

Development Trends and Factors Affecting the Financial Performance of Food Industry

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Abstract—The article examines the activities of the food industry, which produces and sells products necessary for the livelihood of its citizens. Trends in the development of the food industry are considered and factors influencing the main indicators of organizations in the food industry are identified. These factors are improving the quality and quantity of food products, paying attention to the growth of population demand for food products, attracting investment funds, implementing customs and tariff regulation measures, developing the raw material base, applying innovative technologies and developing technical regulations to improve the quality of products. Indicators of the development of the food industry and the processing industry of the Russian Federation for the period 2013-2020 are analyzed in detail. Dynamics of growth in the volume of production and processing of the food industry by 2020, as well as fluctuations in the total level of GDP of the Russian Federation in billion rubles are evaluated.

Keywords—*financial result, factor analysis, food industry, sales profit, bakery products.*

I. INTRODUCTION

At the present stage of the development of the Russian economy, the food industry is one of the fastest growing sectors of the national economy. Food-producing organizations are high-risk facilities where the impact of economic activities can be influenced by external and internal factors. The aim of the study is to analyze and identify the factors affecting the development of the food industry and the opportunities to improve efficiency in all areas of activity.

Solutions to the problems of increasing the effectiveness of the development of the food industry are particularly relevant in this regard, since food production is recognized as an important sustenance sector and has a major impact on the level of economic security of the region and the country, and the well-being of citizens.

Consequently, the uninterrupted provision of quality and affordable food products is of great importance for improving the lives of citizens, which is currently a priority of state policy.

II. METHODS

The methodology of the research is formed on the concepts of Russian and foreign researchers on the topic.

The method of aggregation and interpretation of statistical data based on analytical calculations is used as the main research method. In the process of applying this method, statistical materials on the state of the food industry in Russia and trends in development have been compiled.

III. DISCUSSION AND RESULTS

At present, trends in the food industry depend mainly on the consolidation of assets, the functioning of organizations, as well as the ongoing process of vertically integrated linkages and competition in world agri-food markets. Therefore, the operation of Russian companies in the food industry is primarily oriented towards the domestic market, and the priorities of their strategic development are mainly recognized by the reaction to changing external factors [5].

The stable functioning and development of food industry organizations require a significant strengthening of competitive potential, which in turn involves innovative technical re-equipment and improvement of the quality of the products. Thus, nowadays food industry of the Russian Federation unites 25 thousand organizations. For example, the bakery industry has over 10 thousand enterprises producing about 70-80,000 tons of bread per day. The daily demand is 0.5 kg per person. In 2019, baking of finished bakery products amounted to 5.7 million tons [10].

A big push for the development of the food industry in the Russian Federation was the food embargo against importing

countries in 2014. Production of agricultural and food products in Russia has been growing steadily for 6 years [4]. Sanctions against the Russian Federation have also had a great

impact in 2019. Let us present the production of the main types of food products in table 1 [6].

TABLE I. PRODUCTION OF THE MAIN TYPES OF IMPORT-SUBSTITUTING FOOD PRODUCTS IN THE RUSSIAN FEDERATION

| | 2017 | 2018 | 2019 | 2019 to 2018, % | January-August 2020 | January-August 2020 to January-August 2019, % |
|--|------|------|------|-----------------|---------------------|---|
| Chilled poultry meat, including for baby nutrition | 3014 | 3070 | 3246 | 105.8 | 2189 | 102.7 |
| Frozen poultry meat, including for baby nutrition | 1303 | 1273 | 1026 | 80.6 | 641 | 92.2 |
| Sausages, including baby sausages | 2259 | 2282 | 2282 | 100.0 | 1552 | 103.4 |
| Fish fillet, other fish meat (including minced fish), fresh or chilled | 17.3 | 17.4 | 17.5 | 100.8 | 10.5 | 102.1 |
| Frozen fish | 3057 | 3056 | 2989 | 97.8 | 2070 | 99.7 |
| Frozen fish fillet | 146 | 155 | 163 | 105.0 | 116 | 101.1 |
| Vegetables (other than potatoes) and mushrooms, frozen | 62.6 | 55.9 | 83.7 | 149.8 | 57.4 | 115.9 |
| Fruit, berries, and nuts, fresh or pre-cooked, frozen | 15.6 | 16.8 | 22.2 | 132.3 | 12.2 | 111.1 |
| Heat-treated milk, including milk for infant feeding | 5390 | 5457 | 5425 | 99.4 | 3643 | 100.7 |
| Cream | 133 | 150 | 163 | 108.4 | 118 | 111.8 |
| Cottage cheese | 486 | 501 | 469 | 93.5 | 329 | 105.3 |
| Butter | 270 | 267 | 270 | 101.2 | 195 | 107.5 |
| Cheese | 464 | 467 | 540 | 115.7 | 376 | 106.5 |
| Milk products condensed, millions of standart cans | 837 | 806 | 717 | 88.9 | 475 | 104.8 |
| Sour milk products (except cottage cheese and curd products) | 2896 | 2819 | 2793 | 99.1 | 1887 | 99.1 |
| Chilled poultry meat, including for baby nutrition | 3014 | 3070 | 3246 | 105.8 | 2189 | 102.7 |

