

Development of Small- and Middle-Scale Enterprises in the Food Industry of a Region

N.Kireyeva

The paper presents the results of analysis of development of small business in the food sector of the Russian economy and sets out the directions of state support of it. A typology of small business is given, and the factors of disintegration in the food industry are identified. Conclusion: formation of small enterprises is caused by objective prerequisites and connected with specific features of the food sphere. Also identified are the basic kinds of strategies pursued by small food producing diversified enterprises.

Formation of the middle class in the present conditions becomes a strategic task aimed at increasing the political, economic and social stability of the Russian society. Fulfillment of this task takes creation of an adequate institutional environment, and favorable legal and economic framework for intensive development of the small business sector. The small business institution, in its turn, facilitates the formation of the market structure of the economy, encourages the competition, and helps expand the taxable base for the budgets of all levels. By establishing new companies small business provides jobs for the population and saturates the market with various goods and services. The principal tasks that can be coped with by developing the small business sector are the following: demonopolization of the economy; formation of competitive environment and developed market structure; saturation of the market with goods and services; creation of jobs for the population; creation of conditions for economic growth; increase of the tax receipts; formation of the middle class; consolidation of the business culture. In the food sphere small business occupies a special niche, which is owing to the character of the food industry and the role the small business sector plays in it. So, how important is its role today, and what will the future bring: will the large food industry be able to do without small enterprises as the food market develops? And what are the competitive advantages of small business in the food sector of the economy?

Results and Problems of Development of Small Business in Russia in the Past 10 Years

Small business in Russia has a more than ten-year history already and has gone through the periods of upsurge and recession. In 1995 the criteria of ascription to the subjects of small business changed. The subjects of small business are regarded as commercial organizations with the participation of the Russian Federation, the subjects of the Russian Federation, public or religious organizations (associations), charity or other foundations in their share capital not exceeding 25 percent, the participation of one or several juridical persons non-subjects of small business in their share capital not exceeding 25 percent, and with the aver-

age number of workers in the reporting period not surpassing the following upper limits (small enterprises):

- in the industry - 100 people;
- in the construction - 100 people;
- in the transport sector - 100 people;
- in the agriculture - 60 people;
- in the scientific and technical sphere - 60 people;
- in the wholesale trade - 50 people;
- in the retail trade and the consumer services sector - 30 people;
- in the remainder sectors and for other activities - 50 people.

The subjects of small business can also be physical persons involved in entrepreneur activities without having the status of a juridical person.

According to the State Statistical Committee of the Russian Federation, by January 1, 2001 the number of small enterprises operating in the Russian Federation constituted about 879,3 thousands with more than 6 million people employed on the permanent basis. If the contractual and part-time workers and the entrepreneurs – physical persons are taken into account, then the small business sector employs more than 12 million people. The survey shows that 20% of the population of Russia live on the earnings from small business activities.¹ During 2000 the small enterprises generated the products, works and services in the total amount of 613,7 billion rubles, which equaled to almost 5,3% of the overall amount of products, works and services generated in all sectors of the Russian economy involved in the production of goods and services. That year the small enterprises contributed about 9 percent of the gross domestic product².

Most of the indices depicting the development of small business in Russia are favorable, which is a manifestation of certain sustainability of this sector of the economy. However, the question of whether Russia will reach the level of the developed countries still remains unanswered. The primary parameters usually used to characterize the maturity of the small business sector are the number of small companies per 10 thousands of the population, and their contribution to the total number of the employed and to the gross domestic product. Whereas in the EU countries and the USA the former quotient respectively forms 450 and 742, for Russia the figure is as small as 57. The situation is quite the same with the employment contribution – 72 in the EU, 54 in the USA and 15 in Russia. In the developed countries small business generates no less than 50% of the national GDP, while in Russia its contribution is far more modest – 9-10%³.

Small business not only occupies certain niches of different markets, but also has the potential in relation to the profits, incomes of the workers, solvency and taxes that is often greater than that of the large-scale production. Given that the large companies' sensitivity to innovations and high technologies is low, the

¹ Î.Shestoperov. Present Small Business Development Trends in Russia. – Voprosi Ekonomiki, 2001, #4.

² Russian Statistical Year-Book: Statistical Compilation/Goskomstat of Russia. - Moscow, 2001.-p.320

³ Data available from the Small Business Promotion Resource Center and the Small Business Promotion Federal Foundation.

role of the small and middle-size companies producing science-intensive products gains additional importance.

The analysis of development of the Russian small business sector shows that the problems the small enterprises would encounter became more acute in the last decade, especially after 1998.⁴ The small businesses increasingly tend to leave for the “shadow” sector, the number of the permanently employed by the small companies and the number of the small companies themselves are on the fall. A considerable part of the small enterprises that have undergone the official registration have not started their operations yet. The financial position of the small business participants turned generally worse, while the market access barriers and the tax pressure grew higher and stronger. In this situation the question of making the small business-related public policy more efficient is coming to the foreground.

