

UDC 664.6:658.152

## INVESTMENT ANALYSIS BAKING INDUSTRY IN UKRAINE

O.S. Balan, PhD in engineering, Associate Professor

Z.A. Stepanjuk

J.O. Dubenchuk

*Odessa National Polytechnic University, Odessa, Ukraine*

The baking industry is one of the leading sectors of the food industry of Ukraine. A feature of this area that 99% of its products are produced in Ukraine. This situation has arisen due to the fact that this product has a small implementation period of 1-2 days. This means that production equals consumption. This industry has a great impact on the social and economic life of the population. But her attention is paid less in comparison with other industries. Accordingly, it has a number of problems that have led to reduced demand for these products. One of the major problems is the poor state of the technological base of enterprises, due to inadequate funding of the sector. The baking industry the necessary investments to expand production, improve the quality of the final product and the introduction of new technologies. But the amount of investment is reduced because of the unattractiveness of the industry to investors. Therefore, the main source of investment is the company.

The relevance of the study lies in the analysis of investment attractiveness of the baking industry of Ukraine and the selection of the key problems in the production of bakery products.

### **Analysis of recent researches and publications**

Features of the development of the baking industry and investment attractiveness of the sector was explored in own scientific works of V.M. Kalashnikov [1], O.O. Filina [9], M.F. Plotnikova, [2], O.B. Bokii [10]. However, study of present status of the baking industry investment attractiveness requires further development.

The aim of the article is the analysis of investment attractiveness of the baking industry of Ukraine, for both domestic and foreign investors, as well as identifying the problems of production of bread and bakery products.

### **The main part**

In Ukraine there is a high percentage of consumption of bakery products in comparison with European countries. Per day in Europe consume 120 grams of bread, and in Ukraine – 277 grams. This feature is incorporated in the historical development of Ukraine. Bread is considered a staple for Ukrainian. It is located in the diet of people daily, so

*Балан О.С., Степанюк З.А., Дубенчук Ю.О. Аналіз інвестиційної привабливості хлібопекарської галузі України.*

В статті розглянуто інвестиційну привабливість хлібопекарської галузі України. Визначено фактори, які впливають на інвестиційну привабливість галузі. Виділені ключові проблеми виробництва хлібобулочної продукції.

*Ключові слова:* інвестиції, інвестиційна привабливість, хлібобулочна продукція, фактори, попит

*Балан А.С., Степанюк З.А., Дубенчук Ю.О. Анализ инвестиционной привлекательности хлебопекарной отрасли Украины.*

В статье рассмотрено инвестиционную привлекательность хлебопекарной отрасли Украины. Определены факторы, влияющие на инвестиционную привлекательность отрасли. Выделены ключевые проблемы производства хлебобулочной продукции.

*Ключевые слова:* инвестиции, инвестиционная привлекательность, хлебобулочная продукция, факторы, спрос

*Balan O.S., Stepanjuk Z.A., Dubenchuk J.O. Investment analysis baking industry in Ukraine.*

The investment attractiveness of the baking industry in Ukraine is considered in the article. The factors that affect the investment attractiveness of the industry are considered. Dedicated key issues bakery products.

*Keywords:* economic relations, intellectual resources, innovations, investments, information

be sure that he was not only delicious, but also useful. At first glance it may seem that the bread is the bread and nothing original here cannot be invented. And how would you explain the fact that one kind of bread is in high demand, and the other not?

Before enterprises engaged in the production of bread, there are a number of problems. For example, businesses need to ensure an uninterrupted supply of fresh bread, which calls for a significant expansion of its product range. You also need to provide a high level of quality and nutritional value of bread. In order to solve these problems, enterprises need tools that can be accessed by means of investment. Under the investment should understand long-term investment funds in the creation of new enterprises, expansion, introduction of new technologies into existing business and the acquisition of securities, property and assets with a view to profit. The demand

for bakery products is one of the factors that can attract investors to invest in this industry, because in such a case, it makes sense to expand production and increase supply for these products. Factors that affect the investment attractiveness do not have an exact classification. They come from the problems of the industry, who do not allow it to develop to the fullest.

