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Development Strategy of Vertically Integrated Agro-Industrial Companies as a Pricing Tool for Food Products

V.V. Krasnova, A.A. Kramarenko, A.S. Fomenko
Donetsk National University, Donetsk, DPR

ABSTRACT

In connection with the current trends in the agro-industrial conjuncture, it is becoming increasingly urgent to solve the problem of ensuring the economic security of the state, the financial and economic recovery of industry-forming enterprises and the welfare of the population. Taking into account the high interest in the transformation of food markets, the **object** of this study was the internal management strategies of large agro-industrial companies. The **subject** of the study is the mechanism of food pricing by regulating the value chain in agricultural holdings of the full production cycle (having a vertically integrated organization of the operational and production process). The article provides an analysis of changes in the price index for socially significant food products for the period 2020–2021 and its impact on the cost of a minimum set of food products, which is considered an important indicator of the standard of living of the population and in the current situation accounts for an excessively high proportion of the average income of citizens. To solve the identified problems and ensure a high level of food security, a mechanism for managing the development strategy of vertically integrated agro-industrial companies is proposed as a way to achieve the minimum cost of finished products and rational management of its creation chain. Due to the closed production cycle, agro-industrial companies offset the negative impact of external factors on pricing, and are also more independent of suppliers of raw materials and in matters of the organization of operational activities. **The practical significance** of the research is to develop and substantiate ways to reduce social tension and provide the population with socially significant, high-quality and affordable food by reducing the cost of producing agro-industrial products while creating and developing a vertically integrated organization of the production process.

Keywords: strategy management; pricing; price index; welfare; value chain; agricultural holding; vertical integration; economic efficiency; cost; margin

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INTRODUCTION

In considering trends in the transformation of the world socio-economic order, State food security and access to staple foods for all segments of the population are receiving more attention. Global targets for guarantee all citizens have access to the food are to improve nutrition by increasing the intake of food containing sufficient vitamins, macro- and micronutrients (calcium, iodine, iron, fluoride, selenium, etc.), complete protein [1]. However, rising prices of vital products, the crisis in production of food commodities, together with a sharp decline in the purchasing power of most of the population, are hampering their well-being and socio-economic security.

Analysis of the value of the minimum food set are given a leading role in the implementation of public policies aimed at overcoming this situation and improving the quality of life of citizens. This indicator is directly influenced by factors such as: level of inflation in the country, state of the economy and aggregate demand, changes in world prices and exchange rates, features of tax policy, turnover rate, cost of production, maximum upper limit of the value of goods (usually only of vital importance), collectively affects the movement of the consumer price index.

For the economy of states such as Donetsk People's Republic (DPR), in the conditions of the trade and economic blockade and limited resources, it is necessary to develop their own production of basic vital foods that will ensure food security at an appropriate level, reducing prices to the possible minimum.

In general, in DPR, due to the high availability of some food of own production, the prices in trade enterprises do not exceed the price level of the Russian Federation. Since the low-income categories of citizens spend more than half of their income on

food, and for farmers the source of money is agricultural production, that food prices will have a significant impact on the welfare of both consumers and producers.

RESULTS OF THE RESEARCH

When analyzing the level of food prices, the greatest attention is paid to regulating the price of meat on the domestic market as one of the most important components of the human diet. The largest market share of meat products is poultry farm products in DPR. Despite the fact that a significant share of poultry meat in the structure of consumption is domestic product, producers are sufficiently sensitive to changes in the import prices of manufactures and are highly dependent on the cost of imported components.

The main factors that influenced the increase in consumer prices in this food segment in DPR, were: increase in the cost of feed components, raw materials and materials required for poultry production. In addition, the overall increase in consumer prices for poultry meat in DPR was affected by the rise in the price of poultry meat in the Russian Federation, as half of the Republic's demand for poultry meat is met by imports.

The increase in the value of beef and pork meat was also influenced by the increase in the value of the products in the Russian Federation, as a significant part of beef and pork meat is imported (*Fig. 1*). In 2021, due to the increase in meat prices, the cost of sausage products of all types increased by about 11%. In addition to meat and products of its processing, import and the pricing of fish products affect the DPR.

Increase in prices of dairy products by 2022 has averaged 16.4%. Has risen in price of margarine — 33.5%, butter — 21.6%, sour cream (more than 15% milk fat.) — 16.2% (*Fig. 2*).

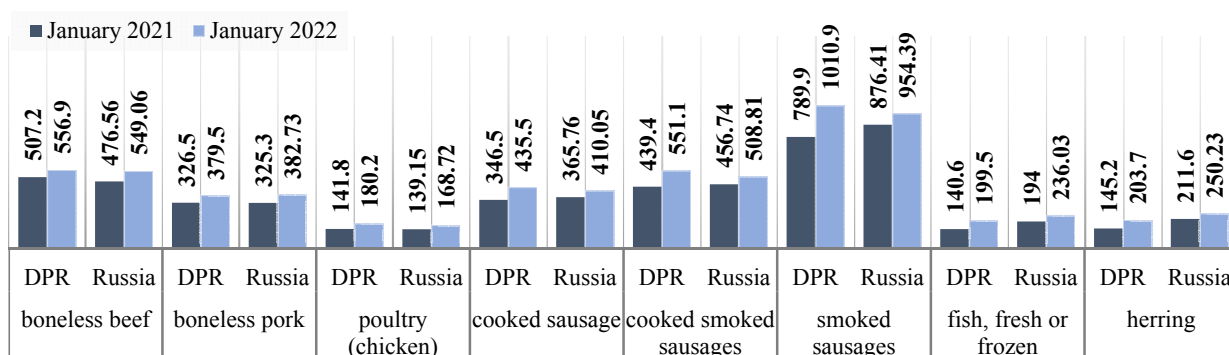


Fig. 1. Dynamics of the cost of meat, meat products and fish in the DPR and Rostov region of the Russian Federation, rubles/kg

Source: compiled by the authors on Ministry of Economic Development of the Donetsk People's Republic https://mer.govdnr.ru/index.php?option=com_phocadownload&view=category&id=23&Itemid=655 (accessed on 12.05.2022), EMISS State Statistics. URL: <https://fedstat.ru/indicator/31448> / (accessed on 19.05.2022).

