methods. The constant reduction of cattle remains a problem. This reflects the imperfection of the mechanism for supporting livestock – that is, despite the significant costs in some years, the

negative trend is overcome. The positive situation is only in the field of poultry farming, due to the high level of vertical integration among these industries. Sustained successes of crop producers, given the constant increase in the number of farms, indirectly indicate the effectiveness of state support for this sub-sector. The analysis allowed to identify the main components of the «diamond model» and to assess their impact on the formation of competitive advantage. The evaluation was performed using an expert method of ranking comparison of the strength of the main components of the rhombus and its internal components. The reconciliation was done by calculating the concordance coefficient, taking into account the degree of related ranks, the value of which was 84.04% (Fig. 3).

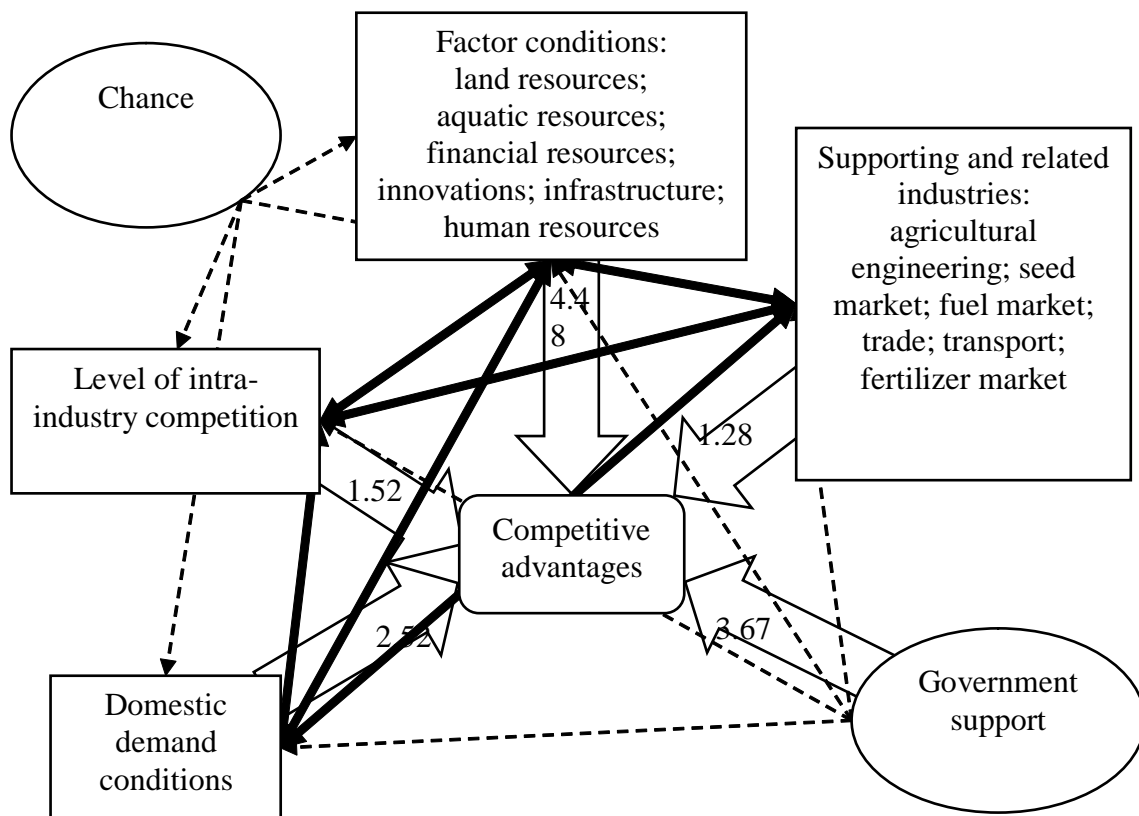


Figure 3. Analysis of the influence of M. Porter's «diamond model» on the formation of competitive advantages of agrarian business entities by middle ranks

The obtained data indicate the predominance of the influence of factor conditions, as the lion's share of agricultural products refers to crop production, where these conditions are crucial in terms of ensuring the desired level of productivity and productivity. In second place, despite the imperfection of implementation, is government support, due to increased funding for soft loans for micro-enterprises that most need assistance, further subsidies for farm development, state support for hops, livestock, agriculture and farmers in general.

The significant impact of domestic demand parameters is due to a significant underconsumption of key food products compared to hygiene standards, which reflects unmet demand as a promising market share. The small impact of the level of intra-industry competition is due to the high level of product standardization, a significant number of producers, especially among households and micro-enterprises, which allows us to consider this market as close to perfect competition. Monopolistic competition is more inherent in processed products, where there are competitive advantages depending on the requirements of end consumers. Supporting and related industries have the least impact due to significant import dependence: in particular, in 2019 the share of imports in agricultural engineering is more than 90%.

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