According to Kalashnikov V.M. [1] the specificity of the goods offered on the market of bread and bakery products affects the formation of consumer demand. The diversity of factors that influence the level of demand for bread and bakery products, the nature of the impact he divided into 3 groups: factors that have almost no influence to the consumption of bread; the factors contributing to the increased demand for bread; the factors affecting the decline in consumption of bakery products (table 1).

Table 1. Factors influencing the level of demand for bread and bakery products [1]

Factors	Almost no influence to the amount of consumption	Raise the volume of demand	Affect to reduction of consumption
Price reduction	✓		
Price increase	✓		
Relatively low cost of bread with other products		✓	
Rising food prices		✓	
Reducing the level of supply		✓	
High quality products		✓	
Decline in real incomes		✓	
Increase in unemployment		✓	
Increase in the intensity of labour activity		✓	
Marketing strategy of manufacturers and sellers of products		✓	
Advertising		✓	
Availability of acquisition		✓	
High level of organization of trade		✓	
Decline population			✓
High consumption of protein and calorie food			✓

Knowledge of the direction and strength of influence of factors allows enterprises-producers to control the formation of the production program. Plotnikova M.F. [2] specifies that the main task of the state and the baking industry is responding to consumer demand under the condition of establishing stable and affordable prices to all segments of the population. Therefore a win-win position of enterprises oriented to the production of goods for certain categories of customers, designation and improvement of packaging: medical-diabetic bread with high fiber, due to lack of the latter in the modern diet. An important place in marketing products and creating demand among the population will play an advertisement. Bread and bakery products is one of the main food items consumed by all categories of the population, regardless of age, sex, social status, income level, but still there was a decline of production volumes (fig. 1 [3]). A stable trend in the

reduction of volumes of manufacture of bakery products in Ukraine in recent years largely associated with reduced consumption of these products (fig. 2 [3]).

According to the data of fig. 2 the consumption of bakery products for the 2012-2013 year are equal to 109 kg/person per year, and in fig. 1 the volume of production is still decreasing. This is due to the following reasons:

- the reduction of the country's population of more than 6 million people over the last 20 years;
- economical use of bread;
- significant increase in loaf pan small bakeries and rural populations independently, the actual amount of which is not taken into account the statistical data;
- increase the cost of production at constant prices;
- increase current taxes on income, property and other current transfers paid;

— reduction of monetary income of the population; — an increase in unemployment.

