

UDC 631.11:330

doi: 10.15330/jpnu.4.3-4.112-119

THE INFLUENCE INTEGRATION PROCESSES EXERT ON THE INTERMEDIARY SYSTEM OF AGRICULTURAL ENTERPRISES

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Abstract. The article proves the connection between intermediary and export activities of agricultural enterprises, and indicates the influence the integration processes exert on competitiveness of domestic and foreign agricultural products. It provides a comparative characteristic of agricultural products in Ukraine and Poland. The major adverse effects caused to the selling of domestic products on foreign markets by the activities of intermediary bodies in the “producer-consumer” chain are defined.

Keywords: intermediary activity, foreign market, integration processes, agricultural enterprises, competitiveness.

1. INTRODUCTION

Ukrainian agricultural sector currently undergoes a stagnation stage caused by troubled economic, political and social circumstances in the country. A large number of market intermediaries, with whom most agricultural and farming enterprises cooperate, are also a significant factor of negative influence. Certainly, the rapid development of intermediary activities is fuelled by the demand for bodies of that type, as they facilitate the market access, especially in cases with foreign trade and export. At the same time, the use of intermediary sales channels in agricultural sector contributes to increased selling prices that often exceed the cost prices. As a result, the domestic products on the international market are inconsistent in their quality and price ration, which influences the competitiveness, and lowers the chances to market the products at a profit. This is a topical issue, for the competitiveness of modern domestic agrarian products is important for the development of integration processes.

The article is aimed at defining the role of the intermediary activities in facilitating export, their effect on competitiveness and on foreign market integration, as well as at defining the connection between the aforementioned factors and the integration processes in Ukraine.

2. RESULTS

Most of the agrarian producers use the intermediary services, considering it to be a way of saving time and money. However, neither the intermediate who cooperates with large enterprises, nor the one collaborating with small farming companies provides the sales, transportation, packing or marketing

services without a good profit. Buying agricultural products directly from the enterprises at low price, the intermediary adds an additional charge (a mark-on) which basically makes up his or her main profit. The mark-on can be considered a fee for the services provided. Having realized the products to the intermediary, the producer receives money. The issues arising with intermediary are as follows:

- increased prices due to the intermediary's attempts to obtain additional profit. This increase leads to shifted quality-price ratio;
- the so-called "lost profit". Assigning the realization responsibilities to the intermediaries, the producer loses the direct connection to the market and end-users.

Under such circumstances, trying to assess the market environment, changes in consumer preferences; to introduce changes into the production or trying to optimize the end-products, to obtain quality marketing data of strategic use in order to expand the market segment, and especially to gain access to the foreign market, proves to be inefficient. Domestic agricultural products are often sold on foreign markets indirectly. Moreover, they are frequently brought to the market through at least two intermediaries, each of whom tries to receive additional profit. This results in annual increases in agricultural product prices and nevertheless, this lengthy and complicated process does not beneficially influence the product quality. Modern conditions of Ukrainian agricultural business are not always favourable, for under the troubled economic, political and social circumstances the agrarian sector is on the verge of bankruptcy. Another major problem is insufficient legal basis for the activities of intermediaries, land and warehouse rent terms and conditions, little number of elevators, vegetable storehouses, out-of-date facilities that do not meet modern technological requirements for storing agricultural products, difficulties in their transportation, i.e. high prices, outdated railroad infrastructure (a particularly urgent problem is bulk freight). In such a case, the producer does not pay enough attention to the issues of increasing efficiency by improving the realization on their own. The development of producers' own intermediary systems, facilitating market communication and trying to find profitable sales channels certainly involve additional costs. However, every agricultural producer pays the same price to the intermediary, yet thinking that he or she spares the time and money, and uses them to overcome other challenges, such as increasing the output and expanding the target market. Nonetheless, the characteristic feature of agricultural market, i.e. high competition level fuelled by product homogeneity, hinders the market expansion. This results in the producer constantly trying not to become bankrupt, forgetting about the possibility to maintain main market functions, including marketing, sales and logistics on his or her own, or engaging intermediaries only for special occasions. The producer may not only expand the market but also gain access to the foreign market, form his or her brand mark (which frequently becomes a factor of competitiveness).