It would be wrong saying that the problems encountered by the small business sector were completely ignored by the federal and regional authorities. In 1994 a Federal Foundation for Promotion of Small Business and Competition was established under the State Committee for Anti-Monopolist Policies of Russia. In 1995 a Federal Law “On Government Promotion of Small Business in the Russian Federation” was adopted. In the same year a State Committee for Promotion and Support of Small Business was created, which existed up until 1998, its functions having then been transferred to one of the departments of the MAP of Russia. Special structures in support of the small business sector were established within the executive authority organs in more than 70 subjects of the Russian Federation. 74 regions of the Russian Federation have set up small business promotion funds, adopted and implement small business promotion and development regional programs. The construction of the infrastructure supporting the small business undertakings – business centers, business incubators, innovation and technological centers and etc. – is in progress.

At the same time, the administrative barriers that the small businesses have to face since the very start, poor coordination of the actions of those in charge of the execution of the Federal Small Business Official Promotion Program, organizational faults, Program measures financing failures and resource shortages indicate the need for further improvement of the organizational and financial mechanisms of promotion of small business in Russia.

Interviews with the subjects of small business show that one of the major handicaps remains the existing taxation practice. Currently, three systems are employed.

Small enterprises can apply the “traditional” taxation system that has been criticized for many years already and for good reasons. It is extremely complicated in that it takes a great deal of various reporting, the tax legislation changes all the time, the instructions are contradictory and interpreted in different ways, which leads to accounting errors when calculating the taxes. The major drawbacks of the “traditional” system are the excessively big number of taxes pay-

⁴ See series of articles: *Voprosi Ekonomiki*, 2001, #4, # 10.

able from different bases of assessment and the enormous aggregate weight of the tax burden. The latter can reach 90%, although the international experience shows that 45-50% is the critical level, beyond which mass tax evasion starts.

The individual business undertakings and organizations consisting of up to 15 people and generating the aggregate gross revenues not exceeding the amount equal to the thousand minimum wages are entitled to use a simpler system. However, this system cannot be applied to the lending, insurance, stock exchange and excisable businesses. The main bottleneck of this system is that it does not allow set off the VAT for the consumers, which makes many enterprises less competitive vis-a-vis other producers. Along with that the system provides for a considerable number of separate payments, quarterly submission of reports to and total verification by the tax service, and rather big amounts of advance payments for the patents. Furthermore, this system is unable to take adequate stock of the small enterprises' taxable bases and still makes the tax evasion possible. According to different assessments, from 30 to 80% of the small companies' products and services are paid for in cash. This particularly concerns the retail trade, public catering, and consumer and transport services.

The imperfection of the aforementioned systems led to the initiation, development and introduction into practice of a new system based on the principle of imputed earnings, in which the taxable base is assessed not from the reports, but by estimating the potential earnings from different activities performed in different conditions. The potential earnings yield depends on the basic yield rates per unit of natural activity indices (unit of area, number of workers, unit of production capacity), increasing or decreasing coefficients, and factors indirectly affecting the performance. Although the amounts of imputed earnings can be overestimated by the local authorities (which is already the case in a number of regions), and in spite of the fact that the tax has to be paid in advance, this system can generally be considered progressive. However, the single tax on imputed earnings cannot be applied to industrial and food companies, as the system only embraces the businesses operating in the spheres of consumer and hair-dresser services, retail trade with fuel, and parking and transportation services.

In conditions of budget shortages the official promotion of small business requires making maximum avail of other instruments, like non-budget financing, leasing, guarantee funds, specialized banks, mutual crediting associations, insurance, audit and consulting companies, and certification and accreditation of the small business infrastructure objects and law companies at the executive authority organs.

The official promotion of small business must be based on cooperation of the federal and regional authorities with commercial structures, public associations of entrepreneurs and be addressed to concrete small companies. An integral part of the promotion system should be encouragement of competition among the elements of the small business infrastructure.

Further development of the small business sector takes further improvement of the legal and regulatory framework with the view to make the registration and licensing procedures as simple as possible, introduce new taxation and

accounting systems, enable the small companies to take part in the bidding for the state and municipal orders for the supply (procurement) of products and services. The institutional environment should protect the small enterprises from racket and other offence and help it overcome the administrative resistance at all stages of their operation.

The regional centers and agencies for promotion of small business should focus on rendering a wide range of services, including that in the spheres of security, finance, information, advice and standardization. An information network should be installed to help the entrepreneurs obtain information on legal and business issues, taxes, competitors, customers and market situation.

