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## THE DEVELOPMENT OF THE BAKING INDUSTRY IN UKRAINE

The article describes the socio-economic role of the baking industry in society. Identified existing problems and scheduled areas to address them. Research has shown that reducing the production of bakery products industrial enterprises is growing faster than population reduction. Thus, there is a consumption of bread and bakery products more rational norms at the expense of bread, baked mini-bakeries, supermarkets and hypermarkets, bakeries and their own households. Stability of prices on the Ukrainian market of bakery products is supported by providing bakeries flour from the Agrarian Fund. In the search for alternative sources of income of the enterprise begin to produce frozen bread and frozen ready meal. Their market segment is growing rapidly and compensate for lack of bread produced bakery. About half of the bread market take 6-7 large producers who concentrate their power in some regions.

**Keywords:** baking industry, mini-bakery, produce, frozen bread, the bread market, consumption.

**Statement of the problem and its connection with important scientific and practical tasks.** The baking industry has an important social and strategic role in society. It is to ensure the production of bread and bakery products according to quality standards and at an affordable price in the volumes necessary to meet the needs of the population. The share of the baking industry in total food is 8.4%, and the share of bread products in the diet of the population is 15% [1].

Recently, the baking industry is characterized by a decline in production. The main problems that hinder its development is to reduce the population, and therefore the of consumption of bread. Substantially the production of bakery industry is affected by the increase in the number of private mini-bakeries, bakeries, small enterprises, natural persons-entrepreneurs and the production the bakery products. In addition, the production of bread products of large enterprises also depends on the emergence of semi-finished products, frozen products, which can be prepared at home without the use of powerful equipment.

**Analysis of recent publications on the issue.** The problems of the baking industry devoted to the works I.O. Blanc, A.A. Peresada, P.S. Rogozhin, A. Vasil'chenko, E.V. Erma-kova, O. Opra and others. Noting the obvious value and importance of the conducted research, it is necessary to point out that most scholars and practitioners characterize modern baking industry in Ukraine as one that is going through difficult times. However, a wide range of their proposals is not yet ensured the stability of the baking enterprises of Ukraine, and therefore the study of problems in this sphere, as well as determining the priority directions of increase of efficiency of their activity is particularly relevant on the present stage.

**The formulation of the objectives of the study.** The aim of the article is the analysis of the current state of the

baking industry of Ukraine and the identification of problems of their development with the provision of proposals for fundamental solutions.

**The presentation of the main results and their justification.** In the last two decades there has been a significant decline in the industrial production of bread products, and the trend to meet the needs of the population in social sorts of bread started in the 90-ies increases. Reduction of industrial bread production well ahead of population decline Ukraine. Since 1990 the population of Ukraine decreased by 6.5 million people, or 12.5 percent. At the same time the production of bread Ukrainian bakeries decreased by 77.5% and the availability of bread products, made bakeries – up to 33%. Unstable activity of the baking industry caused by the influence of various factors. Including population decline, the decline in the production of bread and large bakeries and increase the production of the mini-bakeries, bakeries, supermarkets and hypermarkets. In view of the above situation regarding the reduction of production volumes baking industry there was a need to analyze the rate of growth of population and production volumes of bread and bakery products (table. 1).

From the table it is seen that the rate of change of production volumes of bread and bakery products are not the same. For the period from 1990 to 2013, the population decreased from 51.94 to 45.43 million people (12.5%). While the production of bread, bakery decreased by 4.4 times. It becomes clear that the change in population is not the main factor, which determines the volume of grain production in Ukraine.

According to the Association «Ukrhlebprom» in Germany and France bake 57 pounds of grain a year, Belgium and the Netherlands – 58-60 pounds, Belarus – 61 kg, Russia – 50 pounds, Ukraine – 33 pounds per year [6]. And the price of bread in Ukraine is the lowest.

