COMPETITION DEVELOPMENT IN THE FOOD MARKET OF SAMARA REGION

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Key words: Regional food market, network companies, competition, food self-sufficiency, measures on competition development.

The estimation of a condition of a competition in the food market of the Samara region is given. Interaction of trading organizations with regional manufactures of the foodstuffs is characterized. Tendencies of development of a supply and demand of a foodstuff are revealed. The complex of measures on competition development in the food market of the Samara region is offered and proved.

From September, 2007 to June, 2008 Russian food market was experiencing a dramatic increase in food prices. The index of consumer prices on provisions was 121% in that period; bakery prices rose by 25%, dairy products prices rose by 32.5%, eggs prices rose by 19.2% and vegetable prices rose by 57.7%. Together with the increase of energy carrier prices this promoted significant rise of inflation and fighting down the inflation is a matter of top priority in Russian economic policy.

The situation in Samara region was no better: provisions prices rose by 21.4% in the same period which had its negative impact on the level of life in the region, especially in socially unprotected groups of the population. The cost of product basket with minimum of goods rose from 1727.4 rubles in October, 2007 to 2335 rubles in June, 2008, or by 36.3% respectively. The most significant increase was in the vegetable prices (74%), dairy products prices (35.6%), bread and other bakery products prices (27.8%).

The main way out of this situation was defined on the state level and consisted of encouraging competition in the food market. Thus the local authorities of all the constituent entities of RF were given the task to develop and pass proper regional programs[1]. That is why for Samara region executive authorities it is a matter of utmost importance to resolve the following issues:

1. Evaluation of the current competition level in the local food market in connection with the most important provisions.
2. Mid-term perspective forecast of competition level and condition in Samara region food market considering the key trends of demand and supply development on the assigned types of provisions.
3. Forming and basing of a system of measures on competition development in the regional food market considering the peculiarities of some of its sectors.

Samara region food market is a complex dynamic system that has strong impact on the social and economic development of the region. It is necessary to point out that retail trade turnover of the foodstuffs per capita has increased by 3.5 times from 2000 to 2007, and the sum total of foodstuffs sector in 2007 has reached 130 bln rubles compared with 34.6 bln rubles[2].

High consumer demand in Samara region became the key incentive for the global, national and local trade networks to invest in the regional trade. During the last 6-7 years large trade networks had a share of about 40% of the food trade. At present companies like “Magnit”, “Pyatiorochka”, “Perekrestok”, “Metro Cash & Carry” etc. are the most actively developing participants of the local food market. Most federal and foreign networks are multiformat while Samara players tend to develop single-format networks. Unit weight of non-structured foodstuffs retail trade was about 70% in 2007 but the experts expect it to decrease to 40-45% by 2010.

It is essential to note that thriving development of trade networks in the region gradually shifts the workforce balance from production to retail trade which, in turn, influences the condition of the production system, logistics and wholesale trade of foodstuffs in Samara region.

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Table 1

The impact of network trade on the regional food market

Factors of impact	
Positive	**Negative**
1. Modern standards of customer service. 2. High standards of product quality encourage technical and technological update of food production facilities, increase management requirements. 3. Network trade encourages development of transportation and logistics in the region. 4. The advantages of a large producer (payment reliability, guaranteed distribution, brand image etc.)	1. Additional costs of the network for the producers (entrance bonuses, special payment system, special obligatory marking of products etc.). 2. Reduction of small retail companies leads to reduction of product distribution in the region. 3. Shift of risks and costs from network companies to the producers and suppliers. 4. Increased probability of agreement between companies, which may lead to increase on retail food prices

This process has its positives and negatives (see table 1).

At present there is fear that the development of retail networks will lead to the bankruptcy of many small and medium food producing companies. In the start of network retail trade Samara region foodstuffs producers were eager to supply their produce to the stores, attracted by high level of structuring, guaranteed large-scale distribution and the very presence of their produce on the shelves of the stores was regarded as a marketing move. At the same time, the producers agreed with the retailers' terms and conditions, ready to make significant concessions on prices.

Retailers' pressure on producers is a part of world practice[3]. In Samara region the problems of cooperation between retail networks and local producers is mainly the result of poor management typical for many food producing and agricultural companies of the region. Many of them have unresolved issues of updating production lines, product quality and range, staff training, transparent management system, record-keeping and accounting.

