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## The role of cooperative-network interactions in maintaining competition in the local food market

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### Abstract

This paper examines the role of cooperative-network interactions between the market participants in instruments and mechanisms for maintaining competition in the local food market. Cooperative-network interactions are considered as a wide range of conditions for self-regulation of competition that allow all market participants to improve business performance and integrate joint efforts into increasing the level of domestic food market competitiveness. The special attention is given to understanding the processes of maintaining competition in the Russian domestic food markets.

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### 1. Introduction

Cooperative-network interactions between the participants of the food market being collaborative structures of interpenetration and harmonization of simultaneous action as whole, on the basis of sharing common values and goals and cooperation of resources or their parts, when the participants keep their independence and leaderships are the result of strengthening global competition and transformation of competition methods, adaptation of business structures to new mechanisms of work in the domestic and foreign commodity markets. Cooperative-network interactions in the food markets allow their participants to achieve greater results with simultaneous cost minimization and provide effective competitiveness and collective reputation of certain participants and of the whole network in general. Consideration of cooperative-network interactions as priority

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instrument in regulation of competition is a rather new aspect of a problem of modern local markets development. When studying the influence of cooperative-network interactions in regulation of market competition we were guided by the assumptions of the theory of collective reputations (Tirole Jean, 1996) which is relevant for the markets where information asymmetry is observed even with insignificant barriers. The food market can be referred to this kind of markets due to the existence of its economic agents' competitive actions that are not transparent enough. The issues devoted to the impact of globalization on the process of maintaining competition in the local markets are developed on the basis of B. Fischer's, F. Ezeala-Harrison's and P. Eiglier, E. Langedard theories [3, 4, 6].

The modern market of food products is developed in conditions when trade in the territories undergoes tough transformations aggravated with dependence on a number of related branches and the dynamism of economic processes. In this connection the cooperative-network interactions can be considered as a feature of the market of food products and at the same time as a «growth point» in its development. Reconsiderations of the role and the function of the market of food products in the system of public reproduction need to find a new approach to the research with the emphasis on the importance of cooperative-network interactions in the competitive relationships.

«The lack of regulation in such markets often leads to socially undesirable results - unmotivated increase in prices or the situation when the companies blocking more effective competitors' entry to the market survive. The regulation measures and competition policy have to be thoroughly adapted to the conditions of each specific industry» [5].

The purpose of this article is to define the directions for regulation of competition in the markets of food products with allocation of cooperative-network interactions. This paper is intended to focus on maintaining competition in the food market of the Krasnoyarsk territory which is rather specific due to its geopolitical position and resource base.

## **2. Instruments for regulating competitiveness**

Analyzing the work's of Russian economists (for example, Rozanova and Sosedov [1, 2]), we suggest that regulation of competition in the local markets of food products should be focused on a number of directions connected to the increase of competitiveness and improvement of a competitive position. The mechanism for increasing competitiveness includes the following instruments:

1. The instrument for developing technological innovations in the food market. The conditions of increasing competitiveness of the food market depend on these innovations, i.e. they can be considered as the main factor of competitiveness improvement. Being a complex social and economic system, the market of food products solves the differentiated problems with the help of innovations: provides guarantees of economic and physical availability of healthy food for the population, fulfils its controlling function to coordinate interactions between the agrarian sector and the enterprises of food industry at a stage of starting a new manufacturing cycle. The specific feature of the market of food products causing the development of technological innovations is the low elasticity of demand for the main groups of food products with some variability of elasticity within these groups. Therefore for the formation and maintenance of competitiveness our suggestion consists in state support of production and supply of the greater variety of substitutes with different ingredient content. This should be achieved with renewing national food traditions and increasing the competitiveness of food due to application of geographically endemic raw materials and wild crops, which are usually quite cheap. So, restoration of traditions to use local animals as a source of food (deer, roe) and produce authentic national dairy drinks will cause the renewal of cattle breeding, traditional for local nomadic Siberian people. Moreover agricultural innovations in the sphere of crop production can become the driver of competitiveness for the local confectionery and bakery products and beverages.