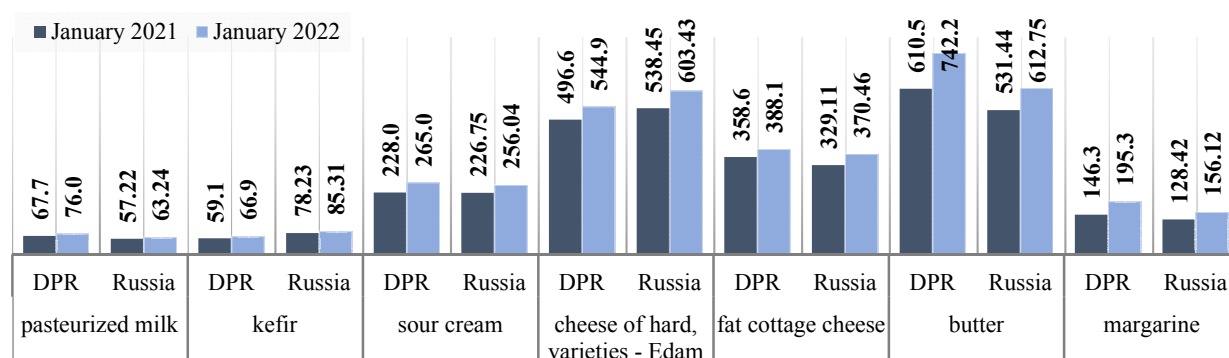


Fig. 2. Dynamics of the cost of dairy products in the DPR and Rostov region of the Russian Federation, rubles/kg

Source: compiled by the authors on Ministry of Economic Development of the Donetsk People's Republic https://mer.govdnr.ru/index.php?option=com_phocadownload&view=category&id=23&Itemid=655 (accessed on 12.05.2022), EMISS State Statistics. URL: <https://fedstat.ru/indicator/31448> / (accessed on 19.05.2022).

DPR' enterprises are provide about 26% of the actual annual raw milk consumption. From the Russian Federation, milk is supplied in bulk, and the necessary part for production — is in powder form. The increase in the value of this product in the Russian Federation led to an increase in the prices of dairy products and in DPR.

Despite the high yield of wheat in 2021, the price of wheat flour increased by 10.9% between 2021 and 2022, which caused a significant rise in the price of bread and bakery products (Fig. 3).

The rise in tariffs for utilities, energy, fuel and lubricants, additional raw materials (sunflower oil, margarine, mixtures, sugar, etc.), most of which are imported from the Russian Federation, also led to the rise in the price of bread and bakery products. Thus, with a high dependence depends on the situation in the food and raw materials market, bakery enterprises are forced to maintain positive profitability by offsetting increased labour, fuel and raw material costs.

The cost of goods flour and cereal industry on average increased by 15.8%,

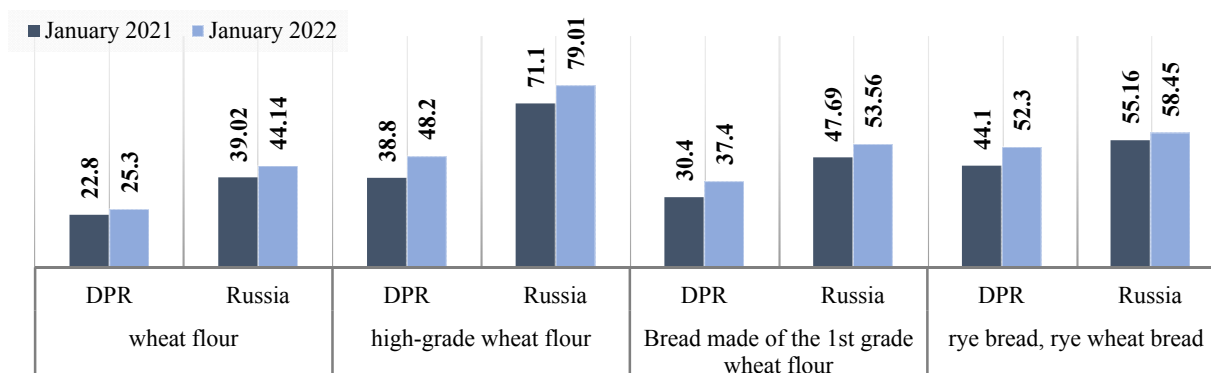


Fig. 3. Dynamics of the cost of flour and bread in the DPR and Rostov region of the Russian Federation, rubles/kg

Source: compiled by the authors on Ministry of Economic Development of the Donetsk People's Republic https://mer.govdnr.ru/index.php?option=com_phocadownload&view=category&id=23&Itemid=655 (accessed on 12.05.2022), EMISS State Statistics. URL: <https://fedstat.ru/indicator/31448/> (accessed on 19.05.2022)

as for buckwheat – then by a maximum of 40.7% (Fig. 4). Since the need for it is fully covered by imports, the price level is directly dependent on its size in the Russian Federation (and the Rostov region in particular).

DPR is fully provided with egg due to its own manufacturers for 2022. Between 2021 and 2022, the cost of a dozen eggs fell by 1.2%, despite an 18% increase in the purchase price of wheat and an increase in the cost of compound, raw materials and materials necessary for the rearing of poultry (Fig. 5).

The situation in the fat-and-oil industry of the agro-industrial complex (further – AIC) of the Republic is characterized by the absence of lines for refining sunflower oil. Consequently, the need for sunflower refined oil is fully covered by imports and the price level is directly dependent on the price level in the Rostov region of the Russian Federation. Note that the price of refined sunflower oil directly affects the price of mayonnaise, the need for which is partially covered by imports.

Imports to DPR fully meet the demand of the population for sugar: thus, the increase in the price of sugar in the Russian

Federation has affected the increase in its value in the Republic.

It is necessary to note the significant rise in the price of vegetables – in this food segment, prices had on average increased by 50.0% by 2022. At the same time, during the period 2021–2022 the price of potatoes increased by 59.3%, cabbage – by 199.9%, beets – by 52.3%, onions and carrots – slightly. In the case of fruit, the price of apples was reduced by 8.1% in this time interval (Fig. 6).

In general, the consumption of potatoes, vegetables and fruits is ensured through imports. The self-sufficiency of DPR vegetables does not exceed 5% (excluding the output of households).

The main internal causes of the increase in wholesale prices of vegetables and fruits are:

- energy cost growth;
- fuel and lubricants cost growth;
- increase in utility tariffs;
- pay rise for workers.

