

THE PECULIARITIES OF INVESTMENT ACTIVITIES IN THE CONTEXT OF TRANSFORMATION OF UKRAINIAN DAIRY PLANTS' BUSINESS

The problems of dairy industry and prospects of milk powder market are considered in the article. The priority investment directions of dairy plants as a basis of their transformation of business are defined. In the article authors identified the main problems of dairy industry, analyzed the state, trends and prospects of development of milk powder market, defined priorities for investment in terms of business transformation of dairy plants. The authors also analyzed competition, exports and imports of dried milk, examined trends in the global milk powder market. Based on the research the expediency of investing in the production of dried milk was defined. The results of the research suggested measures to improve the competitiveness of domestic dairy enterprises.

Key words: milk powder market, investment, leasing, transformation of business.

The dairy industry is one of the leading in the structure of Ukraine's food industry, but the level of capacity utilization of milk processing enterprises is low and ranges from 25 to 35 % depending on the type of product. Weak innovative orientation of investment leads to accumulation of physically and obsolescence of machines, which, in turn, manifests in lower productivity, lower quality and loss of competitiveness.

Formulation of the problem. The main problems of the dairy industry include:

- poor quality of raw materials, which negatively affects the quality's parameters of dairy products and exacerbates the problem of sales, especially on foreign markets;
- obsolete technological equipment of dairy plants;
- lack of standards for dairy products that meet the requirements of the European level;
- Insufficient consumers' protection from substandard products (high content of substances harmful for human health, etc.).

The important task for dairies is to solve the issue of the quality and quantity of raw materials and selection of priority areas of investment policy. Attractive area for investment are milk powder market (MPM), which today feels the pressure of demand, and as a result - higher prices for dried milk. Potential presence of milk and milk production in Ukraine, especially in the context of rising global demand, allows to consider a country as sufficiently promising platform for increasing production of specified products primarily for the purpose of export.

Analysis of recent research and publications. Research concerning development and functioning of the dairy industry is devoted to the works of such scholars as P.T. Sabluk, M.K. Parkhomets, V.P. Kotkov, S. Zakharina, T.L. Mostenska V.I. Boyko, M. Il'chuk and others.

However, solutions of problems and grounding of development prospects of MPM in terms of transformation of domestic enterprises paid not enough attention.

The purpose of the article justify the investment prospects of MPM development in transforming of domestic dairy enterprises.

The main material of research. Actual problems of the dairy industry is reduction of the number of cattle and poor quality of raw materials, which is due to animal diseases, inadequate forage provision, insufficient level of technical equipment and production technology. One of the main reasons for reducing the number of cattle is low efficiency of dairy cattle caused by the elimination of large farms and in their composition – farms in 90's, fig. 1. As a result, the profitability of milk production was significantly decreased [2].

Currently standards of milk in Ukraine are very low. The domestic first grade - the second in Russia and a third or fourth in Europe. Dairy Standards in Ukraine allow the level of contamination by bacteria and microorganisms several times higher than that adopted in the EU, and the content of bacteria in milk may exceed the second grade level, acceptable in the EU, in 3 thousand times. This is due to the fact that about 80 % of milk produced in farms and belongs to the second class. Note that in the EU, 95% of raw milk that comes to recycling - the highest quality. Milk of domestic dairy companies is recognized as the first grade, despite its real quality. The poor quality of Ukrainian dried milk leads to difficulties of sales in the global market. In addition, it's difficult for producers to offer favorable prices for traders due to high purchase prices for raw materials in the country.

Until 2008 Ukrainian dairy industry was developing rapidly, despite reduction of the number of working dairies. The reason for the negative trends became unfavorable market conditions of dairy products caused by the global financial crisis and more severe crises in the economy of Ukraine directly (Fig.2). The decline in milk production was mainly due to the reduction of cattle and rising in prices of forage, fuels and lubricants.