**Table 1. Indicators of the development of the baking industry of Ukraine**

Indicator	Year							
	1990	1995	2000	2005	2010	2011	2012	2013
Population, people	51,94	51,30	48,92	46,93	45,78	45,63	45,55	45,43
The rate of consumption of bread, kg/year	101	101	101	101	101	101	101	101
The need for bread and bakery products, thousand tons	5246.4	5181.0	4941.2	4739.9	4623.6	4609.0	4600.9	4588.1
The production of bread, bakery, thousand tons	6701	4114.4	2464	2263.7	1807.7	1763.5	1679.3	1511
% of needs	127.73	79.41	49.87	47.76	39.10	38.26	36.50	32.93
Production of 1 person per year	129.0	80.21	50.,36	48.24	39.49	38.64	36.86	33.26
The production of bread «in the shadows» <sup>2</sup> . tons	–	1066.6	2477.2	2476.2	2815.9	2845.5	2921.6	3077.1

Source: calculated according to [2, 3, 4, 5]

Comparing the price of bread in Ukraine and abroad, we can say that the price of Ukrainian bread 2-3 times lower than the nearest neighbors. Furthermore, the structure of the European market is not large bakeries, that baking bread for the whole city, only mini-bakery, located in each district or even the streets.

The European vector of development can be traced in the Ukrainian bakery. About 33% of the demand for bread and bakery products shall be satisfied with bread-baking, and the remaining 67% of small businesses, mini-bakeries, supermarkets and hypermarkets, by households. For they do not keep records, so to say exactly how much bread they produce – is impossible.

In fact, the situation for Ukrainian consumers of bread products is not as threatening as it is described. According to the state statistics service [12], in 2013 in Ukraine bread consumed more than enough: 108 kg averaged over 1 person per year, including small towns – 110.4 kg, large cities 93.6 kg in rural areas – 122.4 kg. In 2012 was even more: small town – 111.6 kg, large cities – 93.6 kg in rural areas – 128.4 kg, in average 109.2 kg/year.

Analysts say the expansion of consumer requests. It is believed that the demand for traditional breads annually reduced by about 10% due to the emergence of new varieties of rolls and different European varieties. In general, the Ukrainian market offers over 1000 items of bread and bakery products. For production use different flavorings, fillers. Despite all this, the preferences of Ukrainians rather conservative. The largest share in the market is wheat bread – 50%, rye – 30% bakery products – 15% and 5% – flour bakery, bagels, toast, crackers, cookies, pies and more [13].

The most susceptible to changes in prices for bread and bakery products of socially unprotected layers of the

population. For example, 22.7% of Ukraine's population (according to statistics) live in poverty (income below the subsistence minimum), 65.3 % have an income of up to 2000 UAH per month [14, p. 254]. It is on these groups should pay attention to producers social breads. 65.3% of the potential market for this bread. If we consider that this bread is only 33%, then should oblige private bakeries to produce a certain part of the bread simple recipe from the total volume. Or limit their market share to 35% in order to restore position bakeries may fix this law.

Despite the difficult situation incomes grow. But the increase of the solvency of the population redistributes tastes towards more expensive varieties of bread and a reduction in the consumption of bread in connection with the emergence of the trend of healthy lifestyle and healthy nutrition.

The baking industry is socially important, therefore, subject to state regulation. The regulation applies only to pricing, namely the definition of the marginal rate of return on the massive social kinds of bread made of flour first and second grade. However, the effectiveness of state regulation of the baking industry is very hard to evaluate. The state can not control the business bakery. In addition, controlling the price of flour are outside the influence of the price of other resources. Therefore, the full state is unable to regulate the production and market of bread and bakery products.

Today the bakery sector needs real support, directly or indirectly, through targeted assistance to vulnerable populations. While the state should stop price regulation in the market of bread. Obviously, in this case the price of bread will not rise rapidly due to heavy competition. And the company's will be able to make profits. Inefficient state price regulation of the industry only pushes manufacturers in the shade. The state regulation of prices on almost all types of resources makes baking low-profit business.