Among the reasons for the increase in retail prices of vegetables and fruits are the following:

- their cost growth;
- rise in transportation costs;

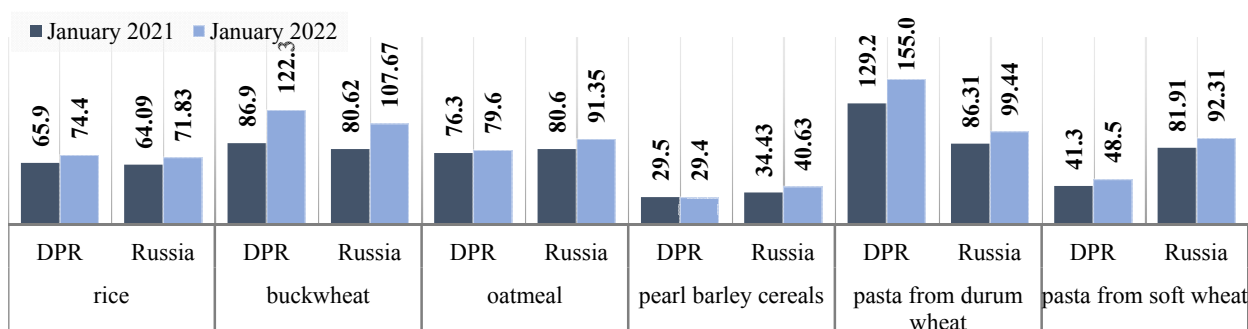


Fig. 4. Dynamics of the cost of products of the flour and cereal industry in the DPR and the Rostov region of the Russian Federation, rubles/kg

Source: compiled by the authors on Ministry of Economic Development of the Donetsk People's Republic https://mer.govdnr.ru/index.php?option=com_phocadownload&view=category&id=23&Itemid=655 (accessed on 12.05.2022), EMISS State Statistics. URL: <https://fedstat.ru/indicator/31448> / (accessed on 19.05.2022).

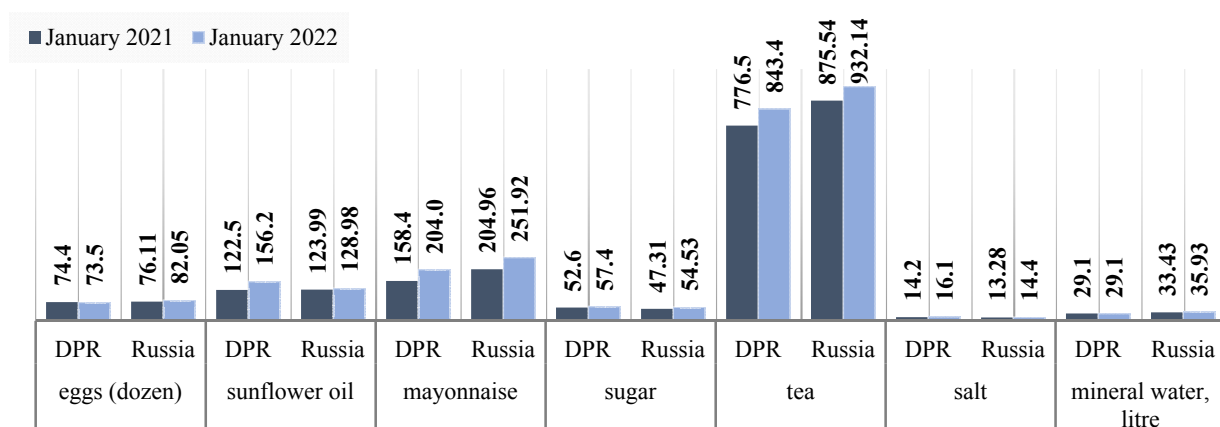


Fig. 5. Dynamics of the cost of certain types of food industry products in the DPR and Rostov region of the Russian Federation, rubles/kg

Source: compiled by the authors on Ministry of Economic Development of the Donetsk People's Republic https://mer.govdnr.ru/index.php?option=com_phocadownload&view=category&id=23&Itemid=655 (accessed on 12.05.2022), EMISS State Statistics. URL: <https://fedstat.ru/indicator/31448> / (accessed on 19.05.2022).

- speculation of unscrupulous sellers in wholesale and retail trade.

In turn, the consumer price index determines the value of such socio-economic indicators as the subsistence minimum and the minimum wage. In accordance with the Resolution of the Council of Ministers of the Donetsk People's Republic dated No. 10–40 from 03 June 2015 “On approval of the composition of the market basket in the Donetsk People's

Republic”,¹ cost of the minimum food basket is 50% of the subsistence minimum, which is subject to annual indexation according to the current inflation rate, as minimum wage.

The DPR market basket includes more than 70 items of food, the price change

¹ Resolution of the Council of Ministers of the Donetsk People's Republic dated No. 10–40 from 03 June 2015 “On approval of the composition of the market basket in the Donetsk People's Republic”. URL: http://doc.dnronline.su/wp-content/uploads/2015/03/PostanovN_10_40_03062015.pdf

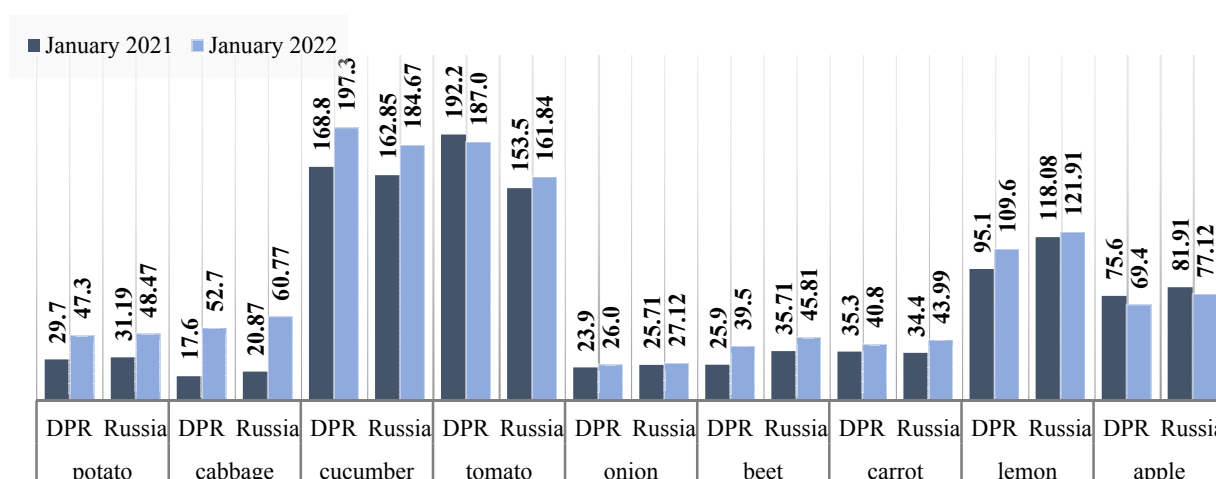


Fig. 6. Dynamics of the cost of vegetable products and fruits in the DPR and Rostov region of the Russian Federation, rubles/kg

Source: compiled by the authors on Ministry of Economic Development of the Donetsk People's Republic. URL: https://mer.govdnr.ru/index.php?option=com_phocadownload&view=category&id=23&Itemid=655 (accessed on 12.05.2022), EMISS State Statistics. URL: <https://fedstat.ru/indicator/31448> / (accessed on 19.05.2022).

of which is of strategic importance in the socio-economic policy of the Republic.