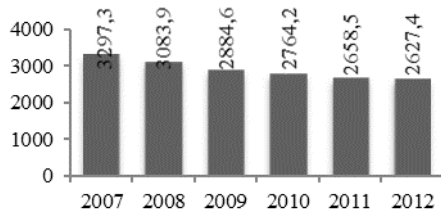


Fig. 1. The number of livestock in Ukraine in 2007-2012, thousands cattle

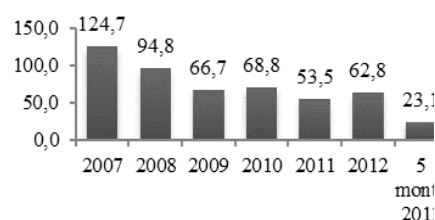


Fig. 2. The Production dynamics of dried milk and cream in Ukraine in 2007-2013, thousands tons

In 2000s, Ukraine came into a top ten world producers of dried milk, but over the past five years, according to the EBRD, the country sank to 20th position. In 2012, the volume of internal MPM was 40 thousand tons, that 23 % higher over 2011. Domestic production is dominated on the domestic market. In 2012, its share was 87,7 %, which is 11 % less than in 2008. These changes are connected with the fact that this industry is export-oriented and depends on the world market. Today the Ukrainian milk lost competitiveness in foreign markets, as the price of raw materials for its production is the same as price in the EU, where the quality of dried milk is much higher [1].

The volume of import of skimmed dried milk (SDM) in Ukraine increased by 53 times compared to 2008, fig.3. This surge in imports was a one-off, but still a trend of import growth was kept. Thus, in 2012, 3,4 thousand tons of SDM was imported, that is 85,7% more than in the previous year.

Among the suppliers of skimmed milk in Ukraine are the main producers of the United States, Poland, Lithuania and France. The main importer in 2012, was "Agroprodeksport" (71%), confectionery corporation "Roshen" imported about 24% of dried milk.

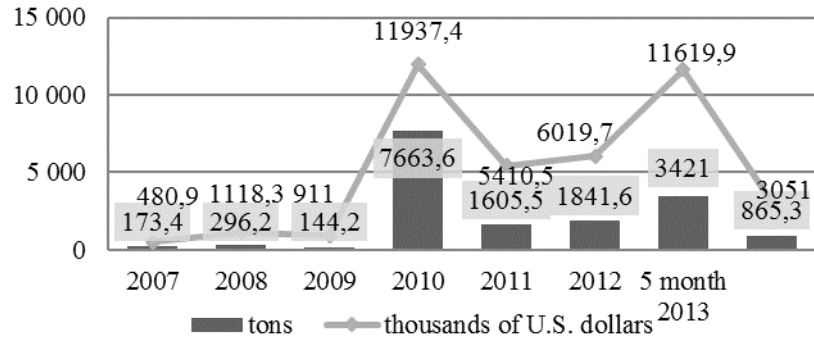


Fig. 3. The dynamics of skimmed dried milk import in Ukraine in 2006-2013, tons, thousands USD

The volume of SDM export in Ukraine is gradually recovering from the crisis, fig. 4. In 2012, it was removed 26,2 tons of SDM, that is 17,5% more than in 2011, but 59% less than in 2006 [3]. It is expected that the export of SDM feel the pressure of demand over supply. Drought in New Zealand (20% of world exports SDM) and the growing needs in China (about 20% of world imports SDM) will contribute to this trend. Given the annual MPM volume on a level 1,6-1,7 million tons, shortage could reach up to 100 thousands tons.