However, all these efforts will be in vain if the efficient financial, crediting and investment mechanisms based on the optimal combination of official support, private investment capital and small companies' own funds are not created. The appropriate measures here seem the following: extension of government guarantees, setting up of the insurance mechanism, application of leasing, collateral transactions, mutual crediting and venture financing, and setting up of a chain of specialized financial, crediting and investment institutions to support the small businesses in the regions.

Does the Food Industry Need Small Business?

The food industry is one of the few branches of industry, where small business used to develop rapidly. This was owing to the nature of the production cycle and the food market. In the food industry the barriers to entry – the minimum possible size of a competitive enterprise and the minimum capital required to start a business – are much lower than in other sectors. Low concentration of production in the agrarian sector – the supplier of raw materials – also influences the rate of concentration in the processing branches. Splintered raw material flows are difficult to handle and accumulate, that is why large companies – meat processing, confectioneries and breweries - usually prefer to deal with the agricultural products that are referred to as exchange commodities or imported. Small business in the food industry objectively ensues from the existing technological structure, inter-branch connections and demand features.

Presently, the food industry market experiences the centralization of capital, when concerns, holdings and other integrated structures are being formed integrated by large industrial or trade companies. However, this process gives birth to branched financial-industrial structures of the “planetary” kind. The structures of this kind comprise dozens of production, trade and services companies as satellites to a large or middle-size joint-stock company. Decisions on creation of such structures are made by the leadership of the integrating company. On the one hand, this process goes through detachment and creation of subsidiaries. On the other hand, the near-company integration space attracts the

external independent enterprises connected with the mother-company by cooperation relations⁵.

The disintegration process is aimed to fulfil the following tasks:

- reject the centralized management as no longer possible (for instance, due to the loss of confidence);
- escape from the debts of the mother-company;
- reduce the number of personnel by getting rid of inefficient departments;
- create the atmosphere of change to arrange for subsequent disputable or unpopular measures.

Disintegration can take the following basic forms:

- legal disintegration, i.e. transfer of the rights and obligations to a greater number of legal economic subjects;
- objective disintegration of production, separation of intermediate products as goods;
- territorial dispersal;
- management disintegration based on decentralization and re-distribution of powers (a divisional structure or setting up of self-financed centers).

Separation of small enterprises as a form of disintegration in the food industry is explained by the following factors.

Economic efficiency: At a certain stage of development of a company there arises the situation, when even a slight growth of production causes the fixed costs per unit to increase rather than to shrink. Detachment of subsidiary companies at that very moment does not make the transaction costs rise, but magnifies the economic effects from reduced production costs. In other words, the economy of scale comes in waves.

Sensitivity to market signals: With disintegration the quality and speed of response to market changes increases, as the chain of decision makers and executives and the number of management levels gets reduced, which is to say that the communication chain gets shorter allowing for a faster management decision making.

Management efficiency: With disintegration the number of workers per manager usually decreases, which, other conditions being equal, makes the quality of decisions increase.

Wrong decision risks reduction: With disintegration of a company into autonomous systems the risk of choosing a wrong strategy or making a wrong decision reduces, for the responsibility for making a wrong decision is localized within each of the systems.

In addition to that, the dispersion of powers among the counteragents in many cases causes the economic good faith of the company administration to rise.

⁵ G.Kleiner, R.Kachalov, N.Nagrudnaya. Disintegration Strategies. Entrepreneurship in Russia, 1998, #1. Ed.12. P.5-15.

In the context of disintegration the main question is which departments should be kept in the core of the company, placed to the “border zone” inside the company vested with reasonable independence or removed to the outside into the integration space. On the other hand, minding that the integration space is also a competition-encouraging zone, independent companies can be selected there to be attached to or included in the sphere of interests of the mother-company. Outsourcing as removal of the functions having no direct relationship with the production cycle to the outside of the company is only starting to be practiced in Russia and is applied in the industries with oligopolistic market structures. In the food industry, where the market is less concentrated compared to other sectoral markets, outsourcing can only be spoken of in the future.

Risks faced by small companies:

- the lack of reproduction base;
- incompleteness of the scientific and technical production cycle;
- poor technical level of production;
- poor financial capabilities of handling large investment projects;
- weak marketing service, its routine character.

Consequently, a small company cannot initially be a self-reproducing integral system. It needs anti-risk support – creation of specialized reserve assets, contract insurance, development of different relations scenarios, risks diversification and dispersion strategies.

One of the present tendencies is expansion of large capitol companies to the regions and attachment of the regional enterprises as primary processing elements. However, these processes not always entail concentration of production. This proves that the food industry objectively has a niche for small business, which performs the important functions of an agent on the food market. Large enterprises carry out the functions of conductors of scientific and technical innovations and form the demand by developing their marketing policies. Small business, in its turn, first, plays the role of an important element of the production concentration mechanism and, second, is an instrument of the so-called “reversed franchising”, when large companies use the status of a small enterprise to reduce the tax burden or even avoid the taxation, and to obtain extra preferences. Large companies detach the most profitable or new departments as subsidiary small enterprises to minimize the fixed costs and gain in management efficiency. This is a kind of “biocenosis”, when businesses of different kinds support and complement each other.