Thus, intermediaries become a certain obstacle on the way for domestic producers to reach foreign market. This conclusion is inferred on the basis of significant increase in product price as a result of adding a mark-on by each intermediary and, therefore, an increase in realization expenditures that exceed the realization on domestic market both in prices and variety.

Consequently, domestic agricultural producers decrease their own price competitiveness on the international market which adversely influences the output and the market sectors reached.

Agricultural enterprises	2014			2015		
	full costs of 1 ts, UAH	average selling price, 1 ts, UAH	excess of selling price over cost, %	full costs of 1 ts, UAH	average selling price, 1 ts, UAH	excess of selling price over cost, %
Cereals and legumes	142,8	179,4	25,6%	179,0	291,2	62,7%
Sunflower seeds	278,5	380,7	36,7%	362,1	874,1	141,4%
Sugar beets (factory)	41,9	49,4	17,9%	58,0	78,9	36,0%
Potato	194,6	213,9	9,9%	194,3	243,6	25,4%
Vegetables	224,4	256,9	14,5%	245,6	390,3	58,9%
Grape	208,4	328,3	57,5%	293,9	645,0	119,5%
Cattle meat	2 093,5	1 370,4	-34,5%	2 909,0	2 072,2	-28,8%
Pig meat	1 745,2	1 843,5	5,6%	2 001,3	2 306,0	15,2%
Poultry meat	1 323,6	1 156,5	-12,6%	1 177,5	2 531,4	115,0%
Milk	327,7	363,9	11,0%	352,9	434,7	23,2%

Tab. 1. Marketing and Cost Price Difference, Ukraine.

Source: based on references [1, p. 48; 2, p. 85].

Table 1 indicates the difference in marketing and cost prices in per cent. This shows the additional expenses for realization on the way from the direct producer to the end-consumer. This value is calculated as follows:

$$\Delta_{M_p C_p} = \frac{(M_p - C_p)}{C_p}, \quad (1)$$

де $\Delta_{M_p C_p}$ – the value of difference in marketing and cost prices,

M_p – marketing price,

C_p – full cost price.

The calculation results give reasons to conclude that for some types of products, the additional realization expenses reach nearly 150% of full cost price. Besides, the full cost price can include the sales expenditures (as indicated by T. Oliinyk and Yu. Krot), consisting of salaries, seeds, fuel and oils, fertilizers, protection equipment, raw materials, services and other non-productive, administrative, financial and sales expenditures [3].

In order to develop their own intermediary system, the producers have to consider the following points:

- the viability of the factual realization price over cost price excelling;
- financial losses and benefits for the direct producer when using intermediary bodies for product realization;
- the need to create separate intermediary system that would facilitate the connection between the producer and the real agricultural market.

Finding the solutions for the aforementioned issues is of great importance. Although additional realization expenditures are justified by transportation and storage, packing, sales and export costs, and are not merely the intermediary fee that influences the factual product competitiveness, agricultural producers still have to face the problem of market and market data access. Table 1 shows the difference in realisation and cost prices values for the period of 2014-2015. It is also important to indicate whether the quality properties and the market share of domestic agricultural products increase with the same rates as the price difference values. The increase of market share signifies improved competitiveness of Ukrainian products. This situation calls for further investigation into the role of intermediaries on the agriculture market and into the reasons of the huge price difference. Comparing the values in Table 1 and Table 2, we can conclude that a share of domestic agricultural products on the foreign market does not increase so rapid as to confirm the improved quality and competitiveness that could justify the level

of additional mark-on charges in 2014 and 2015 for such products as: grapes (57.5% and 119.5% respectively), sunflower seeds (36.7% and 141.1% respectively) and vegetables (14.5% and 58.9% respectively). The prices most likely soared due to the increase in intermediary service cost, complicated direct market reach (a larger number of intermediary bodies in the “producer – consumer” chain), increased logistical costs (higher warehouse, elevator rent, expensive transportation).