On the Krasnoyarsk market of food there are almost no cheese products made using the traditional local recipes. But the restoration of local cheese production is much more rational in modern conditions, than imitation of the Italian-style cheese making.

Technological innovations in the market of food products affect progressive forms of providing trade services, where it is necessary to focus on increasing the availability of trade facilities and location conveniences for the buyers and decreasing food loss and food waste in the course of transportation and storage with the use of vending machines, mobile trailers and pavilions, farm stores. In some cases it is necessary to apply delivery sales techniques (services of direct-sales representatives).

2. The optimization of logistics infrastructure can be considered as an instrument for the improvement of food deliveries from manufacturer to consumer. This can be achieved with various flexible forms of cooperative-network interactions which will shorten the time of delivering food product to the consumer and reducing costs of food

vending services. In conditions of transition from rivalry among producers to competition between suppliers the main instruments for the improvement of deliveries is targeted support in the form of lending at lower interest rates. At the beginning of the transition period the executive authorities of the territory should become a guarantor for purchasing a certain amount of food products of the agricultural manufacturers. Unequal distribution of income and profit on different levels of product distribution is the limiting power of competition. Besides, the short shelf-life of many food products often stimulates oligopolistic deals of the logistics intermediaries. In this context, regulating activities should include development of an efficient manufacturing and distributing cluster which will on the one hand reduce the time of delivery and on the other minimize the risks of increasing economic concentration of the suppliers sector.

3. The instrument for regulating trade services costs consists in development of measures for trade margins optimization. From our point of view the regulatory measures should include:

- monitoring control of food prices in retail distribution networks, closed catering facilities (school and university cafeterias, kindergartens, hospitals);
- carrying out purchasing and grocery interventions, especially concerning seasonal food products;
- creating fixed corridors of purchase and retail prices for the socially significant food products;
- setting the upper limit for costs on packaging and branding for the socially significant food products with promotion in local mass media.

4. Food products cost optimization guided by the manufacturer has to be based on the following measures:

- reducing the share of costs of intermediary services and services of various contractors in the total cost of food products;
- transition of the initiative in the food supply chain in favor of food manufactures;
- protective measures of the regional authorities concerning high-quality certified food products;
- establishing a research and development to improve the utilities and facilities of food product manufacturers and breeding;
- stimulation of discount groceries selling food products at comfortable prices and with the minimal margin;
- granting tax benefits and subsidies to enterprises improving eco-friendly production and increasing competitiveness of food products on the domestic and international markets;
- solving the problems of control efficiency for the food products sold by the enterprises which have received the targeted aid and tax benefits;
- considering guarantees of inter-company relations for agricultural manufacturers and retail trade enterprises by creating branch associations.

We suggest that two branch ministries have to be actively involved in the solution of problems connected to maintaining the competitiveness of the food market of the Krasnoyarsk territory: the Ministry of Agriculture on the one hand and the Ministry of Industry, Energy and Trade on the other. The Ministry of Agriculture will focus on the issues of regulating the competitiveness of agricultural products, food sovereignty of the market and smoothening the season component of creating the food stock on the market, while the Ministry of Industry will monitor prices and investments.

Moreover, the responsibility of the Federal Antimonopoly Service has to include regulating the development of technological innovations in production and monitoring fixed capital investments (in the context of controlling the merges of the capital and the companies' takeovers). The Krasnoyarsk Patent Support Agency may provide some assistance in controlling patent barriers for maintaining the competitiveness of the food market.