Small food producing companies are still quite rare today and cannot compete with specialized factories in terms of the quality of products. But the agricultural companies did show themselves on the food market as new producers enjoying lower production costs. It should be noted that the new producers are serious competitors on the food market already, as they have the agricultural raw materials in hand. Processing their own agricultural products, the agricultural companies have good chances to compete with specialized industrial enterprises, above all, owing to the lower prices of finished products. In this way, from the point of view of the competition on the food market, the emergence of producers

of a new kind – agricultural companies – is a positive factor. It already enabled to reduce the rate of monopolism in the food production sector in the regions to some extent and make the prices of food products advance in a positive direction.

On the other hand, in conditions of acute shortages of agricultural raw materials in the country the whole thing was just a mere re-distribution of the scarce agricultural products among the traditional food companies and new agricultural processing companies. This made the situation on the market for agricultural raw products more complicated and, consequently, produced certain effects on the food market as well.

Many farms have to set up their own processing, mainly because of the delays in the payments for the raw materials supplied to processing companies. As a rule, the farmers have neither modern equipment, nor qualified personnel. At the same time, the specialized food companies have to stay idle because of the raw material insufficiency, although it is evident that they could do the processing in a more rational way and with better quality offering a wider range of products. The environment of severe competition favors the large companies that have greater stocks of cheap raw materials imported and/or produced on their own farms. This, for instance, is the case with the meat processing industry, where the large companies can slightly rise the prices of the finished products, even letting the profitability rate fall, and keep their positions on the market. For the small and a part of the middle-size companies that do not have a material base of their own and use imported agricultural products purchased from the intermediates, the raw materials cost more. Should the prices of the agricultural products reach some certain point, these companies would fail to stand the competition. As a result, the production potential of the food industry that has been accumulated for long decades is utilized extremely inefficiently. This situation negatively affects the process of creation of a sound food market in the country and in no way facilitates the saturation of it with various high quality products.

The international and domestic experiences show that in a number of sectors small well-equipped food enterprises have considerable advantages vis-a-vis the large companies. They faster react to changes in the consumer demand and are better at handling the problem of seasonal production fluctuations. At the same time, the setting up of a small-capacity company today brings about many problems. Because of the lack of appropriate equipment, the small companies face the problem of rational utilization of the secondary raw materials. The quality of their products leaves much to be desired. Individual commercial enterprises and entrepreneurs dealing with the marketing of food products often breach the veterinary legislation.

Construction of small processing units is advisable, when the agricultural resources are small, and where there are difficulties with their transportation to large or middle-scale specialized enterprises (where there are no roads or specialized vehicles). Consequently, in every region there should be a rational com-

bination of large-, middle- and small-scale companies matching with the local specific features.

Small production companies demonstrate high technological and marketing flexibility, and their infrastructure costs are low. In spite of their weak financial potential, these companies show high cash mobility, as they are less controlled by the state. Nevertheless, the small-scale production sector is much more exposed to the influence of the “shadow” sector of the economy, so is its attitude towards the taxation and licensing disciplines.

Types of Small Businesses in the Food Industry

In our opinion, small business is much more than the official status of a small enterprise. The legislation provides for the operation of independent economic subjects that, if comply with the staff and production restrictions can apply for official support and certain preferences (Table 1).

Table 1.

Typology of Small Businesses in the Food Industry

| Type | Owner-ship | Legal status | Genesis | Rate of auton-omy |
|--|---------------------|--|--|----------------------------|
| Small enterprises | Private, collective | Cooperative, limited liability company (OOO), partnership, private undertaking | Since allowed by the legislation | Subject of the economy |
| Consumer associations | Collective | Cooperative | Cooperative movement for many decades | Subject of the economy |
| Independent (peasant) farms | Private | Independent (peasant) farm (IPF) | Resulting from the re-organization of agricultural companies | Subject of the economy |
| Private entrepreneurs (PE) – non-juridical persons | Private | Private entrepreneur (PE) | Since 1991, in the course of the reforms | Subject of the economy |
| Agricultural producers’ processing unions | Collective | Cooperative, OOO, closed joint-stock company (ZAO) | Resulting from the re-organization | Subject of the economy |
| Subsidiary production units | State, collective | Department, subsidiary unit on the enterprises’ balance | Exist within the diversification strategy framework | Non-subject of the economy |
| Small primary processing industrial companies (primary plants) | Collective | Open joint-stock company (OAO), ZAO, OOO | Resulting from the breakup of associations in the course of privatization in the food industry | Subject of the economy |

