

BREAD AND BAKERY MARKET IN UKRAINE: TRENDS, PROBLEMS AND PROSPECTS OF DEVELOPMENT

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ABSTRACT

The article analyzes the dynamics of grain crops production in Ukraine in terms of gross crop yields, crop yields and sown areas during 2012—2016. It is proved that the situation regarding the state of the raw material base significantly influenced the development of the domestic market of bread and bakery products. The main tendencies of the bread and bakery market development and dynamics of their production are investigated. The main factors influencing consumer demand, and reasons for its decrease are analyzed. The consumer preferences and taste preferences of the buyers are determined. It is noted that the market of bread and bakery products has considerable potential and develops in the direction of the main world trends, one of which can be considered the production of frozen bread

The export and import of bread and bakery products in both physical and value terms during 2014—2016 were investigated, prospects of export development were outlined, as well as factors contributing to its development.

The main operators of the bread and bakery market in Ukraine in 2017 are analyzed. It is substantiated that in the struggle for their consumer companies will use the whole powerful arsenal of their own competitive advantages. Differentiated promotion in the maternal regions, support for the recognition and loyalty of brands, the formation and development of recognition in other regions, the formation of a culture of consumption of highly prescription bread varieties are just some aspects of the strategic plans of powerful companies aimed at retaining their buyer and expanding the target market of enterprises. It is determined that the main competitive advantage will remain the guaranteed quality of bread, a wide range of popular varieties of products against the background of introduction of new types of products.

It is proved that in the future the development of competition in the market of bread and bakery products will take place in two directions — both vertically and horizontally.

Given the European experience, the advantages and disadvantages of the functioning of mini-bakeries for the production of mass bread varieties have been identified as an alternative to powerful companies in the present.

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РИНОК ХЛІБА І ХЛІБОБУЛОЧНИХ ВИРОБІВ УКРАЇНИ: ТЕНДЕНЦІЇ, ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ РОЗВИТКУ

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У статті проаналізовано динаміку виробництва зернових культур в Україні щодо валового збору, урожайності та площі, з якої зібрано врожай, протягом 2012—2016 років. Досліджено основні тенденції розвитку ринку хліба та хлібобулочних виробів, динаміку їх виробництва, фактори впливу на споживчий попит з огляду на існуючу ситуацію в країні та причини споживання населенням України більш дешевого хліба та хліба середньої цінової категорії. Визначено споживчі пріоритети та смакові уподобання покупців, експорт та імпорт хліба і хлібобулочних виробів у натуральному та вартісному виразі в 2014—2016 рр., окреслено перспективи розвитку експорту в майбутньому, а також чинники, що сприятимуть розвитку експорту.

Встановлено основних операторів ринку хліба і хлібобулочних виробів в Україні станом на березень 2017 року. Обґрунтовано, що у боротьбі за свого споживача компанії будуть використовувати весь потужний арсенал власних конкурентних переваг. Диференційоване просування в материнських регіонах, підтримка впізнання і лояльності торговельних марок, формування і розвиток впізнання в інших регіонах, формування культури споживання високорецептурних сортів хліба — це лише деякі аспекти стратегічних планів потужних компаній, що спрямовані на утримання свого покупця та розширення цільового ринку підприємств.

Доведено, що в майбутньому розвиток конкуренції на ринку хліба і хлібобулочних виробів буде відбуватися у двох напрямках — як по вертикалі, так і по горизонталі.

З огляду на європейський досвід визначено переваги та недоліки функціонування міні-пекарень з виробництва масових сортів хліба як альтернативи потужним компаніям в умовах сьогодення.

Ключові слова: хліб і хлібобулочні вироби, рівень споживання хліба, хлібопекарні підприємства, стандарти якості, оптимізація виробництва, споживчий попит, міні-пекарні.

Formulation of the problem. Bread and bakery products — a special kind of food for domestic consumers, which occupies a priority place in their diet. By providing up to 40% of the total caloric content of the food ration of the population, the production of bakery products can be considered as one of the strategic sectors of the economy of the country, which has significant potential. However, the tendencies of recent years, in particular the reduction of purchasing power of the population, military actions in the East of the country, the trends of healthy eating, the impact of world trends make their adjustments to the development of the relevant market.