Today's consumption standard is actually wider than the one in the basket. According to the legislation, the composition of the minimum market basket should be reviewed every 3 years, but since 2015, it has not been changed. Existing food basket methodology does not take into account many of the needs that have become basic. Today in the minimum set there are no such products as: semi-finished products, canned foods, non-alcoholic drinks, alcohol, coffee, chocolate, etc. For pensioners, it excludes fruits and juices, sour milk products, cheeses, sausages, sugar, tea, honey, spices and pastry. Increasing the composition of market basket with additional food products will result in a significant increase in its value and thus in the subsistence minimum.

The structure of the value of the minimum set of products is dominated by imported products, namely: vegetables, fruits and berries, beef, pork, cottage

cheese, milk and dairy products, which have the most significant influence on the subsistence minimum (Fig. 7).

In accordance with the approved consumption standards for basic social food products² at 2021 prices, there was a significant increase in the cost of a minimum set of basic food products for the following socio-demographic groups:

- children aged 0–6 years by 11.2%;
- children aged 6–8 years by 11.8%;
- working-age population – by 19.1%;
- disabled population – by 13.5% (Fig. 8).

The cost of the minimum set of products per capita in the DPR on average at the end of 2021 amounted to 5 145 thous. rub., while in the Rostov region of the Russian Federation – 4 963 thous. rub. (Fig. 9). The difference is 181 rub. (3.7%). At the same time, the growth rate of the cost of the

² Resolution of the Council of Ministers of the Donetsk People's Republic dated No. 10–40 from 03 June 2015 “On approval of the composition of the market basket in the Donetsk People's Republic”. URL: http://doc.dnronline.su/wp-content/uploads/2015/03/PostanovN_10_40_03062015.pdf

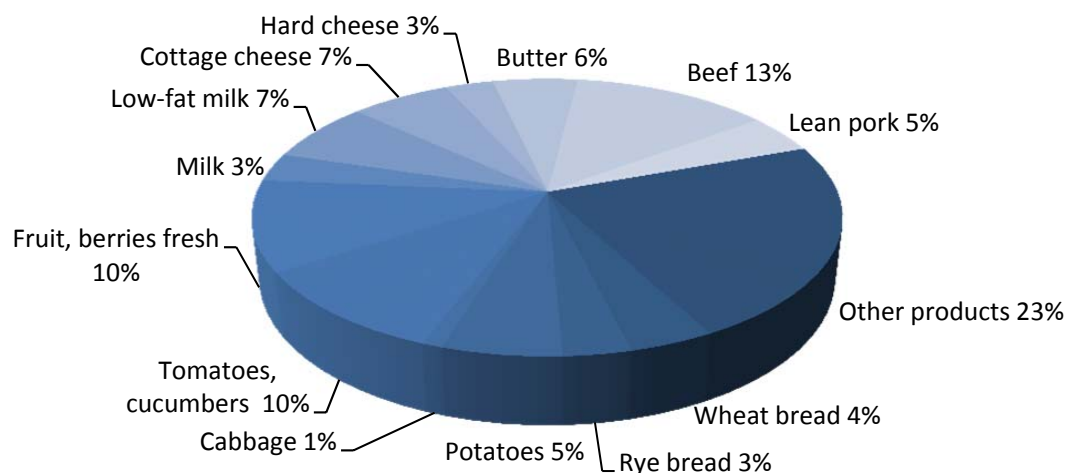


Fig. 7. The structure of the cost of the minimum set of food products in the DPR

Source: developed by the authors.

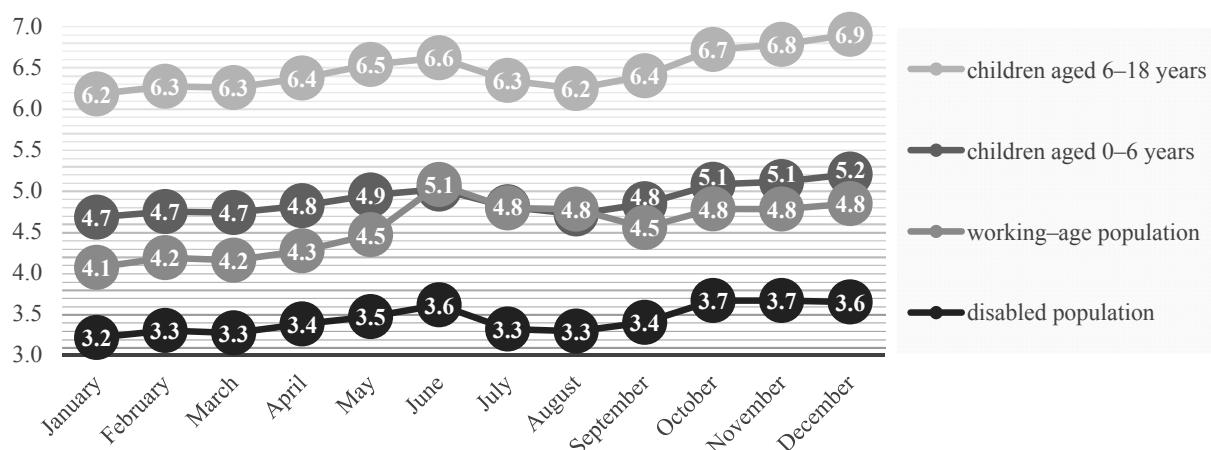


Fig. 8. Dynamics of the cost of the minimum set of food products in the DPR in 2021, thousand rubles

Source: developed by the authors.

minimum set of products in the Rostov region of the Russian Federation for the year reached 17.18%.

In order to increase economic security, the share of food costs in the income structure of the population is crucial element. Africans—such as Cameroon and Kenya—spend almost half of their available resources on food, while the average household in UK—about 8%, Switzerland and Luxembourg—9%, the

USA—6.4%.³ Given that the minimum market basket represents the necessary amount of food essential for human health and survival, it should be related to the average wage and minimum wage.

According to the Resolution of the People's Council of the DPR No. 100 from

³ Nutrition and food systems: a report by the High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security, Rome. Rome: HLPE; 2017. 151 p.

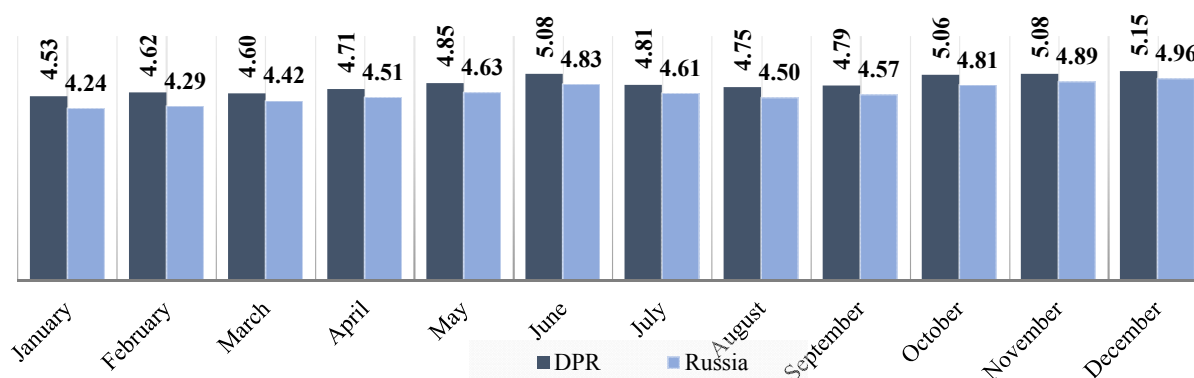


Fig. 9. Dynamics of the cost of a minimum set of food products per capita in the DPR and the Rostov region of the Russian Federation in 2021, thousand rubles

Source: compiled by the authors based on data of Federal State Statistics Service. URL: <https://rostov.gks.ru/> (accessed on 19.05.2022).