Important from the point of view of the food market as the basic institution is food production within any types and means of creation of value. Therefore, the principal criterion indicating the position of the small business sector is the general share of the market, which shows, irrespectively of whether the product is produced by a subject of the economy or not, whether it is a basic product or not, the inability of the given producer to influence neither the market prices, nor the market situation in general. In light of this, the research of the role and functions of the small food business should not be limited to the statistics on small enterprises alone. The analysis should include the production and distribution characteristics of subsidiary units, independent farms and consumer associations as well. This concept focuses on the core questions of the purposes (why and for what it exists), development strategies (how the goals are attained) and competitive advantages (what the strengths are) of various small businesses on the food market. This will enable to build a network model of the food market as a cluster of interconnected branches and complementary forms of production and capital that make up the regional economic space.

Kinds of Strategies Pursued by Small Diversified Food Companies

The authors have carried out a special case study for 34 small food companies operating within the Union of Consumer Associations of Saratov Oblast (UCASO). As a result, the following conclusions were made.

Assessment of the market

The leadership of the companies thinks that the demand for *bakery products* to the largest extent depends on their quality. 66% of the respondents put this factor first in importance for the consumers. The dependence of demand on the price is considered of primary importance by 42% of the respondents. Less critical in terms of influencing the consumer preferences, the leaders think, are the purchase convenience, eye appeal, assortment and packing. In the case of *sausages* the price is thought to play a more important role, as its primacy is supported by a half of the respondents. 48% of the respondents believe that the demand for *macaroni products* depends on the selling price rather than on the quality. 18% of the leaders think that for macaroni the form is superior in importance to the quality. Approximately the same part of the respondents (17%) is sure that the eye appeal is crucial for canned food as well - much depends on the colorful labels, size of the cans and things of the like. However, in the opinion of 65% of the respondents, quality is the most important for *confectionery*. Only 15% of the respondents consider the price or the eye appeal to be even more decisive. Hence, the specific features of the factors influencing the consumer demand can be figured out (Table 2).

Table 2

**Averaged Appraisal of Importance of the Consumer Demand Factors
(1 = the highest in importance)**

| Demand factors | Bakery products | Confectionery | Macaroni | Sausages | Canned food |
|------------------------------|-----------------|---------------|----------|----------|-------------|
| Quality | 1.5 | 1.5 | 2.0 | 1.7 | 1.9 |
| Price | 1.7 | 2.3 | 1.7 | 1.9 | 1.9 |
| Convenience and availability | 3.3 | 3.5 | 3.8 | 3.5 | 3.2 |
| Eye appeal | 3.2 | 2.5 | 2.6 | 3.0 | 2.2 |

The *rate of competition* on the market for bakery products is referred to as moderate and high by over 50% and 45% of the respondents, respectively. The main method of competition, they think, is the price contest based on the cost reduction (72% of the respondents). Only 28% of the total number of respondents think it more important to improve the quality and other properties of the product, i.e. use the non-price competition methods. It arouses anxiety that 7% of the respondents consider the non-economic competition methods primary. On the sausages market the rate of competition is higher: 61% of the respondents believe the competition to be severe, and only 39% think that it can be referred to as moderate. Cost reduction is the main method applied by the competitors again (Table 3) – that is what 74% of the leaders of companies think. 26% of the respondents are sure that product diversification is more important. Unlike on the market for bakery products, the non-economic methods of emulation are less common here - a quarter of the respondents believe they are not being applied at all. The opinions concerning the macaroni market are very different, ranging from thinking that there is no any competition on that market at all (21%) to admitting that it is quite severe (33%). Probably, like with the bakery products, the stable demand for macaroni is making the competition less fierce. More than a half of the leaders think that the marketing is successful if the price is good, while 40% of the respondents insist on that it all depends on the quality. A similar situation can be observed on the markets for confectionery and canned products - 42-46% of the respondents consider the rate of competition to be moderate, 31-33% - severe, and 21-23% - weak. However, the confectionery market is specific in that the product differentiation strategies prevail there, which is acknowledged by 71% of the leaders of companies. It should be noted that, indeed, that market provides favorable conditions for making use of this very competitive advantage, which is not the case for many other markets where generating a unique product is difficult and costly. Comparing the markets surveyed, it can be noted that the competition is the strongest on the markets for meat and bakery products (Table 3). However, the reasons for that are different. In the case of the bakery, strong competition is a consequence of attraction of many different competitors to the market. On the sausages market this situation aroused owing to the depressive nature of demand.

