

EVALUATING THE CAPACITY OF THE DOMESTIC FOOD MARKET IN UKRAINE IN THE PRE-WAR PERIOD

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Abstract

The article examines the peculiarities of the development and realization of the capacity of the domestic consumer market by identifying its structural components. It defines the key trends in the development of the domestic market capacity in 2015 - 2021, including the annual increase in the expenses of trade enterprises on logistics for the growing volume of sales; the growing share of inventories in wholesale and retail trade, which confirms the inefficiency of the policy of market infrastructure development; unstable dynamics of return on investments and innovations, increasing profitability of economic activities of manufacturing entities. The article aims to evaluate the components (production, resources, consumption, and environment) of the capacity of the domestic food market in order to identify the strengths and weaknesses of the development and maintenance of its competitiveness. The evaluation of the realization of the domestic food market capacity by its components shows that the integral index of the consumer capacity is the highest, and it significantly increased in 2021 compared to 2015. Despite the fact that the consumption of consumer goods is growing, it cannot be interpreted as an exclusively positive phenomenon since the problem of property stratification of the society and the growing poverty of some segments of the population has never lost its relevance in Ukraine. The results of calculations of the weighted integral parameter show that the efficiency of management of the domestic market economic capacity in Ukraine was different in different studied periods. It emphasizes the necessity of public regulation of a number of market processes related to food products. The article identifies the positive growth of the integral parameter of efficiency of management of the domestic market economic capacity in Ukraine at the end of the studied period.

Keywords: domestic market, consumer market, food, market capacity, consumers.

JEL Codes: E21, F43.

Introduction

Against the background of political and socio-economic instability in Ukraine, the problem of consumer market capacity building has always been a relevant niche of scientific research. The emergence of new risks for domestic producers associated with increased competition in the domestic national and foreign markets, as well as the aggravation of social imbalances that lead to a decrease in the purchasing power of the population, necessitates the justification of the directions for the modernization of state regulation of the domestic consumer market in the context of the development and use of its capacity.

There are the following components of the domestic consumer market capacity: production, infrastructure (market, transport, and logistic infrastructure), consumption, and innovation and investment.

Production capacity, as one of the main components of the domestic market, plays an important role in its competitiveness and is an important factor in the country's economic security, as the issues of food security are directly related to export-import processes.

Literature review

According to a number of researchers, inefficient work with the domestic market in Ukraine has led to the fact that in most product groups with a high level of added value, domestic goods have been replaced by imported counterparts (A. Yakymchuk et al. (2021), B. Danylyshyn (2023), S. Davymuka et al. (2021), G. Pruntseva et al. (2021), O. Panukhnyk et al. (2021)). Therefore, from the viewpoint of national security (an economic condition that ensures economic self-survival and development), we suggest defining the production and export capacity as a set of natural and human resources, entrepreneurial skills, and technologies necessary to create competitive products to satisfy the needs of domestic and foreign markets, to strengthen inter-sectoral production ties, improve the balance of payments, and increase the living standards of the population.

The next component of the domestic market capacity is the consumer capacity. It

should be mentioned that the assessment of the consumer capacity of regional market participants should be based on the study of qualitative and quantitative indicators of the region's residents, who are the main consumers and investors of a region, income and activity of business entities, revenues to local budgets, and their expense structure (U. Andrusiv et al. (2022), S. Shults et al. (2019; 2021), O. Panukhnyk et al. (2019)). The needs and capabilities of market participants will determine the volume and structure of the goods and services market in the region. The analysis of the market saturation with goods and services includes the assessment of the dynamics of the volume of sales and the structure of the offer of goods, works, and services of enterprises and budgetary institutions in the region (T. Shmatkovska et al. (2022), M. Bezpartochnyi and I. Britchenko (2022), O. Polishchuk et al. (2023)).

Infrastructural capacity plays an essential role in the domestic market capacity. Most researchers (I. Popadynets et al. (2021), A. Popov et al. (2019)) believe that the market, transport, and logistics infrastructure is perhaps the most important component of the domestic market capacity. In fact, the degree of its development determines the investment attractiveness of regions, industries, and market entities, as well as the pace of development of social production. Despite the existing variety of approaches to understanding the nature of market infrastructure, the existence of relevant concepts, and the allocation of different levels of market infrastructure, each of its elements performs its own function in the system of social production.

