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GROWTH OF DAIRY PRODUCTS MARKETS IN UKRAINE AND THEIR STRUCTURING

Market dynamics for major milk products before and after the crisis of 2008 are investigated. Key trends of merger and acquisition processes at the markets of hard cheese, butter and whole milk product are determined and significant players are identified. System problems at the internal market of milk foods hindering the development are revealed.

Keywords: dairy products; market dynamics; market structure; property rights.

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РОЗВИТОК РИНКІВ ПРОДУКЦІЇ ПЕРЕРОБКИ МОЛОКА В УКРАЇНІ ТА ЇХ СТРУКТУРИЗАЦІЯ

У статті досліджено динаміку ринків основних видів молочної продукції в до- та післякризовий періоди. Виявлено ключові тенденції процесів структуризації на ринках твердого сиру, продукції з незбираного молока, вершкового масла та ідентифіковано ключових гравців на них. Встановлено системоутворюючі проблеми, що перешкоджають розвитку внутрішнього ринку молочної продукції.

Ключові слова: молочні продукти; динаміка ринку; структура ринку; структуризація ринку; права власності.

Рис. 2. Табл. 2. Літ. 15.

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РАЗВИТИЕ РЫНКОВ ПРОДУКЦИИ ПЕРЕРАБОТКИ МОЛОКА В УКРАИНЕ И ИХ СТРУКТУРИЗАЦИЯ

В статье исследована динамика рынков основных видов молочной продукции в до и посткризисный периоды. Выявлены ключевые тенденции процессов структуризации на рынках твердых сыров, цельномолочной продукции, сливочного масла и идентифицировано ключевых игроков. Установлены системные проблемы, которые препятствуют развитию внутреннего рынка молочной продукции.

Ключевые слова: молочные продукты; динамика рынка; структура рынка; структуризация рынка; права собственности.

Introduction. The crisis that engulfed the global economy and the economy of Ukraine in particular led to the fluctuations in production, changes in ownership through the mechanisms of mergers and acquisitions in agribusiness. The manufacture of food products and dairy products in particular in Ukraine was of an extremely controversial character. Simultaneously, exports to foreign markets has been subject to anti-dumping investigations and various non-tariff barriers. Therefore, the impact of macroeconomic factors fluctuations on the process of market structuring and its dynamics during the pre-crisis 2008 and post-crisis periods is required to be overviewed.

Latest research and publications analysis. The market of dairy products in Ukraine was investigated by E.V. Bondarenko (2011), V.M. Bondarenko (2008), J.G. Divirenko and Y. Tarasenko (2010), T. Dudar and N. Golomska (2002), J.M. Galak et al. (2011), I.I. Pogrebnyak (2011), L. Protasova (2010), A. Shubravska and T. Sokolska (2008), J. Vasilenko et al. (2005), B. Yemtsev (2011). The authors

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analyze milk production dynamics, point out the problems of raw milk supply, identify the ways of improving competitiveness of dairy enterprises and widening the market on the basis of harmonizing relations with raw milk suppliers. The impact of external economic factors on production is ascertained. However, the abovementioned findings need more detail manifestation of structural effects as a result of mergers and acquisitions, as well as identification of the reasons that have affected it. Market dynamics for dairy products also require to be estimated before and after the crisis of 2008.

The objective of this study is to establish the trends at the dairy products market and its structuring.

Key research findings. Since 2004 the dairy market in Ukraine was under the influence both of exports convulsion by domestic producers and changes in consumer demand related to the crisis of 2008–2009. Alignment of time series based on the linear function $y = at + b$ (where y – the total amount of dairy production variable; t – time variable; a – coefficient of annual growth; b – constant) was made within 2 equal periods of time – before the crisis (2004 to 2007) and after it (2008 to 2011), as well as the whole period of 2004–2011. Calculation of dairy production trends for the period 2004–2011 shows a general tendency of increased processed liquid milk production, while in the rest position the trend of decreasing is observed (Table 1).