Samara region is currently experiencing an advance in people's income and demand over local foodstuffs production. The misbalance is covered by the growing amount of imports whose unit weight has risen from 43% in 2004 to 47% in 2007, and by food supplies from other constituent entities of the RF (see table 2).

It is a fact that Samara region has serious problems in the sphere of trade with neighboring regions (Saratov, Uliyanovsk, Orenburg, Penza regions, Bashkortostan and Tartar republics) who currently have the share of 21% of the total foodstuffs turnover.

Besides it is extremely important to define the impact of other regions' and foreign supplies of the key products (bakery, potato, vegetables, meat, dairy, eggs).

This detailed description will help to identify the weakest sectors of the market which might become the basis for governmental decisions on the management of competition development in each of them. To do this we must calculate the following indices: 1. Level of the satisfaction of the regional needs by local production:

$$Ks.l. = \frac{П}{Cfact} \cdot 100\%, \qquad (1)$$

where $П$ is the volume of production in the region;
$Cfact$ is the factual volume of demand.

Table 2

Regions-major foods suppliers to Samara region

Region	Unit weight of the toral volume of supplies, %	Product groups
Moscow region	25	Confectionary, whole meal milk products, vodka, tinned milk
Lipezk region	10	Children's tinned food, tinned fruit, confectionary
Republic of Mordovia	8	Beer, meat and poultry, confectionary and sausages, cheese
Uliyanovsk region	5,8	Mineral water, meat and poultry, butter
the city of Moscow	5,6	whole meal milk products, confectionary and sausages

Table 3

The impact of imports on the segments of regional food market

Type of product	Index	2003	2004	2005	2006	2007
Bread and bakery	$K_{c.y}$	215,7	220,1	184,7	218,9	216,6
	$K_{\text{з}}$	0,16	0,20	0,15	0,12	0,09
Potato	$K_{c.y}$	147,8	139,8	137,2	131,2	140,4
	$K_{\text{з}}$	0,03	0,03	0,02	0,03	0,03
Vegetables	$K_{c.y}$	99,6	101,1	99,6	110,9	102,8
	$K_{\text{з}}$	0,15	0,12	0,12	0,09	0,09
Meat and meat products	$K_{c.y}$	63,7	56,9	51,6	54,8	58,0
	$K_{\text{з}}$	0,61	0,80	1,01	0,86	0,70
Dairy products (recalculated in milk)	$K_{c.y}$	79,5	68,5	62,6	61,6	62,7
	$K_{\text{з}}$	0,46	0,69	0,91	0,91	0,86
Eggs	$K_{c.y}$	43,4	40,5	38,4	36,0	35,9
	$K_{\text{з}}$	1,41	1,59	1,75	2,07	2,10

This index describes the level of dependence of the regional food market on imported goods from abroad and from other regions. If $Ks./.$ is close to 100% it means competition between local producers but if $Ks./. > 100\%$ it means we must take into account suppliers from other regions.

2. Index of dependence of the local market on outside supplies:

$$K_{\text{з}} = \frac{In}{П - Out}, \qquad (2)$$

where In is the volume of incoming goods including import; Out is the volume of outcoming goods including export.

This index takes into account both incoming and outcoming flow of goods. The margin of this index must remain under 0.3. If the value of the index is in excess of the norm then the regional food self-sufficiency is on a low level. The values of the indices for 2002 - 2007 are in table 3.

The dependence of Samara region food market on foreign and other regions' supplies is varied according to the kind of key product. The highest impact of outside suppliers is in the farm production sector produce - meat, milk, eggs. It is connected both with systemic problems in this area in the recent years and with significant increase of demand on those products. At the same time the region is quite self-sufficient in bakery, potato and vegetables.

Ideally the scale of the regional farm production must suffice not only for the existing needs of local population but also help to achieve the scientifically based norms of needs established by the Institute of Nutrition RAMS.

