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Kyiv National University of Trade and Economics
Department of International Management**

FINAL QUALIFYING PAPER

on the topic:

"Organization of import of food products from EU countries"

4th year students, 5th grade group,
specialty 073 "Management"
specialization "Management of
foreign economic activity"

Kolyada I.M.

(student's signature)

Supervisor
scientific degree

Pavluk O.O.

*(signature of the
supervisor)*

Guarantor of the
educational program
"Management"
foreign economic activity "

Ryankova O.V.

(guarantor's signature)

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State University of Trade and Economics

Faculty FITL International Management Department

Specialty Management

Specialization Management of foreign economic activity

Approved by

Head of the Department

_____ T. Melnik

« ___ » _____ 20__

Task

for a final qualifying paper

Kolyada Ivan Mykolayovych

1. Topic of a final qualifying paper: « Organization of import of food products from EU countries (on the materials of LLC «EKO», Kyiv) ».

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2. Term of submitting by a student his/her terminated paper:

3. Initial data of the final qualifying paper

Purpose of the paper: research of the import activity of the LLC "EKO".

The object of research: direct import activity of the LLC "EKO", categories of goods imported.

The subject of research: information on commodity turnover of the company, process of organization and maintenance of import activity, market environment of the imported categories of goods.

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Time schedule of the final qualifying paper

№	Stages of the final paper	Terms of the final paper	
1	Selection and approval of the topic	plan	fact
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3	Collection of information	27/02/2022	27/02/2022
4	Writing and submitting for review the first chapter of the final paper	15/04/2022	15/04/2022
5	Writing and submitting for review the second chapter of the final paper	1/05/2022	1/05/2022
6	Writing and submitting for review the third chapter of the final paper	13/05/2022	13/05/2022
7	Check of the final paper	25/05/2022	25/05/2022
8	Completion of the final paper	3/06/2022	3/06/2022

Date of receiving the task:

Scientific adviser of the paper _____

Manager of educational program _____

The task received by the student _____

The modern retail market in Ukraine is a sphere of trade that is very actively developing both in terms of sales and in the variety of goods that stores display on their shelves. Both factors are very important for the successful operation of modern large grocery chains, as they determine how many customers the network is able to attract. In order to increase both sales and expand the range of goods, Ukrainian retail chains are actively developing import activities that allow you to buy and sell goods that are unique to the Ukrainian market. The final qualifying work of Kolyada Ivan Mykolayovych, which examines the import activities of the chain of grocery stores of LLC "ECO", is relevant in its content.

The qualification work is examines economic and trade activities, management mechanisms and organization of import activities and a comparative analysis of the company's performance in terms of the three-year period (2018-2020). Recommendations for improving and optimizing the company's import activities are also provided.

Qualification work is written in accordance with the recommendations for writing graduation theses. This work is the basis for awarding the author of the final qualification work of the educational qualification level of bachelor's degree in "FEA Management". The qualification work of the bachelor's educational qualification level is completed in full, meets the established requirements and deserves "excellent", and its author, Kolyada Ivan Mykolayovych, can be awarded a bachelor's degree in "Management of Foreign Economic Activity".

Supervisor
Doctor of Science,
docent

Olena Pavlyuk

*(signature of the
supervisor)*

INTRODUCTION

The import activity of the enterprises helps to meet both economic interests of the said companies as well as meet the demands of customers in the local market. Such economic activity has several advantages and disadvantages for the enterprise; therefore, it needs to be conducted with skillful planning, and certain goal. The LLC “EKO” conducts business in the field of retail, therefore, commodities, that are imported by the enterprise are food products. The bulk of the directly imported commodities originate from the EU countries with the top partners being Poland, Belorussia, Czech Republic and Germany.

The purpose of the final qualifying paper is to make research of the import activity of LLC “EKO” and propose possible solutions for problems and shortcomings in the conduction of the import activity.

The following tasks had been set: to assess general financial statement of the company to determine, whether it is healthy or not; research current strategic direction of the company, and how it possibly influences import activity of the enterprise; make an extensive research and assessment of the trade and import activity of the LLC “EKO” to determine weak and strong points in the business model of the enterprise.

The object of the final qualifying paper is the direct import activity of the LLC “EKO”, categories of goods imported.

The subject of the final qualifying paper is the information on commodity turnover of the company, process of organization and maintenance of import activity, market environment of the imported categories of goods.

Research methodology: observation (for gathering primary information for analysis), comparative analysis of financial and operational indicators, graphical methods for showcasing data.

The scientific novelty of the results obtained is the proposal of foreign economic activity optimization measures for LLC “EKO”.

The practical utility of the obtained results of the final qualifying paper is proposal of optimization methods for foreign economic activity of the entity and their possible practical application in trade activity of the LLC “EKO”.



CHAPTER 1. RESEARCH OF ECONOMIC ACTIVITY LLC “EKO”

1.1 Estimate for trade activity, financial state and income of LLC “EKO”

LLC “EKO” conducts business in the field of retail. This is a Ukrainian food-store network, presented in 16 regions by the end of 2020. The company’s main activities are retail of food and non-food goods, alcohol, tobacco and production of pre-cooked foods. Business model of the company is following: to provide customers with goods at the lowest price in the market, so that they can save money, while purchasing all needed, hence the brand name of the store network – EKO-MARKET.

The types of activities conducted by the LLC “EKO” in accordance with «КВЕД» classification are the following: 47.11 – retail of food products, tobacco and alcohol in unspecialized stores; 68.20 – provision of property for rent; 56.30 – drink service; 82.99 – provision of supplemental commercial services; 46.39 – unspecialized – retail of foods, drinks and tobacco; 10.72 – production of cookies; 10.71 – production of bread and pastry; 10.13 – production of meat products; 49.41 – automobile freighters; 63.99 – provision of informational services; 70.22 – consultation in commercial activity and management; 73.11 – marketing agency; 73.12 – broker ship in advertisement distribution in mass media; 77.11 – provision of automobiles for rent [1].

Retail of food products, tobacco and alcohol is the main economic activity conducted by the LLC “EKO”. By the end of year 2020 the approximate number of stores across the territory of Ukraine is approximately 150. Those stores are in 62 cities spanning 16 regions: Vinnitsa, Volyn’, Donetsk, Zhytomyr, Ivano-Frankivsk; Kyiv, L’viv, Mykolaiv, Poltava, Rivne, Sumy, Ternopil’, Kherson, Khmelnytsky, Cherkassy and Chernihiv regions.

Foreign economic activity of LLC “EKO” is primarily import of goods with a purpose of further retail. The realization of import is implemented via partnership with companies-importers in Ukraine (which is a primary source of imported goods), or establishment of own import contracts with foreign companies. The import of goods is vital to the LLC “EKO”, because it comprises a huge part of the company’s product range. Foreign-made products

are also highly in demand by the Ukrainian customers, because they often have higher production quality and/or unique qualities if compared to the goods of national manufacturers.

To be able to make an analysis of enterprises activity and whether it is successful or not, we need to look at and compare trading activity and financial parameters of the company across three-year period (2018-2020).

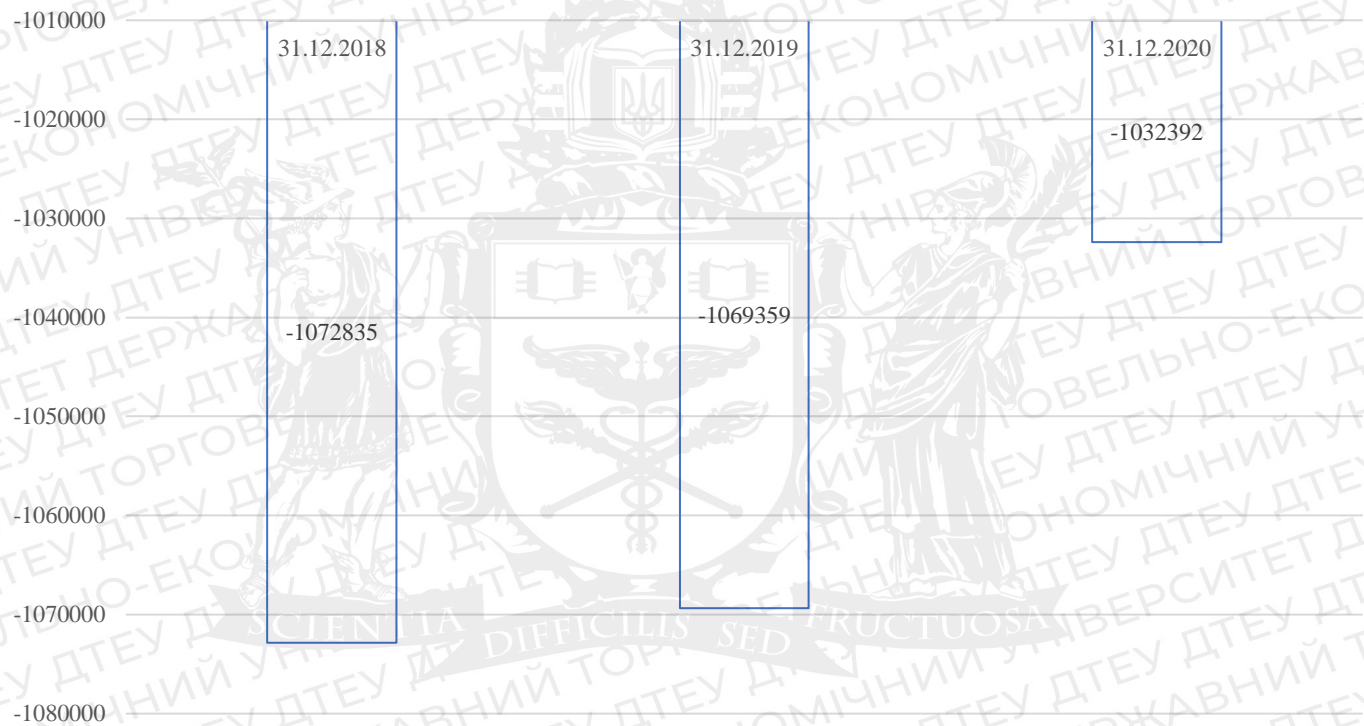


Fig. 1 Equity of the LLC "EKO" (in thousands UAH)

Source: built by author based on the data [Appendix A]

In figure 1 we can see that equity of the LLC "EKO" in 2018-2020 is negative, meaning that the company have suffered losses in previous years, as well as is not attractive to potential investors. This loss in equity may be due to unsuccessful trade activity of the enterprise, decrease in number of stores across the network, exceedingly high numbers of liabilities etc. Share, additional capitals and undistributed loss are presented in the following table:

Table 1

Tab. 1 Share capital and additional capital of LLC “EKO” (In thousands UAH)

	31.12.2018	31.12.2019	31.12.2020
Share capital	533520	533520	533520
Additional capital	3354	3354	3354
Undistributed income (loss)	-1609709	-1606233	-1569266

Source: built by author based on the data [Appendix A]

As seen in table 1, there is a huge amount of losses, that exceeds assets of the Company resulting in negative equity. This is the signal to several possible problems, existing within the company. To identify those problems, we need to analyze financial and trade activity as well as most significant expenses of the “EKO” to determine the source(s) of loss. The most likely factors causing negative equity may be the following: inefficiency of certain stores (expenses exceeding revenues i.e., resulting in a loss), investors revoking their investment into the company, huge expenses for reconstruction and improvement of stores, financial liabilities (bank loans, credits etc.).

Firstly, are going to examine the trade activity of the Company, because this the main factor that decides, whether it is successful or not. Annual commodity turnover gives us general understanding of volumes of company’s operation as well as can be used for determination of total revenues given the number of expenses for sales, cost of goods sold.

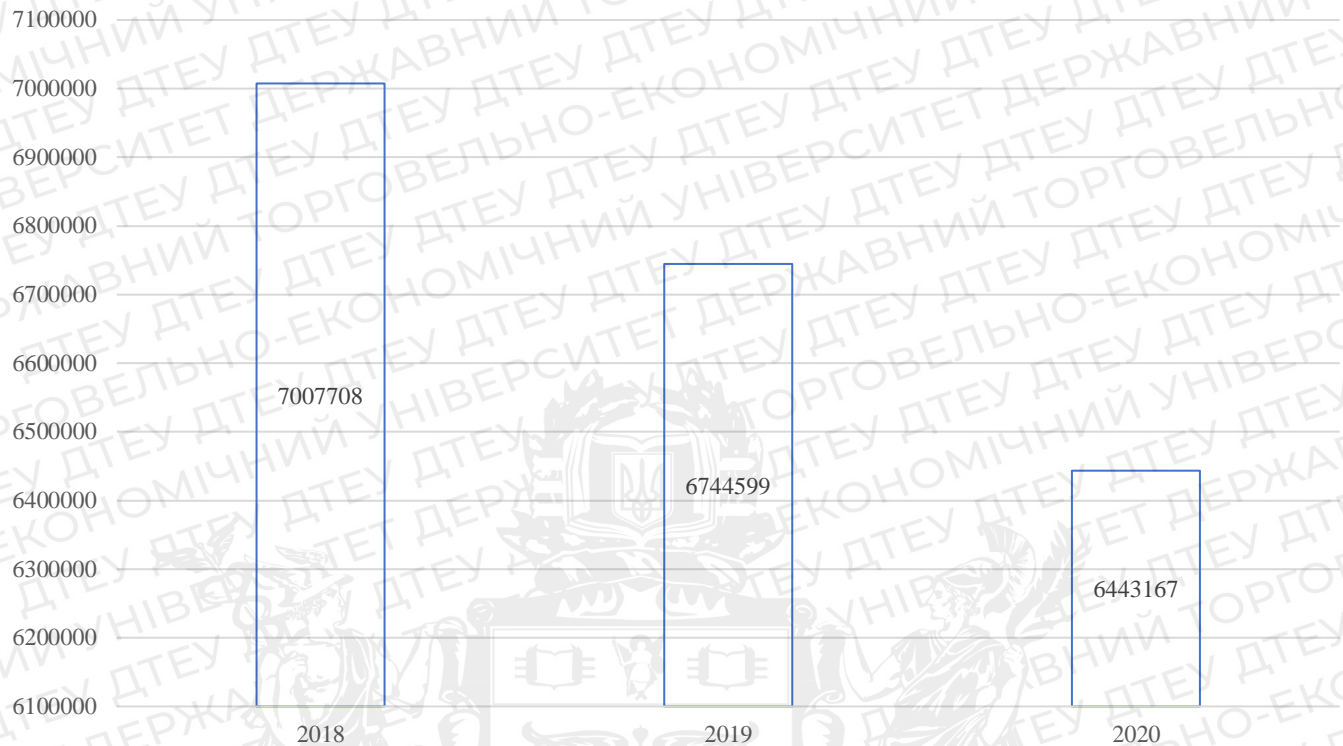


Fig. 2 Annual commodity turnover of LLC “EKO” (in thousands UAH)

Source: built by author based on the data [Appendix B]

As we can see from the graph in figure 2, there is visible decline in annual goods turnover over the course of 2018-2020 period. Decline in 2019 from 7007,70 million UAH to 6744,59 million UAH, which translates to 3,9% decline. In 2020 the drop is bigger – from 6744,59 million UAH down to 6443,16 million UAH (4,6% reduction). This overall can be due to several influences: total amount of goods sold, shutdown of several stores across the network, pandemic in 2020. To determine, whether these factors or some other ones are major influencers, we need to look at data regarding revenues from regular activity, total cost of goods sold, gross income from regular activity and number of stores active during each year.

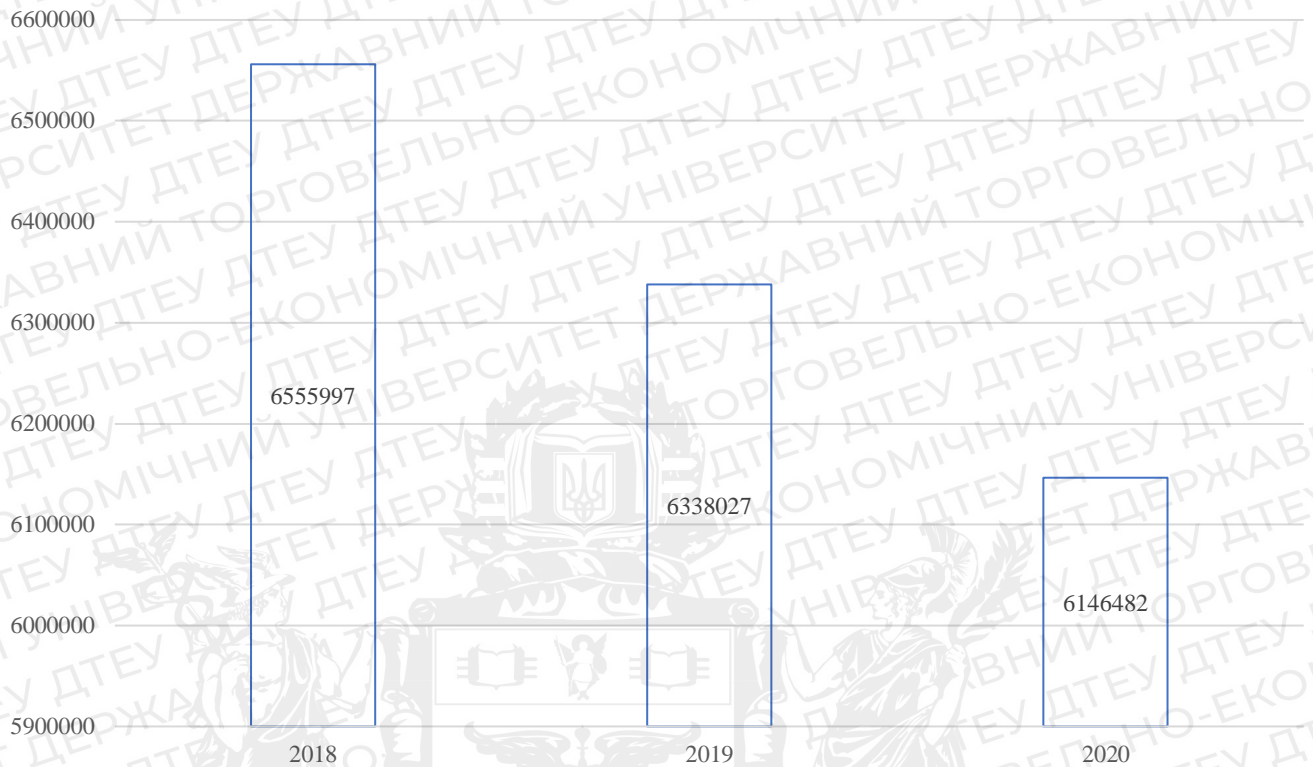


Fig. 3 Total revenues from regular activity of LLC “EKO” in 2018-2020 (in thousands UAH)

Source: built by author based on the data [Appendix C]

In figure 3 we can see that total revenues from main activity of LLC “EKO” – retail of goods, were declining over the course of three years: from 6555,99 million UAH in 2018 and down to 6338,02 million in 2019 and 6146,48 million in 2020. These numbers translate to 3,4% decline in 2019 and 3,1% in 2020 respectively. This drop in income may have been the case because of several external factors: the never-ending and sheerer competition in the market of retail in Ukraine (rapid shifts and developments in the competitor’s business strategies), increase of supplied goods, and lower attendance of physical stores in 2020 due to COVID-19 pandemic. Among internal factors are the following: decrease in number of stores across the country due to their inefficiency, lower brand-awareness due to little amount of advertisement, the business model of “EKO” itself (constant thrive for lowest price in the market, self-limitation in the assortment due to pricing policy, etc.).