Analysis of recent research and publications. In contemporary economic literature, the problems of the development of domestic food markets in general, as well as the market of bread and bakery products, in particular, are devoted to the works of such outstanding foreign and domestic scientists as O. Belarus, V. Boyko, P. Borschevsky, V. Vlasova, A. Zainchkovsky, Z. Ilyina, O. Korbut, O. Goychuk, B. Paskhaver, M. Petrovich, P. Sabluk, A. Sen, V. Topihi, I. Usashchova, L. Chernyuk and many others. At the same time, an uncertain number of urgent problems remains due to the fact that, on the one hand, the current situation in the state, on the other hand, is influenced by global trends in development.

The aim of the study. The purpose of the article is an analytical assessment of the current state of the domestic market of bread and bakery products, the study of existing problems with its functioning and outline further directions of perspective development in view of the impact of world trends.

Presentation of the main results of the study. For a long time Ukraine was considered a breadbasket not only of Europe but also of the world. However, the realities of today testify to the reverse trends in the production of both main types of agricultural crops and the production of bread and bakery products.

The dynamics of gross harvesting, yield, and sown area during 2012—2016 is presented in Table 1.

Table 1. Cereal production in Ukraine

	Years					
	2012	2013	2014	2015	2016	2016 in % to 2015
	Gross collection, ths. Tons					
Wheat from it	15762,6	22279,3	24114,0	26532,1	26043,4	98,2
winter	15131,8	21863,4	23498,0	25937,4	25320,7	97,6
spring	630,8	415,9	616,0	594,7	722,7	121,5
Rye from it	676,8	637,7	478,0	391,1	391,6	100,1
winter	675,3	633,0	473,2	386,7	389,2	100,7
spring	1,5	4,7	4,8	4,4	2,4	54,6
	Yield, centners of 1 hectare of assembled area					
Wheat from it	28,0	33,9	40,1	38,8	42,1	108,5
winter	28,0	34,1	40,2	38,9	42,2	108,5
spring	27,5	27,4	38,1	35,1	38,7	110,3
Rye from it	22,7	22,8	25,8	25,9	27,3	105,4
winter	22,7	22,8	25,8	25,9	27,3	105,4
spring	21,4	24,7	30,1	27,8	26,3	94,6
	The area from which the harvest is harvested, thousand hectares					
Wheat from it	5629,7	6566,1	6010,6	6839,5	6189,1	90,5
winter	5400,1	6414,1	5849,0	6670,1	6002,5	90,0
spring	229,6	152,0	161,6	169,4	186,6	110,2
Rye from it	297,8	279,3	185,1	150,8	143,6	95,2
winter	297,1	277,4	183,2	149,2	142,8	95,7
spring	0,7	1,9	1,9	1,6	0,8	50,0

* Agriculture of Ukraine 2016 Statistical collection. — Kyiv : Derzhkomstat of Ukraine, 2017. — P. 104—105.

According to the data in the table 1, the gross wheat harvest in recent years has been steadily increasing, with the exception of 2016, when compared to the previous year, this figure was 98.2%. As for the gross rye harvest, there are reverse trends. And although compared to 2015 in 2016, this indicator was 100.1%, but compared to 2012, the gross amount of rye decreased by 1.7 times in 2016.

The yield of wheat and rye tended to increase, so during 2012—2016 the increase of this indicator amounted to 28.0 to 42.1 centners per hectare of harvested area, while the yield of rye also increased from 22.7 to 27, 3 quintals per 1 hectare of assembled area.

As for the crop area, from which the crop was harvested, then, based on Table. 1, it can be stated that the area under cultivation for wheat during 2012—2016 tended to increase from 5629.7 thousand hectares to 6189.1 thousand hectares, but compared to 2015, in 2016, they decreased by 9, 5%. Sowing area under rye has a reverse trend. During 2012—2016 they decreased from 297.8 thousand hectares to 143.6 thousand hectares, compared with 2015, the reduction was 4.8 per cent. Thus, the reduction of the crop area under rye, and with it, and the reduction of its gross collection, shows that Ukraine has lost the status of the world grain state. Although in this situation it is necessary to take into account the military-political and climatic conditions that significantly influenced production and crops.

This situation with regard to the status of the raw material base has significantly influenced the development of the market for bread and bakery products, the dynamics of which is presented in Fig. 1.