14 February 2020 “On the minimum wage and on the amendment of the law of the Donetsk People’s Republic “On remuneration for work”, (current version from 28 December 2021),⁴ from 1 January 2022 the minimum wage in the DPR is 10 245 thous. rub. In the Russian Federation, according to the Federal Law No. 406 from 6 December 2021 “On amending the article 1 of the Federal Act “On the minimum wage”,⁵ from 1 January 2022 the minimum wage is 16 668 thous. rub. (not less than 1.2 times the subsistence minimum) for extra budgetary organizations and 13 890 thous. rub. — for budget organizations.

As shown in Fig. 10, in the DPR, the value of the minimum market basket at end-2021 prices was 20.0% of the average wage and more than half (50.2%) of the minimum wage (as of January 2022). The

indicator indicates a critical level of food security. Most low-income people spend more than half of their money on food that they hold. The subsistence minimum of DPR residents, which includes non-food products in addition to food, is higher than the minimum wage by 4%, indicating a very low level of well-being of the population.

It should be noted that in the Rostov region of the Russian Federation, along with a higher average monthly wage compared to DPR (an increase of 51.5%), the cost of the minimum set of products is at the same level as in DPR and is at the beginning of 2022—12,7% of wages and 35.7% of minimum wage.

The method of calculating the subsistence minimum of the market basket may still be possible to manipulation — decline its cost with cheaper products or decline in nutritional standards for the main socio-demographic groups. Achieving food security implies increasing the market basket’s availability and improving its composition every year in favour of useful and high-quality product; but, as a result, of such measures in some cases its actual value may be above minimum, because the actual consumption pattern differs significantly from its underlying level of physical

⁴ Resolution of the People’s Council of the DPR No. 100 from 14 February 2020 “On the minimum wage and on the amendment of the law of the Donetsk People’s Republic “On remuneration for work”, (current version from 28 December 2021). URL: <https://dnrsovet.su/zakon-donetskoj-narodnoj-respubliki-o-minimalnom-razmere-oplaty-truda-i-o-vnesenii-izmenenij-v-zakon-donetskoj-narodnoj-respubliki-ob-oplate-truda/>

⁵ Federal Law No. 406 from 6 December 2021 “On amending the article 1 of the Federal Act “On the minimum wage”. URL: http://www.consultant.ru/document/cons_doc_LAW_402538/

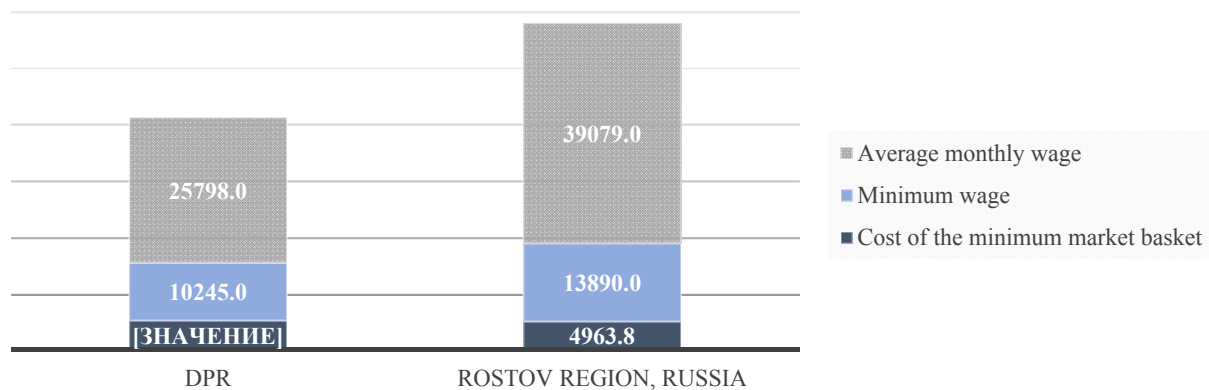


Fig. 10. The ratio of the average accrued wages of full-time employees and the minimum wage to the cost of the minimum set of food products per capita in the DPR at the beginning of 2022

Source: compiled by the authors on Federal State Statistics Service. URL: <https://rostov.gks.ru/> (accessed on 19.05.2022).

survival. In addition, must be considered that real consumption is due to climatic zones: people, depending on where they live, require different quantities and composition of food and non-food items.

In view of the negative trend of increasing the share of the minimum market basket in the income of the population, a set of measures is needed to increase the availability of food products to the population of DPR. Reducing the price of socially important products — one of the objectives that will contribute to reducing social tensions and growth of welfare of citizens. Considering that the pricing of food by the importing States is the main lever of foreign policy impact on the country's economy and social stability, ensuring access to food and resources becomes a major focus of the management of the development strategy of vertically integrated agro-industrial companies.

These problems must be addressed comprehensively: both at the level of the state policy in the field of food security and in the corporate strategy of leading agro-industrial producers to improve the quality of life of the population. Large vertically integrated companies that are producers

of both raw materials and finished goods in the market basket provide most of the products. At the same time, a significant share of farms and processing enterprises producing products through processing of raw materials acquired from third-party enterprises remains on the market.

Since the structure of production resources and raw materials is unbalanced, many agro-holdings and industrial companies have limited productive capacity due to rising intermediation, logistics and customs costs. Insufficient carryover stocks of agricultural raw materials and food, due to shortages, can trigger dramatic increases in the value of final products [2].⁶

This problem can be solved with the development strategy of vertically integrated agro-industrial companies (VIAC) [3–9], based on the use of new market mechanisms and building competitive capacities and aimed at reducing costs in the value chain, this will minimize the cost of finished products and enable sustainable food security, including improving the quality of life of the population.

⁶ The State of food and agriculture. Leveraging food systems for inclusive rural transformation. Food and Agriculture Organization of the United Nations. Rome; 2017. 170 p.