But whether these factors indeed take place in such a shift, we need to take parameters, closely related to the revenues from trading activity of LLC “EKO” - total cost of goods sold and expenditures for sales (logistics, warehouse and store equipment maintenance, promotion). The comparison of those parameters in the scope of three-year period (2018-2020) and comparison of discrepancies between those parameters will help to determine, whether internal or external factors had been more impactful. This analysis is needed for further understanding of the processes overall and for presentation of solutions in particular.

Cost of goods sold is a very important parameter, because looking at it we can determine yearly gross income of the company (given, that we already have total revenues), and using comparison method, find co-relations between this parameter and Gross income from regular activity as well as Net income from regular activity. Cost of goods sold may also give a hint at whether such external factor as supplier’s price for goods is a major influencer or not.

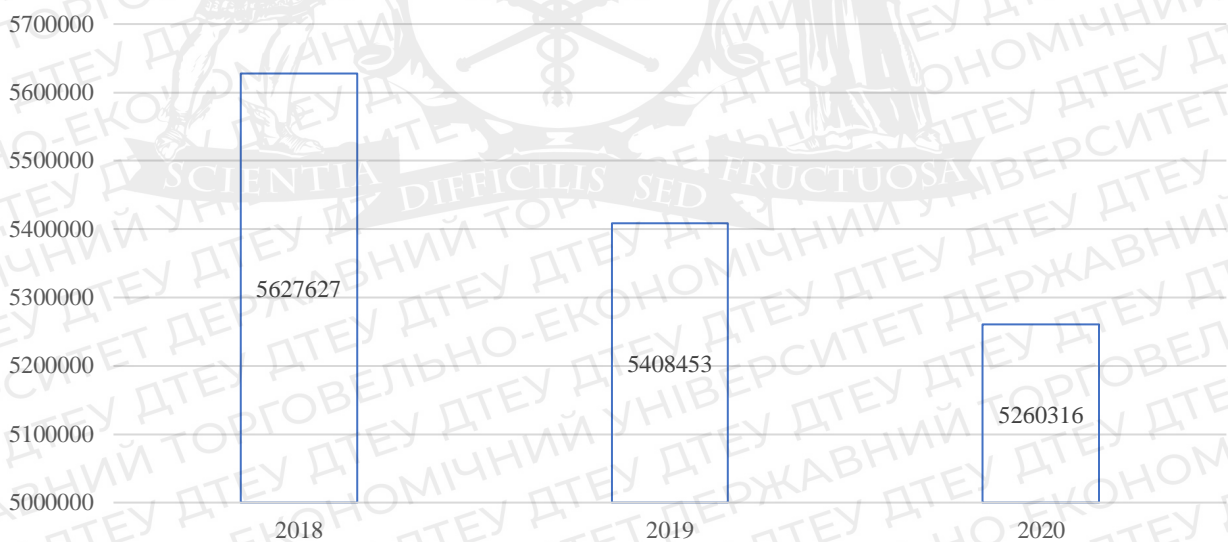


Fig. 4 Cost of goods sold by LLC “EKO” in 2018-2020(in thousands UAH)

Source: built by author based on the data [Appendix C]

As we can see from the graph in fig. 4 there is a decline in the total cost of goods sold per year: 5627,62 million UAH in 2018, 5408,45 million in 2019, 5260,31 million in 2020. In percentage this translates to 3,9% decline in 2019 and 2,8% in 2020. If compared to percentages of decline, there is no major discrepancies in these two parameters, therefore,

major upticks in supplier's prices for goods are not apparent. To make the point even more clear, it is useful to look at net income which is calculated with a following formula:

$$NI = GI - CGS$$

Where NI – net income.

GI – gross income.

CGS – cost of goods sold.

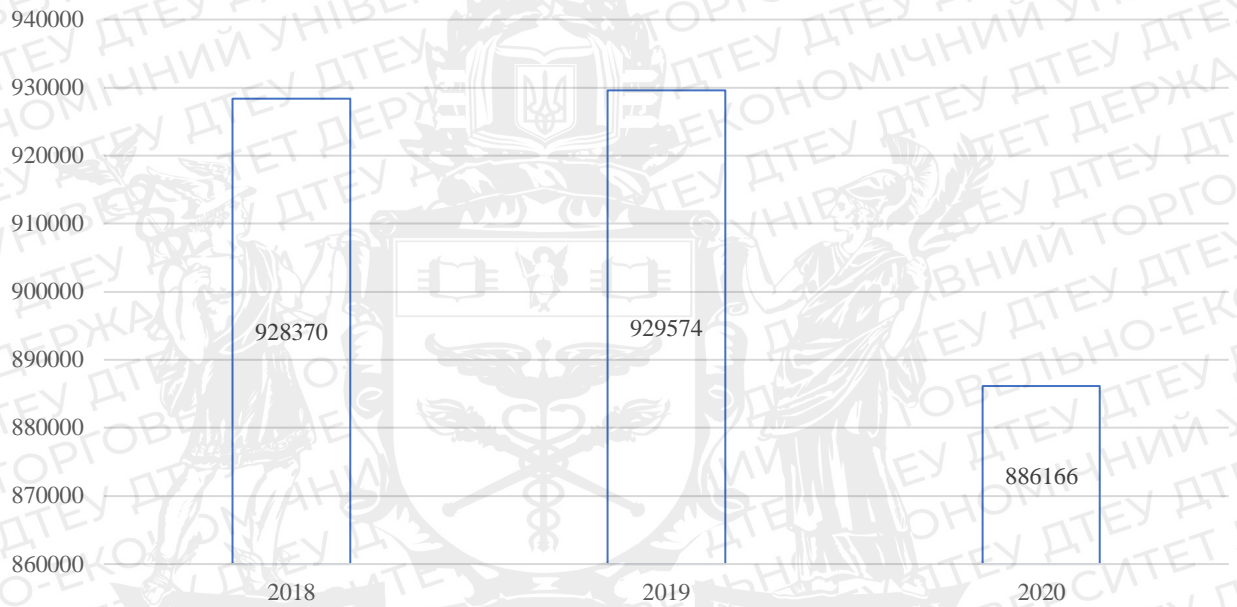


Fig. 5 Gross income from regular activity of LLC “EKO” in 2018-2020 (in thousands UAH)

Source: built by author based on the data [Appendix C]

As seen in the graph in a figure 5 the difference in Gross income between 2018 and 2019 is very insignificant. In absolute numbers there is increase of 1,24 million UAH (0,1 % increase). But there is much more significant drop off in 2020 In comparison to prior year of 2019: 43,40 million UAH (4,8% decline). This might be the case because drop in cost of goods being sold during 2019 (-3,9%) is more than the Gross revenue's drop (-3,4%), hence higher mark-ups from the retailer itself might have been the case. On the other hand, the proportions in 2020 are quite the opposite - cost of goods sold during 2020 being -2,8% compared to prior 2019 and -3,1% decline in gross income. This might be the case due to COVID-19 pandemic, resulting in lower physical stores attendance, disruption in supply

chains, increase in supplier's prices etc.

However, the report about governance for year 2020, released by “EKO”, states the following: “the bulk of stores of the Company are concentrated in Kyiv region, where numerous instances of COVID-19 outbreak were reported. Governance of the Company implemented measures to prevent major influences of events on Company's activity, that take place in spite of existence of pandemic. However, governance of the Company cannot fully estimate the influence of current situation.

The Company does not expect revenues to rise during ongoing anti-epidemic restrictions. However, drop in the amount of revenues is not expected either, given that the Company is conducting retail of food products and hygienic agents that are of highest necessity to people” [2].

The other reason for decline in both Cost of goods sold and Total revenues drop can be decrease in number of active stores.

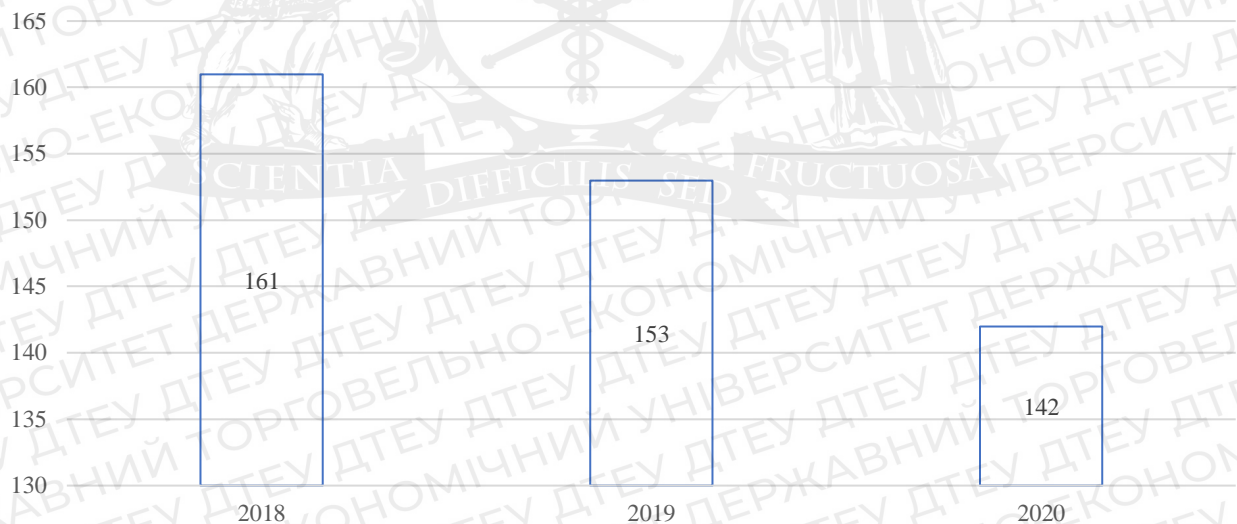


Fig. 6 Number of active stores of LLC “EKO” in 2018-2020

Source: built by author based on the data [1]

As seen in the graph in figure 6, number of vending points has been decreasing, with 8 stores being shut down during 2019 (5,2%), and 11 stores in 2020 (7,7%). This is due to several shifts in the Company's strategy over the course of last couple years: desire to be more attractive to customers, expansion of customer base, evolution of the brand “EKO”.

As General Director's store network management vice-president stated in the interview: "We will renovate stores – incrementally and step by step. Given that our network possesses a lot of own property, we are going to create local trade malls. We have such plans not only for Kyiv, but for many more regions, that are being considered by our team" [3].

From this citation alone we can draw conclusions: "EKO"'s governance instead of extensive type of development (growing the network of stores in numbers), opts for intensive development, meaning, they are planning to renovate, improve or simply repair already existing stores. This direction has a purpose of efficiency increase, allowing for higher commodity turnover per store on average, hence increasing turnover, revenue and income overall. Such investment of money and time will not give short-term benefits asap but will bring its results as time passes and may as well be one of the deciding factors, whether "EKO" stays in competition, or is discarded as un-innovative and stagnant company.

Overall, trading activity of LLC "EKO" yields positive financial result, meaning, that it is not reason for the Company's negative equity. As it was mentioned before, we also need to examine financial activity of the Company because it is also a very significant factor in success.

First, we need to overview the financial income, as it is giving general representation of volumes of financial activity.

Table 2

Financial income of LLC "EKO" (in thousands UAH)

	2018	2019	2020
Financial income	11802	29098	22478

Source: built by author based on the data [Appendix D, E]

As presented in the table 2, income from financial activity (share sales) of LLC "EKO" averaged at 21,21 million UAH per year. While the result is positive, it is very in significant in the grand scheme, hence, benefits the Company only a little.

Given that, we need to examine income and loss (repayment of) from bank loans. The extensive use of bank loans may be due to fact that the company is reconstructing huge number of shops in the network and also acquisition of grocery store network «Kolibris» owned by Avanta Group in 2018. The purchase cost is estimated to be at 100-150 million UAH [4].

Graphs, presenting data on the volumes of bank loans are listed below:

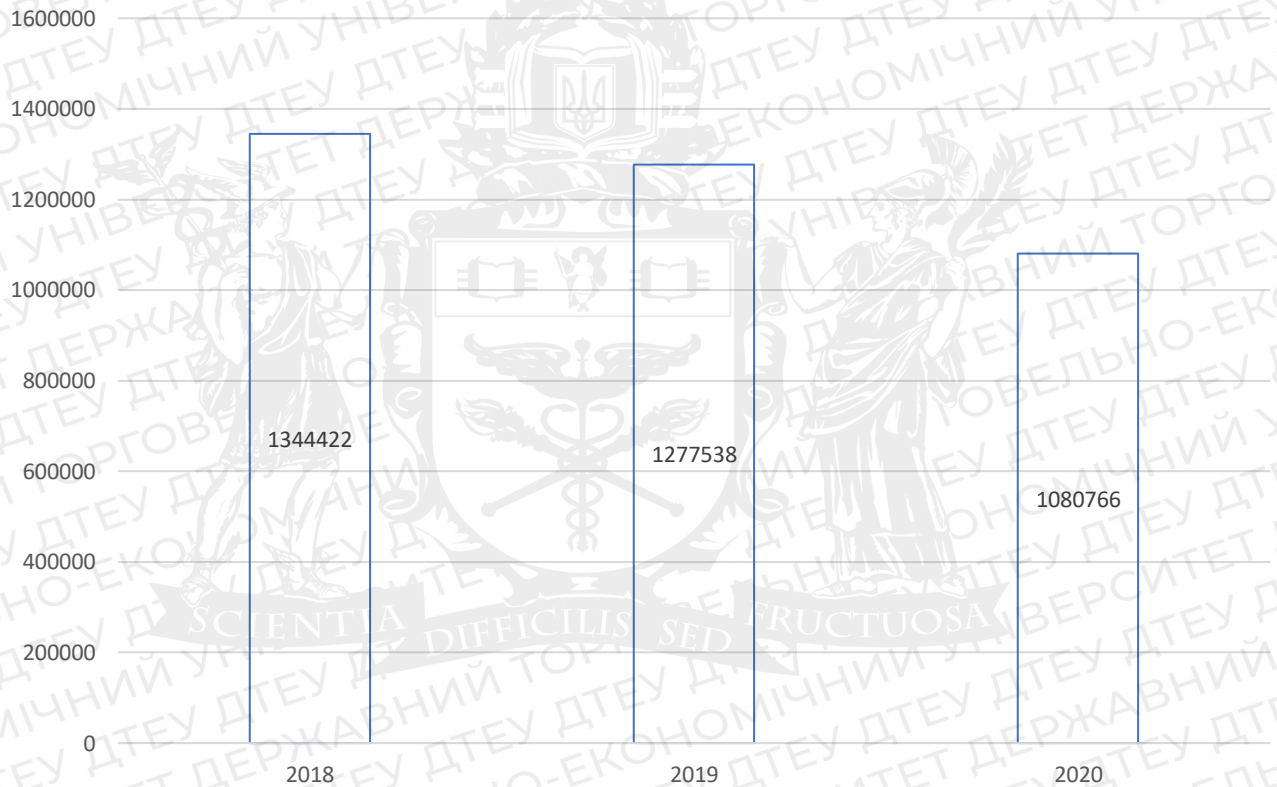


Fig. 7 Income from loan acquisition of LLC “EKO” in 2018-2020 (in thousands UAH)

Source: built by author based on the data [Appendix H, I]

As we can see from the graph in figure 7, “EKO” borrowed 1344,42 million UAH in 2018, 1277,53 million in 2019 and 1080,76 in 2020. Such decline in demand for additional financing may be due to following reasons: lower commodity turnover demands lower amounts of money, required to repay debts to suppliers; the decline in commodity turnover happened due to permanent or temporary shutdown of several stores. Nonetheless, these sizeable loans did affect equity of the enterprise in a negative way, so that might be another

factor for shrinking loan volumes over the course 2018-2020.

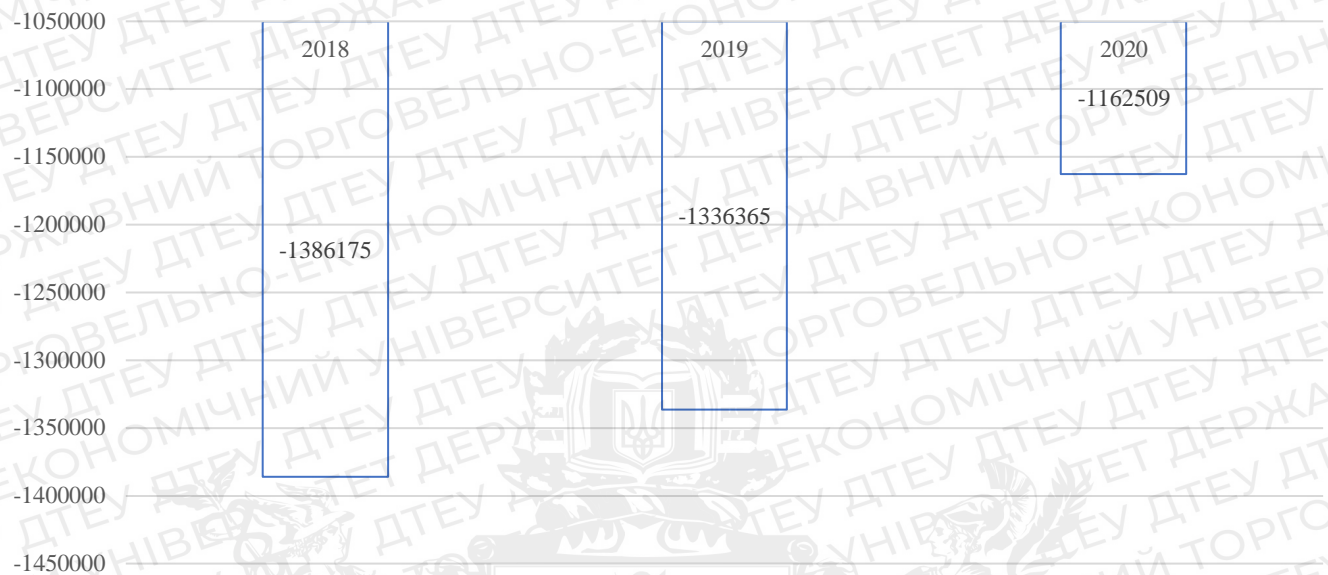


Fig. 8 Expenditures for loan repayments

Source: built by author based on the data [Appendix H, I]

As shown in the graphs above, “EKO” indeed made extensive use of credit money during 2018-2020. Such volumes could have been used for several purposes: mentioned before restoration of stores and purchase of the Avanta Group as well several operational and administrative expenses. Operational expenses (or sales expenses) are presented in the following graph:

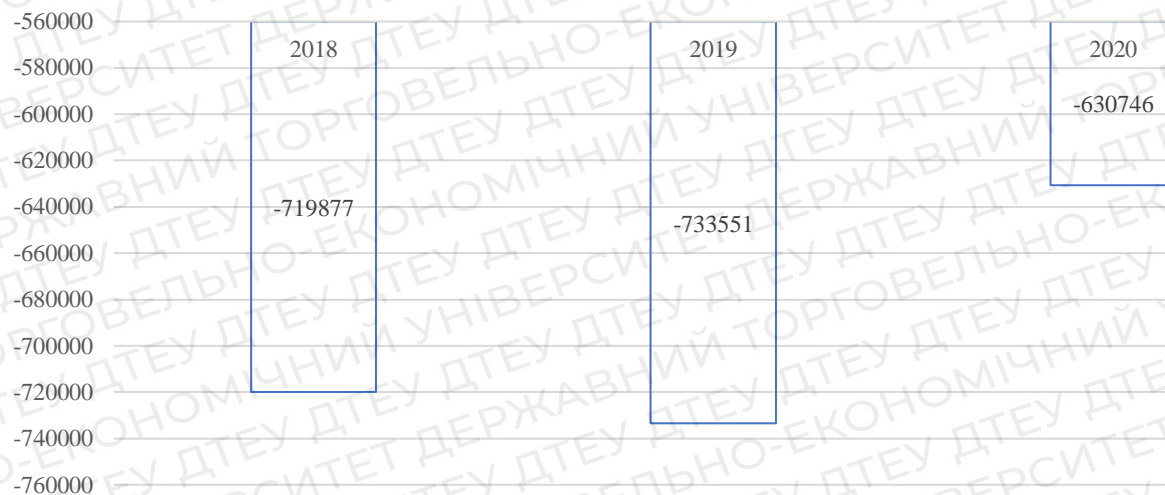


Fig. 9 Sales expenses (in thousands UAH)

Source: built by author based on the data [Appendix F, G]

In 2019 sales expenses were higher than in 2018, even though commodity turnover was lower, meaning, that efficiency rate was lower. In percentage commodity turnover in 2019 was 3,9% lower than in 2018 (from 7007,70 million UAH to 6744,59 million UAH) while expenses increased by 1,8% (from 719,87 million UAH to 733,55 million UAH). This, seemingly insignificant discrepancy can translate in tens of millions UAH difference in income.