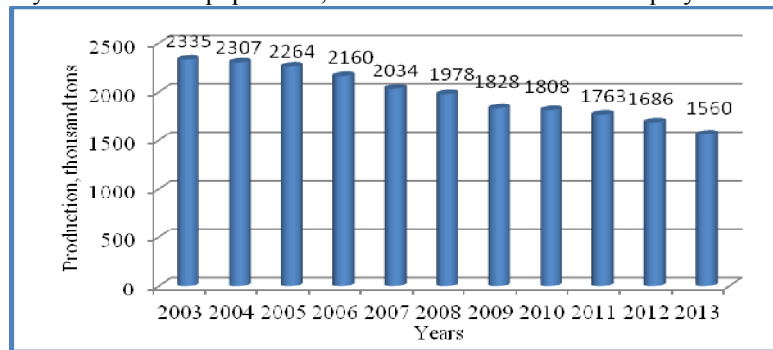


Fig. 1. Production volumes of bread and bakery products in Ukraine

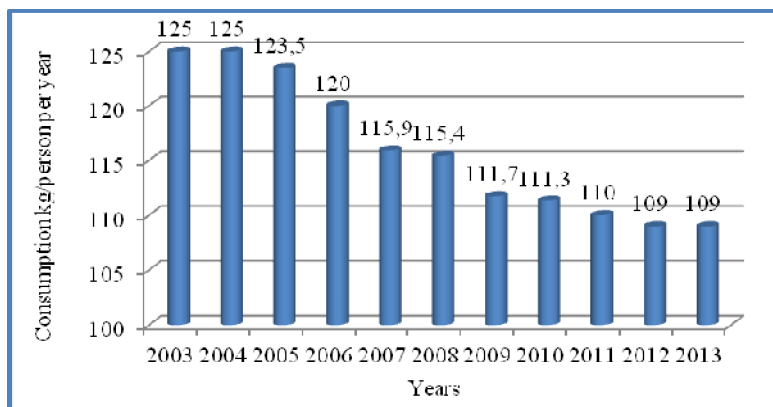


Fig. 2. The consumption by the population of Ukraine bread and bakery products

Modern Ukrainian market of bakery products consists of 75% of medium and large industrial enterprises, the remaining 25% are enterprises of consumer cooperation and small private sector [4].

In the baking industry of Ukraine, there are currently about 400 large bakeries, about 500 small businesses and more than 100 mini-bakeries [11].

In Northern Ukraine leader in the production of bakery products is the city of Kiev. By its territory there are two large public companies "Kyivkhlіb" and "Bread investments", which are recognized leaders bakery market of Ukraine.

In Western Ukraine the market leader in bread is a public joint stock company "Concern Khlіbprom" founded in 2003 with headquarters in the city of Lviv. The concern is 7,3% of the grain market and in the top five of the largest bakery companies in terms of market share and net income.

In Central Ukraine, the most influential company that controls the bakery market in Ukraine is AAT "Dneproges", which is located in Dnipropetrovsk, which unites 18 companies producing 70% of bread at the local market. One such enterprise is PLC "Krivorozhleb", which is the largest producer of bakery products in Krivoy Rog. At the moment the company is actively developing and expanding its product range.

In Southern Ukraine is one of the largest industrial production of bakery products – PLC "Odessa loaf" is located in Odessa. On the basis of PLC "Odesa loaf"

trademark was introduced Bulkin in 2003 to create products which contribute to foreign manufacturers that implement domsova to test the mixture for baking bread, other ingredients, such as "Lesaffr (France), "Leypurin" (Finland) and others. In Ukraine it is not just the competitions best bakers Cup Lesaffr (France). Potential investors are invited specialists - technologists, executives at leading companies in Europe for the exchange of experience. According to experts of the enterprises of these products is more competitive and demand of the population [10].

In Eastern Ukraine in Donetsk is the company "Trading house "Golden harvest", which is part of the agricultural holding "Golden Harvest", which is the largest manufacturer and supplier of bakery products that combines the bakeries in Donetsk, Dnipropetrovsk, Kharkiv and Luhansk regions. The total capacity is over 800 tons of goods per day. Bakery products are manufactured under the trademark "Urozhay".

As we can see in Ukraine on the market of bread and bakery products there is a great variety of enterprises. The annual decline in the quality of grain, and the use of various additives in the manufacture of bakery products, the growth of prices for bread, reducing its taste and quality properties are the main problems of the daily work of the enterprises. The output of products with high quality is the main method of survival in the competitive conditions of

the baking industry and demanding position of Ukrainian consumers.

Competition in the baking industry increases the import of frozen semi-finished products and bread. The main suppliers of such products in the territory of Ukraine are Denmark, Lithuania, Hungary, France, and Turkey. This situation on the market can

significantly impair domestic bakeries. For example, in the EU the share of frozen bakery products on the market is 50%. With rising incomes in Ukraine may extend this trend.

From above we can conclude that the investment attractiveness of the enterprise depends on the efficiency of the enterprise (table 2).