A number of researchers address the role of transport infrastructure in the current conditions. They emphasize that in connection with the strengthening of European integration processes in the national economy and the development of international entrepreneurship, it is necessary to create an optimal logistic infrastructure, which constitutes a system capable to establish and arrange the structure and speed of material flows, taking into account all elements needed for the development and efficient functioning of an enterprise (R. Sodoma

et al. (2018), N. Popadynets (2015)). The practice of introduction of project approaches can be the foundation for the development of efficient logistic infrastructure in conditions of the formation of entrepreneurship on the basis of international standards and rules. In this way, it is possible to take into account the current state of the logistics infrastructure in terms of determination and optimization of the total cost per unit of sales.

Nowadays, logistics is one of the leading instruments in the policy of corporate planning, organization, and management in terms of the movement of goods from the producer to the customer with the conditions of profit maximization not only for the producer but also for all participants of the transportation and distribution process. This process of goods movement (organizational-economic, technological, and technical interactions) should be ensured by the appropriate logistics system (A. Hutorov et al. (2022)).

Therefore, market, transport, and logistic infrastructure is a complex subsystem of the domestic market capacity, which ensures the distribution and redistribution of resources, goods, services, and capital with the help of logistics tools and efficient management of transport processes.

According to the current requirements for the development of the domestic market, its functioning is impossible without the introduction of investments and innovations, which constitute the investment and innovation capacity (R. Sodoma et al. (2021)). This capacity forms a set of resources, external and integral business activity conditions, knowledge, skills, competencies, and experience of management and staff, which create readiness and ability for efficient use of the organization's capabilities to satisfy the needs of customers and interests of owners and staff and achieve the mission and goals of the organization. At the same time, it is worth noting that innovation

processes are influenced by various factors that can be summarized as the impact on the development of individual components and the overall innovation and investment capacity (A. Was et al. (2020), I. Blahun et al. (2017)).

In our opinion, it is the innovation and investment capacity of market entities that should ensure the modernization of production and market infrastructure, which will solve the problems of updating the fixed assets of domestic producers, improve product quality, and promote foreign economic activity. One of the aspects of improving the investment and innovation capacity is the creation of a single digital market for Ukraine and EU member states (T. Skrypko et al. (2023), S. Koshova et al. (2022)). This issue is currently on the agenda of Ukrainian reforms and requires harmonization of the regulatory framework and current trends in the global market in this area. In this regard, one of the tasks of the government is to create conditions for ensuring the efficiency of digitalization and transformation processes.

The article aims to assess the components (production, resources, consumption, and environment) of the domestic food market capacity to determine weaknesses and strengths of development and maintenance of its competitiveness.

Methodical approach

A set of indicators presented in Table 1 is used to assess the capacity of the domestic consumer market based on Formula 1 and determine the integral indicator of the realization of the domestic consumer market capacity:

$$C = f(x_1, x_2, \dots, x_n) \quad (1)$$

where C is the general rate of realization of domestic market capacity;

x_1, x_2, \dots, x_n are integral indicators of production, consumption, infrastructure, and investment-innovation components of domestic market capacity.

Table 1. Criteria and indicators for assessing the capacity of the domestic consumer market