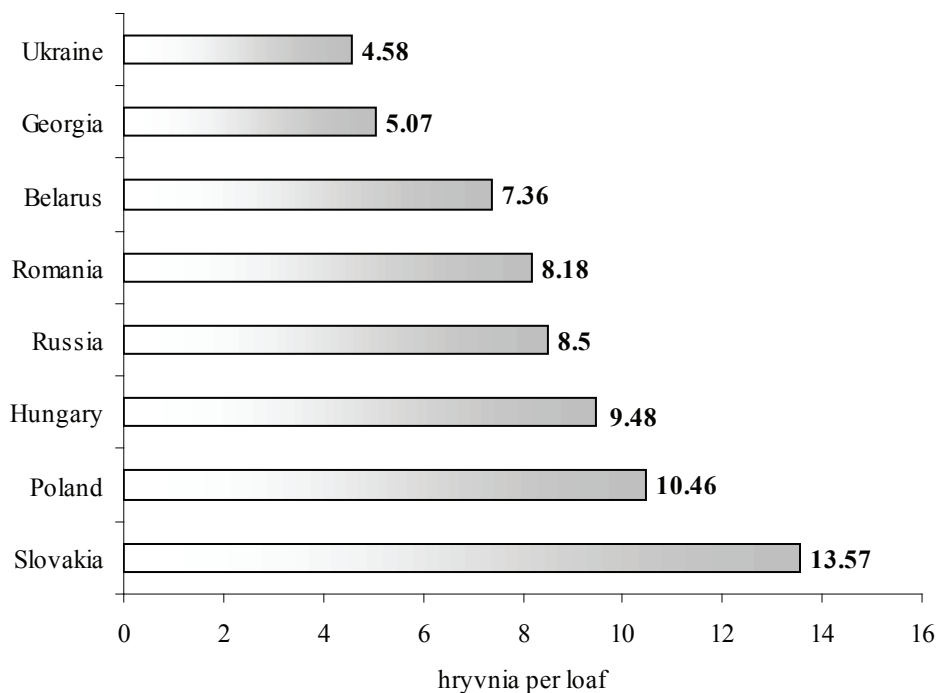


Fig. 1 Price of bread in different countries [7, 8, 9, 10, 11]

According to the Ukrainian Association of bakers today, the profitability of bakeries minimum of 0.5-3%. Many large enterprises and associations, working legally on the brink of survival. Return «illegal» is much higher due to tax evasion and the lack of any obligations with the production of «social» bread varieties, as well as control their products.

The decrease profitability of the bakery enterprises stimulated the search for alternative sources of income. Strict regulation of the pricing policy for social kinds of bread became key to the development of the market of frozen bakery products. On the background of the decline in production of bread and bakery products high growth rate was shown by a segment of frozen semi-finished products (Fig. 2).

Particularly dynamic market of frozen semi-finished products increased in 2012–2013, when the average annual growth rate of 70%. In small amounts on the market of frozen semi-finished products presents foreign products. This is due to the increase in its domestic manufacturing of market domestic operators.

Thanks to new technologies of freezing dough 15% non industrial bread baked in supermarkets directly. Such technologies have recently become very common and almost every manufacturer of classic bread is being tested in this segment, diversifying production [16]. Such production and sale has pros and cons for buyers and sellers. For sellers – the opportunity to bake so much bread in the range, on which there is a demand for buyers – always buy fresh bread.

In Ukraine, the bread market presents domestic products at 97-98%. Imported bread products in Ukraine are 2-3%. Basically it is a semi-frozen bread. Until recently, it imported only from Lithuania (TM Mantinga), Denmark (TM Danish Bakery), France (TM Pain Delice), Turkey (TM Dardanel Hazir Gida San), Hungary, Russia, Poland and Germany. Now frozen bread already produce several domestic firms. The prospects of this direction is obvious, since in the EU implementation of frozen bread already caught up with the implementation of traditional [17].