In 2020 however sales expenses dropped significantly – by 14,1% (from 733,55 million UAH to 630,74 million UAH), while commodity turnover decreased by 4,6% (from 6744,59 million UAH down to 6443,16 million UAH). This decrease could occur due to pandemic breakout, therefore commodity turnover dropped due to lower attendance of stores which in turn resulted in lower exploitation of warehouses. Lower number of workers is also the consequence of anti-pandemic measures which resulted in lower amounts of wages required to be paid.

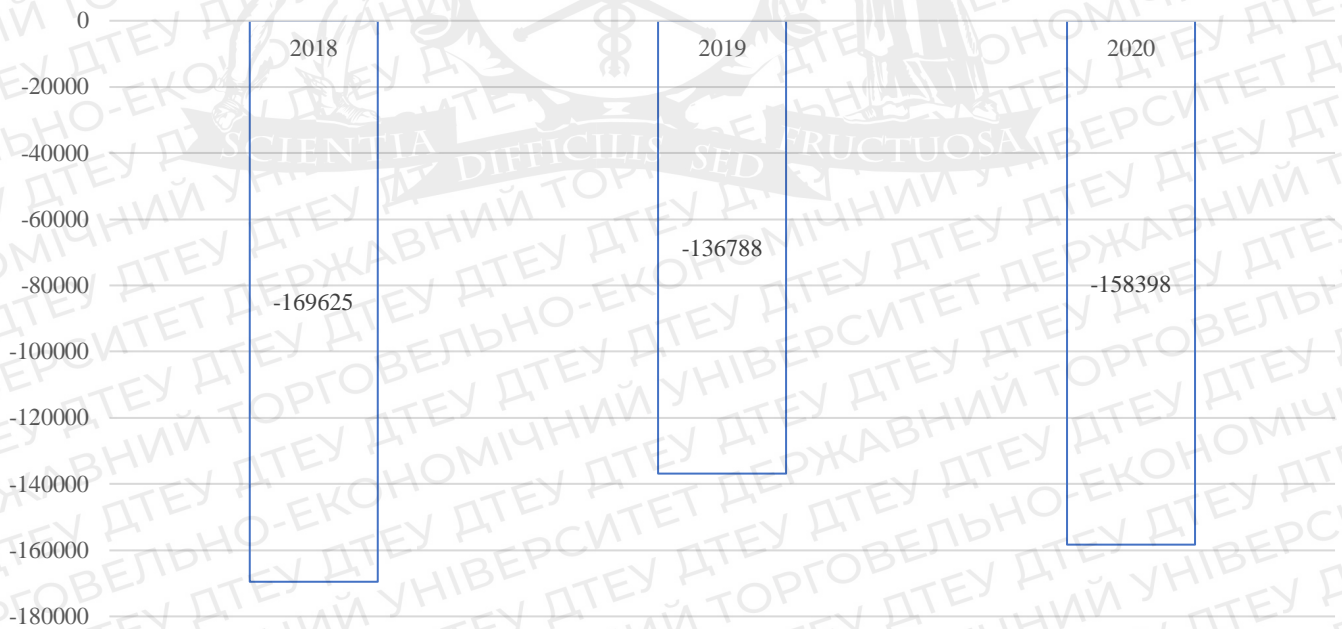


Fig. 10 Administrative expenses (in thousands UAH)

Source: built by author based on the data [Appendix F, G]

Given the info in the graph in figure 10, following assumptions can be made: in 2019 administrative expenditures had to be cut due occurrence of higher sales expenses; in 2020

administrative expenses could have been raised thanks to higher efficiency (i.e., better ratio of sales expenses to commodity turnover).

Given the numbers on “EKO”’s expenses over the period of 2018-2020, there are obvious differences in the ratio of expenses to commodity turnover, however, on a lower scale of operation in 2020, the Company seems to operate better – this again proves, that shutdown of several less profitable than average stores and renovation of already existing ones is the right choice of strategy. When already existing are updated, “EKO” will consider expanding its store network further, but with improved designs in terms of operational effectiveness, customer attractiveness etc.

In conclusion: despite LLC “EKO” trade operations result in healthy amounts of revenues, the equity of the company is negative due to extensive use of bank loans on top of regular operating expenses as well as administrative expenses. This means that “EKO” globally lacks money for simultaneous trade activity and renovation of stores across the market. However, once the process of renovation is complete, commodity turnovers and revenues are expected to increase significantly, because there are already precedents of better efficiency of a store, that underwent “upgrading” previously in a recent time.

The trend of stores being completely or temporarily shut down is still on-going, however there is still no consolidated data for year 2021, hence we cannot compare numbers in figure 6 to the current state of things.

Given the parameters in this section and comparing them in a scheme of three-year period (2018-2020), the following conclusions can be made:

- The overall commodity turnover of the LLC “EKO” has been on decline in 2018-2020.
- The total amount of revenues has also dropped, but in sync with turnover.
- The total cost of goods sold have dropped, with slight discrepancy if compared to the ratios in total revenues drop, but not very significant, which leads us to the next conclusion.

- Prices on the market of the retail have not risen significantly – neither on the side of suppliers nor on the side of retailers.
- These drops occur due to shift in “EKO”’s strategy.
- Shifts in a strategy itself demand significant financial resources, and such a demand cannot be fulfilled with “EKO”’s own money – therefore the Company resorts to bank loans in order to keep up the pace.
- High reliance on credit money paired with shutdowns of several stores and drop in commodity turnover results in negative equity of the company which is expected to be relieved only after several years after reorganization is finished.

The most apparent shift is change in expansion’s rate and direction – the Company instead of increasing makes number of stores lower, so that resources can be redistributed to repair and modernize already existing ones. Given the fact, that attendance of physical stores has dropped since the spring 2020 due to COVID-19 outbreak, there is lesser opportunity cost for shutting down vending points temporarily for the purpose of modernization measures. Therefore, the trend might keep going-on, however at lower rate, because the network needs enough stores to keep up with the pace of the market.

1.2 Analysis of import activity of LLC “EKO”. Groups of imported goods

Every large retail network in Ukraine nowadays relies heavily on import due to several reasons: foreign goods possess unique properties, that are attractive to domestic customers be it taste, quality, or even sound brand name. “EKO” is no exception in this trend, meaning that it actively retails imported goods by conducting own import, or purchasing goods from companies-importers. Even though the Company mostly relies on companies-importers, the amount of directly imported goods is constantly growing. According to the reports, released by the “EKO”, in 2019 they had 18354 SKU’s total of which 370 were “own import” (direct import of the company); in 2020 product range grew up to approximately 20000 SKU of which 340 were “own import” [2][5].

In terms of monetary volumes SKUs of “own import” account only for a small percentage of a total commodity turnover, because in 2019 they have comprised 2,1% of total number of SKU and 1,7% in 2020 respectively. The data on the turnover is in the following graph:

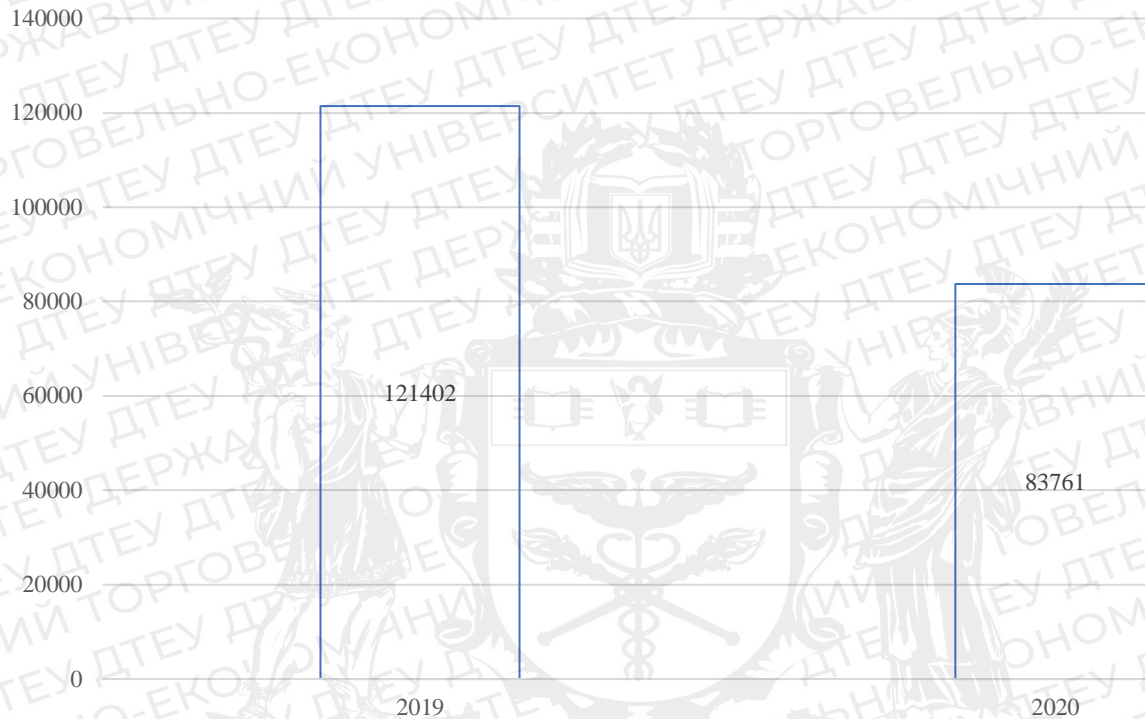


Fig. 11 Annual commodity turnover associated with direct import SKUs (in thousands UAH)

Source: built by author based on the data [5, 15]

As seen in the graph in a figure 11, total turnover of goods, imported by the “EKO” in 2019 amounted at 121,40 million UAH (which accounts for 1,8% of total turnover) and 83,76 million in 2020 with a share of 1,3% from total turnover. The simultaneous drop in number of SKU of “own import” as well as total turnover had occurred due to global pandemic, which had impacted supply chains, production facilities and sales significantly. But, according to the “EKO”’s report about governance states that recovery was already observed in 2020, regarding country-wide trends and measures implemented by the Ukraine’s government, that were supposed to support and stimulate the economy. “Despite the quarantine measures, related to the outbreak of COVID-19, since the June 2020

economic situation began to improve given that anti-pandemic measures were partially lifted, and the government of Ukraine launched several stimulating programs. Hence, decrease in GDP in the third quarter of the year was at the point of 3,5%, and in fourth quarter 1,1% respectively. Therefore, due to this stimulating measure of the government, there were launched 3 new programs – aid to Physical Entrepreneur Entities (ФОП) and employees, aid to employers, compensation of Common Social Paycheck (CCB), which totaled at 4,7 billion UAH.” [5]

It is anticipated, that in 2021 both volumes and numbers of SKUs of “own import” will increase. Ramping these numbers is important to the Company, because it provides “EKO” with several benefits – lower cost of goods, unique propositions to the customers base, stronger assurance in proper supply of goods etc.

The most common categories of goods, imported by the “EKO” are following: hot drinks and confectionery; child nourishment; frozen seafood; water, beverages and beer. Those categories of goods are the ones preferred for import by the Company, because they possess either relatively high added value or are unobtainable on the domestic market.

On the other hand, categories of goods such as water and sparking drinks and grocery are preferably purchased from distributors of companies-producers, because they do not have high added value and are homogeneous goods, making them unlikely goods for “unique positions”. Another factor, that makes direct import of such goods unattractive is cost of logistics – due to these categories of commodities having relatively low added value as well as small markups, in order to justify direct import over buying from company-importer, “EKO” needs to sell these kinds of goods in massive numbers – well above demand. This leads either to flooding of product range with excessive amounts of certain goods or refusal from other similar positions (in order to avoid “flood”), that may be preferred by the customers.

Regarding the categories of commodities, that have either high markups or high added value, these categories are easier to offer as a “unique offer”, if the Company is to import directly goods, that were previously not present at the market. Those categories are alcohol,

elite alcohol, confectionery and pastry, fish and seafood, meat products. Even though, there are several big companies-importers, that supply Ukrainian store networks with these kinds of commodities, there are still a lot of foreign producers, that are not represented at the domestic market. Foreign producers generally if do not have goods of better quality, either can offer positions with unique properties or give analogues of domestically produced commodities at lower price.

For a deeper analysis of the import activity of LLC “EKO”, we need to observe data on share of commodity turnover of each directly imported category of commodities:

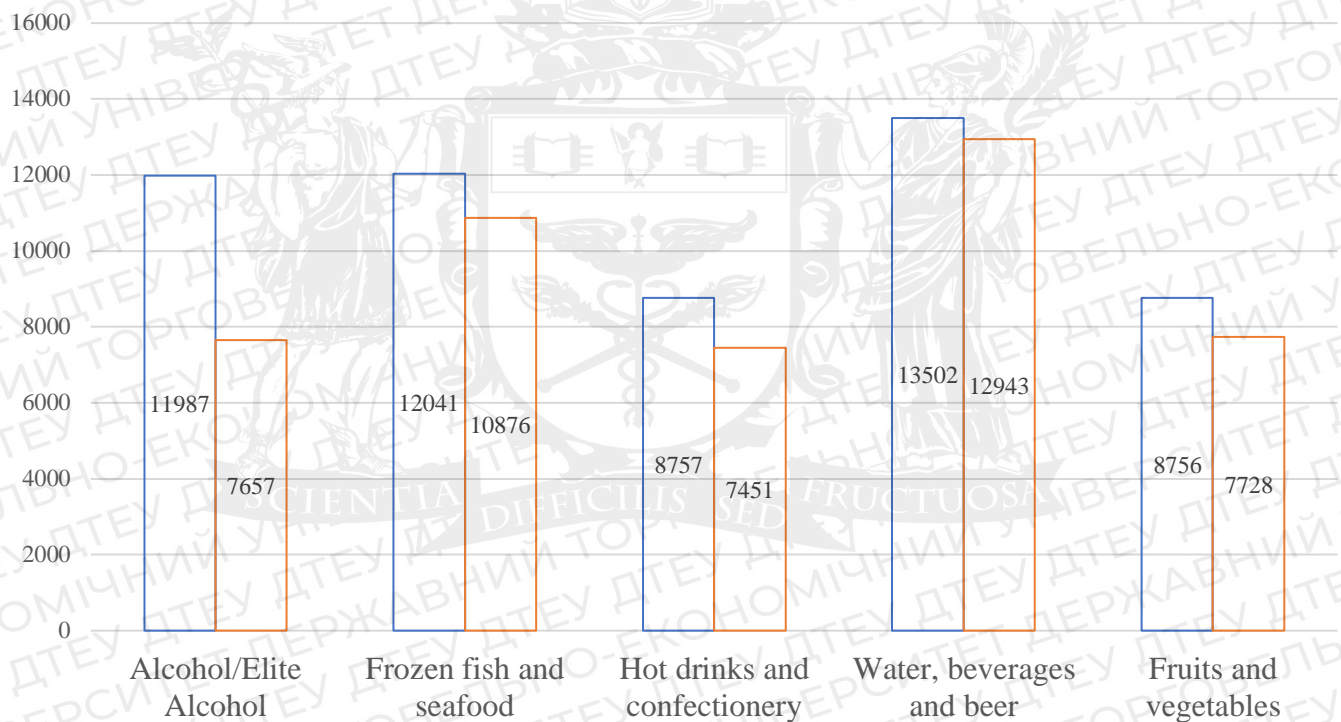


Fig. 12 Commodity turnover of directly imported goods by the categories (in thousands UAH)

Source: built by author based on the data [5, 15]

As we can see, commodities that belong to the category “water, beverages and beer” amounted for 13,50 million UAH of directly imported goods in 2019 and 12,94 million UAH in 2020 accounting for 11,1% of commodity turnover of “own import” in 2019 and 15,4% in 2020 respectively. The second most imported category is “frozen fish and seafood” (9,9% of total turnover in 2019, 12,9% in 2020) with “alcohol/elite alcohol” (9,8% of total turnover

in 2019, 9,1% in 2020) at the third place. The category of “water, beverages and beer” goods despite being both produced by several domestic companies and distributed by companies-importers, are still in high demand. Water alone has multiple applications in the household – hydration, cooking, consumption. Beverages and beer are also goods of frequent consumption. Alcohol despite being a commodity, that customers buy mostly for special occasions, buy it in large amounts at a time, though not as frequently, as water and non-alcohol beverages.