Table 1. The linear trends of main dairy products production, 2004–2011

Name of the product	Period		
	2004–2007	2008–2011	2004–2011
Processed liquid milk	$y = 39.7x + 716.5$	$y = 28x + 747.5$	$y = 8.392x + 778.8$
Butter	$y = -6.4x + 126$	$y = -1.95x + 83.8$	$y = -6.913x + 125.5$
Spreads	$y = 8.32x + 51.25$	$y = -7.05x + 88$	$y = -0.167x + 71.96$
Unfermented cheese and milk curd	$y = 7.36x + 66.75$	$y = -5.25x + 96.05$	$y = -0.172x + 84.81$
Cheddar cheese	$y = -19.1x + 259$	$y = 0.9x + 238$	$y = -7.690x + 260.3$
Fermented milk products	$y = 22x + 450.5$	$y = -18.7x + 541$	$y = -1.75x + 507.7$

Source: Author's calculations based on (Ukrstat, 2014).

For items, such as spreads and cottage cheese (milk curd), the market has stabilized, and the coefficient for butter shows a stable (the annual average of 6.9 tons) decline. This is due to the export markets closure for Ukrainian producers of butter in 2002–2005, and the "tightness" of the domestic market, which has released new products of similar consumer characteristics – fat spreads and blends. Among the general trends – mainly, growth of the markets across the group of dairy foods in the pre-crisis period of 2004 to 2007, which was driven by an active inflow of funds in manufacturing and consumer sectors through foreign investment and domestic banking system. On the contrary, the global financial crisis and its negative consequences for the industry led to reverse trends: for butter – a decrease of 1.95 ths tons per year; spreads and fat blends – 7.05 ths tones; curd and fermented cheese – of 5.25 ths tons; fermented milk products – of 18.7 ths tons per year (Ukrstat, 2014).

With regard to structural changes, the dairy market became less competitive in 2004–2012 due to the gradual consolidation of productive assets within 10–12 companies. This allows them influence pricing at the domestic market and reduce the risks of exposure to external constraints. The positive side of this consolidation is the provision of uniform quality standards for exports, particularly to Russia. As a result

of 2012, to foreign markets it supplied 67.7 ths tons of dairy products, accounting for about 38% of its production in Ukraine. This indicates the high dependence of domestic production upon foreign markets. In fact, a number of trade wars with Russia, the object of was which cheese, influenced the processes of enlarging and acquisitions in the industry, which facilitated control procedures by Control Bodies of Russian Federation. As a result, in 2012 the main exporters of these products in Ukraine were: "Milk Alliance" (30% of exports), "Milkiland" (29,7%), "Gadyachsyr" ("Almira" company) (14.2%), Western Milk Group (after the acquisition with "Galychyna") (10.9%). These account for about 85% of all export shipments (Agrochart, 2014).

The structure change circumstances of exports affected redistribution of the internal market for cheese. Therefore, the key players at this market in Ukraine were "Milk Alliance" (18%), "Almira" (17%), "Milkiland" (14%), "Terra Food" (11%), "Galychyna" (Western Milk Group) (7%) (Figure 1). Thus, enterprises controlled by this 5 companies in 2012 provided 67% of the market demand (Latifundist, 2014).