The segment of frozen bakery seriously competes with baking enterprises and seriously comes at him. The biggest demand for frozen bakery semi-finished products in the major cities. Basic sales accounted for the segment of supermarkets and bakeries and pastry shops. These customers buy frozen dough is ready, bring to baked and sales in retail.

The biggest share of the market of frozen products in 2013 (65%) consisted of bread rolls, pizza bases and other products. Domestic operators is small, but most of them are: JSC «Concern Hlibprom», LLC «Forneti Ukraine», Company «Colossus LTD», LLC «Ukrainian-German industrial and commercial association «Miracle oven», LLC «Musketeer», Company «Levada», PJSC «Hercules».

Bread and bakery products and pricing is highly dependent on the market situation flour. The largest share in the Ukrainian milling industry has wheat flour (90.5%), the share of rye – 9%, other varieties of flour in the total amount

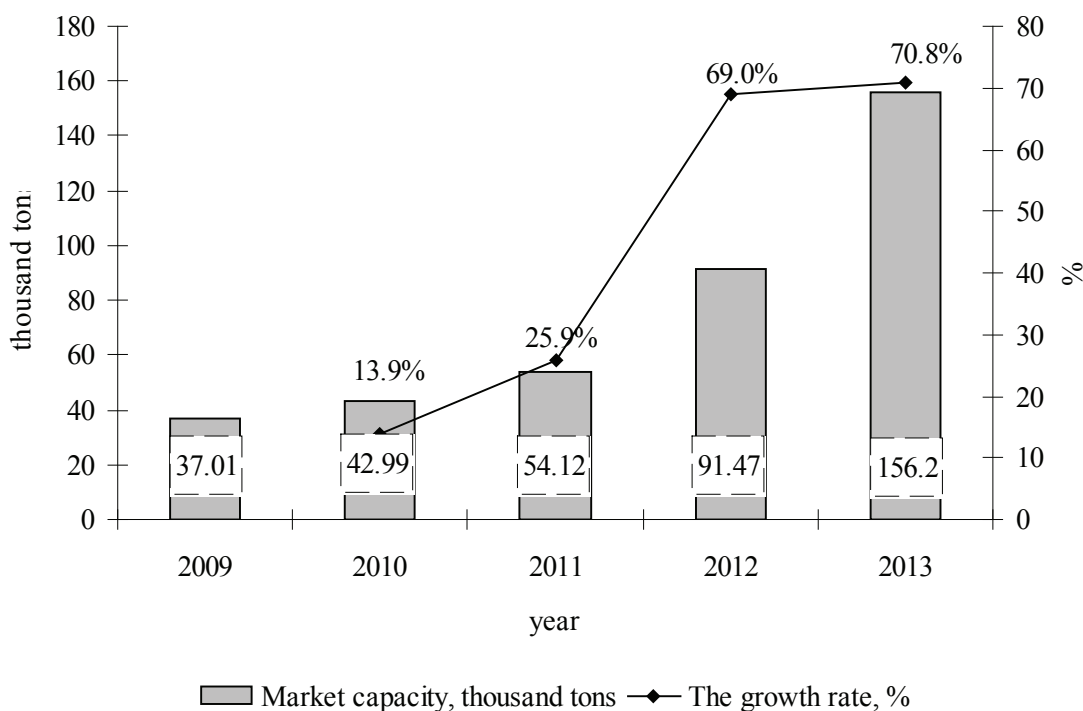


Fig. 2. The dynamics of the capacity of the market of frozen semi-finished products in Ukraine for 2009–2013, in real terms, thousand tons [15, p.15]

to only 0.5%, so essentially the market can't influence. Ukraine also imports flour from durum wheat for pasta production. Significant price movements in the flour on the market in recent times has not occurred (Fig. 3). There is a slight increase in prices in the spring and after the post-harvest.