The geography of the import operations of the Company (countries, that are partners to the “EKO”) is mostly comprised of European countries. The top 5 countries are listed in the following chart:

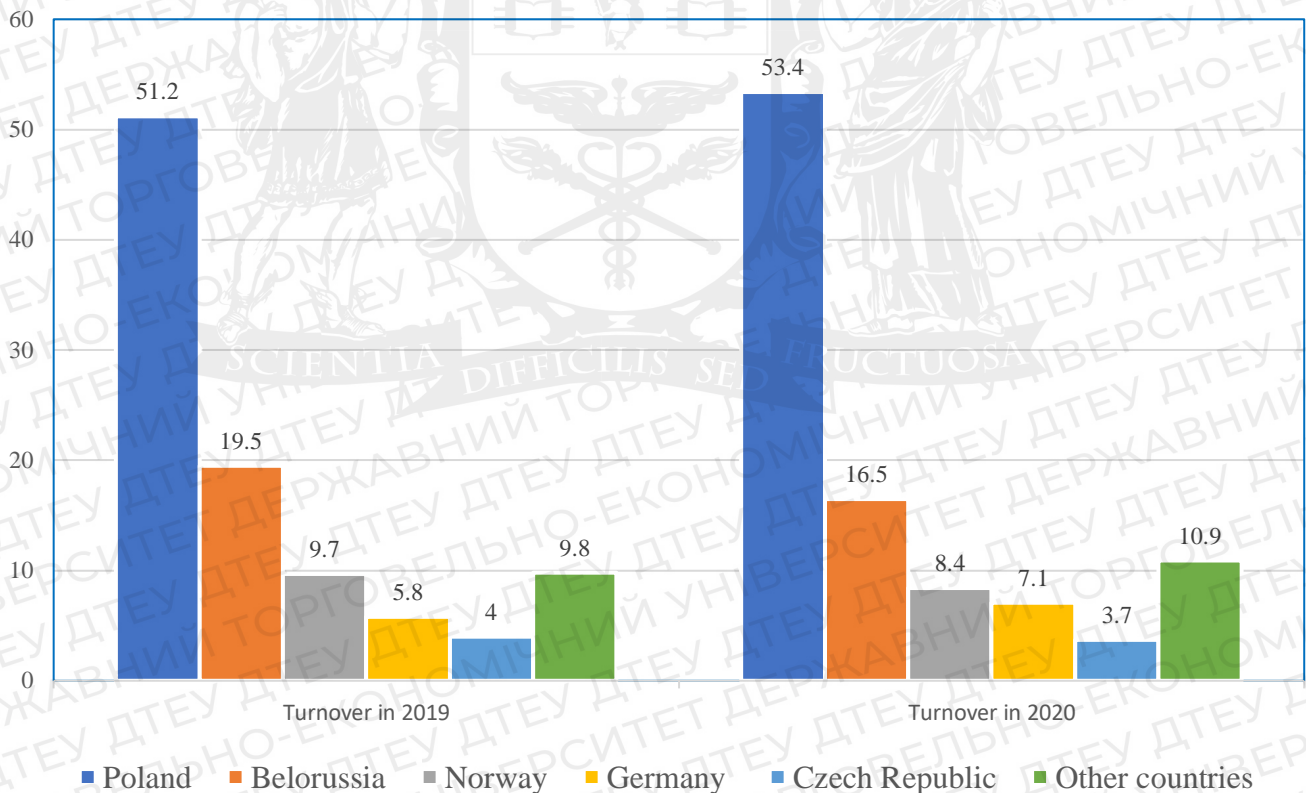


Fig. 13 Top countries by share of direct import to LLC “EKO” (in percentage from total direct import)

Source: built by author based on the data [16]

Given the information in the graph from figure 13, Poland has the most significant

share of commodities in “EKO”’s direct import – 51,2% in 2019 and 53,4% in 2020 which translate to 62,15 million UAH and 44,72 million UAH respectively. Such high volumes of import from Poland in particular are related with large amount of food product producers in the country and close proximity to the Ukraine. The most imported categories of goods are “fruits and vegetables”, “hot drinks and confectionery”, “water, beverages and beer” and “dairy products”. Second highest volumes of directly imported goods come from Belorussia with total amount of commodities at 23,67 million UAH in 2019 and 13,82 million UAH in 2020. The most imported types of commodities are following – “dairy products”, “fruits and vegetables”, “canned food”, “household-use goods”. This country is as well as Poland in a proximity to Ukraine, hence making import less expensive, however volumes of commodity output limit potential turnover of goods from this country. Third place is the country of Norway with 11,77 million UAH worth of goods in 2019 and 70,35 million UAH in 2020 respectively. The most imported category of products is almost exclusively “Frozen fish and seafood”, “fish” and “canned food” (being mostly canned fish, fish liver etc.).

Regarding the most imported categories of goods, listed in the graph in figure 12, geography of imports is distributed across several countries. Goods from category “alcohol/elite alcohol” are imported from Germany, Poland, France, Italy etc. “Water, beverages, beer” are imported from Poland, Germany and Czech Republic. “Frozen fish and seafood” – from Norway almost exclusively. Norway in general is a top-2 fish exporter in the world – second to China, making top-1 in the Europe, hence becoming the most plentiful source of fish and seafood products. “Hot drinks and confectionery” category of commodities is imported from Poland, Italy, China and India (mostly tea), Germany. While the “hot drinks” part of import mostly comes from Italy, China and India, different kinds of confectionery however are delivered from Poland, Germany and Austria (sweets, chocolate, cacao products etc.).

All these directly imported commodities originate from different countries and in relatively small quantities, if compared to the total commodity turnover of the network. The reasoning is that direct import engages in business with smaller companies, whilst the larger

counteragents have their subsidiaries in Ukraine anyways or their goods are brought in by Ukrainian companies-importers. The other reason is the cost of logistics – the less commodities company is buying from supplier from abroad, the higher cost of logistics per unit of commodity. Since small companies cannot provide enough goods to justify import, and it is hard to find counteragent that will suffice those numbers, network of direct import partners is developing relatively slowly.

However, there are plenty of advantages as well – unrepresented on the Ukrainian market suppliers can provide “EKO” with unique goods that can potentially attract more customers, due to limited availability on the domestic market. Hence, the development of network of direct import suppliers helps not only to increase volumes of commodity turnover directly, but also by means of higher chance of attractiveness to the customer base. Therefore, there are solutions needed to be found in order to speed up the growth of network of direct import suppliers.

To determine, whether the LLC “EKO” took a right direction in their choice of product categories for direct import, we are going to analyze in deep the demands of Ukrainian customers in Chapter 2.

CHAPTER 2. REASONING OF CHOICE OF FOREIGN CONTRAGENTS FROM WESTERN EUROPE THAT LLC “EKO” IMPORTS COMMODITIES FROM

2.1 Investigation of demand in the Ukrainian food products market.

In section 1.2 “Analysis of import activity of LLC “EKO”. Groups of imported goods” we have inspected the volumes and structure of direct import activity of the LLC “EKO”. But whether choice of categories of commodities is correct or not is directly determined by the demand of the Ukrainian customers for certain groups of goods since there is a very easy to comprehend, but hard to follow logic: the good is in demand and is sold in sufficient numbers at reasonable price – customer’s attendance will be higher, resulting in higher revenues; but if the demand is not met, the result is likely to be negative. Therefore, it is vital

for the Company to keep an eye on the demands of customers and adjust in accordance with them.

To determine, whether categories of directly imported goods by LLC “EKO” are the ones, that match the demand, we firstly are going to inspect the contents of a Ukrainian customer’s shopping basket. The customer’s shopping basket is a list and composition of products, recommended for sustainable diet for varying categories of people. In this case we will be looking at norms, prescribed for adults, that possess workability. According to the directive № 656 from year 2000, the customer’s basket had to contain the following products listed in a graph and supplemental table amounts:

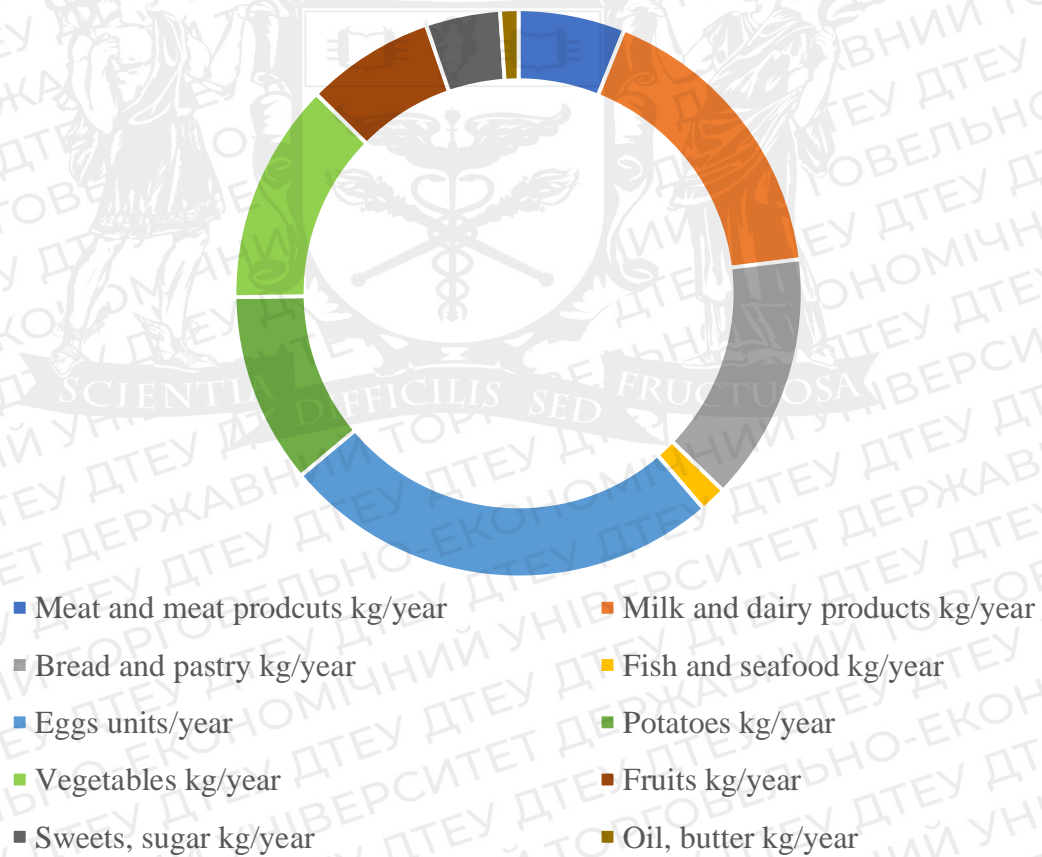


Fig. 14 Customer’s basket composition in accordance with Ukrainian state norms by 2018

Source: built by author based on the data [17]

In the graph in figure 14 we can see visualized structure of a customer's basket that existed in such form until late 2018. The emphasis is mainly on such categories of foods as milk and dairy products, bread and pastry, meat, fruits and vegetables. Such categories as hot drinks, confectionery, mineral water and non-alcohol beverages and alcohol are not presented. These lacking categories as well as insufficient nutrition of this customer's basket were the kinds of shortfalls, that forced government to revise the basket. That means, that some major changes might have been implemented that need a precise look.

Table 3

Customer's basket composition in accordance with Ukrainian state norms by 2018

Product type	Quantities
Meat and meat products kg/year	53
Milk and dairy products kg/year	148.5
Bread and pastry kg/year	123.4
Fish and seafood kg/year	13
Eggs units/year	220
Potatoes kg/year	95
Vegetables kg/year	110
Fruits kg/year	64
Sweets, sugar kg/year	37
Oil, butter kg/year	9.1

Source: built by author based on the data [17]

However, in late 2018 the customer's basket was revised, so that it could meet the real demands of Ukrainian people, as well as adjust budgets in accordance with increased minimal wages. The revision had a purpose of adjustment and overall increase in amounts and utility of nourishment of products, so that people with low income could afford proper healthy diet. It is worth mentioning, that pricing on the goods listed in recommendations, however, was somewhat lower, than real prices on the market of retail, hence the minimal

wages could not meet the real demand in money as well as given the fact, that a diet of average working person was different in composition, than that in a government's recommendation list.

The structure and contents of the revised basket of a customer are listed in the following graph:

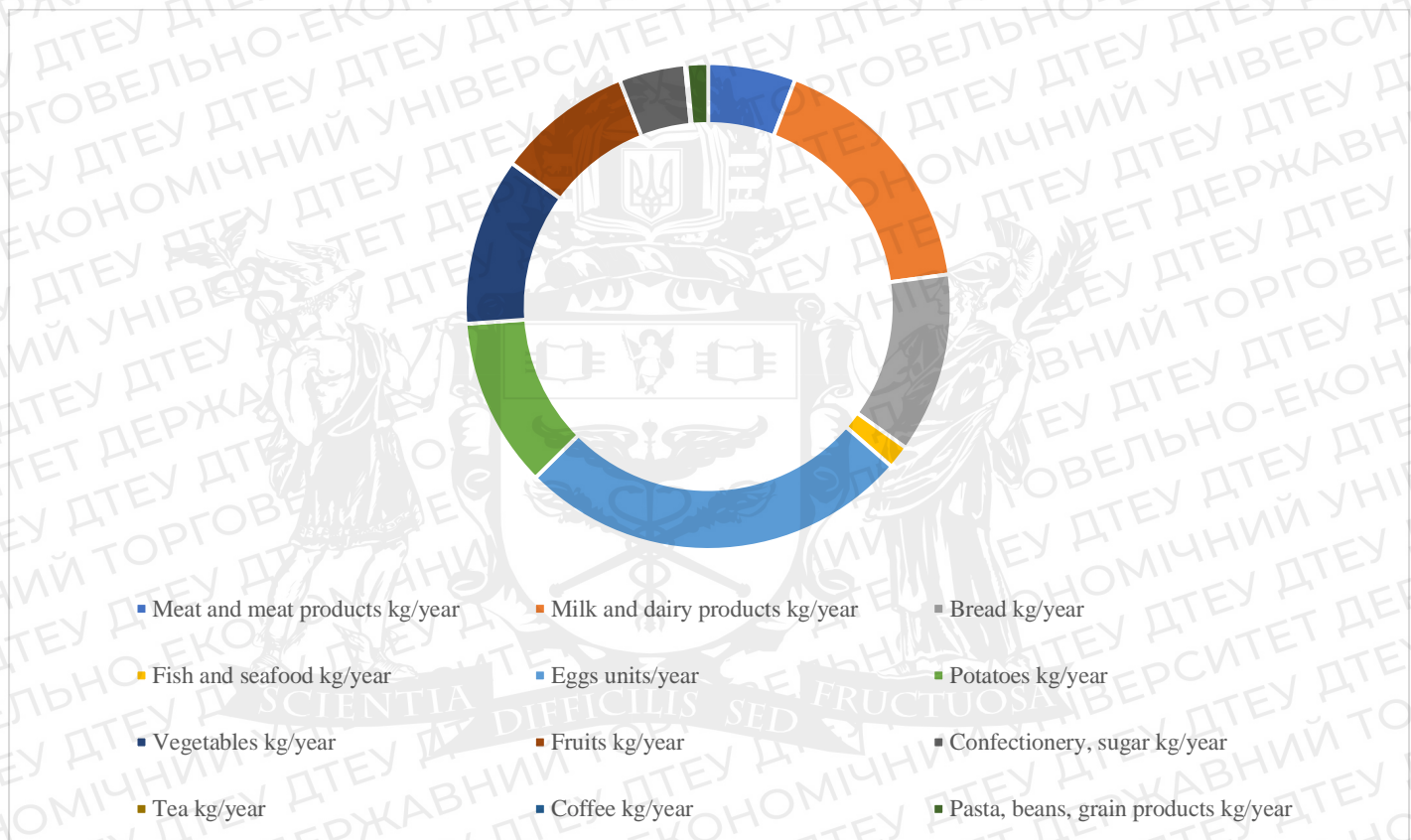


Fig. 15 Customer's basket composition in accordance with Ukrainian state norms since 2019

Source: built by author based on the data [17]

The most sizeable categories remained mostly the same, if compared to the old structure of the customer's basket. The main difference is redistribution of norms between categories such as "meat and meat products", "bread", "milk and dairy products" and "grain products". Minor categories such "Coffee, tea, confectionery" had been added. In the next table are presented numbers on recommended consumption of food products in accordance with new norms.

Table 4

Customer's basket composition in accordance with Ukrainian state norms by 2019

Product type	Quantities
Meat and meat products kg/year	49
Milk and dairy products kg/year	143.5
Bread kg/year	101
Fish and seafood kg/year	13
Eggs units/year	220
Potatoes kg/year	95
Vegetables kg/year	94
Fruits kg/year	76
Confectionery, sugar kg/year	37
Tea kg/year	0.4
Coffee kg/year	0.5
Pasta, beans, grain products kg/year	12

Source: built by author based on the data [17]

As we can see from the graphs in figures 14, 15 and supplemental tables to it, huge emphasis is placed on categories of products “vegetables”, “milk and dairy products”, “eggs”, “bread” and “fruits”. If these categories are compared to the ones, most represented in direct import department, there is clearly difference in prioritized directions of imported goods and contents of a basket. This proposed by the government model, however, does not seem to represent the real demands of Ukrainian customers fully, hence is partly negligible.