Source: [7]

In general, 2019 was a positive year for the food industry of the Russian Federation. A number of domestic enterprises have obtained permits to supply products to the markets of other countries, particularly the Chinese market. There is, of course, a slight downturn in some areas, but this is due to changes in consumer demand for final products on the domestic market.

The positive trend has also been influenced by state regulatory measures to develop the food industry. But despite this, there are problems that raise serious concerns about the sustainability of the food industry, as shown in figure 1.

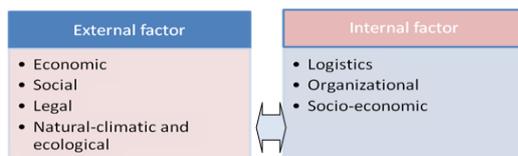


Fig. 1. Factors affecting the sustainable development of the food industry

All internal factors affecting the financial results of a business entity can be divided into several groups related to systems that perform various functions at the enterprise [3]. These are factors related to the production system, supply chain, marketing and sales, financial system, management, investment and innovation and social systems. It is also possible to formulate the following factors as negatively affecting: ineffective financial management, erroneous financial planning, and, as a consequence, a decrease in profitability, declining liquidity, and therefore, the efficiency of the company’s economic growth, failure to meet deadlines and obligations to creditors [4].

In August 2020, the production of bakery products of short storage was reduced by -5.4% compared to August 2019, amounting to 461,988.2 tons. The Central Federal District became the leader in the production of bakery products of short storage in tons of total produced in 2019, with a share of about 27.2% [2].

In the context of the spread of COVID-19, the Government of the Russian Federation decided to ban the export of a number of goods, and in the field of grain exports a non-tariff quota for grain crops was introduced on March 31, 2020. This restriction did not apply to Eurasian Economic Union (EAEU) countries [9].

According to the operational information of the agro-industrial complex of the constituent entities of the Russian Federation, as of January 1, 2020, spring sowing in the country as a whole was carried out on an area of 50.37 million hectares, which is 97.3% of the forecasted area and corresponds to an area indicator of 29.1 million hectares, or 99.9% of the forecasted area [1]. The farmers have surpassed the forecasted sowing volumes for such important grain crops as spring wheat, barley, and corn. In a favorable market environment, the situation in food production in Russia has become stable [12]. Let us the main indicators of the food and processing industry and present them in Figure 2.

The food industry has recently been one of the fastest growing industries in the Russian Federation. The effective development of the food industry is of strategic importance to the state and is an indicator of its economic security.

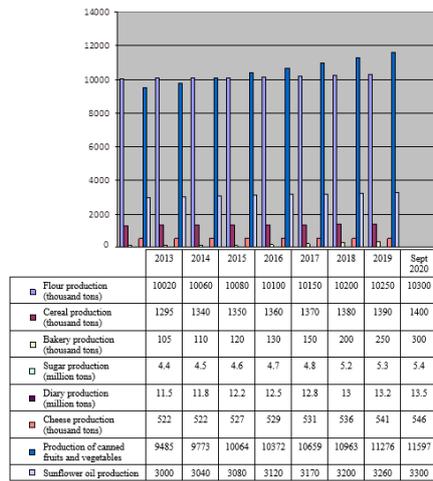


Fig. 2. Dynamics of indicators of the development of the food and the processing industries of the Russian Federation for 2013-2020

The analysis showed that the production of vegetable oils in the country, where sunflower is the main raw material, increased by 40,000 tons, compared with the same period a year earlier. It should be noted that record levels of sugar production led to the collapse of sugar prices in Russia, and as a result several sugar factories even had to be shut down in early 2020 (figure 3).