State support for the baking industry is done by implementing the Agrarian Fund flour bakery with state food reserve. But it is necessary to build illusions about such support, as the price of flour from the Agrarian Fund higher market. Therefore, at the time and the market will begin to raise rates aligning themselves with the state. Implementation flour of Agrarian Fund is carried out at constant 2012 prices: top grade – 2896 UAH/t, I grade – 2711 UAH/t, II grade – 2381 UAH/t, rye – 2279 UAH/t [19]. If we compare the data with date on figure, it is obvious that such rates exceed market prices, and therefore cast doubt on the existence of state support.

Overall industrial flour consumption is 91.6%, the consumption of the population – 8.4%. Consumption in other areas characterized by variations due to the production of other types of flour. Based on the price of flour (1 kg bread – 0.8 kg flour) is the price of bread and bakery products. And its relative stability due to the provision of bakeries flour from the Agrarian Fund.

The index of consumer prices for bread in Ukraine form mostly mini-bakeries and small enterprises whose products

are not subject to state regulation and are in the higher price segment than factory.

The results of operation of enterprises in the industry outline the general situation at the market of bread and bakery products. So the specifics of the industry is short-term sales, which affects the number of producers and their market share. Overall, about half of the bread market Ukraine take 6-7 large producers who concentrate their power in some regions. Nails of them «Kulinichy», «Khlіbni investitsii», «Zolotoy yrozhay», «Kyivkhlіb», «Khlіbprom», «Formula smaku»(Fig. 5). In addition to the market comprises a large number of small enterprises, and hence, competition in the regional markets is quite high.

In addition, the market of bread and bakery products largely depends on the market situation flour and fluctuations in the grain market, which is sensitive to seasonal factors and government regulations.

Today in Ukraine there are more than 1200 bakeries various capacities. They produced 13.5 thousand tons of bread and bakery products per day. However, the capacity of most of them used less than half. Due to the short implementation period bread products, inability to transport over long distances and because of rising transport costs, and therefore high cost – bakeries are trying to sell products in their region.