Focusing Ukrainian agrarian sector on not only on the domestic market but also on export is an important step on the way to economic growth. A. Kliuchnyk and M. Tereshkova single out a number of motives that contribute to the development of export for domestic enterprises. The main motive is ‘maximizing the profit by means of increased output of products and services on foreign market and facilitating long-term sales channels, and therefore economic growth’ [4]. We are confident that the aforementioned motives should also include market expansion and improving brand reach. Under the conditions of modern market, it is not always a viable option to focus on export. Some countries, namely Germany, claim to be trying to lessen the dependence on other countries by reducing export and import volumes, and focusing on domestic production and consumer demand. This approach is caused by a great influence the export exerts on financial and bank sector. Thus, export or import dependence defines the foreign exchange market and as result, the international investment policy of a country. Due to the high level of world market integration, any market fluctuations of exporting and importing countries, economic and political situation, influence first the export-import rates and then the foreign exchange market and hence, the domestic economic circumstances tightly interconnected with partner-countries by international economic activity and high integration level.

At the same time, market integration and increase in export rates allow for investment influx into industrial countries and enhanced competition which is the source of scientific and technical improvement, domestic product optimization, recreational, transport and industrial infrastructure development.

Thus, we may consider the increased export rates to have an extensive influence on the economic situation in the country. Nevertheless, foreign market reach ensures improved competitiveness of an enterprise, better production conditions and quality, expanded market reach, enhanced work efficiency and higher profits.

An important aspect of increasing export rates is historically, territorially, economically and politically influenced export capacity. M. Saikevych and O. Saikevych consider that ‘export capacity of an agricultural enterprise (or a set of enterprises) is a complex assessment component of resource and technological capacity, marketing and other competences of the enterprise, as well as its location and operation. From export capacity assessment perspective, we can identify the strengths and weaknesses of production organisation and product realization, define the level of enterprise competitiveness, and verify the conformity of export-oriented development strategy to real production, infrastructure and business conditions’ [5]. The same definition of export capacity can be applied to regions, countries, international communities. Therefore, export capacity is defined by a set of factors that can be considered the advantages of the object under analysis in a certain business sector. The same principle applies to developing and maintaining transactional and trans-border relations, as well as international cooperation. Historically, the location of Ukraine and Poland and the resource benefits of the countries define the level of their economic and political similarity. These conditions are strengthened by Ukraine’s long-term objective to become the EU member and form common free trade zone with other member-countries. N. Tsymbalista reckons that ‘the analysis of modern Ukrainian-Polish cooperation in the agrarian sector shows its rather low intensity’ [6]. We believe that the development of trade cooperation between the countries is mainly influence not only by the territorial, economic and mental similarities, but also by the advantages the both countries may achieve by bilaterally beneficial product and service exchange. Thus, it is important to mention the characteristic features of agricultural products in both countries, as well as what is each country’s share in the international export of agricultural products, and what goods are exported in-between the analysed countries. These aspects will help define whether the economic, political, territorial and mental similarity factually influences the real export rates.

Main agricultural products in international trade are classified in accordance with certain codes which also correspond to the Ukrainian Classification of Goods for Foreign Economic Activity. According to this classification, agricultural products include those with codes 01 – 12. Table 2 shows the shares of Ukraine and Poland in world export.

Share in world export of agricultural products, %							
Code	Product	2011		2013		2015	
		Ukraine	Poland	Ukraine	Poland	Ukraine	Poland
'01	Live animals	0.05%	1.22%	0.06%	1.06%	0.04%	0.83%
'02	Meat	0.17%	3.04%	0.28%	3.59%	0.25%	3.78%
'03	Fish	0.02%	1.09%	0.02%	1.23%	0.02%	1.22%
'04	Dairy, eggs, honey	0.84%	2.48%	0.74%	2.69%	0.28%	2.73%
'05	Other products of animal origin	0.06%	2.60%	0.09%	2.77%	0.26%	2.68%
'06	Live trees and other plants and flowers	0.01%	0.70%	0.01%	0.85%	0.01%	0.81%
'07	Vegetables, root crops	0.21%	1.69%	0.17%	1.91%	0.14%	1.61%
'08	Fruit and nuts	0.25%	1.22%	0.14%	1.55%	0.16%	1.10%
'09	Coffee, tea, spices	0.03%	0.97%	0.03%	1.24%	0.02%	1.56%
'10	Cereal crops	3.09%	0.38%	5.18%	0.91%	5.03%	1.25%
'11	Flour and cereal products	0.61%	1.11%	0.71%	1.20%	0.28%	1.13%
'12	Seeds of oil-yielding plants	1.75%	0.24%	2.03%	0.56%	1.52%	0.66%