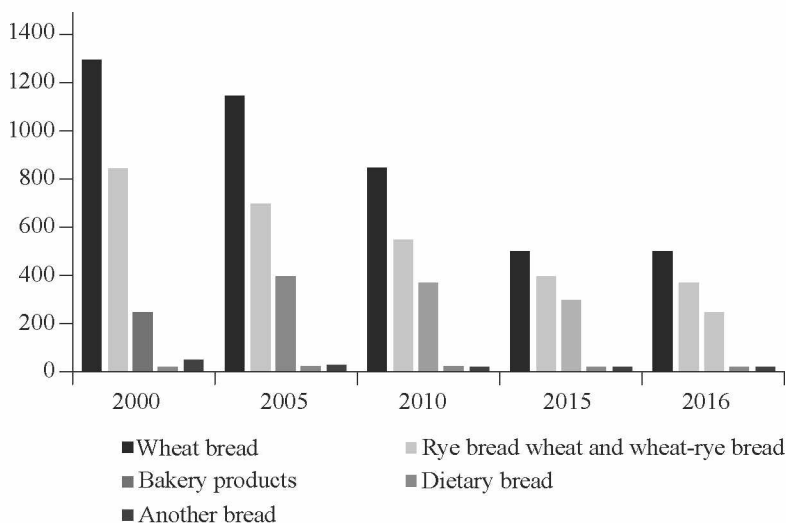


Fig. 1. Dynamics of production of bread and bakery products of short shelf life, t

Fig. 1 certifies the processes of reducing the production of bread and bakery products during 2000—2016 in all product categories, but market experts state that, against the background of a decrease in the production of rye flour, demand for rye bread, whose production has increased and reached 8.1 thousand tons in 2016. At the same time raw materials for such bread, unfortunately, have to be imported: if

in 2014—2015 the purchase amounted to only 9 thousand tons, then in 2015—2016 indicators have already exceeded 21.2 thousand tons, of which for the three months of 2016 (July—September) imports amounted to 12, 4 ths. t.

The economic crisis, as well as the consequences of military actions in the east of the country and a decrease in the supply of products to the Russian market, provoked a decline in the production of bakery products in Ukraine in 2017 by 10% compared with 2016. In addition, the increase of the minimum wage from 01.01.2017 to 3 200 UAH. provoked an increase in taxes that should be paid by enterprises.

By region, most of the bread and bakery products are produced in the Dnipropetrovsk, Kyiv, Kharkiv and Zaporozhye regions.

Analyzing the market of bakery products, experts of the Economic Discussion Club noted that the reasons for the reduction of bread production in Ukraine doubled in comparison with the 2000 figures were the following:

- reduction of sales markets in the Crimean peninsula, Donetsk and Luhansk regions;

- the emergence of a powerful shadow market segment: bakery products and bread are sold in kiosks registered as individual entrepreneurs, or even without registration. Due to this, they can reduce the cost of production, which is usually produced under unsanitary conditions and can not meet any quality standard. However, as it is profitable, the shadow segment of the market is about 60% of the total production of bakery products;

- Many supermarkets in Ukraine specialize in producing their own bakery products, but this production is not fixed.

Based on these trends, statistics on the quantity of bread produced in Ukraine are not completely reliable.

In 2016, the consumption of bread and bakery products by the population of Ukraine amounted to 101 kg per person per year, which corresponds to rational consumption standards.

The main factors affecting demand are price policy, household incomes and unemployment rates, as well as flour production. In recent years, there have been clear trends in the reduction of household incomes and the number of consumers; rise in price of the main raw material (flour, sugar); growth of other expenditures in the structure of expenditures of households (utilities, transport, etc. without parallel income growth); lack of incentives to grow individual producers.

Bakery products are products of prime necessity, therefore this segment is less vulnerable, and in general demand for them remains relatively stable. However, for today, buyers are limited in terms of purchasing opportunities, which is clearly reflected at the consumption level. In particular, the segment of so-called elite types of bread (for example, bread with nuts, dried apricots, etc.) has undergone a significant decline in sales — about 30—40%.

There is a clear tendency to increase consumer demand for mass inexpensive types of bread. However, some companies do not believe that it is necessary to give the consumer the bread of low-quality mass consumption, in order to keep the consumer alone. Some manufacturers are inclined to think that it may be more appropriate to lose a certain part of the consumer audience, but you can not lose the

quality of the product, which, accordingly, correlates with its value. This approach will not only keep the product quality level, trust in the trademark, but also allow business to be profitable.

Recently, Ukrainians have become more interested in non-traditional varieties: woodless, bread, mixed with old recipes; bread with minerals and so on. Such varieties are slightly more expensive than traditional ones, so sales are less, although most experts believe that part of new products will increase.