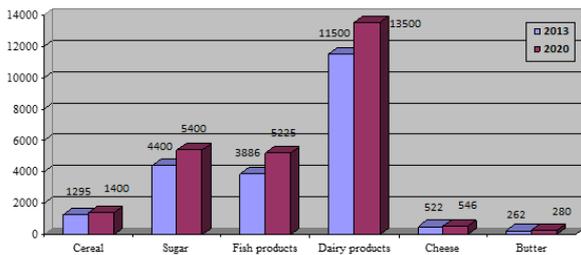


Fig. 3. Analysis of the growth of food production and processing in 2013 to 2020

In the Russian Federation, as of June 19, 2020, statistical data showed that the sown area for sugar beet is 932.2 thousand hectares, which is 98.7% consistent with the value of the predicted sown area and 18.6% less than the same date a year earlier. In this case, the widespread decrease in sowing areas is not due to coronavirus infection, but in order to stabilize prices in the sugar market.

One of the most important indicators describing the growth of the state at the macroeconomic level is the gross domestic product (hereinafter referred to as GDP), which shows the values of goods and services produced within the state for a one-year period in all economic sectors of the country. It consolidates the whole range of products produced, regardless of the national production factors involved in the production process, both for domestic consumption and for export, savings. The annual rate of GDP growth as of the 2nd quarter of 2020 was -8.5%, as for August 11, 2020. The growth rate for the first quarter is 0.3%. GDP per capita PPP stands at \$27,044. According to the data from the 1st quarter of 2020, GDP from agriculture is 424 billion rubles / 6.033 billion \$US, let us analyze the GDP of the Russian Federation and present it in Figure 4 [8].

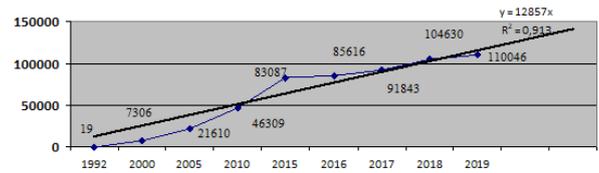


Fig. 4. Fluctuations in the total level of GDP of the Russian Federation, billion rubles

The analysis of GDP shows that the trend line is growing smoothly compared to the GDP dynamics, this shows the positive development of the economy of the Russian Federation (GDP continues to grow in the long term).

If we analyze the short-term period, for example, in April 2020, the production of bread and bakery products in Russia decreased by 6.4 thousand tons. Compared to the average for this month in 2016-2018, the decline is estimated at 3.1%, which for the conservative bread and bakery market indicates a significant decline in production activity. Therefore, based on our research, we propose to draw attention to the following factors which will contribute to the development of the food industry.

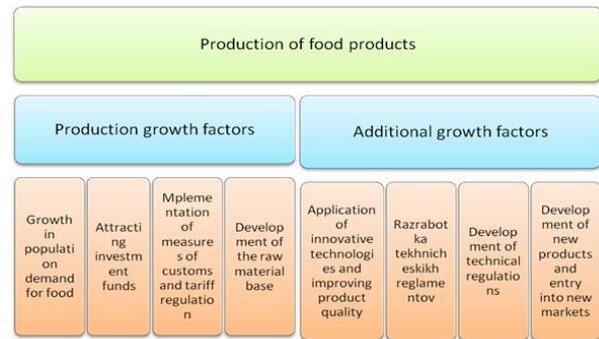


Fig. 5. Food industry development factors

In a competitive environment for the development of the food industry, organizations need to take into account all the above identified factors. It is therefore clear that the development of the food industry requires the modernization of production and the technical re-equipment of production through increased investment and innovation. Consumers are seeking simplicity in addition to better quality foods [5].

IV. CONCLUSIONS

The food industry is designed to meet the most basic human need. The result of its activity is the production of ready-to-eat food products together with semi-finished food products.

The main factors that have a negative impact on this process include: a significant increase in the cost of products sold; ineffective management of financial resources; inaccurate financial planning; socio-economic factors, natural and climatic and others.

Thus, for the food industry to function effectively, it is necessary to take into account the factors contributing to development, such as improving the quality and quantity of food products, paying attention to the growth of population demand for food products, attracting investment funds, implementing measures of customs and tariff regulation,

developing the resource base, applying innovative technologies and developing of technical regulations to improve the quality of products.

Summing up, we can conclude that, despite the factors considered as influencing the development of the food industry, production have tendencies for development not only in the Russian market, but also abroad.

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