Table 3

Rate of Competition (per cent of the respondents)

| Rate of competition | Bakery products | Confectionery | Macaroni | Sausages | Canned products |
|---------------------|-----------------|---------------|----------|----------|-----------------|
| Severe | 45 | 31 | 37 | 61 | 31 |
| Moderate | 52 | 46 | 42 | 39 | 46 |
| Weak | 3 | 8 | 17 | 0 | 0 |
| Practically lacking | 0 | 15 | 4 | 0 | 23 |

Table 4

Averaged Appraisal of the Most Common Methods of Competition (1 = the most common)

| Methods of competition | Bakery products | Macaroni | Confectionery | Sausages | Canned products |
|-------------------------|-----------------|----------|---------------|----------|-----------------|
| Cost reduction | 1.3 | 1.4 | 1.7 | 1.3 | 1.2 |
| Product differentiation | 1.7 | 1.6 | 1.25 | 1.8 | 1.8 |
| Non-economic methods | 2.7 | 2.8 | 2.9 | 2.9 | 3 |

Unlike in the developed countries, where the role of non-price competition used to become increasingly important in the last decades, the most commonly applied method of competition on the Russian food market remains price competition based on the cost reduction, which is clearly seen from the Table. The exception is the confectionery market, where the product differentiation strategy is more widespread. Therefore, it is very important to identify the basic costs making up the self-cost of the product, and also the *market pricing factors* that are accounted for in the price policies of the companies (Table 5).

Table 5

Averaged Appraisal of Importance of the Pricing Factors (* = the highest in importance)

| Pricing factors | Bakery products | Macaroni | Confectionery | Sausages | Canned products |
|-----------------------------|-----------------|----------|---------------|----------|-----------------|
| Raw material costs | * | * | * | * | * |
| Energy costs | *** | ** | ** | ***** | ***** |
| Taxes | ** | ** | ** | ** | ** |
| Technological costs | | ***** | *** | ***** | |
| Storage and marketing costs | | | | | |
| Labor | | | | | |
| Targeted profitability rate | | | | | |
| Production rate | ** | *** | ***** | *** | *** |
| Competitors' price | ***** | ***** | ***** | ***** | ***** |

As seen from the Table, irrespectively of the kind of the product, the basis of the selling price is formed of the raw material costs and taxes. That means that the hang-the-expense model of pricing still dominates. The unanimity of the leaders of companies in placing the role of these costs in the forefront is explained by the fact that the main competitor of consumer cooperation – the private entrepreneur sector – enjoys more of the tax preferences and is in a better position to use the “gray” raw material supply channels. The leaders also understand that the demand- and production-related production growth limitations make the share of overheads in the self-cost of the product increase and, finally, provide less opportunity to reduce the selling price. In view of this, some of the leaders speak of the considerable share of the storage and marketing costs in the price. The leaders think that the factors depriving them of the opportunity to reduce the prices of the bakery products, for instance, are the high prices of flour, small volumes of production (resulting in high fixed costs per unit of product), high costs of energy and taxes. Hence, as the most important factor influencing the level of prices 93% of the respondents mention the raw material costs, 55% - energy consumption and production rates, 41% - taxes, 21% - costs of labor. Only 7% of the leaders think the profitability rate to be an important pricing factor. It is interesting to know that only 4 of the leaders when setting the price pattern themselves on the prices of competitors. Thus, the positioning of products that is being familiarized by the largest companies has not become a common practice yet. Such a market regulator, as competitive price, although being taken into account by the leaders, still basically performs the accounting function. Also, the companies are in no opportunity to head for the targeted profitability rates. Even in the situation of low profitability, it appears more important to keep up the scope of activities and save on the fixed costs.

From the point of view of the *quality* of the output, the key role is attributed to the quality of the raw materials (Table 6). According to 74-83% of the respondents, this factor is the most critical in the production of bakery products, macaroni and confectionery and can be to a very slight extent offset by other factors.

Table 6

**Averaged Appraisal of Importance of the Quality Influencing Factors
(1 = the highest in importance)**

| Factors | Bakery products | Macaroni | Confectionery | Sausages | Canned products |
|---|-----------------|----------|---------------|----------|-----------------|
| Quality of raw materials | 1.3 | 1.5 | 1.3 | 1.9 | 2.1 |
| Technology | 2.4 | 3 | 2.5 | 2.4 | 2 |
| Equipment | 3.0 | 2.4 | 3.5 | 2.8 | 3.2 |
| Qualification of personnel and discipline | 3.2 | 3.1 | 2.3 | 2.6 | 2.4 |

In the production of canned food an important role is played by technologies – 42% of the respondents put them in the first place. The same goes for the

sausage production, where good technologies and equipment enable to work even with low-quality raw materials. The application of advanced equipment and technologies is considered the most important by 21% and 26% of the leaders, respectively. The production of confectionery – one of the most labor-intensive kinds of production – in addition to good-quality raw materials requires high qualification and discipline of the workers. The latter is thought to be crucial for the quality by 14% of the interviewed leaders.