VIAC is characterized by a variety of activities aimed at the harvesting and processing of raw materials, production, delivery and sale of finished products, marketing, united in the value chain (which ultimately affects the formation of price) [10]. From the point of view of the organization of the production process, value chains include a set of productive (valuable) actions that carry out of capital and labour (or firms and employees) at all stages from the “origin” of a good or service to its final consumption and beyond (*Fig. 11*).

The process of food production can be broken down into multiple segments, each of which corresponds to a separate task and can be performed in different countries where companies add value to the final product, which also has a negative impact on pricing. Local production of intermediate goods that are part of the value chain and are used in final products in the VIAC integrated production cycle will reduce their cost by not limiting the trade margin after each stage of processing and harvesting of raw materials by third-party companies, as well as through self-management of quality and value added [11–13].

DPR does not have fully functioning VIAC. At the beginning of 2022, it is possible to speak only about a few AIC enterprises, characterized by a closed production cycle for some segments.

As the analysis showed, in 2021–2022 among products produced in the territory of DPR, the highest price increase was recorded for poultry meat (27.08%), sausage smoked (27.97%), butter (21.56%), margarine (33.49%), mayonnaise (28.82%), wheat bread (24.07%) and loaf of bread (26.32%). Among poultry producers, large enterprises are: LLC “Amvrosiyevskaya Poultry Farm”, PJSC “Novoazovskaya Poultry Farm”, LLC “Ekoprodorg” (GP “Shahterskaya Poultry

Farm”) and LLC “Roz–Agro”, specializing in poultry production, rearing stock and incubation production. In addition to the main activities, LLC “Roz–Agro” is engaged in the cultivation of cereals and oilseeds, thus providing itself with the necessary raw materials, while most poultry farms are forced to buy imported feed and rearing stock.

Of the domestic enterprises of the industry of meat processing and production of sausage products (LLC Trade House “Gornyak”, LLC “Artemida”, LLC “Kolbiko”, LLC “Vector” (trademark [“YUZOVSKEY DELICACY”], FOP Pavlov Oleg Vladimirovich [trademark “Zenit”], FOP Berest S. G. [trademark «Snezhnyanskoe sausage farm”]), most are engaged only in the processing of finished imported raw materials. Vertically integrated system of production of raw materials followed by production of finished products, starting from cattle and pigs, as well as material support of this direction, until the sale of finished meat and sausage products in this industry is not formed. An exception is the LLC Trade House “Gornyak”, which receives part of the raw material from the local LLC “Agrofirm “Gornyak”.

In the market of milk processed and dairy products, DPR share of domestic production is about 70%. The main enterprises working in this field are LLC Trade House “Gornyak” and LLC “Your manufacturer”.

Milk and dairy products are produced from a dry product supplied by the Russian Federation and other imported components. The low number of cattle dairy breeds prevents enterprises from using their own raw material base, which negatively affects the growth of the value of products such as milk, butter, margarine, etc.

Similar situation in the market for production of sauces, mayonnaises and ketchups, where the main producers of

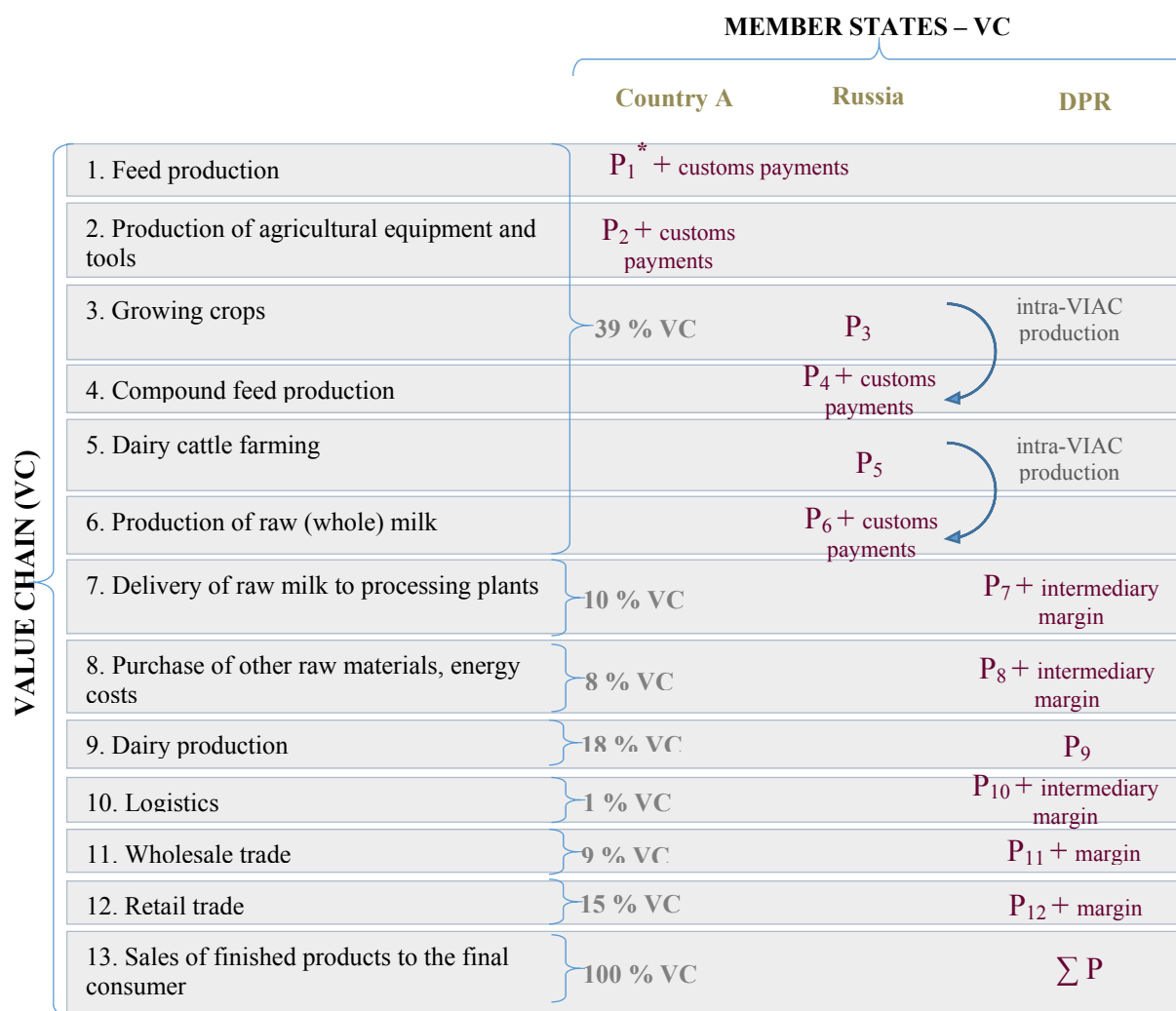


Fig. 11. The value chain on the example of a dairy processing enterprise of the DPR

Source: developed by the authors.

Note: P – value.