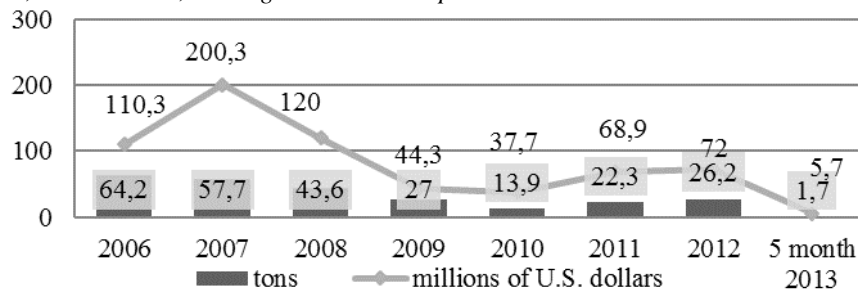


Fig. 4. The dynamics of skimmed dried milk export in Ukraine in 2006-2013, tons, thousands USD

Currently, the level of competition among dairy companies is high. Among the players of MPM should highlight the following companies: holding "Milk Alliance", JSC "Galychyna", "Western Milk Group", JSC "Ichnyansky Plant of dried milk and butter", PJSC "Zhashkiv Creamery", "Bel Shostka Ukraine", CJSC "Bershadmoloko", "Berezovsky dairy Plant", "Starokonstantinovsky dairy plant", "Pyriatyn Cheese Plant", JSC "Zvenigorod Cheese Plant".

World MPM in the middle of June 2013 had multidirectional trends, but compared to previous month prices continued to show growth. The above mentioned trends had impact on the local MPM. Dried milk for this period increased in price in the domestic market at 6,67 % to 34-38 UAH/kg. In the export market price range was 3550-4500 USD/tons (rise 7,33%) [1].

World price increasing for dairy products, analysts from international organizations consider as symptoms of broader structural changes in the dairy market. Urbanization and higher incomes are changing food rations of developing countries, towards increased consumption of not only oil and cheese, but dried milk, which has varied use. These trends are

supported by improving sales channels of dairy products and the development of relevant government programs in several countries [4].

The analysis of dairy industry problems and Ukrainian MPM conditions gives reason to believe in the complexity of operating conditions of dairy enterprises and the need for transformation of their activities towards the chain changes of final product value creating. The main factor of competitiveness reducing of enterprises both in the external and internal market is the quality of raw milk, which is directly related to the product quality milk processing plants.

Ukraine has long-term potential for export rise of dried milk in 7.10 times, based on the generous lands, livestock increasing and efficiency rise (the average milk yield per cow at enterprises of Ukraine in 2012 was 4.65 tons, and it can be reached to 9-12). USA, Australia, New Zealand, as world leaders can not meet the growing demand by increasing production of milk through dry periods, the limited size of the reproductive herd and lack of available area under grain (crop area used to hatching out bio raw materials).

Among the most promising areas of investment policy aimed at improving the competitiveness of products is the construction of modern animal farms and equipment installation on dairies for high-quality processing of whole milk.

WTO membership encourages dairy enterprises to seek cost-effective investment resources, source of them are the following: sale of securities, the direction of retained earnings to the company development, bank loans and finance leasing.

Currently, financial leasing is the most attractive tool to update the material and technical base, characterized by a number of advantages: not withdrawn from circulation a significant amount of funds required for the acquisition of fixed assets, cost savings compared to a bank loan, flexibility in making payments. This method of financing has significant advantages over the loan so far as payment in advance of domestic leasing companies constitutes only 20-40 % of the equipment cost. The liquid equipment is given to leasing and does not require repayment guarantees lessee. The leasing makes opportunity to save money on the initial stages of investment projects. As the objects of leasing may be the equipment, vehicles and productive livestock. This will help businesses to create their own dairy raw areas and support milk producers [5].

Conclusions. In order to provide the competitiveness of enterprises, the fullest use of favorable world market state must speed up the development of dried milk production in accordance with modern requirements, improve the quality of the final product, carry out an aggressive foreign trade policy of substitution of traditional exporters in terms of the excess of demand over supply and price rising for production, and develop new growing markets, primarily the Middle East and North Africa.

The dairy enterprises should pay special attention to the development of their own dairy farms, improvement of technological processes of production and sales, upgrading of technical and technological base. Thus, transformation base of their activity is an extension of the value chain by integrating production elements of quality raw materials. The management of such enterprises must learn from the experience innovation of leading countries. Economically profitable source of investment for milk business is financial leasing.

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