The part of the bread products is increasing due to the popularity of healthy eating: dietary bread and therapeutic and prophylactic, with the addition of cereal mixtures, bran, fructose, honey, nuts, with additives of vegetables and fruits.

Bread is a universal product that is in demand in all categories of consumers. In recent years, the so-called “social bread” has appeared, but the definition is not correct, since this product is produced according to traditional recipes.

The revival of ancient recipes for the production of bread and bakery products is due to the growing popularity of the national and exclusively Ukrainian. The activation of a healthy lifestyle caused the emergence of new varieties of bread, which are mainly produced in accordance with the TC of enterprises, but are no less in demand.

The habit of young people to eat on the go and a wide assortment of fast food made popular pita bread — both Georgian and Armenian. Still a popular bread product on the tables of compatriots remains a baton.

The bread and bakery market has a significant potential and is developing in the direction of the main world trends. One of such promising directions was the segment of frozen bread, as well as frozen croissants and layers with different kinds of filling. In particular, the company “Khlibodar”, responding promptly to market demand and trends in its development, has created a unique modern production of “Jeff Sey Baker Productions”, the main advantages of which are:

- qualified staff;
- wide assortment of products;
- shock freezing system;
- high-tech equipment;
- use of “clean zone” technology.

The demand for frozen bakery products is more concentrated in large cities of Ukraine, and the main volume of sales of products on the domestic market falls on the B2B segment.

However, as experts point out, no buyer at the present time is insured against buying low-quality bread. The reason for this may be not only overdue goods, but also the composition that most manufacturers do not specify. Unfair commodity producers use low-quality raw materials (contaminated or overdue flour) to make cheaper the cost of the final product, produce bread with simplified technologies, which can significantly accelerate the production process. This adds flavors, stabilizers, flavor enhancers, rinsers, dyes. The only positive product that satisfies the requirements of retail chains — it can long lie on the shelves, without losing its appearance.

Exports of bread and bakery products during 2014—2016 are presented in Fig. 2.

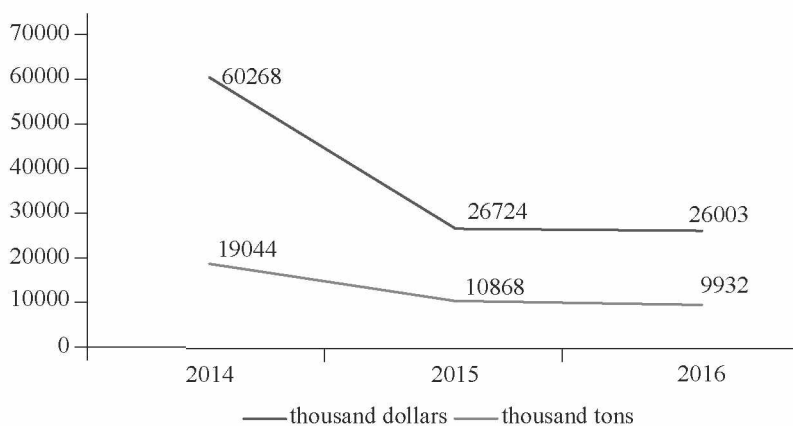


Fig. 2. Export of bread and bakery products in commodity and money terms in 2014—2016

As shown in Fig. 2, the export of bread and bakery products during the mentioned years tended to decrease both in natural terms and in terms of value, but from the end of 2016 other tendencies became apparent: Ukraine gradually develops the European market, and more advanced management systems are being introduced at the plants. In addition, solutions are implemented to increase the efficiency of production through automation and organization of ongoing (continuous) production.

The main buyer of Ukrainian agricultural products and bread is Asia. In particular, in March, China issued a special edition of the Food to China magazine devoted to food products produced in Ukraine. And although the main products exported to Asia — carbonated beverages, beer and confectionery, the bread and bakery products occupy a significant place in this ranking.

Due to the abolition of customs duties, their markets open up the European Union, but they are difficult to gain due to high standards of quality, and high competition requires significant investment, which can not afford all enterprises.

In 2016, Ukraine increased its exports to Moldova of cereal and grain products worth more than \$ 17 million.