Tab. 2. Comparative characteristic and dynamics of Ukrainian and Polish shares in world export of agricultural products. Source: based on the data in reference [7].

Having analysed Table 2, we can infer that the dynamics are rather positive only for two codes of Ukrainian agricultural products, i.e. cereal crops and seeds of oil-yielding plants. As for cereal crops, Ukrainian share exceeds that of Poland. Taking into consideration the above-mentioned values, we can predict further dynamics of cereal crops share (see Fig. 1).

Figure 1 shows that Ukrainian share on the world market of cereal crops will continue to grow and by 2018 will reach about 7% of the market. Although this dynamics tendency is promising, in order to completely understand the future of this market segment, we should consider the tendency for Polish export market (see Fig. 1). Cereal crops export market of Poland will grow in 2016-2018, too. However, while Ukrainian share is to grow by 3% in the period of 2016-2018, Poland will improve the value of share only by about 2%.

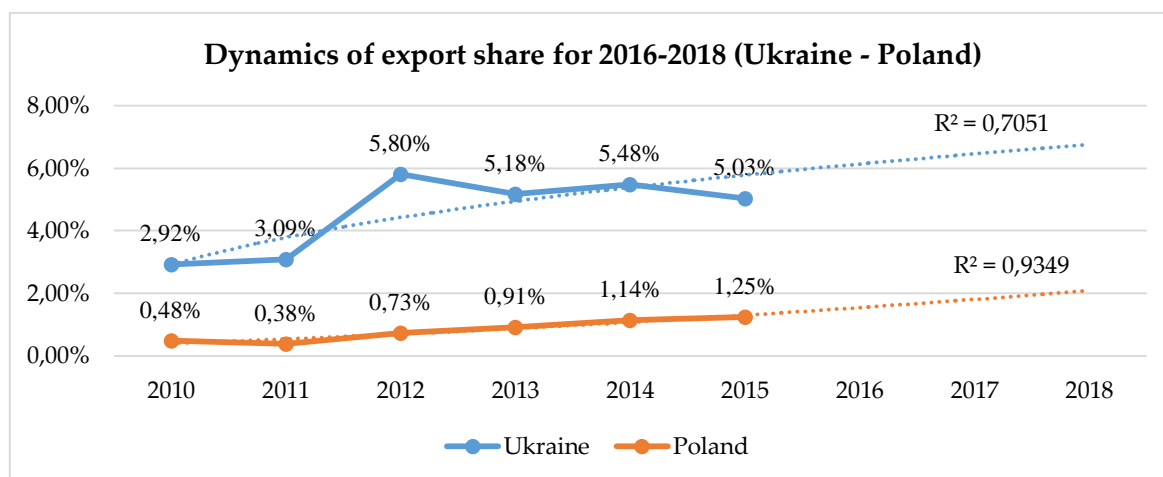


Fig. 1. The prediction of export share dynamics for cereal crops market in Ukraine and Poland (2016-2018).

This comparative graph provides data concerning the advantages and strengths of Ukraine on the given market. Besides, the compared countries (Ukraine and Poland) are often considered equal (given the territorial, economic and historical similarities). Nevertheless, having analysed the export rates that are usually the main factors that define effective partnership relations and help create the common trade zone, it's worth emphasising that the data on the export share dynamics on world agricultural market differs greatly for Ukraine and Poland, with the latter having excellence.