#### Conclusions and prospects for further research.

Despite some problems in the activities of the bakeries, the

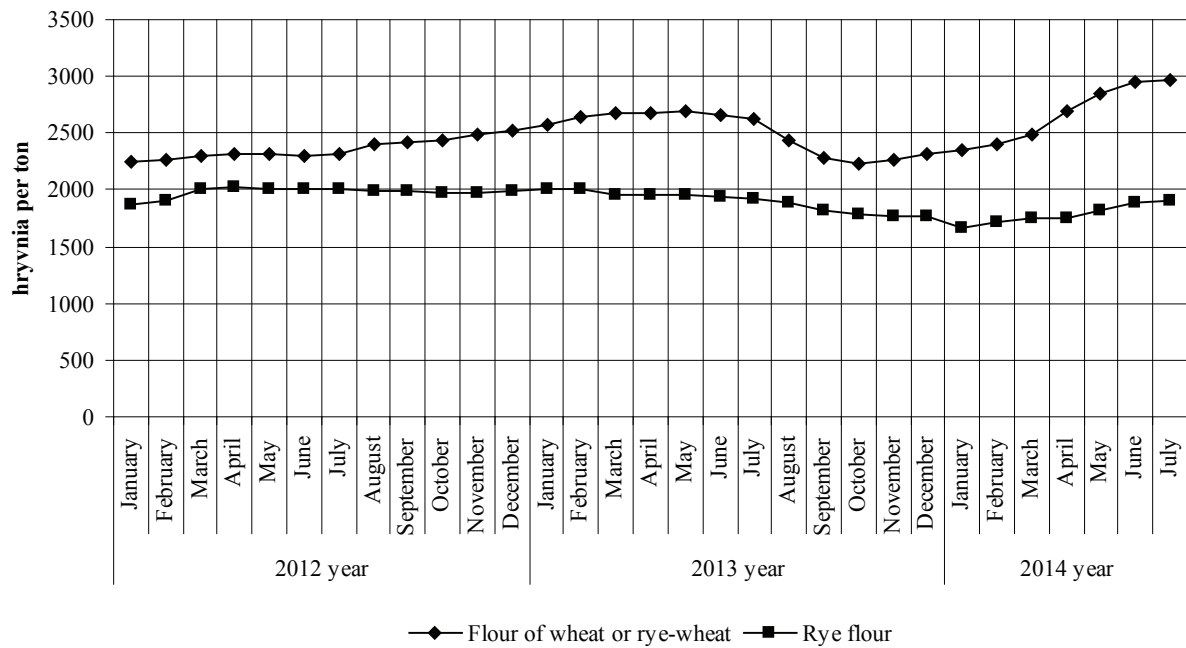


Fig. 3 Dynamics of prices for flour

Source: constructed according to [18]

relevance of the production of such an important product as bread is not reduced. The development trends of the industry are forcing manufacturers to rethink their approaches to the efficient use of production resources, the formation range of products in accordance with customer requirements, cooperation with reliable suppliers to ensure production of quality raw materials. Another important issue is the

settlement of the interests of enterprises baking industry and the state. For a long time the industry was and currently is on administrative regulation, which led to the fact that the bread was not subject to market. State regulation should be aimed not only at the level restriction of prices for bread and bakery products, and on increase the solvency of the population of Ukraine.

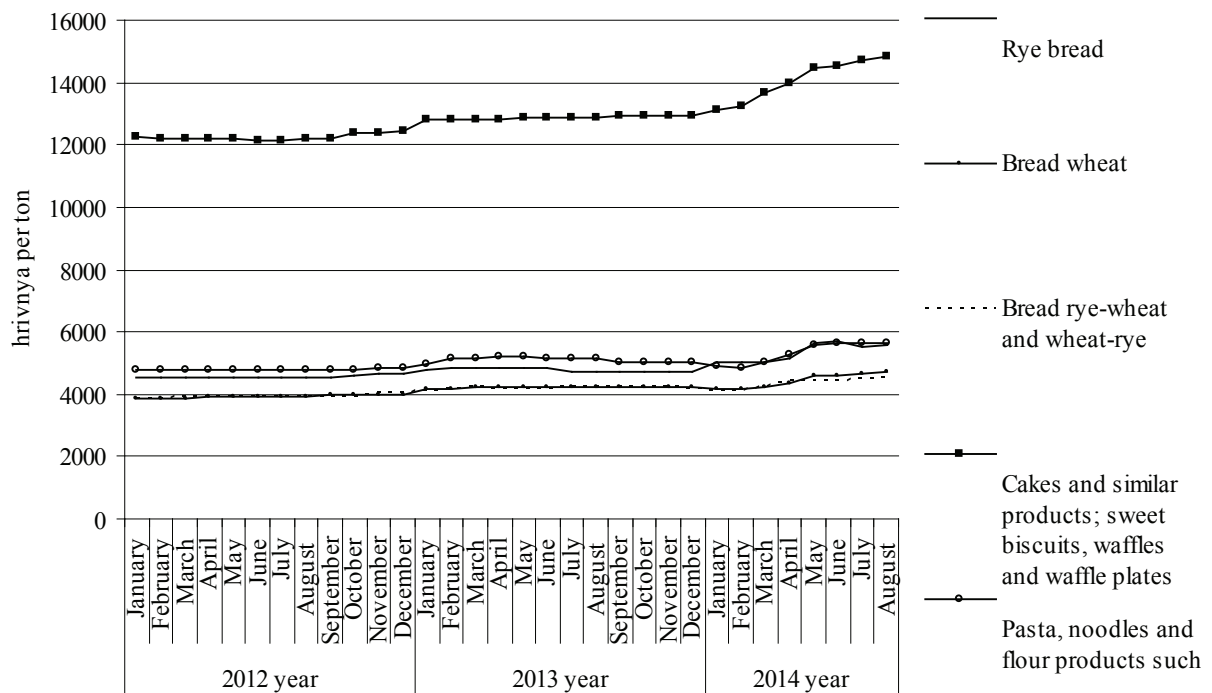


Fig. 4. Average producer prices of bread from flour, UAH/tonne [18]