Therefore, it is needed to inspect the real demand for certain groups of products, that meaning, to look at the statistics of the most consumed products by the Ukrainian customers. The Ukrainian statistics site gave numbers on the average consumption of food products by Ukrainian citizens in 2018-2019 per capita. The information is presented in the following graphs and table [6]:

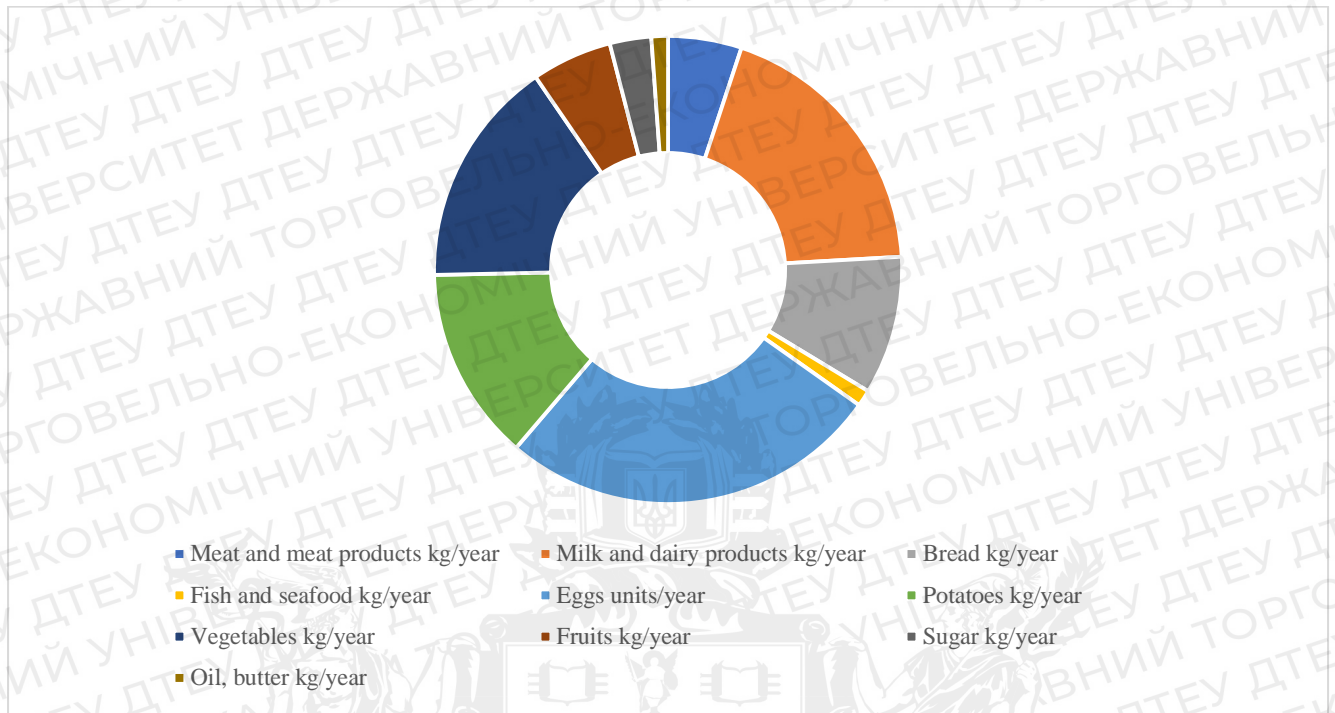


Fig. 16 Customer's basket composition in accordance with data on consumption of food products in 2018

Source: built by author based on the data []

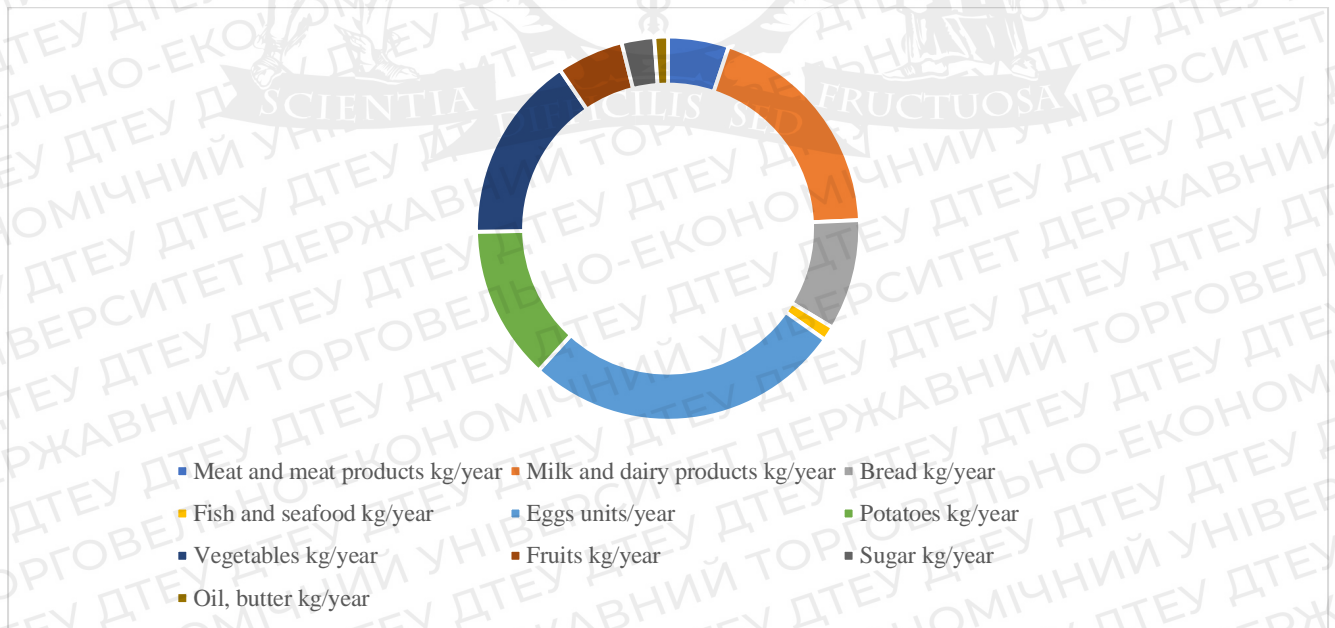


Fig. 17 Customer's basket composition in accordance with data on consumption of food products in 2019

Source: built by author based on the data []

Table 5

Consumption of food products by Ukrainian citizens on average

Product type	2018	2019
Meat and meat products kg/year	52.8	53.6
Milk and dairy products kg/year	197.7	200.5
Bread kg/year	99.5	97.6
Fish and seafood kg/year	11.8	12.5
Eggs units/year	275	282
Potatoes kg/year	139.4	135.7
Vegetables kg/year	163.9	164.7
Fruits kg/year	57.8	58.7
Sugar kg/year	29.8	28.8
Oil, butter kg/year	11.9	12

Source: built by author based on the data [7]

If we compare data, given in the table 5, to the one in the tables 3 and 4, there is a notable discrepancy in proportions of consumption in the most sizeable categories: “vegetables”, “milk and dairy products”, “eggs”, “bread” and “fruits”. According to the 2019 state norms, recommended amount of vegetables is 94 kg/year, while the real consumption rate is 164.7 kg/year – percentage wise 74% higher; milk and dairy products are recommended to be eaten/drunk at the rate of 143.5 kg/year, while in fact consumption rate is 200.5 kg/year – 39% higher, than the prescribed norm; eggs are supposed to be eaten in a quantity of 220 units/year in accordance with state norms - in actuality, however, 282 are consumed on average by a single person (28% more, than the norms). Bread is eaten at the rate of 97,6 kg/year, while the norm suggests 101 kg/year – 3,5% lower (not a significant discrepancy). Meat and meat products as well as fish and seafood are also consumed at the rate, that matches norms – 49 kg/year (norm) to 53,6 kg/year; 13 kg/year (norm) to 12,5 kg/year respectively. Other categories do not see, to have huge differences as well.

That being said, both the model of a diet, proposed by the Ukrainian government, and data on the consumption of food products covers mostly goods that belong to categories of “meat and meat products”, “bread”, “eggs”, “fish and seafood”, “fruits and vegetables” and “milk and dairy products”. But other frequently bought categories of goods such as “water, beverages and beer”, “alcohol/elite alcohol”, “hot drinks and confectionery” etc. are not presented in detail, if not at all. Water is a most commonly and frequently consumed good, because it is essential for human’s sustenance. Alcohol, beer and alcohol-less beverages are bought and consumed less frequently but are still comprising a significant share of real customer’s basket. Given the data on the consumption rate of these products, we can then determine, which are worth to be imported directly, and which are not (due to already sufficient output by national producers, overall lower than expected demand etc.). In the following graph presented information on total consumption on mineral waters (still and sparkling).

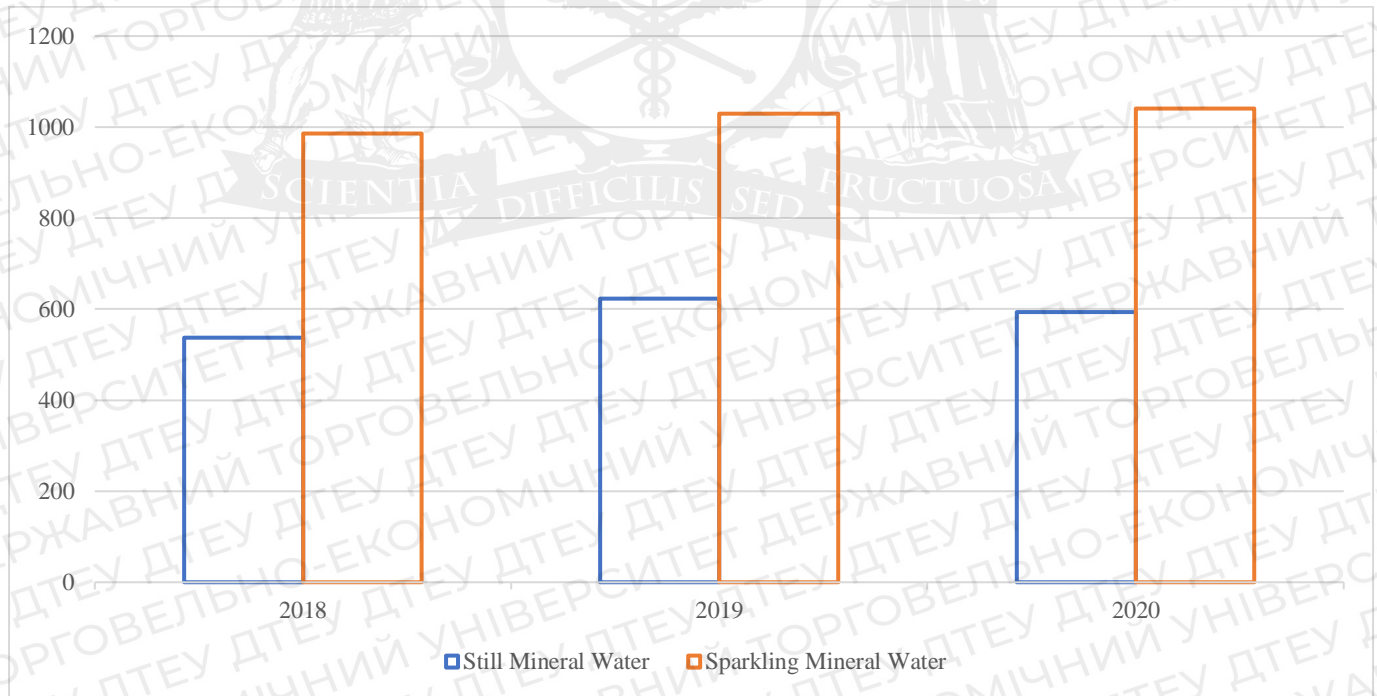


Fig. 18 Total production of mineral waters in Ukraine in 2018-2020 years (in million L)

Source: built by author based on the data [11]

As we can see from the graph in figure 18, the production of mineral water was 1524

million L in 2018, 1652,5 million L in 2019, 1633,6 million L in 2020. The output averaged at 38,5 L per capita a year across the period 2018-2020. The consumption rate is estimated at 39,2 L per capita This level of consumption is low, if compared to the European countries, but in spite of COVID-19, which exerted in Ukrainians interest in a healthy lifestyle further, might increase sales of mineral waters, accompanied with anticipated growth in production rates. The output of Ukrainian producers is expected to be higher in the following years [<http://sklo.kiev.ua/>]. Even though, Ukrainian customers do prefer domestic producers, imported goods of goods quality and low price tend to attract decent chunk of audience. Therefore, import of mineral waters makes sense from a standpoint of development of direct import network - because it is an additional position of interest to regular customer, the anticipated trend in the rise of consumption of mineral water.

Another sub-category of commodities, that belongs to “water, beverages and beer” is alcohol-less beverages. These are comprising around 43% of alcohol-less beverages and mineral water market. The output of the national producers is following:

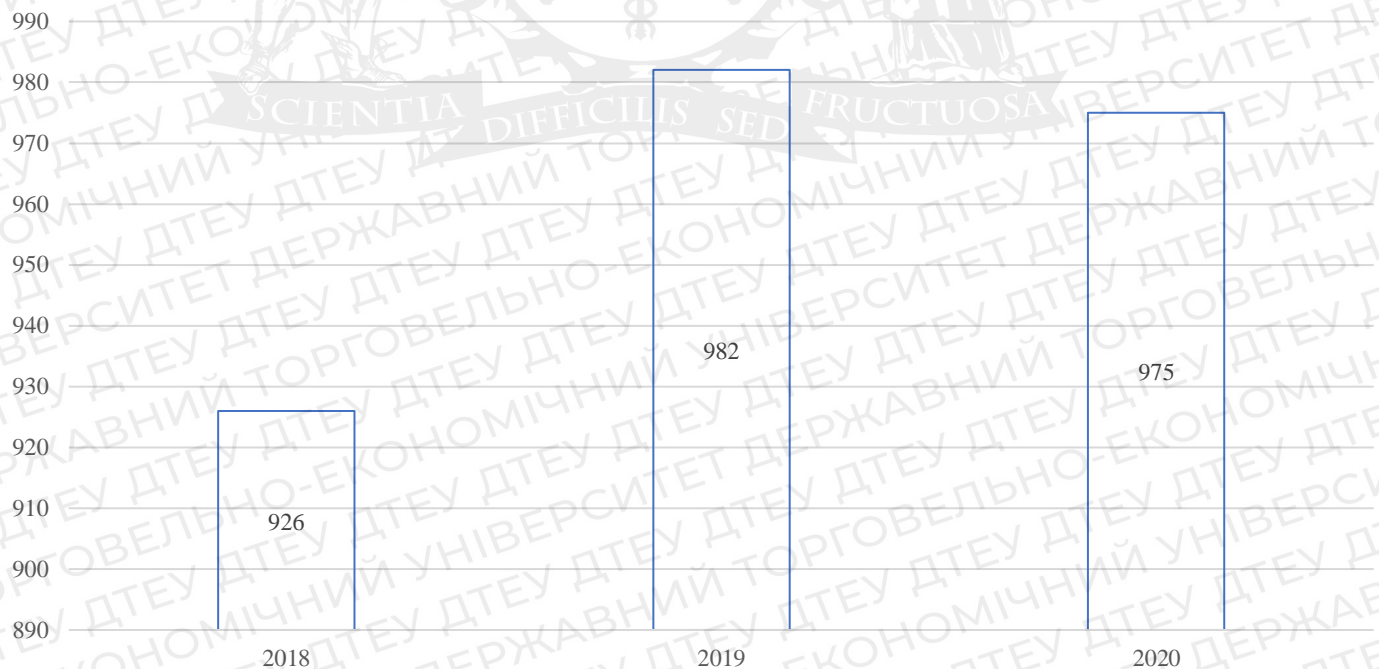


Fig. 19 Total production of alcohol-less beverages in Ukraine in 2018-2020 years (in million L)

Source: built by author based on the data [18]

As we can see from the graph in figure 19, Ukrainian producers lack in output to satisfy the demand of customers. In numbers it translates to 926 million L of output against 1149 million L of consumption in 2018; 982 million L to 1238 million L in 2019; 975 million L to 1231 million L in 2020. Therefore, Ukrainian market is reliant on the import of this type of commodity. That means that LLC “EKO” can use it as an opportunity to import alcohol-less drinks directly and meet the demand of local customers. Regarding the fact, that alcohol-less beverages have a surge in sales in the period May-August due to customer’s desire to buy something refreshing in a hot weather, release of new lines of products or even completely new producers might as well increase the interest [8]. This points at the relevancy of direct import of the commodities, that belong to the sub-category of alcohol-less drinks, hence, this direction is worth to be expanded further. But it should be noted that this kind of goods must be imported in huge quantities in order to be economically viable import. This is due to several reasons: the Ukrainian market for alcohol-less drinks is already well-developed and established, with numerous large suppliers taking up a share of around 60% of the total market. That being said, in order for the new good to be successful, it is vital to create noticeable presence on the market to capture attention of the potential buyers. This expansion in the product range is also must be supported with advertising campaign.

Goods, that belong to the category “fruits and vegetables”, can also be considered as the ones that need to be imported directly. However, not all kinds of vegetables are worth to be imported. While Ukraine is considered to be the 3rd largest exporter of agricultural goods, the climatic conditions of the country do not allow for cultivation of exotic species (bananas, oranges, other citruses etc.), therefore they need to be imported. In the next graph presented information on the consumption and of fruits and vegetables in Ukraine:

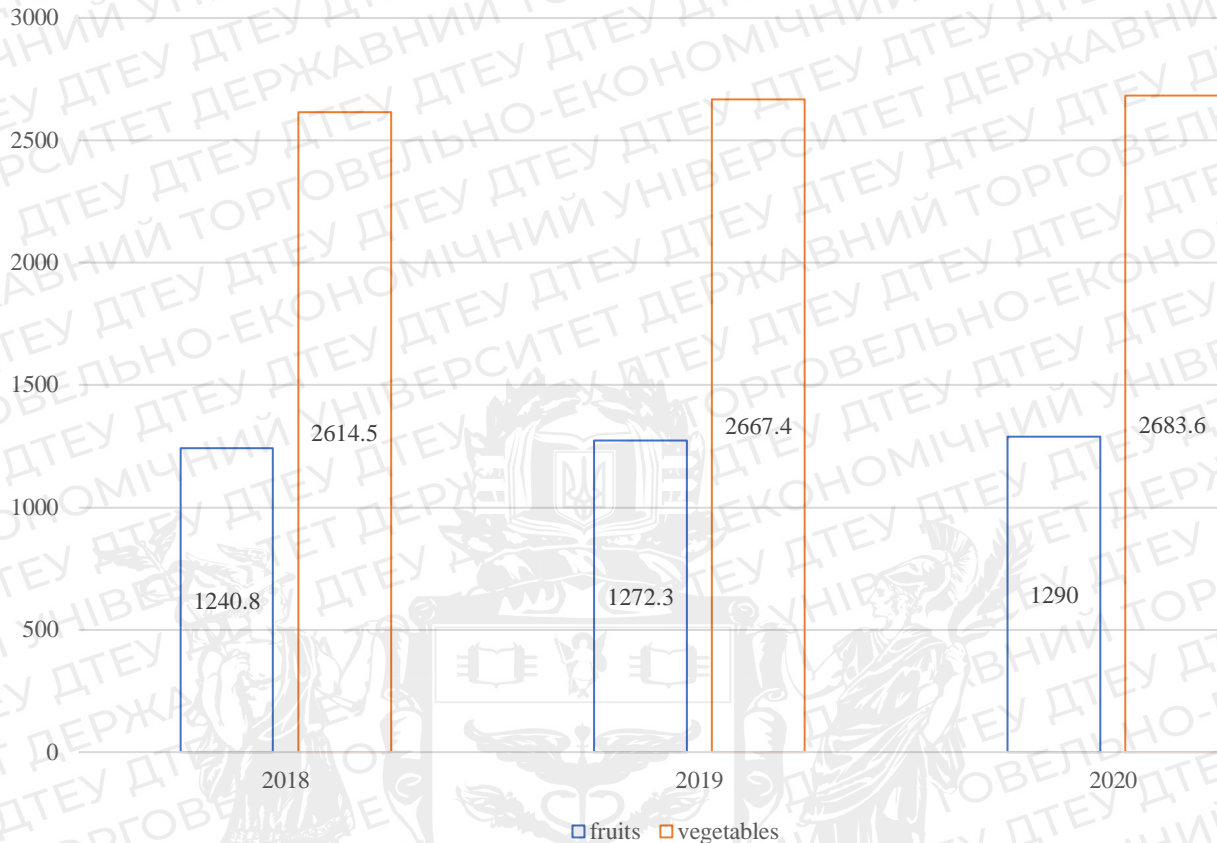


Fig. 20 Consumption of fruits and vegetables (in thousand tons)

Source: built by author based on the data [19]

As seen in the graph, the consumption of fruits and vegetables shows almost no growth in amount. However, there is a major change in a structure of origin of goods consumed. It is stated, that import of fruits mostly consists of exotic fruits and comprises around 23-25%. This relatively high volume of imports, despite Ukraine being large agricultural country, is explained by inability to grow bananas and citruses, thus creating a necessity to import said commodities into the country. In the next graph presented data on the import of fruits in 2018-2020.