LLC “Slavolia groups” and LLC Trade House “Products of Donbass” do not independently produce raw materials to be processed.

The largest company in the market of bread and bakery products DPR is LLC “World of bread”, which is part of the group of companies “Atlant–Donbass” and produces its products under the trademark “Harvest”. The enterprise unites 7 bakeries with a total capacity of about 9 thous. tons / month, for the production of bread and bakery products uses only flour of own production (trademark “Harvest”), has

a wide range and occupies a significant place in the food security of the DPR. The remaining producers of this product work on the purchased raw materials that have a high margin.

Thus, because of the large share of imported raw materials used, value chains are closely linked to supply chains that focus on the beginning of the production process and aim to integrate supplier and producer processes, while value chains focus on the end of the production process, i.e. value creation from a consumer perspective [14].

Table

Pricing of goods for which a significant increase in prices was recorded in the DPR in January 2022, rubles

Customs commodity code	Category	Actual price	Sales price of agricultural enterprises	Customs value of goods	Customs rate	Value with import duty and trade margin limit			
						Trade margin to import value		Trade margin to producer price	
						value of margin	final cost	value of margin	final cost
020711	Poultry meat (chicken)	180.2	140.6	125.2	20%	25%	181	15%	162
1601009100	Smoked sausage	1010.9	-	626.4	5%	-	658	-	-
040120	Pasteurized milk (more than 2.5% fat)	76.0	31.9	76.6	1%	25%	96	15%	37
040510	Butter	742.2	-	486.4	2%	25%	618	15%	-
0405203000	Margarine	195.3	-	441.8	2%	25%	561	15%	-
2103909001	Mayonnaise	204.0	-	120.6	5%	-	127	-	-
0704901001	Cabbage	52.7	-	13.5	1%	25%	17	15%	-
070190	Potatoes	47.3	16.3	15.0	1%	25%	19	15%	19
0706909001	Beet	39.5	-	15.0	1%	25%	19	15%	-

Source: developed by the authors.

The following factors influence the pricing of food products based on imported DPR components: import value and trade margin to producer's wholesale price. The first consists of:

Customs value of goods.

Customs payments:

- customs duty;
- customs fees;
- single fee.

Costs of delivery of the goods from border crossing point to delivery.

Customs terminal services (temporary storage warehouse).

Customs broker services.

Services related to obtaining documents confirming the safety and quality of food products (Declaration of Conformity).

In addition to customs payments, the final price includes trade margins, the amount of which is determined on the basis of the Order of regulation and control of prices (tariffs) in the territory of the Donetsk People's Republic, approved by the Resolution of the Council of Ministers of the Donetsk People's Republic No. 10-41 from 03 June 2015 "On the approval of the Order of regulation and control of prices (tariffs) in the territory of the Donetsk People's Republic" (amended on 02 July 2021).⁷ This document regulates

⁷ Resolution of the Council of Ministers of the Donetsk People's Republic No. 10-41 from 03 June 2015 "On the approval of the Order of regulation and control of prices (tariffs) in the territory of the Donetsk People's Republic". URL: <https://pravdnr.ru/npa/postanovlenie-pravitelstva-doneczkoj->

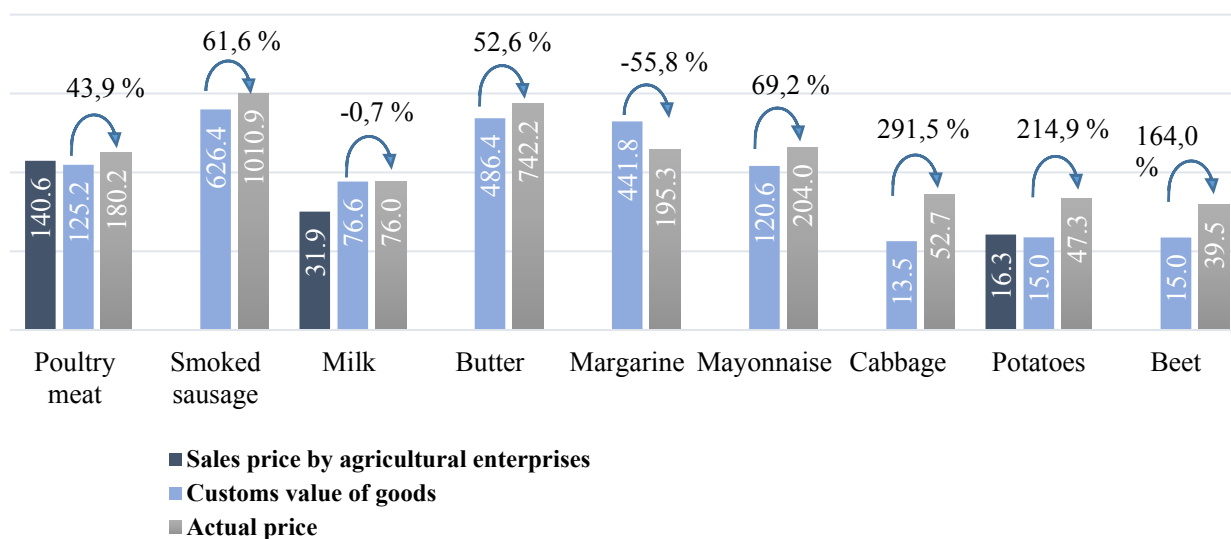


Fig. 12. Comparative characteristics of the excess of the actual cost of food over the customs value in the DPR at the beginning of 2022, rubles

Source: developed by the authors.

the maximum (limit) level of wholesale and trade margins to the import value and price of DPR manufacturers for socially important foods. Other goods not included in the Order, according to the legislation, do not have a limit level of margins.

Thus, the high level of actual prices is due to their significant deviation from both the customs value and the release price of agricultural producers, and consequently accounts for a significant share of food costs in the income of the DPR population (see Table).

Figure 12 shows that at the beginning of 2022, the actual cost of food exceeded the customs value of vegetables by 300%, i.e. cabbage and potatoes — 214.9%. At the same time, based on the data of the Table, the cost of cabbage, taking into account the import duty and the maximum trade margin was 17 rub./kg (i.e. 3 times less price in DPR trading networks); and potatoes, respectively — 19 rub./kg (which is 2.5

times, or 149.9%, less than the price in DPR trading networks).

It should be noted also that the actual price exceeded the price of sale of AIC goods by agricultural producers for subsequent retail sale: poultry meat (28.1%), milk (138.4%) and potatoes (190.2%). The most challenging and pressing issues in the system of prices and pricing is the discrepancy between the retail prices of food and production costs, as well as the cost of selling the produce to agricultural enterprises. In turn, the presence of a high share of imported food and processing products at the expense of intermediation and logistics costs leads to higher prices.