The Table shows how the leaders are concerned about the quality of their products. Undoubtedly, much attention is paid to the quality of raw materials. The equipment and technologies applied are, unfortunately, more difficult to change. In a number of sectors the quality of products much depends on the qualification of labor and on the incentives offered by the leaders to keep the production discipline up on the adequate level.

The main competitors in respect of production and marketing of bakery products are private entrepreneurs (82% of the respondents), and in 9 regions – also large specialized companies. According to the expertise of the leaders, in 13 of the regions concerned private entrepreneurs take up more than 40% of the sales market, and in 5 of the regions over 50% of the market belong to large specialized bakeries. The share of the consumer cooperation enterprises varies by regions from 4 to 90%. Almost half of the interviewed leaders think that more than 50% of the bakery turnover fall on their companies.

As far as the sausages market is concerned, private and specialized enterprises of the oblast level are thought to be the most serious competitors by 47% and 42% of the leaders, respectively. The expertise shows that their aggregate share of the market constitutes 60-95%. For all that, private entrepreneurs are active in taking the market up in the situations when the competitive positions of the formerly state-owned companies are weak. In some of the near-border regions a considerable part of the market (up to 20%) is occupied by Moscow producers and that located in other oblasts. In 5 of the regions the consumer cooperation companies, the leaders think, are in the lead of the local markets, having attracted more than 50% of the consumer demand.

On the macaroni market, the answers indicate, the positions of consumer cooperation are stronger and more sustainable, its share of the market making up more than 50% in a half of the regions. The main competitors are again private entrepreneurs, 71% of the respondents think. Compared to the sausages market, the role of large specialized companies is less important here. At the same time, a larger share of the market belongs to the imports and products from other regions, which is proven by statistics – the inter-regional macaroni turnover balance is negative for Saratov Oblast.

The confectionery market is the most heterogeneous from the point of view of the leadership. No wonder that almost a half of the leaders of companies cannot even tell precisely who their main competitors are. Owing to many factors, the local sales markets are divided differently - in 14 of the regions the biggest share belongs to the consumer cooperation companies, in 4 – to specialized en-

terprises of the oblast level, in 2 – to the producers from other regions, and in 7 regions – to private entrepreneurs.

Unlike with the bakery and confectionery products that are being actively produced by practically all consumer cooperation companies, the production of canned food remains little developed. Due to its relatively low profit yielding capacity, the market itself is of no interest to small business, and the major agents there are large specialized enterprises of the oblast and other regions. It is just they, who are the main competitors covering the lion’s share of the demand.

Finally, we can arrive at the following conclusions. First, in most of the cases the main competitor to consumer cooperation is private business that, by a number of parameters – capacity, quality, technologies, targeted segments of the market, – can be ascribed to the same strategic category. Second, because of the high rate of territorial isolation, the competitive positions of small food companies oriented towards the local demand are relatively strong. Third, imports have been practically completely forced out from the markets surveyed. Fourth, the position of the large specialized companies of the oblast level closely correlates with that of the small business sector (Table 7).

Table 7

**Main Competitors to Consumer Cooperation
(per cent of the respondents’ opinions)**

| Competitors | Bakery products | Confectionery | Macaroni | Sausages | Canned products |
|--------------------------------|-----------------|---------------|----------|----------|-----------------|
| Private entrepreneurs | 83 | 38 | 71 | 47 | 17 |
| Imports | 0 | 0 | 0 | 0 | 0 |
| Moscow and other regions of RF | 0 | 4 | 4 | 11 | 17 |
| Oblast specialized companies | 31 | 17 | 25 | 42 | 42 |
| Difficult to identify | 7 | 46 | 12 | 16 | 25 |

Assessment of the own competitiveness

Irrespectively of the share of the market occupied, all the leaders of companies take their products as competitive, i.e. connect them with the profitability. The question “Do you consider the products of your company competitive?” was answered in the affirmative by all of the leaders in regard of the bakery and macaroni products. Only one of the leaders acknowledged his confectionery as noncompetitive. As for the sausages and canned products, the noncompetitive products, in the opinion of the respondents, are being respectively produced by 16% and 23% of the consumer cooperation companies. Obviously, the points of view of the leaders are much influenced by the sector-related profit yielding factors. The more depressive the market conjuncture, the more difficult for a company to generate profits. And vice versa, even in conditions of severe intra-sector competition the growing or stable demand enables the majority of companies to well cover the costs and make sufficient profits.

However, the list of the strengths pointed at by the leaders is quite mixed. The most common competitive advantages that are inherent to practically the entire UCASO system and coincide with the objective features of its operation are the closeness to the consumers, existence of the own marketing chain and good taste patterns of the products. These advantages are mentioned by about 80% of the respondents (Table 8). In addition to that, many leaders think that they managed to survive and consolidate their grip on the market thanks to the assortment variety and flexibility, employment of qualified specialists and efficient management systems. Only a few of the respondents can enlarge this list of advantages with prices that are lower than the competitors'. The number of the companies that apply the resource saving technologies and have access to steady sources of cheap raw materials is even smaller.