### **3. Instruments for regulating competitive position**

In our opinion, the food market competitive position development implies the following priority measures:

1. Increasing export of food products to neighbouring regions and states, despite the modest prospects of food provision in the territory, carries the main strategic objective of the market development: at the initial stage import phase-out technologies shall protect the local production, provide prospects and guarantees of trade areas and economy of scale; however, without export-orientation and inclusion of the food sector into the worldwide competition, there will continue deceleration and further stagnation of the closed economy producing uncompetitive goods. The existing export commodity structure may not be considered satisfactory in the context of stable development of economic territory of preferential treatment. For this reason, we believe that it is reasonable to support export-import trade relations with the CIS countries, countries of the Asia-Pacific Region and China, which

market capacity, taking into account the demographic characteristics of the territories, exceeds significantly the indicators of the domestic market.

2. Entering the external food markets and consolidating our positions are tightly connected with the previous direction of the Krasnoyarsk Territory competitive position development as a regulating measure. It shall make its contribution into the differentiated development of the adjacent branches [1]. A real competitive advantage for consolidating the position of the food market is grocery trade, which, is the most promising economic driver at the present moment alongside mining and chemical industries. To actualize the grocery trade potential of the territory it is necessary to focus on the external markets. It can be achieved with:

- simplification of export and import tariff system for the CIS countries and countries of the Asia-Pacific Region, including VAT refund;

- providing non-discriminating access to the logistics export-import infrastructure for all economic agents in the sphere of trade;

- ensuring advantageous business regime for the partner states where the Ministry of Industry, Energy and Trade and the Ministry of Agriculture should become intermediaries and guarantors in conclusion of partnership agreements;

- improving the investor protection in the context of decreasing the risks of common market barriers to entry and exit;

- enhancing domestic manufacturers protection by foreign states through conclusion of partnership agreements and implementation of tariff benefits;

- ensuring accessibility and transparency of information for the participants of the food market of the Krasnoyarsk territory by means of consulting services of legal and economic character;

- providing targeted financial aid for local manufacturers, including small family business development, lowering corruption and optimization of control over the aid provided to such businesses.

3. Achievement of food market stability in the macro regional scale is mostly determined and associated with the general economic situation and state policy, which makes regional support measures a more topical issue [3]. The regulating effect should be focused on decreasing the negative influence of all branches connected to the food market by means of:

- imposing substantial penalties for activities causing environmental pollution;

- providing assistance in development of trade infrastructure of the food market;

- creating conditions for direct distribution of products by the agricultural enterprises and product manufacturers;

- increasing food product supply volume by improving farm capacities and creating adequate delivery and storage infrastructure;

- increasing food product manufacturing margin by implementation of technological innovations.

4. Ensuring optimal food consumption by various strata of the regional society is closely connected to the measures taken for maintaining social stability in the Krasnoyarsk Territory. Physical and economic availability of food products is connected both to stabilization of income for all strata of society and opportunity to get well-balanced eco-friendly foods now and in future. The major part of such regulation includes financial support of the poor, provision of well-balanced meals to pre-school and school students, implementation of resource-saving technologies and food waste processing technologies for the agricultural needs, use of healthy local and wild growing crops for food production.