Criteria	Indicators	Calculation formula	Designation
Production capacity (V)	Profitability of economic activity	$v_1 = \frac{c}{Q}$	Q – sales of goods and services
	Foreign trade balance, million \$	$v_2 = E-I$	E – export, million \$; I – import, million \$
	Volume of annual and biennial crops sold, thousands UAH	v_3	e_2 – actual export per capita, million UAH
	Volume of livestock products sold, thousands UAH	v_4	v_4 – statistical indicator, thousands UAH
	Volume of food sold, thousands UAH	v_5	v_5 – statistical indicator, thousands UAH
	Consumer price index, %	v_6	v_6 – statistical indicator, thousands UAH
Consumer capacity (S)	GDP per capita, UAH	s_1	s_1 – actual GDP per capita, million UAH
	Household cash expenditures on goods and services, UAH	s_2	s_2 – household cash expenditures on goods and services, UAH
	Disposable income per capita, UAH	s_3	s_3 – disposable income per capita, UAH
Infrastructure capacity (R)	Profitability of transport and logistics infrastructure	$r_1 = \frac{P}{E} * 100$	P – gross profit of enterprises, million UAH; E – gross expenditures of enterprises, million UAH
	Coverage of wholesale turnover with inventory	$r_2 = \frac{WT}{Iw} * 100\%$	WT – wholesale turnover, million UAH; Iw – inventory at trade enterprises, million UAH
	Coverage of retail turnover with inventory	$r_3 = \frac{WT}{Ir} * 100\%$	Ir – inventory at trade enterprises, million UAH
Innovation-investment capacity (I)	Return on investment	$i_1 = \frac{CI}{P} * 100$	CI – capital investment in the development of trade, thousands UAH
	Return on innovation	$i_2 = \frac{Ie}{P}$	Ie – expenditures on innovation, million UAH
	Capital investment, thousands UAH	i_3	i_3 – statistical indicator, thousands UAH

*Source: compiled by the author.

Results

The results of the assessment show a number of trends in the development of the domestic market capacity in 2015-2021 (Table 2):

Table 2. Indices of efficiency of realization of domestic consumer market capacity in Ukraine in 2015-2021

Criteria	Parameters	Year						
		2015	2016	2017	2018	2019	2020	2021
Production capacity (V)	Profitability of economic activity	-0.56	-14.15	-7.24	0.48	2.19	3.13	5.43
	Foreign trade balance, million \$	– 1260 6.5	+293.2	+249.5	– 2324.3	–5211.5	– 8865.7	868670 5.7

	Volume of annual and biennial crops sold, thousands UAH	1581 6015 8.8	2101527 28.8	357384 184.2	397280 530.9	4474592 64.5	516249 132.0	550149 298.7
	Volume of livestock products sold, thousands UAH	3200 5604. 5	3979611 3.7	557313 82.2	582385 34.8	5366090 2.6	651866 62.3	646372 64.3
	Volume of food sold, thousands UAH	2255 3993 1.5	2716607 21.4	338496 462.8	427241 151.3	5151552 19.0	547365 741.7	571914 322.7
	Consumer price index, %	100.5	124.9	148.7	113.9	114.4	110.9	104.1
Consumer capacity (S)	GDP per capita, UAH	3396 5	36904	46413	55899	70233	84235	94661
	Household cash expenditures on goods and services, UAH	2862. 67	2898.67	3652.9 2	4303.6 5	5541.89	6806.3 6	374406 0
	Disposable income per capita, UAH	2671 9	26782	31803	37080	47270	58442	69140
Infrastructure capacity (R)	Profitability of transport and logistics infrastructure	-1.15	-30.22	-15.34	1.08	4.79	6.76	11.20
	Coverage of wholesale turnover with inventory	17.26	16.53	17.48	17.93	15.71	18.60	69.94
	Coverage of retail turnover with inventory	20.34	22.80	26.70	29.12	42.70	46.41	204.69
Innovation-investment capacity (I)	Return on investment	- 950.0 4	-30.23	-57.15	948.22	212.83	163.41	100.13
	Return on innovation	-0.04	0.00	0.00	0.08	0.01	0.00	0.00
	Capital investment, million UAH	2169 8693 2	1783848 97	213478 158	281667 897	3591598 03	471115 542	524474 074

*Source: calculated by the author based on the data (Official Site of the State Statistics Service of Ukraine, 2022, 2023).

- Annual increase in the cost of logistics services for trade enterprises with an increase in sales volume.

- Increasing share of inventories in both wholesale and retail turnover, which confirms the inefficiency of market infrastructure development policy.