Table 2. The main factors influencing to efficiency of enterprises [5-8]

Group of factors	Problem description	Degree of influence
Financial and economic	Content of free product prices and higher prices for raw materials, fuel and energy resources	Significant
Political	Instability legislation	Significant
Production technology	Lack of capital investment in the industry. Outdated and morally worn-out equipment.	Middle
Social	Decline in the solvency of the population	Middle
Ecological	Adverse environmental conditions environment	Low
Consumer properties of products	Confectionery, dear buns, bread and bakery products with special additives allow to diversify the range and to keep the level of implementation in different seasons	Significant

The data in table 2 shows that enterprises of the baking industry have certain issues that need to be addressed. Permanent control by the state over the level of prices for bread and the increase commodity prices leading to unprofitable enterprises. After all, it would be logical if the increase in the cost of production and increase the price of the products to ensure that the company could stay afloat. Because the bread is one of the key products of consumption, the government controls the price, but it does not provide any support in this area. The Executive authorities would have to reimburse entities for the difference between such levels at the expense of the respective budgets. But this is not happening. Thus, enterprises have insufficient finances to upgrade the technological equipment, which has a negative impact on product quality.

Filina O.O. [9] considers the problem of deterioration of equipment domestic bakeries, as one of the biggest problems of the baking industry. Enterprises do not have the opportunity to recover its technical

equipment due to the lack of sufficient funds. Most updates require baking ovens. Because the furnace used by bakeries do not always provide high quality bakery and require considerable power consumption.

Using of modern bakery equipment, namely, mixers, dividers, dough-sactuallers, dough-rounders is one of the factors to increase the efficiency and thus productivity in the baking industry. The quality of bakery products is largely determined by the method of manufacturing test and design equipment to run it. Modern dough-prepared machines ensure the excellent quality of bakery products with attractive appearance.

The main source of capital investment are own funds of enterprises. But with such financial and economic policy of the state enterprises do not have the opportunity to invest.

For January-June 2014 enterprises bakery industry was used 259,9 mln. capital investment, representing 0,3% of the total volume of capital investments according to the State statistics service.

Table 3. Fixed capital investments in January-June, 2014 [3]

Activity	Developed (used) capital investment		
	Thousand UAH	%	
		Total volume of capital investments	January-June 2013
Production of bakery products	259932	0,3	90,6
Food manufacturing grain mill products, starches and starch products	204900	0,2	104,7

According table 2 we can see that the rate of capital investment in the production of bakery products compared with the previous year decreased by 9,4 %. This situation occurred because of a lack of working capital. Bakery products have a small implementation period of 1-3 days, and the payment of this production comes from retailers within 1-3 months. This adversely affects the yield of bakery companies. Also here we can include adverse

conditions of bank credit. A small percentage of capital investments by enterprises indicate its non profitability.

But there is a growth capital investment in food manufacturing grain mill products, starches and starch products by 4,7% in January-June of 2014 comparison to January-June 2013.

There is a growth capital investment for 2011-2013 (fig. 3).

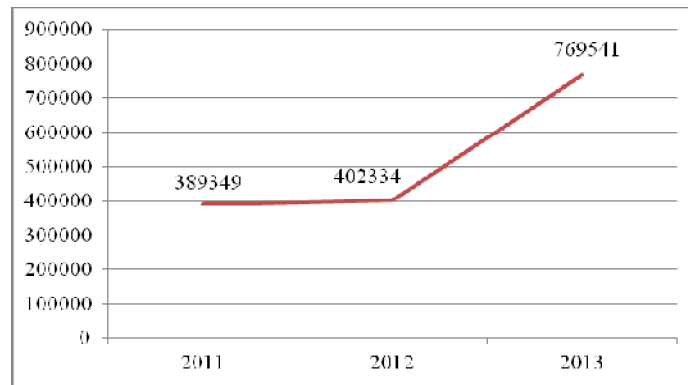


Fig. 3. Capital investment in the production of bakery products in Ukraine for 2011-2013 [3]

According to the graph we can see that capital investments of 2013 have increased by almost 50% compared to 2011. Consider the indicators of capital investment on the example of three public companies

"Kyivkhlіb", "Concern Khlіbprom" and "Odessa Korovay", let's compare these figures with the situation in Ukraine (fig. 4).