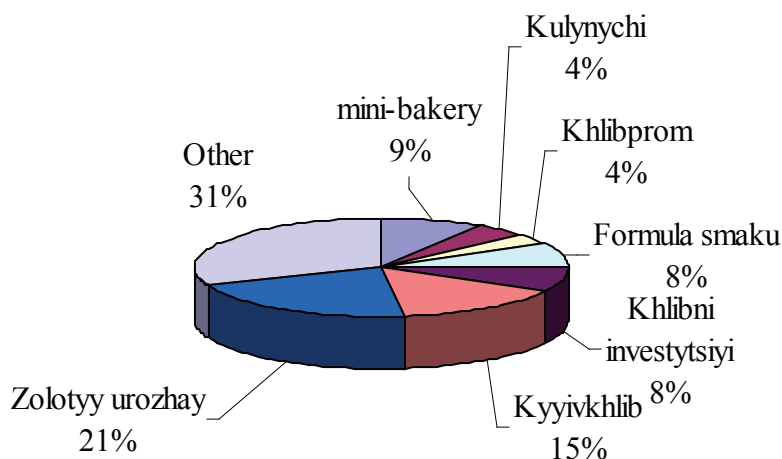


Fig. 5. Share bread manufacturers on the market in 2014

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## РОЗВИТОК ХЛІБОПЕКАРСЬКОЇ ПРОМИСЛОВОСТІ В УКРАЇНІ

В статті розглянуто соціально-економічну роль хлібопекарської промисловості в житті суспільства. Виявлено наявні проблеми та намічено напрями їх вирішення. Дослідженнями встановлено, що скорочення виробництва хлібопродукції промисловими підприємствами зростає випереджаючими темпами, порівняно зі скороченням населення. При цьому спостерігається споживання хліба і хлібобулочних виробів понад раціональні норми за рахунок хліба, випеченого міні-пекарнями, супер– і гіпермаркетами, булочними та власне домогосподарствами. Стабільність цін на українському ринку хлібопродукції підтримується завдяки забезпеченню хлібзаводів борошном з Аграрного фонду. В пошуку альтернативних джерел доходу підприємства починають виробляти заморожений хліб і заморожені напівфабрикати. Їх сегмент на ринку стрімко росте і компенсує недостатність хліба, виробленого хлібзаводами. Близько половини ринку хліба займають 6-7 великих виробників, які зосереджують свої потужності в окремих регіонах.

**Ключові слова:** хлібопекарська промисловість, міні-пекарні, виробництво, заморожений хліб, ринок хліба, споживання.

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## РАЗВИТИЕ ХЛЕБОПЕКАРНОЙ ПРОМЫШЛЕННОСТИ В УКРАИНЕ

В статье рассматривается социально-экономическая роль хлебопекарной промышленности в жизни общества. Выявлены имеющиеся проблемы и намечены направления их решения. Исследованиями установлено, что сокращение производства хлебопродукции промышленными предприятиями растет опережающими темпами по сравнению с сокращением населения. При этом наблюдается потребление хлеба и хлебобулочных изделий более рациональных норм за счет хлеба, выпеченного мини-пекарнями, супер– и гипермаркетами, булочными и собственно домохозяйствами. Стабильность цен на украинском рынке хлебопродукции поддерживается благодаря обеспечению хлебозаводов мукой из Аграрного фонда. В поиске альтернативных источников дохода предприятия начинают производить замороженный хлеб и замороженные полуфабрикаты. Их сегмент на рынке стремительно растет и компенсирует недостаточность хлеба, произведенного хлебзаводами. Около половины рынка хлеба занимают 6-7 крупных производителей, которые сосредотачивают свои мощности в отдельных регионах.

**Ключевые слова:** хлебопекарная промышленность, мини-пекарни, производство, замороженный хлеб, рынок хлеба, потребление.