- Unstable dynamics of return on investment and innovation, especially capital investment, in wholesale and retail trade shows the low efficiency of innovation-investment activity both in production and trading activities. Meanwhile, it is worth mentioning that this is caused by the fact that a significant share of business investments is directed to tangible assets. Despite the fact that the volume of capital investments in trade increased by 5.2 times during the research period, this rate is

higher than the overall pace of capital investment growth in the country's economy, which increased by 3.45% during this period

- Increasing profitability of economic activity of production entities from 2015 to 2021 from (-0.56) to 5.43. At the same time, an increase in the import dependence of the domestic consumer market can be observed, which is confirmed by a decrease in the export per capita and an increase in the import per capita.

- The positive dynamics of the population's income confirmed by an increase in the per capita disposable income and the households' monetary expenditures on goods and services. In 2015, the disposable income per capita was UAH 26,719, and in 2021, it increased 2.58 times or by UAH 42,421. Meanwhile, it is

worth mentioning that households' monetary expenditures are 6.8 times lower than the population's income, which confirms the availability of significant cash savings among the population.

The indicators are normalized to calculate the integral indicator for assessing the potential of the domestic consumer market. Table 3 shows the average index rates

and Table 4 shows the normalized indicators for 2015-2021 based on Formula 2.

$$N_{ci} = \frac{P_r^t}{P_n} * 100\%, \quad (2)$$

where N_{pi} is the normalized partial indicator of the domestic market capacity in period t ;
 P_r^t is a partial indicator of the domestic market capacity in period t ;
 P_n is the average rate of the partial indicator.

Table 3. Average index rates for the components of the domestic consumer market capacity in Ukraine in 2015-2021

Symbol	Year							Mean
	2015	2016	2017	2018	2019	2020	2021	
Production capacity (V)								
v_1	-0.56	-14.15	-7.24	0.48	2.19	3.13	5.43	-1.53
v_2	-12606.5	293.2	249.5	-2324.3	-5211.5	-8865.7	8686705.7	2895749.47
v_3	158160159	210152729	357384184	397280531	447459265	516249132	550149299	376690756.84
v_4	32005605	39796114	55731382	58238535	53660903	65186662	64637264	52750923.49
v_5	225539932	271660721	338496463	427241151	515155219	547365742	571914323	413910507.20
v_6	100.5	124.9	148.7	113.9	114.4	110.9	104.1	116.77
Consumer capacity (S)								
s_1	33965	36904	46413	55899	70233	84235	94661	60330.00
s_2	2862.67	2898.67	3652.92	4303.65	5541.89	6806.36	3744060	538589.45
s_3	26719	26782	31803	37080	47270	58442	69140	42462.29
Infrastructure capacity (R)								
r_1	-1.15	-30.22	-15.34	1.08	4.79	6.76	11.2	-3.27
r_2	17.26	16.53	17.48	17.93	15.71	18.6	69.94	24.78
r_3	20.34	22.8	26.7	29.12	42.7	46.41	204.69	56.11
Innovation-investment capacity (I)								
i_1	-950.04	-30.23	-57.15	948.22	212.83	163.41	100.13	55.31
i_2	-0.04	0	0	0.08	0,01	0	0	0.01
i_3	216986932	178384897	213478158	281667897	359159803	471115542	524474074	320752471.86

*Source: calculated by the author based on the data in Table 1.

Table 4. Normalized indicators of the domestic consumer market capacity in Ukraine in 2015-2021

Symbol	Year						
	2015	2016	2017	2018	2019	2020	2021
Production capacity (V)							
v_1	36.57	923.97	472.76	-31.34	-143.00	-204.38	-354.57
v_2	-0.43	0.01	0.01	-0.08	-1.79	-0.30	299.98

v_3	41.99	55.79	94.87	105.47	118.79	137.05	146.05
v_4	60.67	75.44	105.65	110.40	101.73	123.57	122.53
v_5	54.49	65.63	81.78	103.22	124.46	132.24	138.17
v_6	86.07	106.96	127.34	97.54	97.97	94.97	89.15
Consumer capacity (S)							
s_1	56.30	61.17	76.93	92.66	116.41	139.62	156.91
s_2	0.53	0.54	0.68	0.80	1.03	1.26	695.16
s_3	62.92	63.07	74.90	87.32	111.32	137.63	162.83
Infrastructure capacity (R)							
r_1	35.18	924.56	469.32	-33.04	-146.55	-206.82	-342.66
r_2	69.66	66.71	70.54	72.36	63.40	75.06	282.26
r_3	36.25	40.64	47.59	51.90	76.10	82.71	364.81
Innovation-investment capacity (I)							
i_1	-1717.66	-54.66	-103.33	1714.37	384.79	295.44	181.03
i_2	-560.00	0.00	0.00	1120.00	140.00	0.00	0.00
i_3	67.65	55.61	66.56	87.81	111.97	146.88	163.51

*Source: calculated by the author based on the data in Table 3 and Formula 2.