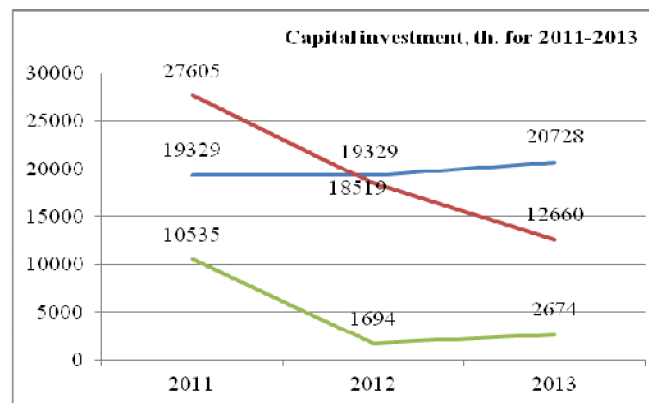


Fig. 4. Capital investment in the production of bakery products of "Kyivkhlіb" (blue), "Concern Khlіbprom" (red) and "Odessa Korovay" (green) for 2011-2013 [3]

According to the data of Fig. 3-4 we can conclude that if Ukraine is experiencing growth capital investment, at the level of individual enterprises, the situation is quite different. "Kyivkhlіb" for 2011-2012 capital investments were at the same level as in 2013 increased by 7 %. In the situation of "Concern Khlіbprom" there has been a gradual decline in capital investment with 27605 thousand UAH for 2011 to 12660 thousand UAH for the year 2013. "Odessa Korovay" is low capital investment compared with the previous companies, and there has been a sharp decline in investment 10535 thousand UAH to 1694 thousand UAH for 2011-2012. But, if we consider the General situation on the market of bakery production, capital investment in this area is gradually increasing. This is due to a number of factors that affect the investment attractiveness of production:

- the nature of the employment activity (an increase in the intensity of labour activity leads to increased consumption of bread);
- reducing the population of Ukraine;
- control by the state at fixed prices (the state does not set a high price for the products as bakery products – a product of mass consumption, but the

- prices of raw materials to fabricate these products is quite high, which leads to the reduction of supply for these products;
- level of solvency and current income of the population;
- employment;
- cyclical changes in the economy, the drop in demand;
- low quality flour that does not meet the requirements of bread making;
- the yield of crops;
- migration processes.

Also recourses may be invested supply of funds from foreign countries.

Bokiy O.V. [10] examines the development of the participation of foreign investors on the market of bread according to directions: establishment of enterprises with foreign capital; credit line (overdraft) for the purchase of equipment known manufacturers and raw materials; providing technologies and brands, attracting specialists from leading foreign companies, process control, production and product quality; loans for the purchase of raw materials and ingredients, training specialists working enterprises.

In general, Ukraine has good prospects for increasing the investment attractiveness of the bakery industry. Investment attractiveness of the company is integrated qualitative and quantitative description of the internal and external environment of the entity, taking into account its current state and prospects [12]. Primarily this is due to the availability of raw materials and the existence biggest market - the population of the country. This industry is attractive for investment, but still has certain risks, in particular, the threat of monopolization of the market, the low profitability of production and regulation of the production of bread by the state.

### Conclusions

The baking industry has a low level of investment attractiveness. This is not a stable economy; reduced consumption of the products, and the consequent reduction in production, outdated technological equipment of enterprises that require immediate

update, but due to lack of funds may not be exercised; the growth of prices for flour and fuel-energy resources; low quality of the final product. But despite the difficulties, in Ukraine, there are companies bakery products, which cooperate with foreign manufacturers and its products are demanded by population. In order to improve the situation on the market of bakery products, it is first necessary to make changes to the legislative framework and to strengthen the funding of the sector by the state. This will increase the investment attractiveness of production and the flow of domestic and foreign investment.