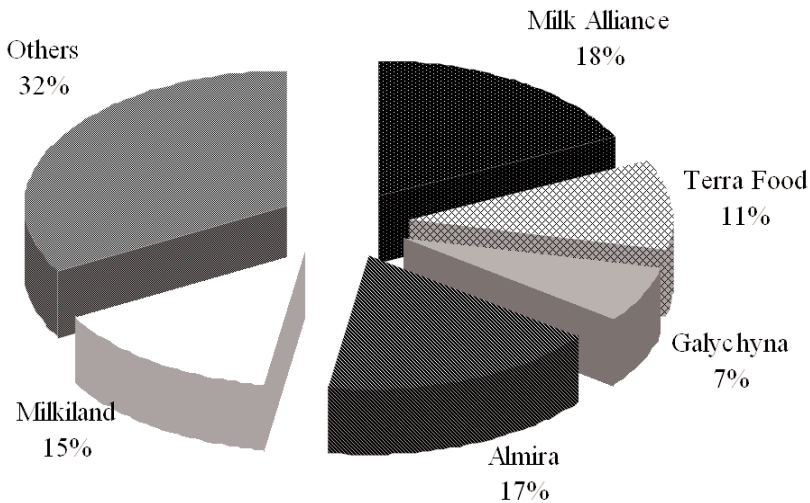


Figure 1. Shares of the companies at the cheese market, 2012, generated and calculated (Latifundist, 2014)

On the contrary, the market for whole milk products has become more competitive due to the technological characteristics of production, storage, transportation and an inverse relation between the timing of delivery to retail and consumer value. Consequently, the market of whole milk products in Ukraine and processed liquid milk formed contingent of companies focused on national and regional markets accounted for 20 units, which took about 63% of the market (Latifundist, 2014) (Table 2).

The calculations show that 5 largest companies control 34% of the market, 5 medium-sized companies – 17%. That is, the influence of these groups of companies at the domestic market of whole milk products is rather limited. It creates conditions for high competition in the segment (Latifundist, 2014).

The butter market of Ukraine in 2011–2012 stabilized at the level of 75–80 ths tons/year. This market focused on domestic consumption, provided consumers with

butter as a final good and confectionery industry – as an ingredient for their products. It is tight for supply due to the competitive segment of spreads and fat blends in last 5 years. The analysis of market structure defined trend towards consolidation of market shares within a small circle of companies. These include "Terra Food " (9.9% of the market), "Milk Alliance" (7.1%), "Lustdorf" (6.7%), "Almira" (6.1%), "Milkiland" (5.3%), "Galychyna" (4.5%), "Rud" (4.0%), Bershadmoloko (2.7%) and others. Thus, the 5 largest companies in 2012 controlled 28% of the market, 5 medium-sized companies – 16, others – 56% (Latifundist, 2014).

Table 2. Distribution of the companies at the market for processed milk and whole milk products, 2012

Name of the company	Output, tones	Market share, %
Danone Unimilk	132560	9,2
Milk Alliance	75743	5,3
Lustdorf	105210	7,3
Terra Food	36164	2,5
Galychyna	75436	5,2
PepsiCo (Wimm-Bill-Dann)	89841	6,2
Lactalis	62171	4,3
Gercules	60398	4,2
Milkiland	25984	1,8
Combinat "Prydniprovskiyi"	54850	3,8
Pervomaiskyi	32297	2,2
Ternopil milk plant	34697	2,4
Kupyanskyi	16957	1,2
Lubny milk plant	26998	1,9
Bershadmoloko ("Roshen")	364	0,1
Molvest	16061	1,1
Rud	11866	0,8
Others	583903	40,5
Ukraine, total	1441500	100,0

Source: based on the data from (Latifundist, 2014).

Compared to the market of the whole milk products, butter segment is more competitive and is represented by more manufacturers, mostly became of the history of its production back in the USSR (butter plants were allocated in every second district center). Moreover, the process of butter production has minimum requirements to milk quality. It allows to use extensively raw milk of private household farms and vegetable fats without significant technological investments. Thus, manufacturers manage to get into all possible price segments.

The overall assessment of dairy products market is based on transforming the net quantity of milk goods into raw milk in 2004–2012 shoing a gradual narrowing of 20.3% since 2007 (Figure 2). The foreign markets share also has a decrease trend – from 19.1% in 2004 to 11.3% in 2010.