In order to expand the export of own products, most enterprises have developed, implemented and certified the HACCP Food Safety Management System. HACCP is an organized approach to the identification, evaluation and control of factors that threaten the safety of food products throughout the life cycle of products. The safety management system based on the principles of HACCP is now obligatory in all countries of the European Union. Therefore, in most enterprises at least once a year, an internal audit of the HACCP system is carried out with the aim of checking the existing HACCP system and eliminating the revealed inconsistencies in its functioning. However, enterprises that ship a substantial part of their products to export and are interested in expanding their own products exports, certify their products in accordance with other standards. In particular, the products of the company “Khlבודar” are supplied to the markets of 18 foreign countries, monthly shipments of 120 tons of bakery products. Therefore, individual assortment of

items in accordance with the requirements of consumers were certified in accordance with the standard “Halal”, and in the company’s plans — further certification of products to meet the standards of “Kashrut”.

Imports of bread and bakery products during 2014-2016 are presented in Fig. 3.

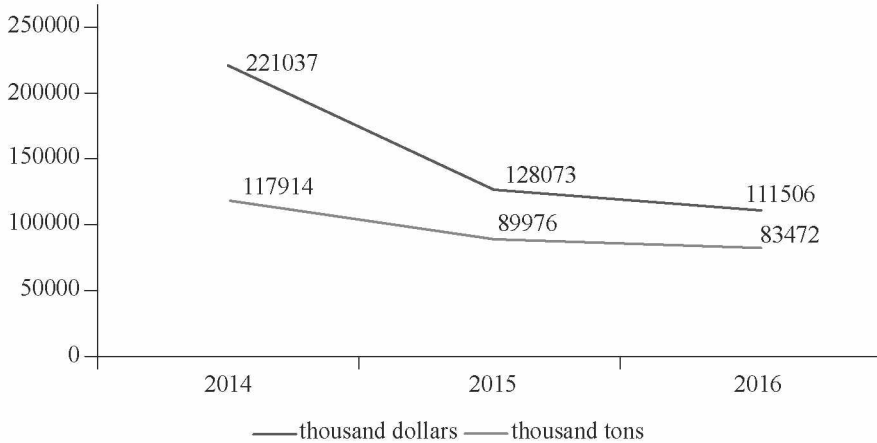


Fig. 3. Imports of bread and bakery products in commodity and money terms in 2014—2016

As shown in Fig. 3, the import of bread and bakery products during the years also tended to decrease both in natural terms and in terms of value, which is a very positive factor in view of the achievement of rational consumption standards by the average Ukrainian.

Consequently, due to lower purchasing power of the population, devaluation of the hryvnia, loss of the Russian market, the production, export and import of bread and bakery products decreased significantly during 2016 compared to previous years. Significant influence also had other factors — reduced investment attractiveness, increased competition, lack of revolutionary solutions and technologies. Significantly reduced the cost of manual labor. It is clear that manufacturers in such conditions are forced to prefer manual labor and secondary equipment, neglecting the risks of their use.

For today the market of bakery products is represented by assortment of various bakeries. Note that the increase in prices for communal services and raw materials affected the value of bread and bakery products and led to a decrease in the number of bakery enterprises — or to their transition to an illegal status.

During all years of Ukraine’s independence, bread remained the most regulated state product. To date, the Resolution No. 1548 of 1996, which allows local authorities to fix prices for goods of a social group, has not expired. The price of bread presented on the shelves of stores consists mainly of flour (about half of the cost), gas and electricity (from 4 to 15% depending on the enterprise) and wages of employees (up to 7%).

The main operators of the bread and bakery market in Ukraine as of March 2017 are presented in Table 2.

Table 2. The main operators of the bread and bakery products market

№	Producer	Market share, %
1.	Lauffer Group (“Odesa Korovai”, Bread Factory “Saltovsky”, “Donbasskhib”, “Khibinvest”)	6,45
2.	Kyivkhib PJSC	6,42
3.	TM “Kulinichi” (Kiev-Kharkiv)	4,73
4.	PJSC Concern Khibprom	3,33
5.	TM “Khibodar”	3,11
6.	Samtak Ltd.	1,75
7.	“Joint Venture LLC” “Bread Factory № 10” (Dnipropetrovsk)	1,47
8.	Shadow market	38,78

In the future, in the struggle for their consumer company will use the whole powerful arsenal of their own competitive advantages. Differentiated promotion in the mother regions, support for the recognition and loyalty of the brand, the formation and development of recognition in other regions, the formation of a culture of consumption of high-prescription bread varieties are just some aspects of the strategic plans of powerful companies aimed at retaining their buyer and expanding the target market of enterprises.