Thus it becomes more interesting for further research to calculate the ratio between the

Pic. 1. **Ratio between the factual and potential volumes of foods demand in Samara region**

Table 4

Trends in production and consumption of key foods in Samara region in 2000 - 2007, kg per capita per year

Product type	Trend equation	
	consumption	production
Bread and bakery	$\tilde{y} = 2{,}02 \cdot t + 100{,}1$	$\tilde{y} = -15{,}76 \cdot t + 367{,}2$ *
Potato	$\tilde{y} = 7{,}88 \cdot t + 93{,}5$	$\tilde{y} = 10{,}54 \cdot t + 131{,}5$
Vegetables	$\tilde{y} = 8{,}85 \cdot t + 45{,}8$	$\tilde{y} = 10{,}55 \cdot t + 36{,}4$
Meat and meat products	$\tilde{y} = 2{,}81 \cdot t + 36{,}6$	$\tilde{y} = 0{,}85 \cdot t + 25{,}5$
Dairy products (recalculated in milk)	$\tilde{y} = 9{,}71 \cdot t + 181{,}3$	$\tilde{y} = -5{,}07 \cdot t + 192{,}9$
Eggs	$\tilde{y} = 9{,}82 \cdot t + 190{,}9$	$\tilde{y} = -0{,}23 \cdot t + 97{,}6$

* Only bread-grain production.

factual and the potential volume of foods demand in the region with the help of the following formula:

$$K_{d.r} = \frac{Cfact}{Cpotent} \cdot 100\%, \qquad (3)$$

where $Cpotent$ is the potential volume of demand which, in its turn, is calculated by the following formula

$$C_{potent.} = Ч \cdot Q_{1ч} potent. \qquad (4)$$

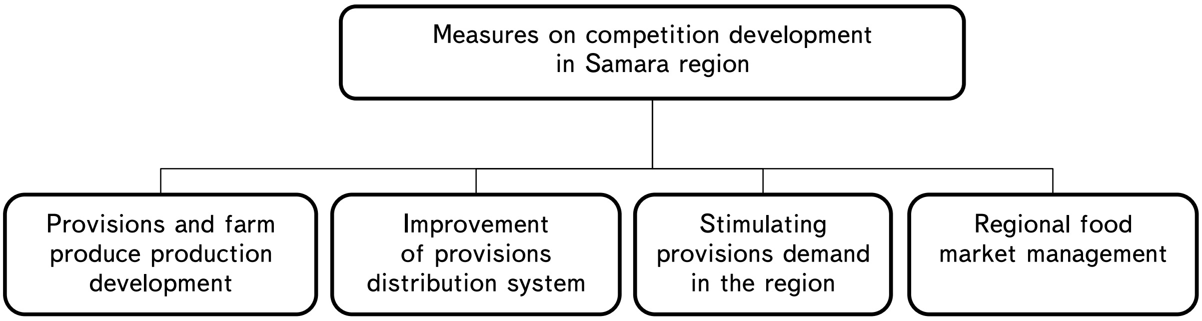
where $Ч$ is the number of inhabitants of Samara region; $Q_{1ч} potent.$ is the norm of food demand [redacted] vent demand among the population of the region, the decrease of production in the region and the significant impact of imported goods on the local market. The trends for key foods production and demand development in Samara region are in table 4.

The average yearly speed of increase of demand on key foods, except for potato and vegetables, significantly exceeds the production level. The most difficult situation is in the dairy products and eggs markets where the demand is rising and the local production volumes are falling. Potato and vegetable growing sectors in the region are very dynamic due to their high profitability.

The estimate of competition level in various sectors of retail food market of Samara [redacted] example, OJSC "Samaralacto" produces about 70% of the dairy products while five biggest bakery plants of Samara region produce just more than a half of the total amount of bakery products.

Table 5

Level of competition on Samara region food market in 2007



Pic. 2. **The system of measures on the development of competition on the regional food market**

Based on the aforementioned factors, there is a suggested system for the development of competition in the food market of Samara region (see pic.2).

The increase in the volume of regional farm goods production and processing is the most important direction for the development of competition in the food market of Samara region. In the sphere of farm production and provisions the main point to focus on is the increase of the output, product range extension and product quality improvement. To achieve these goals it is necessary to provide local farm goods producers with maximum opportunities to use the State Program of Agricultural Sector Development and Farm Product, Raw Materials and Food Markets Regulation for 2008 – 2012, approved by the RF Government, №447 of 14.07.2007.