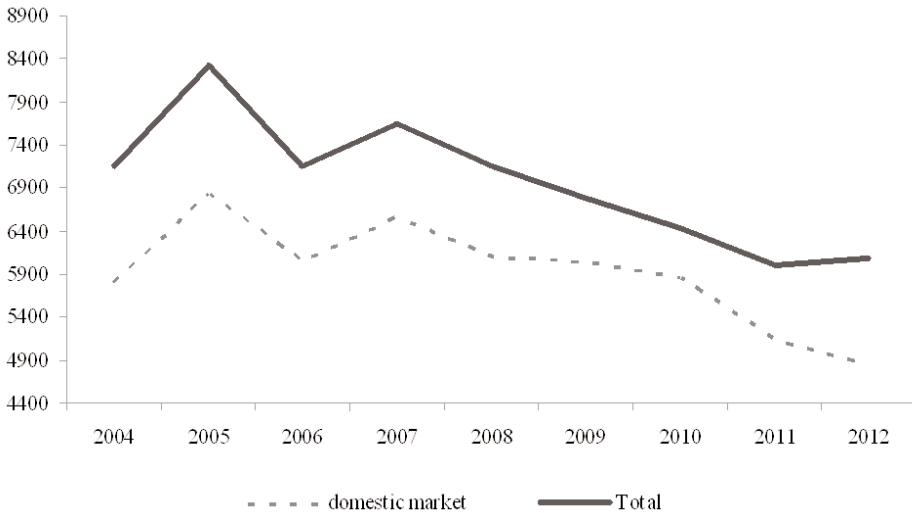
Signs of the foreign markets recovery began to occur in 2011 and 2012 due to cheese export to Russia which again increased. As a result, foreign component in 2012 reached the record point of 20.2% (Ukrstat, 2014; FAOstat, 2014).

The reason for the internal market narrowing lies in the vicious cycle of interrelated issues faced by the industry. It is necessary to distinguish a number of them associated with the effect of both internal and external factors. Comparative analysis of the existing studies of the authors mentioned above and summarizing enable identi-

fying the system problems under the current circumstances of dairy products market related to:

1) a low share of high quality raw milk leading to relatively high prices for it, final goods and, as a result of this – narrowing of the market. This leads to a fall in bargain prices offered by processors and discourages large-scale investments in raw milk production;

2) maintaining national interests by importers, which, respectively, carries a range of trade barriers of economic and non-economic nature. It leads to lower efficiency of dairy products manufacturing and as a consequence – the shutdown of small milk processing plants (or their merger by large companies). This causes the reduction in dairy products supply and consequent a narrowing of the market.



Source: Author's estimations on the basis of (Ukrstat, 2014; FAOstat, 2014).

Figure 2. Dairy market estimation, 2004–2012, *ths tones in raw milk equivalent*

Conclusions. As an outcome of this dairy products market research, a cutback for all milk food varieties since 2008 is found. It is associated with a decrease in product supply by processing enterprises, as a result of the economic crisis. Reduction of the markets for almost all types of dairy products has led to strengthened concentration of milk processing assets within companies having diversified business and access to foreign markets. Thus, the most significant signs of structuring in 2012 were observed in the segment of cheese, less in the segment of liquid processed milk, the lowest – for butter. Systemic problems are determined, related to low proportion of high-quality raw milk supply at the market and protection measures for the traditional export of dairy products.

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КНИЖКОВИЙ СВІТ



СУЧАСНА ЕКОНОМІЧНА ТА ЮРИДИЧНА ОСВІТА ПРЕСТИЖНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД НАЦІОНАЛЬНА АКАДЕМІЯ УПРАВЛІННЯ

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Монографія присвячена управлінню інноваційною діяльністю в економіці України. В основу викладу матеріалу монографії покладені багаторічні дослідження науковців в галузі економічної теорії, фінансів та банківської справи, які були апробовані на сторінках авторитетного журналу «Актуальні проблеми економіки» в 2004–2007 роках. В монографії обґрунтовано основні інноваційно-інвестиційні напрямки та проблеми розвитку економіки України та управління даними процесами.