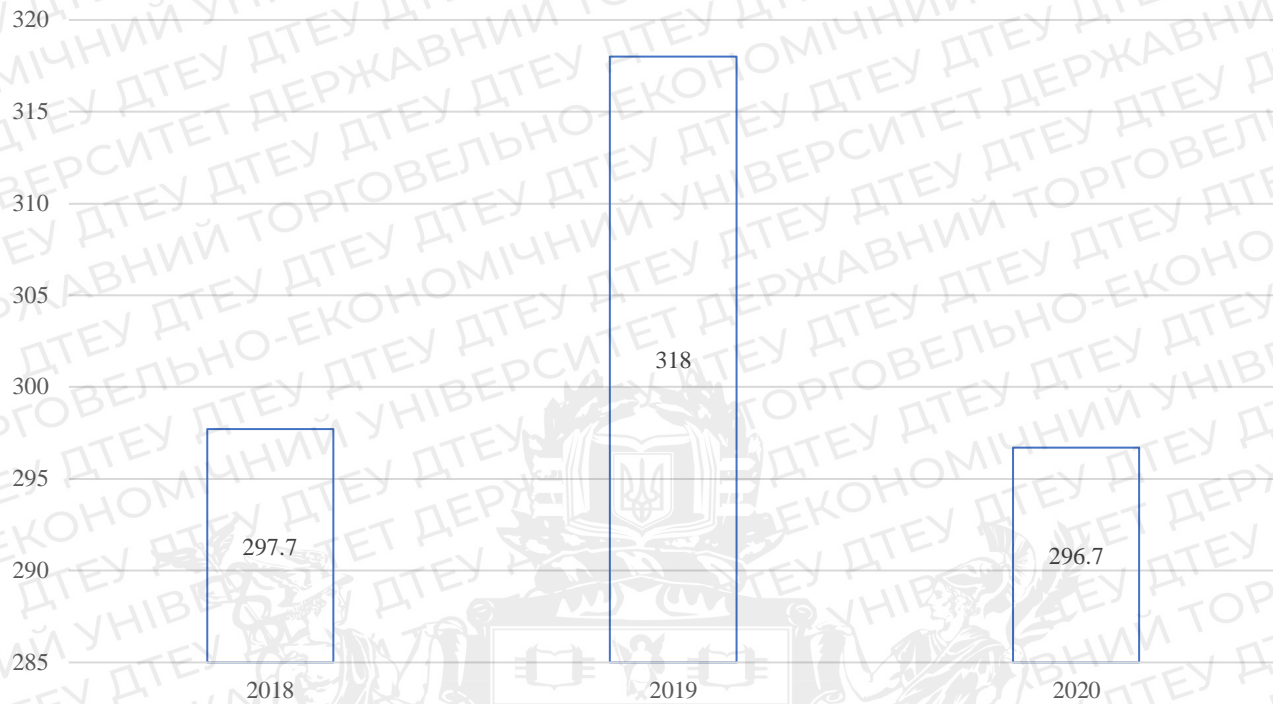


Fig. 21 Import of fruits to Ukraine (in thousand tons)

Source: built by author based on the data [20]

As we can see from the graph in figure 21, the import of exotic fruits comprises significant part of the Ukrainian market of fruits and vegetables. This indicates high demand for bananas, citruses and other exotic species of fruits. LLC “EKO” already sells these kinds of goods, however, the company solely relies on companies-importers, rather than acquires commodities from abroad itself. While the bananas and tropical fruits are grown primarily in equatorial and sub-equatorial regions, causing delivery costs to be high and making these import operations to be sub-efficient, import of citruses is much more reasonable due to transportation routes being much shorter as well as wider range of suppliers of choice. That means that “EKO” should expand its product range of citruses by establishing direct import contracts with European producers, that are not represented on a high scale in Ukraine.

The potential countries-counteragents are Spain, Italy and Greece being the three countries with highest production rate of citruses in Europe. Spain is claimed to be the largest producers of citruses in Europe, with the output of around 3.34 million tons in 2019 and 3.49 million tons in 2020 [9]. The data on the production rates of citruses by European countries

is presented in a table below.

Table 6

Top 3 EU Fresh Orange Producers (Thousand tons)

	2019	2020
Spain	3342.5	3496.1
Italy	1650.2	1772.7
Greece	915.5	886.6

Source: built by author based on the data [21]

As mentioned above, Spain is the leading country in production of oranges, followed by Italy and Greece in output volumes respectively. The other citrus species that are frequently consumed by Ukrainian customers and are produced in Europe are lemons and limes. The total output across the EU area is presented in the next table.

Table 7

Production of lemons and limes in European Union (Thousand tons)

2018	2019	2020
1683	1488	1720

Source: built by author based on the data [10]

The lemon and lime production comprises a smaller share of citrus production if compared to oranges, accounting for 20.1% in tons produced. It is dictated by the actual demand for these types of citrus, meaning, that oranges are more preferable to customers. This means, that prioritized commodity in direct import of citrus for “EKO” is oranges. Given the fact, that healthy diet became ever more popular due to pandemic outbreak in 2020, the increase in imports of exotic fruits and citrus will be relevant, because proposition needs to meet the demand.

While the most imported categories of goods are “hot drinks and confectionery”, “milk and dairy products” and “water, beverages and beer” the categories such as “water, beverages and beer” of direct import are needed to be developed even further in order to meet the demand of customers. “Milk and dairy products” and “hot drinks and

confectionery” are imported in sufficient numbers, however, the product range is to be revised constantly. “Meat and meat products” goods are produced in Ukraine in large amounts; hence, the domestic demand is satisfied mostly by local producers, rendering imports irrelevant. On the other hand, “Fish and seafood” is produced at much lower rate domestically, while the demand for this type of goods is higher than output. This means that direct import of this category of commodities should be developed further in order to meet the demand and increase turnover of the company.

2.2 Estimate of competitive capabilities of directly imported goods by LLC

“EKO”

In this paragraph we will compare the directly imported goods by LLC “EKO” to their counterparts, brought in by nation-wide companies-importers. The analysis will include comparison of pricing, total costs, related to the sales and recognition by the customers. This will determine, whether efficiency of this import operations is net positive, or is damaging to the LLC “EKO”. The analysis will also help to determine, which categories of import should be revised, which developed further, given already conducted analysis of the demand, and which ranges of products need to be reduced due to their low efficiency.

First, the emphasis is going to be placed on the categories of goods, that are prevailing in the direct import operations such as “hot drinks and confectionery”, “water, beverages and beer”. These categories possess wider ranges of products, meaning, there is more goods to compare, and more data can be gathered. And secondly, categories of goods with lower representation, but with a moderate demand will be revised. Such categories include “fish and seafood”, “dairy products” etc. This distinction is needed to be done, because difference in development of these categories is dictating applicable measures of analyzing and proposition of possible solutions if needed.

First category of comparison is going to be “water, beverages and beer”. Brands of comparison are the following: “Morshynska”, “Borjomi” (IDS Borjomi) “Bon-Aqua” (Coca-Cola Ukraine) and “Akvile” (EKO’s direct import)

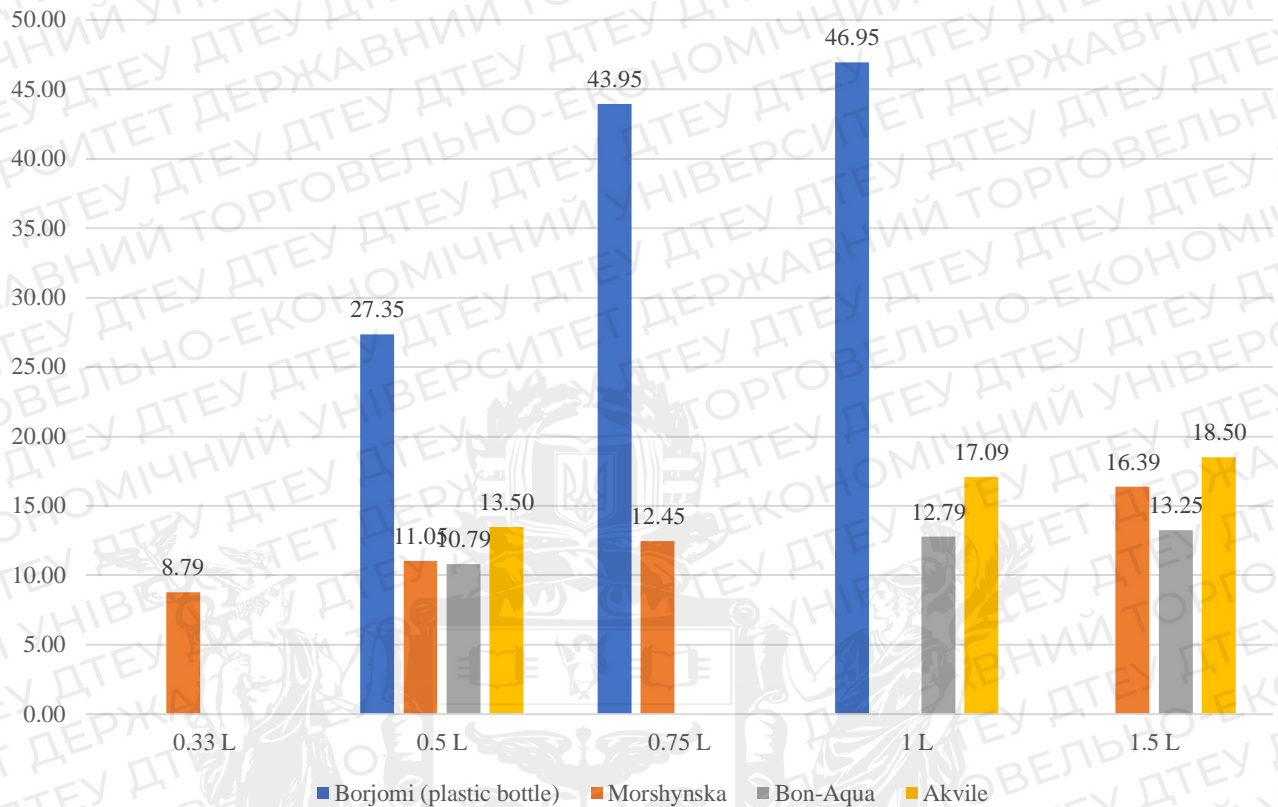


Fig. 22 Pricing of a bottle of mineral water with different volumes (in UAH)

Source: built by author based on the data [22]

As we can see from the chart in the figure 22, water under brand “Akvile” is sold at higher price than that of “Morshynska” and “Bon-Aqua”. The discrepancy is 18-35% depending on the volumes of bottles compared. This, paired with lower brand recognition of “Akvile” compared to “IDS Borjomi” and “Coca-Cola Ukraine” products leaves the directly imported commodity at a disadvantage. The constant internal marketing of the brand as well as its participation in discounts can increase sales, but the pricing is still to be reconsidered if not the partnership at all. This higher pricing can be related with suppliers’ prices on commodities, transporting and sales costs etc. If the issues with higher pricing and low recognition of the brand can be addressed at reasonable expenses, then LLC “EKO” should continue partnership with “Akvile”, otherwise – it is more profitable to stick with product range, offered by “IDS Borjomi” and “Coca-Cola Ukraine”.

“Hot drinks and confectionery” category of goods is much wider of a product range; therefore, comparison should be done of select few goods, that are as similar as possible to directly imported ones. The compared goods are going to be cookies from the following producers: “Roshen Lovita” (Roshen), “Milka Sensations” (Mondelez Ukraine), “Millenium with Chocolate” (Millenium Chocolate Factory) and “Bogutti in American Style” (Bogutti Sp., Poland). The later one is the LLC “EKO”’s direct import.

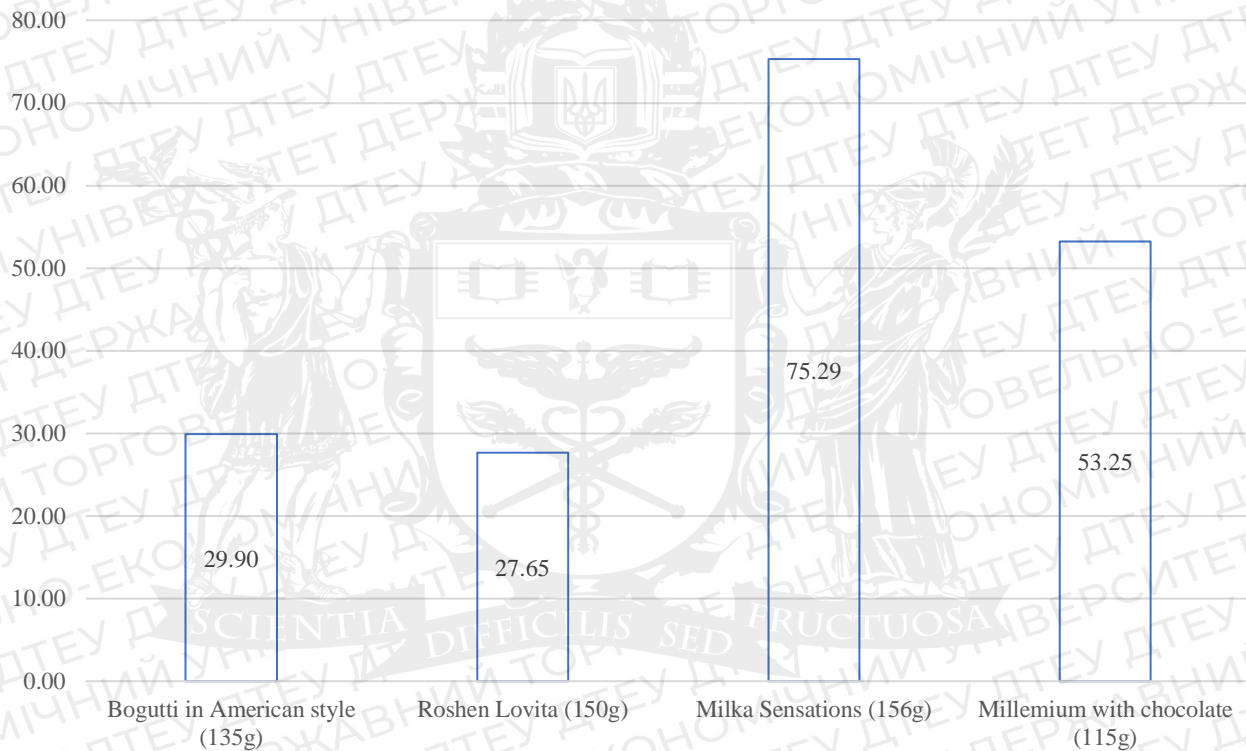


Fig. 23 Pricing of a single package of cookies of different brands (in UAH)

Source: built by author based on the data [23]

As shown in the graph in figure 23, the directly imported cookies “Bogutti in American Style” are at an advantage from a standpoint of pricing with “Roshen Lovita” being only 2.25 UAH lower. Paired with constant participation in discount sales, low pricing and decent quality of “Bogutti” cookies makes them a good offer to customers as well as profitable commodity to the company.

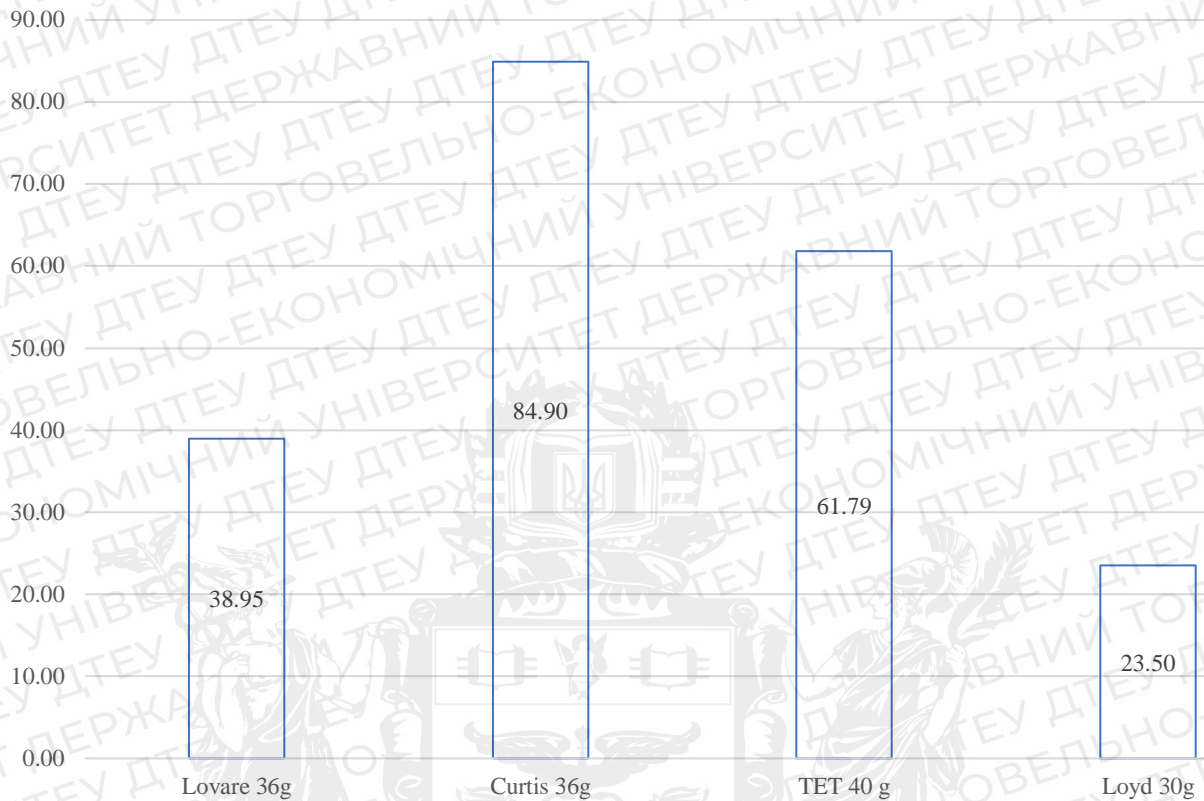


Fig. 24 Pricing of a single package of tea of different brands (in UAH)

Source: built by author based on the data [24]

In the graph in figure 24 presented information on pricing of four tea brands – “Lovare”, “Curtis”, “TET” and “Loyd” – directly imported by LLC “EKO” brand (country of origin Poland). Tea under “Loyd” brand is by far the cheapest one regarding overall pricing and in weight to cost ratio. The tea under this brand is also constantly participating in discount sales which only helps to boost sales volumes. The only lacking part about “Loyd” tea is that it commands low recognition among customer base.