Weighted normative indicators are calculated to determine the integral indicator of domestic consumer market capacity. For this purpose, Formulas 3-6 are used.

$$A_{np} = \sum_{i=1}^n N_{pi} * v_i, \quad (3)$$

where A_{np} is the aggregated indicator of the domestic market capacity in Ukraine;

v_i is the weighting coefficient of the indicator calculated by the Formula:

$$v_i = \frac{1}{n}, \quad (4)$$

where n is the number of aggregated indicators.

The integral indicator is determined by the Formula:

$$I_e = \sum_{i=1}^n A_{np} * w_i, \quad (5)$$

where I_e is the integral indicator of the domestic market capacity in Ukraine;

w is the weighting coefficient of the indicator calculated by the Formula:

$$w_i = \frac{1}{n}. \quad (6)$$

The weight coefficients were calculated according to Formulas 4 and 6. Taking into account the equal number of indicators, the weighting coefficients of individual indicators are set at $v_1=0.16$; $v_i=0.33$, and the weighting coefficients by the main evaluation criteria – at $w=0.25$.

Table 5 shows the results of calculations at two levels of aggregation.

Table 5. Weighted normalized indicators of the components of the domestic consumer market capacity in Ukraine in 2015-2021

Symbol	Year						
	2015	2016	2017	2018	2019	2020	2021
Production capacity (V)							
v_1	5.85	147.84	75.64	-5.01	-22.88	-32.70	-56.73
v_2	0.00	0.00	0.00	0.00	0.00	-0.05	48.00
v_3	6.72	8.93	15.18	16.87	19.01	21.93	23.37

v_4	9.71	12.07	16.90	17.66	16.28	19.77	19.61
v_5	8.72	10.50	13.08	16.52	19.91	21.16	22.11
v_6	13.77	17.11	20.37	15.61	15.68	15.20	14.26
Consumer capacity (S)							
s_1	18.58	20.19	25.39	30.58	38.42	46.08	51.78
s_2	0.18	0.18	0.22	0.26	0.34	0.42	229.40
s_3	20.76	20.81	24.72	28.82	36.74	45.42	53.73
Infrastructure capacity (R)							
r_1	11.61	305.11	154.88	-10.90	-48.36	-68.25	-113.08
r_2	22.99	22.01	23.28	23.88	20.92	24.77	93.15
r_3	11.96	13.41	15.70	17.13	25.11	27.30	120.39
Innovation-investment capacity (I)							
i_1	-566.83	-18.04	-34.10	565.74	126.98	97.50	59.74
i_2	-184.80	0.00	0.00	369.60	46.20	0.00	0.00
	22.32	18.35	21.96	28.98	36.95	48.47	53.96

*Source: calculated by the author based on the data from Table 4 and Formula 3.

It is worth mentioning that all indicators of the capacity components have the same weight in the evaluation system. Based on the data from Tables 2-5, the integral indices of

the capacity components and the overall integral index of the realization of the domestic consumer market capacity are calculated (Table 6).

Table 6. Calculation of the integral index of realization of the domestic consumer market capacity in Ukraine

Capacity	Year						
	2015	2016	2017	2018	2019	2020	2021
Production capacity (V)	7.16	31.43	22.59	9.86	7.68	7.25	11.30
Consumer capacity (S)	13.04	13.59	16.61	19.69	24.91	30.33	110.52
Infrastructure capacity (R)	15.36	112.37	63.97	9.93	-0.77	-5.34	33.15
Innovation-investment capacity (I)	-240.67	0.10	-4.00	318.23	69.34	48.17	37.52
Calculation	$I = V^{0.25} + S^{0.25} + R^{0.25} + I^{0.25}$						
Integral index of realization of the domestic consumer market capacity in Ukraine (I)	-51.28	39.37	24.79	89.43	25.29	20.10	48.12

*Source: calculated by the author based on the data from Table 5 and Formula 5.