We also suppose that it is necessary to take some measures to support local farm products sector at the expense of the local budget. In the current conditions it is quite appropriate to subsidize farm producers directly. It would ensure 25% profitability level. According to our estimates, it is going to be about 520 mln rubles[4].

The increase of local farm producers' support from the budget will not only enable the sector's technical and technological update but will also improve the condition of the local food market, help to keep the existing workplaces and as a result encourage the development of the countryside as a whole.

In the sphere of regional system of foods distribution the efforts of Samara executive authorities must be focused on creating direct access for the agricultural producers to the points of retail sale to end consumers. To do it the following measures are necessary:

1. Developing the system of agricultural and cooperative agricultural markets and fairs.

There are currently 99 markets on the territory of Samara region, and only 11 of them are agricultural. To develop the system of fairs and agricultural (cooperative agricultural) markets the following measures can be introduced by the local authorities:

♦ subsidizing of a part of the expenses of the market management company on market construction and maintenance according to the standards approved by the Government of Samara region;

♦ approval from the local authorities to lower the value of K_2 index for the market management company and entrepreneurs operating in the agricultural and cooperative agricultural markets;

♦ providing extra tax remissions for market management company and entrepreneurs operating in the agricultural and cooperative agricultural markets;

♦ targeted assignment of lands for agricultural and cooperative agricultural markets, especially in Samara and Tolyatti;

♦ assignment of sites with all the necessary facilities for trade fairs by the local authorities of Samara region, and their maintenance during the fairs;

♦ informing the inhabitants of all kinds of settlements across Samara region on the dates and places of the agricultural fairs;

♦ taking complex measures to ensure sanitary-epidemiologic safety of the fairs;

♦ attracting agricultural producers from other regions to the fairs by means of informing their executive and local authorities on organizing those fairs in Samara region;

2. The development of regional food market infrastructure implies the construction of new and renovation of the old warehouses for agricultural products and providing the facilities for the purchase of specialized vehicles to transport agricultural products and provisions.

3. Stimulating cooperation in the sphere of the procurement of agricultural products.

Creating specialist structures for cooperation in the sphere of procurement of agricultural products and their distribution in the regional food market and taking measures on the development of cooperation in Samara region will be carried out in compliance with the specifications of the national project of high priority "The Development of Agribusiness" and State Program of Agricultural Sector Development and Farm Product, Raw Materials and Food Markets Regulation for 2008 - 2012.

In the sphere of agricultural produce distribution special attention will be pair to the development of "Oblpotrebsoyuz" that has an operational network of outlets for receiving, primary processing, storage and distribution of agricultural produce. To boost its activities it is also possible to assign some subsidies to compensate a part of the expenditure on farm produce purchase which will enable the increase in market supply.

In the sphere of ***provisions demand stimulation*** it is necessary to perform timely indexing of targeted social pay-outs to the needy members of the society in the amount that will cover the rise of provisions prices. The results of constant monitoring of prices in the food market of Samara region must be used as a basis for correcting the amount of budget assignments on the purchase of provisions for state and municipal needs for medical, social and educational institutions.

Samara region must also implement the program "Milk for Schools" that already exists in the USA and Canada and allows to provide schoolchildren with high quality healthy milk products[5]. This will not only improve children's health but also boost cattle breeding.

In the sphere of ***regional food market management*** the policy of the Samara region authorities will be aimed at compliance with the norms of current legislation in the sphere of anti-monopoly regulation, protection of consumers, the Tax Code and Administrative Law in force. The measures for the forecast period include:

♦ constant monitoring of the situation in the food market of Samara region, systemic analysis of price mechanisms aimed at the prevention of any limitations of the competition;

♦ coordinated actions of the local executive, inland revenues and law enforcement authorities with the aim of identifying the participants of the regional food market that either avoid paying taxes or operate illegally;

♦ establishing cooperation between social organizations and associations of trade and provisions producers;

♦ securing consumer rights in the food market of Samara region;

♦ design, development, installation and maintenance of information analysis system "Samara region food market" that helps to promote agricultural products in the markets of the constituent entities of RF, to rationalize Samara region needs for provisions and develop inter-regional cooperation and integration;

♦ educational programs support in the sphere of training and retraining staff for the sectors of consumer market.

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