“Fish and seafood” category has much less variety in the commodities, that are directly imported, presenting only a few products. For comparison in pricing and recognition of a product, a product line of mussels is going to be used. The reasoning for usage of this line of products is following: the market for given commodity is very homogeneous; there are enough samples for comparison. In the following graph will be shown pricing of the brands “Vodnyi Mir”, “Flagman”, “Santa Bremor” and brandless mussels, imported directly by the LLC “EKO”.

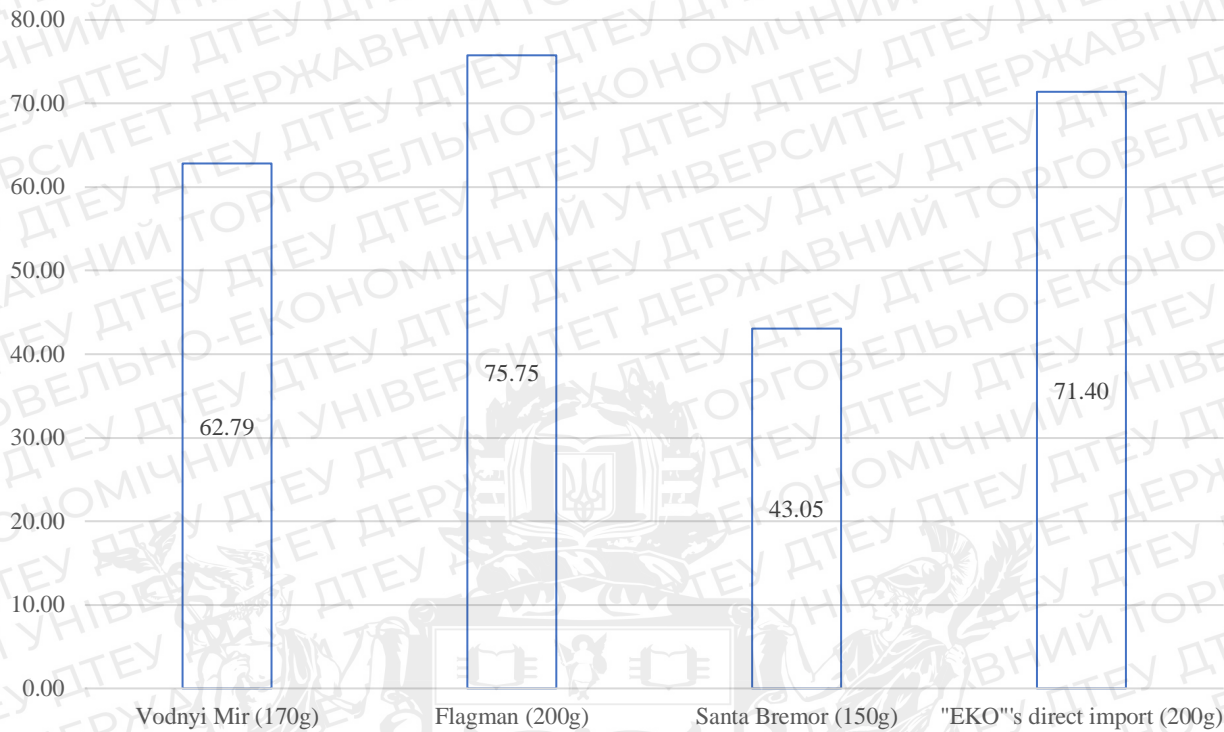


Fig. 25 Pricing of a single package of mussels of different brands (in UAH)

Source: built by author based on the data [25]

As shown in the graph in figure 25, directly imported by the “EKO” mussels are second highest priced ones. The reason for higher cost might be suppliers’ prices, and delivery costs. But it is worth mentioning, that mussels belong to the sub-category of delicacies, meaning that high price is not necessarily a disadvantage, but rather a sign of better quality to some extent. However, even if directly imported mussels possess the best quality, absence of any kind of brand name (be it “EKO’s own import”) makes the commodity less noticeable by the customers, therefore sales need to be assisted with marketing measures.

The line of products, that is imported the most in the category of “milk and dairy products” is yoghurts. The brands of comparison are following: “Danone”, “Galychyna”, “Lactel” and “Mlekovita” (“Mlekpól” Poland). “Mlekovita” is a brand of dairy products, that is directly imported by the LLC “EKO”. While the first two brands command higher recognition by the customers as well as higher market presence overall, brand “Mlekovita” offers product of nearly same quality, paired with a wide choice of flavors

and charging a lower price per gram of a product. The comparison of prices is displayed in the following graph:

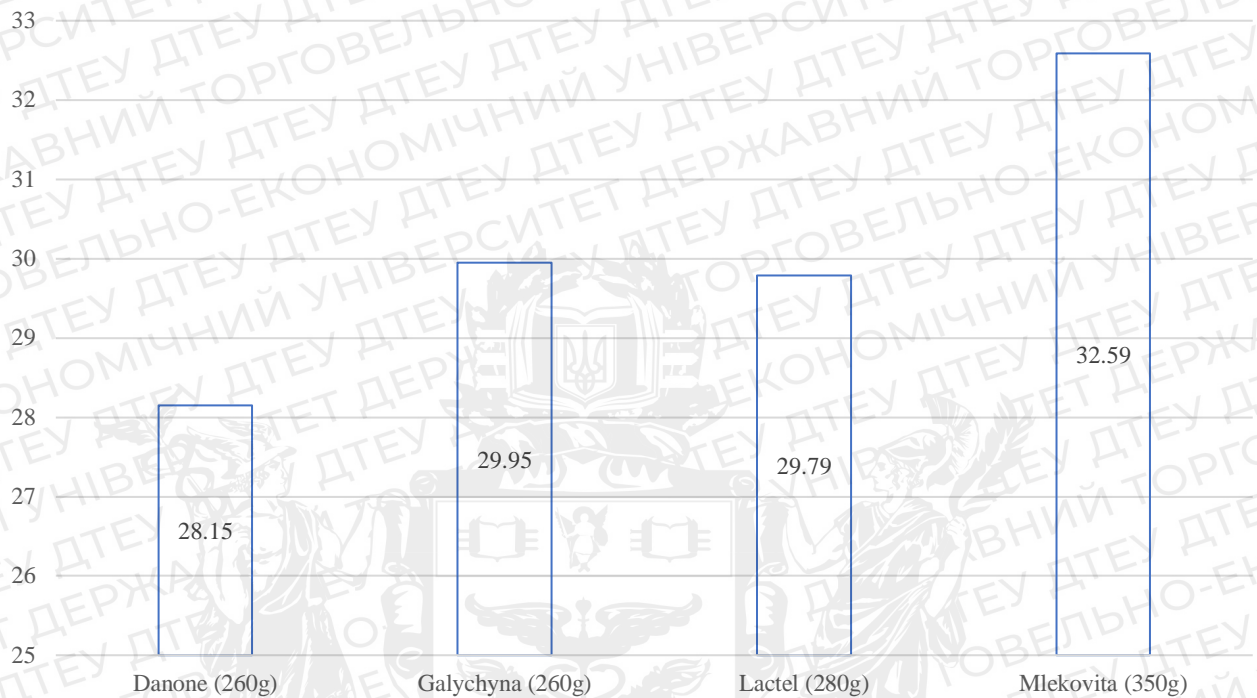


Fig. 26 Pricing of a single package of yoghurt of different brands (in UAH)

Source: built by author based on the data [26]

While in absolute numbers price per one cup of yoghurt of “Mlekovita” is noticeably higher (at minimum 2.80 UAH more), the ratio of price to weight is the best in the group of comparison. As was mentioned above, the brand has lower recognition by the customers, than any other brand, listed in the graph, but this is due to relatively recent introduction and low presence of the “Mlekovita” to the Ukrainian market.

While the direct import of LLC “EKO” is slowly, but steadily develops the network of suppliers, it suffers from several problems:

- Low recognition by the customer base of imported commodities.
- Inconsistency in pricing due to differences in suppliers’ pricing and delivery costs.
- Low amounts of directly imported goods overall, which are the cause of the former two problems in part.

However, there are several advantages to the direct import as well:

- Commodities, that are both unrepresented at the local market and are sold at lower price are giving a competitive advantage to the LLC “EKO” by being able to make a unique offer to the customers.
- Direct import provides company with redundancy, meaning that in case of termination of a contract with one supplier, the volumes of undersupplied goods can be substituted by the foreign supplier.

In conclusion: LLC “EKO”’s direct import products range offers goods of a decent quality at a decent price, which is a good attraction to potential customer base. On the other hand, the products range of given commodities is less recognizable due to recent introduction and low presence of imported brands to the Ukrainian market. That means that even though goods are good deal to the buyers, there is required additional marketing spending to drag customer’s attention to the good, hence partially neglecting potential profits. On top of that, the network of foreign suppliers remains underdeveloped in terms of number of said suppliers and in many cases volumes of commodities supplied.

The overview of organization of direct import process, and possible solutions for its optimization or reorganization are going to be given in the next chapter.

CHAPTER 3. CONDUCTION MECHANISM OF IMPORT PROCESS OF FOOD PRODCUTS FROM EUROPEAN COUNTRIES BY THE LLC “EKO”

3.1 Organization of import process by LLC “EKO” from European countries

The organization of import process by the LLC “EKO” is performed by the commercial department’s category management. Even though the total turnover of commodities is divided into approximately 14 categories, the bulk of direct import suppliers is managed by the subdivision of FEA (Foreign Economic Affairs) category managers. The only category of imported goods, that is entirely managed by the

respective category management subdivision is “alcohol/elite alcohol” and “cigarettes and tobacco” (both maintained by same category managers). This is due to specific nature of import duties, charged from these types of commodities (excise tax).

Every other category of imported commodities is relegated to the FEA-subdivision for the following reasons:

- FEA-managers are better qualified in the import activity, whereas regular category managers are not.
- Consolidation of the flow of imported goods in one subdivision helps to establish logistical processes more efficiently.

The organization of import process by the LLC “EKO” is conducted in several steps. This process includes two phases: phase of search for a potential partner; establishment of an import contract and activity with said partner.

The establishment of a new partnership is done in the following steps:

- Search for a potential counteragent (partner).
- Written application (e-mail) with an offer for a partnership.
- Primary negotiation on terms and conditions of a future contract.

If steps in the first phase are completed successfully, the second phase is launched.

It is comprised of the following steps:

- Establishment of the supplying contract terms and conditions.
- Based on the current contract is formed specification – a document, which regards detailed list of goods supplied by the partner to the LLC “EKO” amount and price of goods delivered, terms, destination of delivery etc.
- The specification is approved on both sides or corrected if needed and signed.
- The goods then are being supplied by the supplier in accordance with periodicity, assigned in the specification and are paid for by the LLC “EKO” in accordance with the prices, prescribed in the current contract.

- In case of termination of a prolongation or termination of the current contract the specification is also updated or terminated.

The FEA-subdivision of the category management uses following set of documents in the process of import: supply contract, specification, supplementary contracts (agreement on usage of electronic documents etc.), invoice.

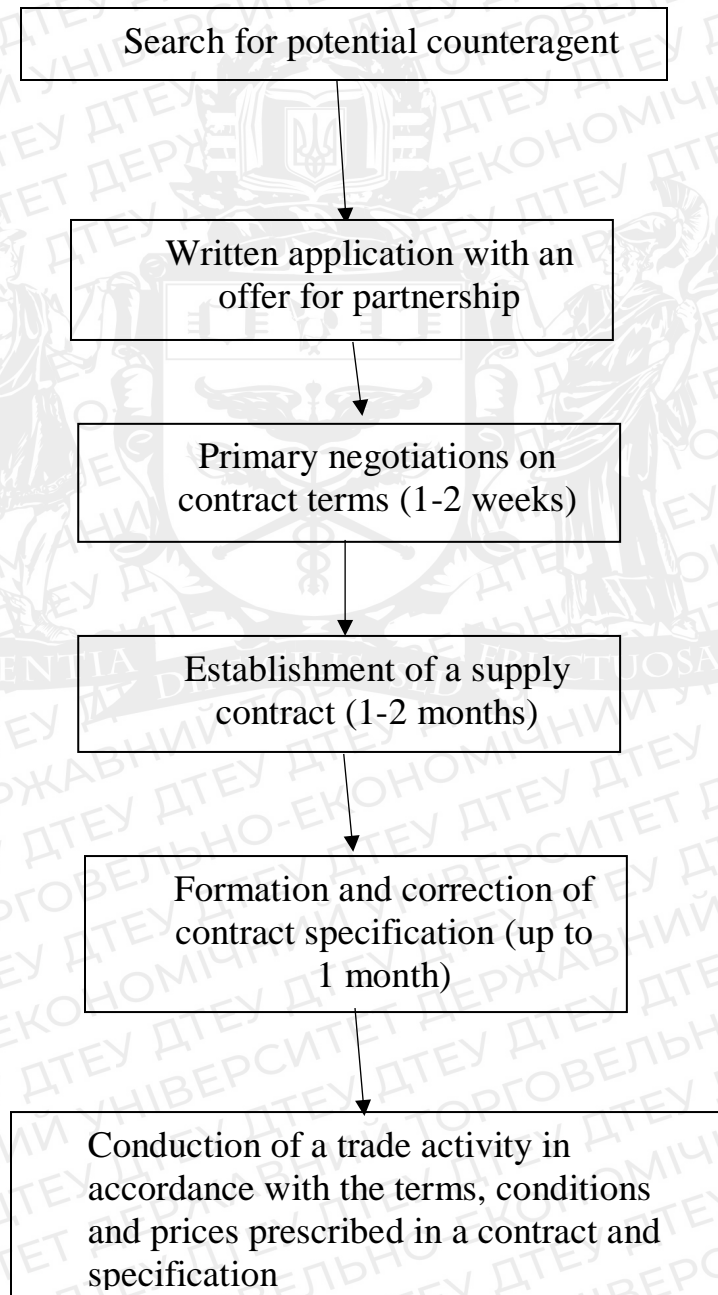


Fig. 27 Algorithm of establishing new partnership

Source: built by author based on the data []

As seen in the graph, showing the algorithm for establishing the new partnership with foreign counteragent, a lot of time and effort is spent at intermediary steps of contacting potential partner and agreeing upon terms and conditions of a contract. These steps take from 2.5 ad up to 3.5-4 months. Such a large time consumption is contradictory to fast and effective development of direct import supplier’s network. Therefore, the FEA-subdivision needs to be expanded in order to be capable to search for and establish new partnerships as well as remain being able to conduct regular day-to-day activities.

The proposal is to hire managers, who would specifically be appointed to the tasks of establishing new partnerships and doing minor complementary tasks in regular activities of FEA-subdivision. In the following Gantt’s diagram [21] will be showcased schedule for the operation of hiring and accommodating new managers to the FEA-subdivision.

	July, 2022	August, 2022	September, 2022	October, 2022	November, 2022
Tasks to accomplish					
Find and hire new managers					
Accommodate and train new managers in the department					
Newly trained managers work under supervision					

Fig. 27 Schedule of proposed operation of hiring and accommodating new managers to the FEA-subdivision

Source: built by author

The previously mentioned operation would approximately take 5 months to accomplish. The first step of finding and hiring new managers considers “worst key scenario” meaning that the process can take less time, but due to many variables time of completion of the task may fluctuate significantly. Accommodation and training process may also take less than two months (depending on the workload of the managers, training newly hired colleagues), but it is always nice to dedicate more time to certain tasks, if necessary. And the third and the last step is in fact probational period, which is always one month in the Company. It is obligatory to test managers, before they start work fully

independently in order to ensure that blunders are minimal.

3.2 Estimate of relevancy of the import of commodity groups by the LLC “EKO” that are being researched

In section 2.2 the comparative analysis of imported categories of goods was done. Those categories have different competitive capabilities, meaning, they have different levels of relevancy for LLC “EKO” from economic standpoint.

The category of “water, beverages and beer” is mostly reliant on the companies-distributors, that are importing and trading commodities on nation-wide scales, meaning that those companies have a strong influence over the domestic market of the Ukraine. Therefore, those companies can dictate pricing on the goods and exert high presence of their products on the market. For comparison, the discrepancy in pricing between directly imported mineral water “Akville” and locally produced “Morshynska” is fluctuating around 18-35% with “Morshynska” being the cheaper option.

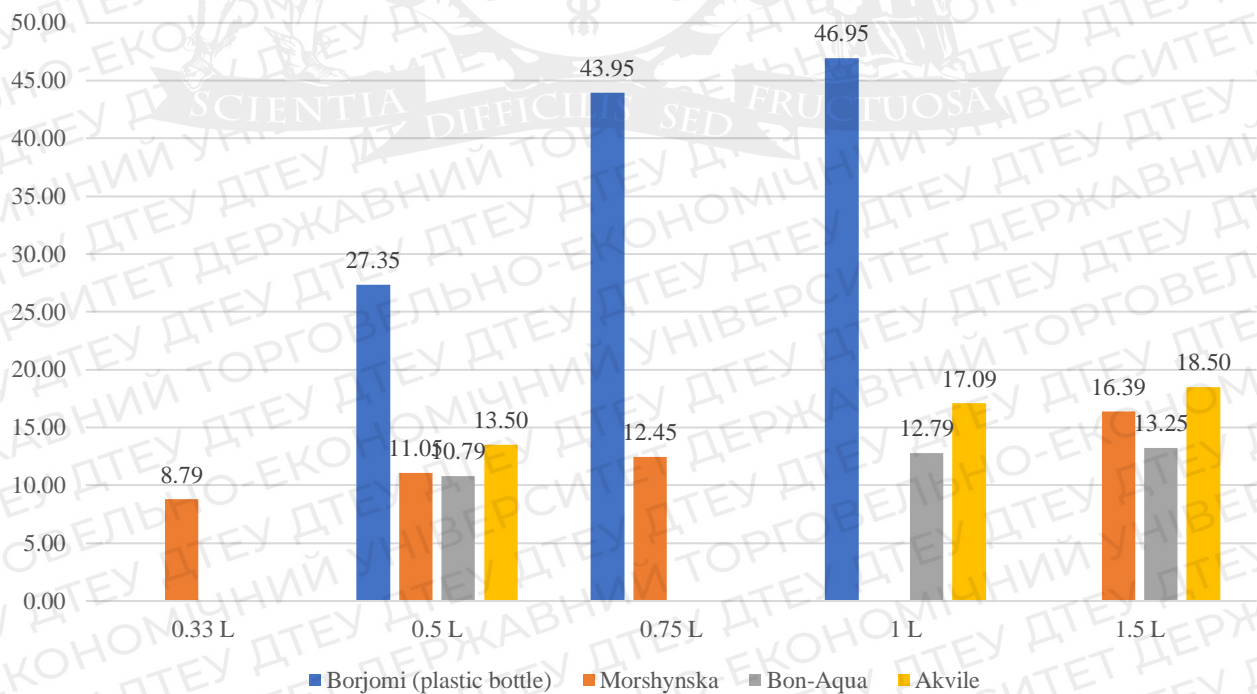


Fig. 27 Pricing of a bottle of mineral water with different volumes (in UAH)

Source: built by author based on the data [22]

Given the fact that such suppliers of mineral and drinking water as “IDS Borjomi” and “Coca-Cola Ukraine” have a cumulative market share of market of 50% [11]. These renders the import of water and alcohol-less beverages directly irrelevant in low amounts, unless management plans on further expansion of said categories.