The investment attractiveness of the baking industry requires more research on the classification of factors influencing investment attractiveness, as well as methods of investment appraisal in the baking industry.

### References:

1. Калашников В. М. Фактори, що впливають на обсяг попиту на хліб та хлібобулочну продукцію [Електронний ресурс] / В. М. Калашников – Режим доступу: [http://www.rusnauka.com/ONG\\_2006/Economics/17895.doc.htm](http://www.rusnauka.com/ONG_2006/Economics/17895.doc.htm).
2. Плотникова М. Ф. Специфика развития предприятий хлебопекарной промышленности [Электронный ресурс] / М. Ф. Плотникова. – Режим доступу: <http://ej.kubagro.ru/2007/05>.
3. Офіційний сайт Державної служби статистики України [Електронний ресурс]. – Режим доступу: <http://www.ukrstat.gov.ua>.
4. Литвиненко Л. Хлеб – всему голова, или о том, как нынче живетсся отечественным хлебопекам / Л. Литвиненко // Компании и рынки. – 2006. – №12. – С. 26–28.
5. Річний звіт за 2013 рік ПАТ «Одеський коровай» [Електронний ресурс]. – Режим доступу: <http://smida.gov.ua/db/emitent/report/year/xml/show/26910>.
6. Річний звіт за 2013 рік ПАТ «Київхліб» [Електронний ресурс]. – Режим доступу: <http://smida.gov.ua/db/emitent/report/year/xml/show/28232>.
7. Річний звіт за 2013 рік ПАТ «Концерн Хлібпром» [Електронний ресурс]. – Режим доступу: <http://smida.gov.ua/db/participant/05511001>.
8. Річний звіт за 2013 рік ПАТ «УКРЗЕРНОПРОМ» [Електронний ресурс]. – Режим доступу: <http://smida.gov.ua/db/emitent/report/year/xml/show/22932>.
9. Філіна О. О. Ефективність виробництва хлібобулочної продукції [Електронний ресурс] / О. О. Філіна. – Режим доступу: [file:///C:/Users/HP/Downloads/Pav\\_2013\\_23\\_15%20\(2\).pdf](file:///C:/Users/HP/Downloads/Pav_2013_23_15%20(2).pdf).
10. Бокій О. В. Інвестиційно-інноваційна інфраструктура ринку продукції хлібопекарської галузі [Електронний ресурс] / Бокій О. В. – Режим доступу: <file:///C:/Users/HP/Downloads>.
11. Прокіп М. І. Стан хлібопекарської галузі в Україні [Електронний ресурс] / М. І. Прокіп. – Режим доступу: <http://nauka.kushnir.mk.ua/?p=70527>.
12. Дискіна А. А. Організаційно-економічні засади управління інвестиційним забезпеченням промислових підприємств [Електронний ресурс] / А. А. Дискіна. – Режим доступу: <http://economics.opu.ua/files/archive/2013/No4/106-111.pdf>.

Надано до редакції 24.02.2015

Балан Олександр Сергійович / Oleksandr S. Balan  
[shurabalan@gmail.com](mailto:shurabalan@gmail.com)

Степанюк Зоя Анатоліївна / Zoia A. Stepanjuk

Дубенчук Юлія Олегівна / Julia O. Dubenchuk  
[ydubenchuk@mail.ru](mailto:ydubenchuk@mail.ru)

### Посилання на статтю / Reference a Journal Article:

*Investment analysis baking industry in Ukraine* [Електронний ресурс] / О. С. Балан, З. А. Степанюк, Ю. О. Дубенчук // *Економіка: реалії часу. Науковий журнал*. – 2015. – № 3 (19). – С. 54-59. – Режим доступу до журн.: <http://economics.opu.ua/files/archive/2015/n3.html>