The main competitive advantage will remain the guaranteed quality of bread, a wide range of popular varieties of products against the background of the introduction of new types of products. In order to preserve freshness, aroma and crunch, there will be an increase in the number of products packed in modern paper eco-packaging, as well as polypropylene packaging — Flow-pack and packages with clips (europackets) with printing. Consequently, the possibility of increasing the share of packed profit for most companies in the future will be considered as one of the marketing strategies, focused on a specific category of trade and the corresponding segment of consumers.

One of the effective means of reducing production costs is energy conservation. This is the improvement of the existing equipment, and the installation of new - more economical, and this applies not only to the main equipment, but also to the subsidiary. Particular attention will be paid to the mechanization of production, the use of current-mechanized lines, not only for the production of bread, but also for other bakery products. However, the most effective will remain the increase in capacity loading, as the increase in volumes leads to a reduction in the cost of each unit of production, plus a properly organized logistics system.

Given the realities of today, one can safely predict that in the future the development of competition in the market of bread and bakery products will take place in two directions — both vertically and horizontally.

On the one hand, increasing competition horizontally will anticipate competition between powerful producers, which, by competing among themselves, will increase the quality of products produced, develop new technologies, modernize production, innovate, develop new types of products, following the development of world trends, introducing into production new marketing and management systems. On the other hand, over the last years, the shadow market, which is a small mini-bakery that attracts consumers, is developing at an accelerated pace not by the variety of product range and quality, but by the low cost of its own products.

In particular, European practice shows that in virtually every locality there is such an infrastructure, an integral attribute of which is a mini-bakery. Currently, in Ukraine, the practice of opening mini-bakeries as closed (outside the village with delivery at points of sale) and open (directly in the store, supermarket, mall) format has become widespread. Most market operators confirm further tendencies of the growth of the number of bakeries of a small format, namely the productivity up to 0.3 tons of dough per shift. Such mini-bakery places both in small villages, thus preventing local demand in bakery products, as well as in stores, supermarkets, shopping malls in district centers or small towns, thus replacing a third-party supplier (which usually has a large bakery or bakery) with its small production in place.

Given the current situation in the country, the economy of the mini-bakery is most in demand: with equipment, firstly domestic production, and secondly, it is used and refurbished equipment of European production, and thirdly, it is an affordable new equipment of the European production.

It should be borne in mind that the domestic production of bakery equipment in Ukraine on the quality of implementation, unfortunately, is at an early stage. When choosing domestic equipment for their future mini-bakery, one must clearly understand that the stability of such equipment will be at an intermediate level — that is, maintenance will be needed more often than in the case of the European one. However, there are also advantages that are seen as very significant for a domestic average entrepreneur. First of all, it's a price that is cheaper on the domestic equipment than the European one. Secondly, this is the ease of use of technology, and even with certain failures, repairing domestic equipment is much easier than in the case of European ones. Third, it is a start-up capital, because for a domestic average entrepreneur it is one of the most important moments, which plays a key role in the rapid launch of the production of bakery products, in contrast to a mini-bakery with quality European equipment, but in a few years.

Conclusions

The development of the bakery market, as well as in any other direction, depends on the country's economic development and inflow of investments. The economic downturn in 2008 and the war in eastern Ukraine significantly reduced the desire of entrepreneurs to master both the bakery and any other segments to stabilize the situation. However, in order to increase profits and promote their own products in the market, bakery enterprises will have to increase the number of types and varieties of cereals, as well as modernize their production, increasing the shelf life of products and improving packaging design.

According to the results of the conducted analysis, there is a noticeable shift in demand for cheap bread, therefore the production of social and mass varieties is increasing, and their share of production has increased. Bread varieties with low acidity (among rye and wheat varieties) are in demand. Among bakery products, buyers prefer high-calorie products, in the formulation of which there is an increased content of sugar and margarine.

As a whole, it is obviously that the bakery market needs to be developed by optimizing production in line with demand. This will allow the establishment of economically justified prices for products and, accordingly, will stimulate

agricultural producers to increase the yield of grain crops in order to obtain a stable profit, even at the expense of reducing sown areas.

Expanding the range and increasing the export share in the sales structure will take place due to the launch of new products on the market, and cooperation with the sales networks will be based on the high professionalism of the employees, which will allow the most effective interaction at each stage of cooperation. Client-orientation will enable to respond promptly and take into account consumer tastes and traditions. And dynamic development with high-tech and flexible production will allow to adapt quickly to market trends.

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