More Efficient Daily Industry in the Face of Market Volatility and Risks

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Abstract: The paper evaluates the state-of-the-art and trends in the milk and dairy market; focus is made on cheese and cheese products. Russia’s milk production is on the rise. Milk is mainly produced by major agricultural companies. The paper describes the core issues facing the Russian cheese market in the light of volatility and risk intensification; it formulates how investment in this industry could be boosted.

1. Introduction
In today’s business world, qualitative analysis and assessment of socioeconomic phenomena and processes are of utmost relevance. It is the quality of such assessment and the objectivity/reliability of collected data that will affect the organizational and managerial decisions taken as well as how they perform in practice.

The theory for this research was based on scientific advancements in the socioeconomic development research on the agroindustrial complex, in particular on milk and dairy markets. Notable are works by A. Altukhov, V. Bautin, I. Bogomolov, L. Goroshchenko, V. Zakshevsky, V. Znamensky, A. Kamalyan, V. Loginov, M.T. Rybalova, K. Ternovykh, I. Khitskov, E. Orgmets, H. Barkema, etc.

The paper dwells upon the milk and dairy market. Focus is made on cheese and cheese products as these are important for the today’s consumer. Described herein is an attempt to comprehensively analyze the market trends and development prospects, the key goal of this research.

2. Materials and methods
The general concept was based on the gnoseological principles of systemic, logic, dialectical, and processual approach to make this research comprehensive, integral, objective, and reliable. The methodology is diverse as the dairy market is diverse; it is multifunctional and multivariant in terms of structure, essence, and organization. The methodology was chosen on the bases of sufficiency, objectivity, reliability, and outlook. The baseline of the study was tailored to the required depth and detailedness of the empirical basis, as well as to meet the reliability and applicability requirements. Information was sourced from Rosstat statistics and analytics, official data of specialized ministries and agencies, data of information and analysis centers, reports by agencies engaged in agricultural economic research, as well as data from domestic and international markets.
3. Results and discussion

The today’s buyer’s menu has a special place for milk and dairy; some processed milk products are especially popular [1, 2, 3]. As of today, the Ministry of Health has introduced new normal consumption rates for basic foods; milk and dairy products are given priority when it comes to food security [4, 5]. In particular, every Russian should consume 800 grams of dairy, 400 grams of vegetables, 300 grams of fresh fruits, and up to 200 grams of red meat per day.

According to official statistics, 30.6 million tons of milk was produced in Russia in 2018 (101.4% of 2017), whereby agricultural companies produced 16.3 million tons (103.8%), every cow producing 5,850 kg on average, a 190-kg or 3.4% increase YoY [6, 7].

Milk is mainly produced by major agricultural companies. Most significant growth was observed in the Central Federal District (4.1% increase to 5.7 million tons) and the Southern Federal District (2.2% increase to 3.7 million tons); in Siberia, North Caucasus, and Far East, milk and dairy production dropped by 0.1 to 0.7 percent [8].

The key factor for this market is the balance of imports, which will be affected by the ruble volatility as well as by the cooperation of Russian and Belarussian Ministries of Agriculture [9, 10].

Industrial production of drinking milk in Russia has been on rise; in 2018, Russian milk farms produced 5,568 thousand tons of drinking milk, a 3.3% increase YoY and a 13% increase against 2011 [11].

Consider the most important dairy market segment now: cheese. Officially, Russia produced 1.9% more cheese in 2018 than in 2017, raising the total product to 472.6 thousand tons [12, 13, 14]. The cheese market is a key market; according to the official statistics, it rose by 1.9% in 2018 YoY and totaled 472.6 thousand tons, see Figure 1 [6].

![Graph of cheese and cheese products production in Russia from 2012 through 2018](image)

**Figure 1.** Production of cheese and cheese products in Russia from 2012 through 2018

A trend of growth was observed with respect to cheese products as well, as their output rose by 5.2% to 193.5 thousand tons. Cheese production is expected to grow in 2019. 37.2 thousand tons of cheese was produced in January 2019, a 5.4% increase YoY [7, 15]. Nevertheless, such growth will not last forever and will definitely slow down in the midterm [16]. Even today, supply exceeds demand in all categories of cheese except premium cheese. In this category, imports are still critical. However, the authors hereof believe that the rising production of raw milk and the beginning crackdown on adulteration will bring qualitative changes to the market: first, natural cheese will oust fake cheese and ‘cheese-like’ products, whether domestic or imported; second, cheese quality will continue to improve. Right now, warehouses have nearly twice as much cheese and cheese products as necessary [17].

Note that this research identified multiple inconsistencies and contradictions in statistics, conclusions, and forecasts. The existing statistics on cheeses is incomplete and fragmentary at best; besides, it has to be collected from multiple sources. In this context, note that many industrial experts attest to a great contribution of small and medium-sized enterprises in the cheese industry, a fact that is often ignored [18, 19, 20].

Figure 2 illustrates the problems plaguing the Russian cheese market.
4. Conclusions and recommendations

All of the above leads to a simple conclusion that food embargo alone cannot make this market attractive for investors. Focus should be made on the opportunities that help Russian companies develop: a stronger emphasis on healthy lifestyle; a special national program, e.g. Three Dairy Foods a Day to make Russian brands recognizable; governmental support for agricultural producers; a movement towards better cheese; bringing the industry in line with the Food Security Doctrine, which stipulates that 90% of the dairy market should be covered by domestic companies; and better consumer loyalty to Russian brands: good knowledge and good quality.

The industry has a good outlook. Thus, the market will be covered mainly by Russian and Belarusian cheese over the five years to come; official forecasts expect the living standards to rise in 2019-2020; Dutch and Swiss cheeses will constitute the relatively unoccupied market niches for further import substitution, especially in the B2B market; the Russian cheese market will see a surplus for the first time in 2019. These findings and proposals can be applied in the dairy industry economy by governmental agencies, R&D and education specialists to draw programs and plans to develop this industry while reinforcing food security and strengthening the exports.

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