All this causes difficulties in the development of social production and is manifested in the food shortages and the increase in the cost of the market basket. Difficulties in saturating the market with necessary products cause deficit, and deficit — unjustified increase in retail price.

One of the most important means of ensuring sustainable development is the

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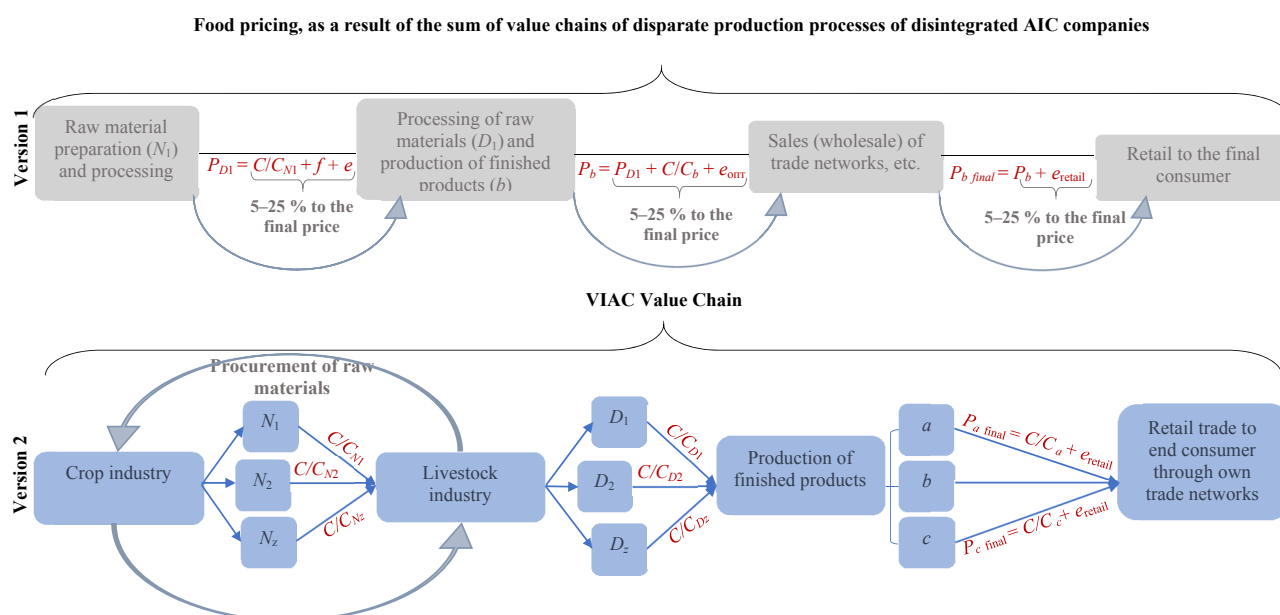


Fig. 13. Schematic representation of value chain options at the maximum and minimum price of finished products

Source: developed by the authors.

Note: P – the price of the product; C/C – cost price; f – customs payments; e – wholesale and retail margin; N – crop production (raw materials); D – livestock products (raw materials); a, b, c – prepared food products.

State's pricing policy. Its main tasks – are to expand market pricing mechanisms, control the sphere of direct state price regulation, protect the economic interests of the Republic, create conditions for free fair competition of producers in the domestic market. Government regulation of pricing through direct (administrative) as well as a number of indirect (economic) methods involves both the introduction of fixed prices and the retention of limit level of price and changing market conditions. The basic solution to this problem is the creation of agro-holdings with a closed production cycle, actively implementing processes to stimulate their own production.

At the VIAC, production will contribute to a 50% reduction in the final value of the goods. The main advantage of VIAC is that the products for processing enterprises come directly from its own departments specializing in the crop production and farming (Fig. 13).

The wide specialization within VIAC allows to independently supporting business processes in every industry, from seed production to marketing. For example, the production of quality seeds ensures a high yield of cereals, oilseeds and fruit and berry crops. When purchasing seeds from third-party suppliers, there are risks of poor quality material being obtained, which can lead to losses of up to 70% in some cases. In this way, local control service of quality is minimizes risks and helps to reduce the cost of finished products.

In addition, VIAC has the ability to manage surplus crop production, some of which goes to farms as raw materials, and the rest is sold on the AIC market as finished products. The effectiveness of VIAC development strategy management is in the development of operating process in response to demand and possible reorientation depending on market conditions. Planning and independence

of agricultural holdings with a complete (closed) type of production process will allow to level the risks of negative impact of factors of external and internal environment, on which the final cost of products depends.

DPR has all the prerequisites for the creation and development of VIAC: favorable climatic conditions for agriculture, trade and economic blockade and a high concentration of AIC enterprises that contribute to the formation of inter sectoral linkages. As an example GC “Agricultural Donbass” — the only enterprise of this kind specializing in the cultivation of cereals (including their storage, processing and transportation), cattle and gardening. Vertical integration has a higher level of competitiveness, safety in the conditions of uncertainty and the abolition of customs borders with the Russian Federation, so the development of the production process in this company, in addition to the social effect, will increase investment activity in the region and reduce dependence on imports.

CONCLUSION

Food production should be part of the VIAC and should be carried out together with other co-dependent activities. This organization of production eliminates unnecessary costs in the value chain (such as margins of producers of raw materials and customs payments), which lowers the cost of goods and hence consumer prices. In addition, VIAC helps to increase the level of import substitution; they, as sector-forming units of the economy, contribute to the growth of rural employment and, thanks to the increase in productivity, the high efficiency of AIC.

Saturation of the market with food products of own production and reduction of prices — the most important factors of recovery of social and economic life of DPR. At the micro level, the latter is an indicator of the standard of living of the population, while at the macro level — it is a guarantee of economic security that economically independent VIAC is fully capable of providing.

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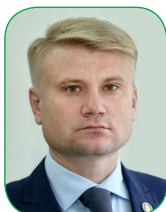
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ABOUT THE AUTHORS



Victoria V. Krasnova — Dr. Sci. (Econ.), Professor of the Department of Enterprise Economics, Donetsk National University, Donetsk, DPR
<https://orcid.org/0000-0003-3680-0184>
v.krasnova@donnu.ru



Artem A. Kramarenko — Cand. Sci. (Econ.), Associate Professor of the Department of National and Regional Economics, Donetsk National University, Donetsk, DPR
<https://orcid.org/0000-0001-7063-5341>
kramar13@mail.ru



Anastasia S. Fomenko — Postgraduate Student of the Department of Enterprise Economics, Donetsk National University, Donetsk, DPR
<https://orcid.org/0000-0002-4849-6100>
fomenko_a@outlook.com

The declared contribution of the authors:

Krasnova V. V. — problem statement, critical analysis of literature.

Kramarenko A. A. — development of the concept of the article, analysis of the practical implementation of the research results.

Fomenko A. S. — collection of statistical data, description of the results and formation of research conclusions.

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