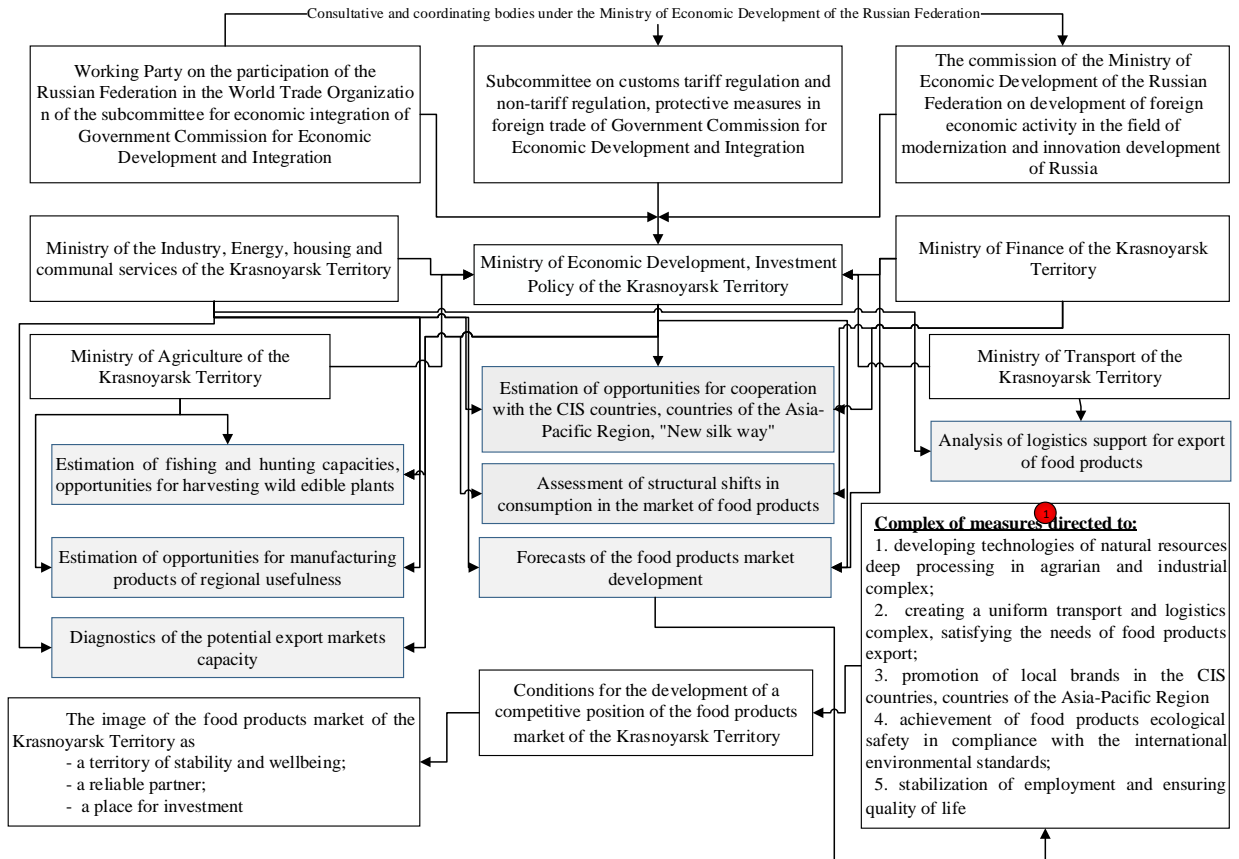


Fig. 1. The process of Regulating Competitive Position of the Food Products Market

The process of regulating competitive position of the food products market of the Krasnoyarsk Territory (fig. 1) is directed to creation of conditions for strengthening its position in foreign markets, attraction of stable dividends from selling food in foreign markets, development and maintaining a favorable view of a serious and reliable partner, development of joint projects with the foreign companies. The key role in this process is given to the regional branch ministries in coordination with the Ministry of Economic Development of the Russian Federation.

### Conclusion/Results:

Thus, our researches have shown that cooperative-network interactions combine all available competitive potential of the food market. They become the priority direction in implementation of the instruments for maintaining competition. The researches have allowed to coordinate all the measures within the uniform regulating influence and thereby increase the efficiency of the regulatory instruments for the solution of social and economic tasks, attraction of investments, ensuring national security, protection of consumers. Meanwhile, competition does not only influence the market as a complex social and economic system, it is also exposed to serious transformations which require a detailed study in order to define the relations between the modern competitive mechanisms and the regularities of the food market development. In this regard the list of measures suggested for the development and support of competitiveness and competitive position of the local food market with specification of the role of cooperative-network interactions, in our opinion, allow to take into account the features of the market functioning as a part of a services sector and promote the solution of problems associated with the increase in social and economic wellbeing of the territory citizens and stability of economy as a whole.

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