Table 8

Breakdown of the Companies' Strengths
(per cent)

| Strength | Bakery products | Macaroni | Confectionery | Sausages | Canned products |
|---------------------------------------|-----------------|----------|---------------|----------|-----------------|
| Lower prices | 21 | 33 | 38 | 5 | 8 |
| Better taste patterns | 76 | 67 | 96 | 84 | 83 |
| Packing | 0 | 13 | 8 | 5 | 25 |
| Closeness to consumers | 69 | 67 | 71 | 37 | 50 |
| Assortment variety and flexibility | 45 | 29 | 63 | 32 | 25 |
| Access to cheap raw materials sources | 7 | 21 | 8 | 0 | 17 |
| Resource-saving technologies | 7 | 4 | 4 | 5 | 8 |
| Well-established marketing channels | 24 | 33 | 33 | 32 | 8 |
| Existence of the own marketing chain | 83 | 79 | 79 | 47 | 50 |
| Experienced and qualified specialists | 34 | 33 | 54 | 21 | 25 |
| Efficient management system | 34 | 29 | 33 | 11 | 17 |

It is seen from the Table that the list of competitiveness factors includes both corporate factors and that on the level of individual categories of products. In regard to competitive advantages, few of the leaders can boast about lower prices. This especially concerns sausages and canned products and is owing to the lack of steady sources of cheap raw materials and advanced technologies, and to the small scale of production. But the higher quality of products on all the markets is a distinctive feature of most of the companies. It should be explained here that the companies reviewed operate on the markets that are very local, where permanent consumers are a key means to survive. Unlike with the big city

markets, where the buyer has less information about the producer and his choice is often arbitrary, the attraction of devoted customers is essential on the local markets. Furthermore, good taste cannot be referred to unique distinctive features as the second kind of competitive advantage in the M.Porter's classic interpretation, and does not make the consumer forget about the prices. It rather improves the price-quality ratio. The competitive advantages arising from combined activities and focusing on a narrow territorial segment of the market are more clearly traced. Hence, closeness to the consumers and existence of the own marketing chain are considered competitive advantages for all kinds of products. Relatively common are the weak points of consumer cooperation – low technical level of production, the lack of packing equipment and resource-saving technologies.

The fact that the strategies of focusing on concrete small segments of the food market are being practically pursued is proven by the answers to the question “is there any division of the market?” (Table 9). Thus, most of the leaders are clearly oriented towards the rural population of their own and/or neighboring area. It should be noted that many of the respondents admit that the prices of confectionery are being sometimes agreed upon. This phenomenon requires further investigation. Probably that means that there exist two mechanisms of division of the sales market among the producers. The circle of consumers and territorial borders are set administratively. And it is just the administrative mechanism that is taken for “official” division. Otherwise, like with the confectionery – 42% of the respondents think that there is no any division of the market there, - the price-based mechanism comes into effect.

Table 9

Share of the Respondents, Who Think that Agreements are Practiced on the Market (per cent)

| | Bakery products | Macaroni | Confectionery | Sausages | Canned products |
|---------------------------------------|-----------------|----------|---------------|----------|-----------------|
| No division yet | 17 | 29 | 42 | 22 | 38 |
| Sales are territorially localized | 21 | 8 | 8 | 22 | 0 |
| The circle of consumers is determined | 66 | 63 | 50 | 61 | 46 |
| Prices are agreed upon | 0 | 4 | 40 | 6 | 15 |

In conclusion, we will try to *assess the reliability and consistency of perception* of the market and their competitive positions by the leaders. As it was mentioned already, competitiveness is most often understood incorrectly – it is identified with economic efficiency without taking into account the position of the company in the close environment. The leaders are too optimistic about the competitive advantages and strengths of their companies. A large list of competitive advantages can well be put forth by the producers of clearly noncompetitive products. At the same time, the heads of the leading companies are usu-

ally far more modest talking about their market shares and strengths. On a number of points the range of opinions goes beyond the nature of the local markets, which means that the idea of the leaders about the environment they operate in is yeasty and unclear. The conceptions and strategies applied by the leaders are often inconsistent too. Thus, acknowledging the high elasticity of demand to quality, the leaders apply the cost reduction strategies and yield to their competitors all the same. Many of the questions cause difficulty, which shows that the leaders are not very much familiar with the ideology and toolkit of strategic management. Taking all this into account, we may conclude that the skills of the leaders of most of the food companies in making a strategic analysis, choosing and developing competitive strategies still have to be much improved – an urgent task for the departmental and territorial authorities.