Investigating deeper into the interconnection 'intermediary costs – foreign market access – competitiveness – need for integration' we defined that it is very tight:

- basic product quality is included into full cost price of the product. On the way from the producer to the consumer, only the look of the product (packaging) can be altered, but it does not influence the quality;

- the number of intermediaries in this chain contributes to the increased product price;

- additional realization cost due to the intermediary services leads to the following: the quality of products is left unchanged, while the price has now grown by 20–150%;

- not having own export system and relying only on intermediaries leads to increased prices, too. If the products are not exported directly by the producer, then the export expenditures will also include the intermediary fee;

- the fee for intermediary services influence the price of the product (it increases), meanwhile the basic product quality is left unchanged. As a result, the competitiveness of domestic agricultural products is decreased (due to the inadequacy of quality-price ratio);

- integration processes first of all influence the domestic market of the country that integrates or attempts to integrate into trans-border union. Domestic market sees import influx and at the same time, the domestic products may either gain foreign or integrated market access or faces some challenges. The main reason for that is usually products competitiveness on the foreign market;

- attempting to establish integration relations with a certain country or a set of countries, possible adverse effects on the domestic products should be considered. Integration or union establishment with higher-developed countries can be effective and can improve the economic growth of the country only when the strategic product groups are sufficiently stable;

- if agricultural enterprises of two intellectually, territorially, economically and historically similar countries are engaged in export in similar regions and market segments, there may be no economic viability in tightening the economic and market relations in agrarian sector.

Developing efficient intermediary system can decrease the risk and loss levels for domestic agricultural business that attempt to expand the sales market by reaching foreign market. Despite the market environment being complicated or facilitated by integration processes, the producer should objectively assess risks, costs and expenses, possible challenges in export of product realization on foreign market. Facilitated export shall not be chaotic, disorganised, but rather based on previous market investigation and possessing expansive data background for logistics and sales.

3. CONCLUSIONS

The research contributed to defining the main aim of a country: it shall not be mere integration as such that may sometimes result in complications on the market. Integration is impossible without developing, establishing efficient partnership relations on the basis of fair and mutually beneficial exchange, regulating market operations by taking into account the strengths and advantages on the world market that must not just be maintained on the same level but also improved.

Having analysed the cereal crops market in Ukraine and Poland, we concluded that the dynamics of the export rates is very similar, with only 1% discrepancy. Generally, the main group of Ukrainian agricultural products falls behind the Polish product dynamics and shares. In our opinion, it is caused by the quality, i.e. most of Ukrainian products do not meet quality requirements needed to integrate into the foreign market.

Therefore, the main aim both for Ukraine and for each agricultural enterprise is not merely integration or union with other more economically developed countries, but primarily the use of real, already existing strengths and advantages, improving agricultural product quality, further investigation of potential market requirements. Then the integration processes may follow. As we believe, the integration should not be the reason for economic changes, it should not be the trigger for improvements and reforms, the integration must be the result of positive changes, rapid economic growth; it can be considered a market demand. Only in such a situation the integration component can support the market, open new opportunities and provide the basis for further development. If we consider integration as the aim, the results of such unions may have a set of adverse effects that often lead to the loss of existing market advantages and do not give the domestic producers a chance to find a stable position on the world market.

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Received: 17.10.2017; **revised:** 06.11.2017.

Гурмак Наталія. Вплив інтеграційних процесів на систему посередницької діяльності сільськогосподарських підприємств. *Журнал Прикарпатського університету імені Василя Стефаника*, 4 (3-4) (2017), 112–119.

В статті обґрунтовано взаємозв'язок посередницької та експортної діяльності сільськогосподарських підприємств, а також визначено вплив інтеграційних процесів на конкурентоспроможність товарів внутрішнього і зовнішнього агроринків. У статті здійснено порівняльну характеристику експортних

показників сільськогосподарської продукції України та Польщі. Визначено основні негативні наслідки для сільгоспвиробників в реалізації власної продукції за кордоном зумовлені діяльністю посередницьких структур в ланці виробник – споживач.

Ключові слова: посередницька діяльність, зовнішній ринок, інтеграційні процеси, сільськогосподарські підприємства, конкурентоспроможність.