The direct import of commodities, that belong to the category of “Hot drinks and confectionery” proves to be more relevant. This is due to several reasons: the product range of said categories of import is larger as well as amounts of commodities sold. On top of that, the lower pricing is another competitive advantage for those goods, which only boosts sales. Adding the fact, that most of the commodities from the category “Hot drinks and confectionery” are imported from Poland, the cost of delivery is significantly lower.

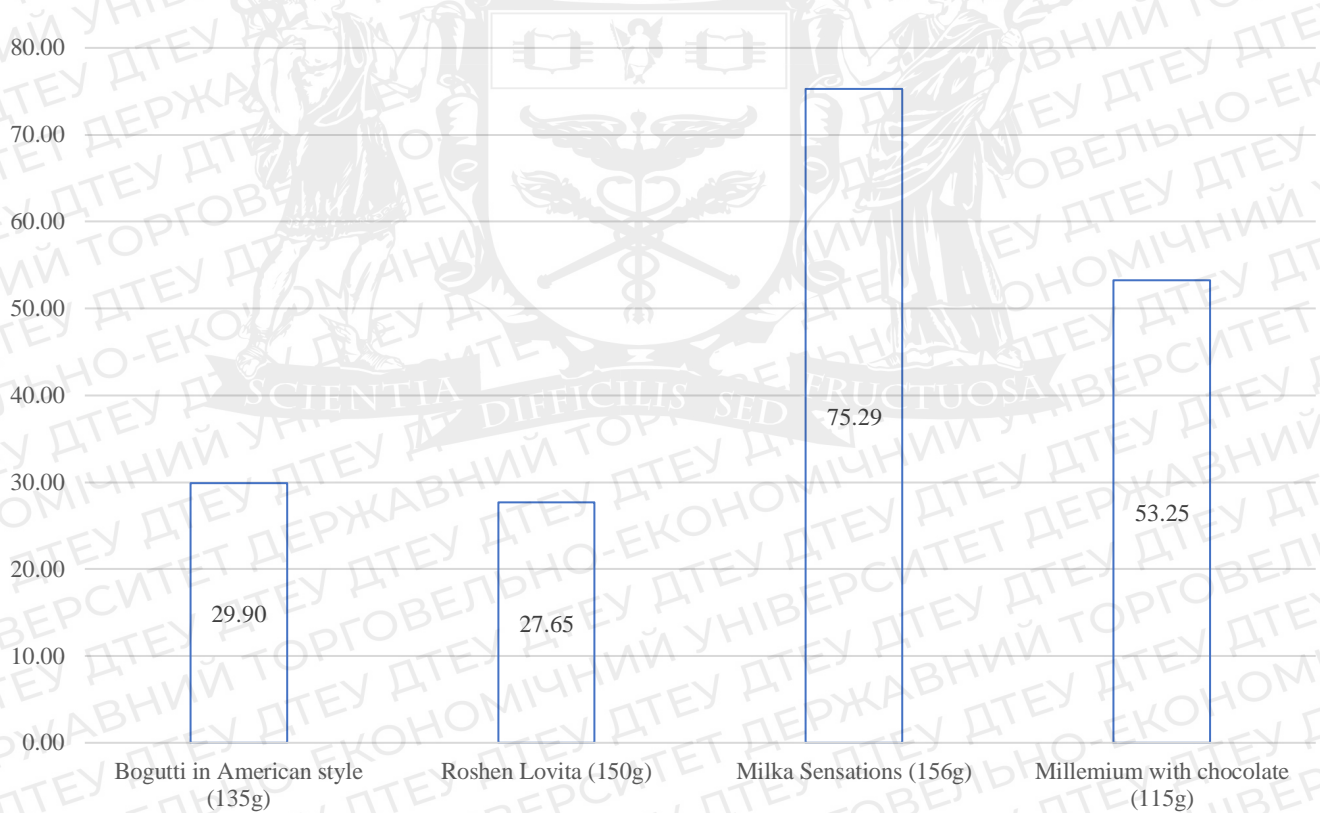


Fig. 23 Pricing of a single package of cookies of different brands (in UAH)

Source: built by author based on the data [23]

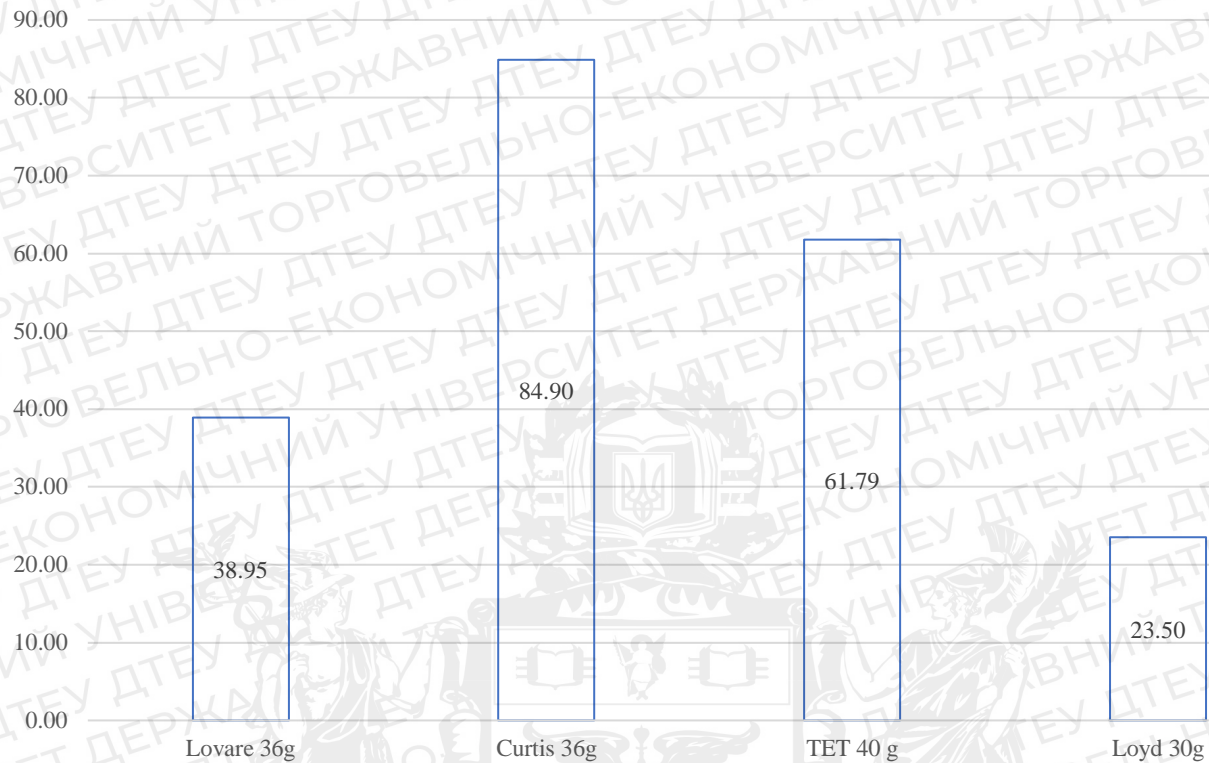


Fig. 24 Pricing of a single package of tea of different brands (in UAH)

Source: built by author based on the data [24]

Mentioned above factors of suitable import geography, competitive pricing and wide range of products makes the direct import of “Hot drinks and confectionery” category economically relevant.

“Milk and dairy products” category is showing dual nature: while fresh milk and perishable dairy products are irrelevant for the import, because these goods are produced in the large amounts by domestic companies and are prone to getting spoiled in a process of delivery across long distances.

On the other hand, such products as cheese, yoghurts and other processed milk goods are a good option for import, because they are much less likely to perish, while being transported and tend to possess better quality, than Ukrainian counterparts (cheeses especially). Given the fact, that pricing for these goods is also more competitive, makes direct import of dairy products relevant from economic standpoint of view. The only fact, that neglects all these advantages, is the low recognition among Ukrainian customer base

and low presence due to recent introduction of numerous brands. Nonetheless, this disadvantage can be diminished by extensive use of marketing tools (advertisements, discount sales etc.).

In conclusion: the import activity of the LLC “EKO” is helping to diversify and make more competitive range of products, however, this is not always economically appropriate (as in case with mineral water and alcohol-less beverages). Different categories have different market conditions, related to them, meaning, that one single subdivision of FEA-management cannot account for all specifics of it. But those categories, that are showing signs of success, must be developed further at higher pace.

CONCLUSIONS

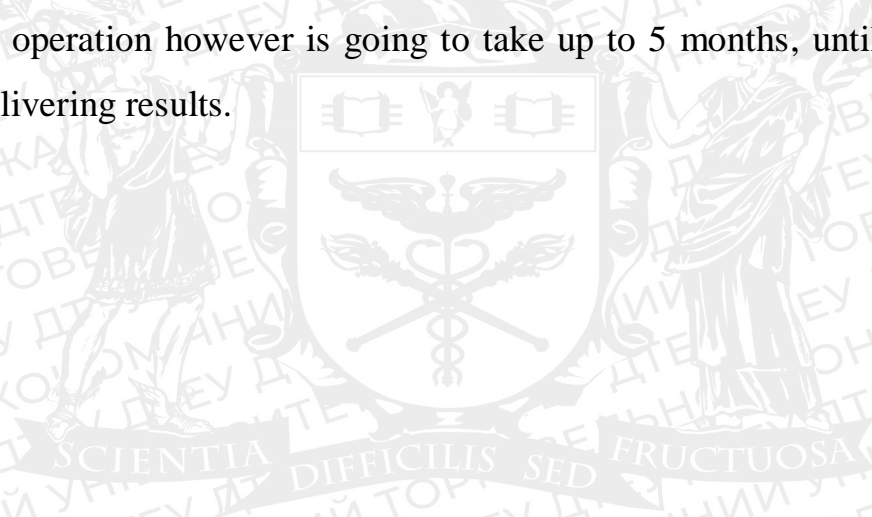
The import activity of the LLC “EKO” even though it brings some positive results for the company and helps to diversify products range, create redundancy in sources of supplied commodities and many other advantages, is bringing little impact due to the number of imported SKU’s reaching only 4% of total SKUs in turnover. The other issue with direct import activity of the “EKO” is number of staff, assigned to the task: there is a total of four managers, that are conducting organizational processes of the import activity of the Company. While other subdivisions may have approximately same numbers of suppliers they are working with and same number of managers on average (2-6 people), those subdivisions are busy only with one specific category of commodities, while FEA-subdivision interacts with multiple categories at once. This may affect the efficiency of their work, therefore, commercial department management should consider expanding the FEA-subdivision, if they want to increase pace of direct import growth.

Other factors, that prevent direct import from increasing in volume are negative equity of the enterprise, shops undergoing renovation process, overall decline in revenues in 2019-2020 which are needed to be recovered. These issues are affecting not only import activity in particular, but the Company in general. Hindered trade activity, due to decrease in number of active stores, brings no benefit to the company at the moment. Nonetheless, renovated

stores are going to be more attractive to the potential customers, hence, the turnover might increase due to influx of new and returning buyers. These renovated stores are great opportunity for LLC “EKO” to introduce new goods to the growing audience.

The use of marketing already proved to be a valuable tool to the LLC “EKO”, hence, the use of advertising and other marketing tools can help to boost sales of newly introduced goods.

The other important step to improvement of direct import of the Company is expansion of the FEA-subdivision. This operation would allow for faster pace of development of foreign supplier network as well as accomplish more tasks in a given period of time. This operation however is going to take up to 5 months, until new managers are capable of delivering results.

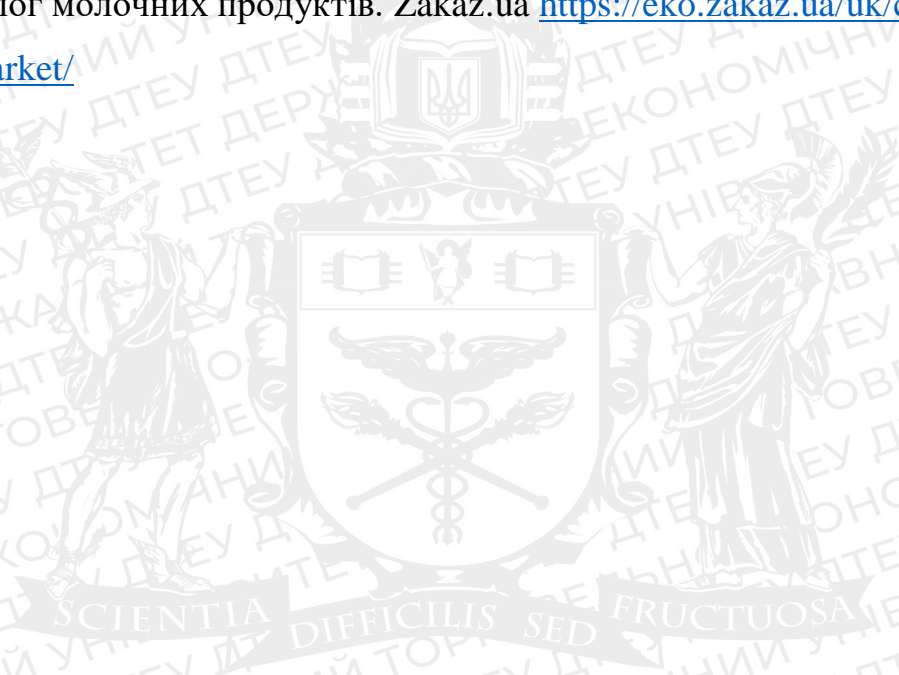


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Appendix

Share capital of the LLC "EKO"

Appendix A

(In thousands UAH)

	31.12.2019	31.12.2018	31.12.2017
Status capital	533520	533520	533520
Additional capital	3354	3354	0
Undistributed income (uncovered loss)	-1606233	-1609709	-1536666
Total	-1069359	-1072835	-1003146

Source: built by author based on the data [12]

Commodity turnover of the LLC "EKO"

Appendix B

(In thousands UAH)

	2018	2019	2020
Commodity turnover	7007708	6744599	6443167

Source: built by author based on the data [13]

Financial results from regular activity of LLC “EKO”

Appendix C

(In thousands UAH)

	2020	2019	2018
Income from regular activity	6146482	6338027	6555997
Cost of goods sold	-5260316	-5408453	-5627627
Gross income	886166	929574	928370

Source: built by author based on the data [13]

Monetary flows of the LLC “EKO” as a result of operational activity in 2018-2019

Appendix D

(In thousands UAH)

Monetary flows as a result of operational activity	2019	2018
Income from:		
Goods sales	7073834	7338873
Return of taxes	113	0
Prepayments from customers	575685	516949
Income from returned prepayments	443648	568889
Income from debtors	63	17
Income from operational rent	16399	14485
Income from royalties	3000	2400
Other income	2285633	1769772
Payment expenditures:		
For goods	-6436457	-6560011
For labour	-210415	-202414
For social initiatives	-58146	-56284
For tax liabilities	-124434	-121814
<i>For income tax</i>	0	0
<i>For added value tax</i>	-17656	-13936
<i>For other taxes</i>	-106778	-107878
Expenditures for prepayments	-679151	-856140
Expenditures for returned prepayments	-542404	-403699

Other expenditures	-2184733	-1854467
Net financial monetary flows from operational activity	162635	147556

Source: built by author based on the data [14]

Monetary flows of the LLC "EKO" as a result of operational activity in 2019-2020

Appendix E

(In thousands UAH)

Monetary flows as a result of operational activity	2020	2019
Income from good's sales	7337526	7576891
Income from royalties	3762	3000
Income from rent and further sale of assets	79954	91591
Other income from operational activities	27807	443205
Payments to suppliers for goods	6063576	6905578
Payments to workers	178624	210415
Payments with a purpose of acquiring or producing assets	206007	208676
Other payments related to operational activity	533227	543758
Net financial monetary flows from operational activity	467615	246260
Other income (loss) of money	-233033	-230689
Net financial monetary flows from operational activity	234582	15571

Source: built by author based on the data [13]

Cumulative income report 2018-2019

Appendix F

(In thousands UAH)

	2019	2018
Net income from sales	6338027	6555997
Cost of goods sold	-5408453	-5627627
Gross income	929574	928370
Other operational income	133961	149702
Administrative expenditures	-136788	-169625
Sales expenses	-733551	-719877
Other operational expenditures	-36465	-69652
Financial result	156731	118918
Income from capital participation	0	0
Financial income	29098	11802
Other income	3359	5225
Financial expenditures	-185524	-191918
Capital participation expenditures	0	0
Other expenditures	-1820	-15493
Financial result from regular activity before taxation	1844	-71466
Expenditures (income) from income tax	1632	-1577
Net financial result	3476	-73043

Source: built by author based on the data [14]

Cumulative income report 2019-2020

Appendix G

(In thousands UAH)

	2020	2019
Net income from sales	6146482	6338027
Cost of goods sold	-5260316	-5408453
Gross income	886166	929574
Other operational income	141142	119349
Sales expenses	-630746	-733551
Administrative expenditures	-158398	-136788
Other expenditures	-33450	-22989
Total	204714	155595
Financial income	22478	29098
Financial expenditures	-176361	-185524
Loss from utility decrease	5229	2674
Other income (expenditure) from subsidiaries	-14000	0
Income (loss) before taxaion	42060	1844
Expenditures for taxes	-5093	1632
Income from current activity	36967	3476
Net financial result	36967	3476

Source: built by author based on the data [13]

Monetary flows as a result of financial activity 2018-2019

Appendix H

(In thousands UAH)

Monetary flows from financial activity	2019	2018
Income from loan receiving	1277538	1344422
Expenditures for loan repayments	-1336365	-1386175
Expenditures for interest	-77543	-67510
Expenditures for repayments for financial rent	-1307	0
Net money movemet from financial activity	-137677	-109263
Net money movemet within financial period	2219	9741
Money reserve at the beginning of the year	142480	132738
Currency exchange rate influence at money reserves	0	1
Money reserve at the end of the year	144699	142480

Source: built by author based on the data [14]

Monetary flows as a result of financial activity 2019-2020

Appendix I

(In thousands UAH)

Monetary flows from financial activity	2020	2019
Income from loan receiving	1080766	1277 538
Expenditures for loan repayments	-1162509	-1336365
Expenditures for repayments for financial rent	0	1308
Expenditures for interest	79616	77543
Net monetary flows from financial activity	-161359	-137678
Net increase (decrease) in cash and it's equivalents regarding currency exchange rates fluctuations	-84593	2219
Net increase (decrease) in cash and it's equivalents	-84593	2219
Cash and it's equivalents at the beginning of year	144699	142480
Cash and it's equivalents at the end of year	60106	144699

Source: built by author based on the data [13]