The conducted assessment of the realization of the domestic consumer market capacity across its components shows that the integral indicator of the consumer capacity is the highest, having significantly increased in 2021 compared to 2015. This trend is explained by the increase in income and expenditures of the population. Although the consumption of consumer goods is growing, it cannot be regarded as a purely positive phenomenon, as the problem of the stratification of society based on wealth and the growing poverty level of certain segments

of the population remains relevant in Ukraine. It is worth mentioning that the increase in the range of products on the consumer food market encourages the population to increase spending on this category of goods.

The main problems in the realization of the domestic consumer market capacity are the reduction of domestic demand for domestic products caused by competition from cheap imported goods; unregulated processes of import and export of raw materials and products; deterioration of the quality of the domestic raw material base and,

accordingly, of the finished products of domestic producers; low innovation and technological activity of domestic producers; insufficient level of market, transport and logistics infrastructure; saturation of the market with goods imported at reduced customs value and smuggled; technical and technological backwardness of a significant number of enterprises and the lack of an efficient credit policy for market entities.

As for the production capacity, the sharp drop in the index of its realization in 2016 was caused by a change in the vector of foreign trade activity. The growth of this indicator by the end of the period under study should be considered positive. This demonstrates the effectiveness of state regulation of this process.

The integral indicator of the infrastructure capacity index shows constant growth of this indicator, which indicates positive trends in the expansion of infrastructure networks.

Unfortunately, there is an increase in the integral index of the development of the market's innovation and investment capacity. In 2015, the rate was -240.67, and in 2021, it significantly increased to 37.52, which is explained by the implementation of the economic part of the European Union–Ukraine Association Agreement.

Conclusions

Summarizing everything mentioned above, we consider it necessary to focus on the priority areas for the realization of the domestic consumer market capacity

Priority areas for the realization of the domestic consumer market capacity:

- improvement of the institutional and organizational environment for the development of competition between domestic producers and importers (state regulation of import substitution, stimulation and support of domestic producers);
- creation of a favorable investment climate to attract investment in innovative activities of trade enterprises;

- development of market, transport, and logistics infrastructure;
- improvement of quality control and market surveillance in accordance with international standards;
- ecologization of national production.

Expected results:

- ensuring the creation of a competitive trade environment in the domestic market in relation to imported goods;
- increasing the investment attractiveness of trade enterprises (investment projects in resource-saving technologies, modernization of production in accordance with international standards, etc.);
- increasing the sale of goods through the creation of logistics platforms, clusters, etc.;
- increasing the population and reducing the spatial disparities through the creation of trade markets in rural areas;
- ensuring the proper level of product quality and creating the organic market, which will increase the life expectancy of the population.

The assessment of the realization of the domestic consumer market capacity has shown the urgency of finding ways to improve financial and economic instruments in the state regulation of market development that will support domestic producers and intensify the development of domestic demand for their products. In particular, such instruments may include:

- introduction of differentiated tax rates depending on the share of profits spent on investments and the share of competitive products directed to the domestic market;
- tax exemption for 1-3 years for profits used to finance the technical re-equipment of the enterprise and accompanied by an increase in the production of competitive products;
- the preferential tax regime should be complemented by targeted subsidies for those enterprises that ensure the technological modernization of the country's economy;

- introduction of protective measures for imports of obsolete equipment, machinery, and technology.

Thus, achieving the identified priorities for the realization of the domestic consumer market capacity in Ukraine will provide an effective basis for the creation of a competitive trade environment in the domestic market in relation to imported goods; the increase in the level of investment attractiveness of trade enterprises (priority investment projects in

resource-saving technologies, modernization of production in accordance with international standards, etc.); the increase in the sales of goods through the creation of logistics platforms, clusters, etc.; the increase in the population and the reduction of the spatial disparities through the creation of trade markets in rural areas; the maintenance of an adequate level of product quality and the creation of an organic market that will increase the life expectancy of the population.

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