



## The Agrifood Market: Essence and Principles of the Organization

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### ABSTRACT

One of the most significant problems of the modern society is providing the population with food. This issue is currently being considered almost in all countries of the world as an important goal of governmental policy such as rural territories development, sustainable agriculture development, social security, etc. The purpose of the research is to work out scientifically-grounded proposals for effective organization and functioning of modern agrifood market. For that, several methodological approaches have been used: descriptive, analytical, systematic and integrated. As a result, elements of agricultural markets and their relationships were described, the features of agricultural markets development were updated and summarized, methodological principles of their effective organization were formulated and represented.

**Keywords:** Agrifood Market, Sustainable Development, Market Research, Governmental Policy, Food Security

**JEL Classifications:** Q10, Q11, Q13

## 1. INTRODUCTION

Formation of effectively functioning agricultural markets is aimed at solving the most important problems of the contemporary society-providing population with food in the quantity, variety and quality, guaranteeing increase in living standards and preservation of health. It is regarded as one of the goals of the acute state agrifood policy of Russia focused on sustainable agriculture and rural territories development, food security and social protection of the population. Modern agricultural markets are complex and multifaceted phenomena. Their empirical study must be preceded by a comprehensive theoretical understanding and studying of the essential specifics, structural characteristics and principles of agricultural markets organization.

While evaluating the nature of the agrifood market, one should analyze generic and specific properties and factors of this economic category. The starting point of the study is identification of the main conceptual approaches to the analysis of essential market characteristics.

The variety of market definitions in foreign and domestic economic publications could be determined by the following circumstances:

- Its evolution during the social development, connected with the transition process from the simple to more difficult social and economic forms, the concrete historical and country specifics
- The reflection of historical stages of the market evolution as the research object in accordance with the logic of the scientific knowledge
- Many aspects and versatility of the considered category owing to which the definitions available in the economic publications characterize the separate parties of the market
- The nature of setting a problem, the choice of the principles and the methodological approaches to their resolution and respectively the orientation of the results received.

The main conceptual approaches to the market research developed within different schools of the economic science: Classical, neoclassical, Marxist, Keynesian and institutional (Table 1) (according to: Keynes, 1973; Marx and Engels, 1867/1949; Coase

**Table 1: Main conceptual approaches to the research of market in the context of key economic science directions**

| Schools of the economic science | Content of the concept   |
|---------------------------------|--|
| Classical                       | Market is a set of relations in the exchange sphere by means of which the realization of goods and final recognition of the public nature of the labour put in it are carried out; the central element in the system of commodity-money relations, a dominating and identifying way of the relation between isolated producers on the basis of public division of labour   |
| Neoclassical                    | Market is an interaction form of the subjects of economic relations concluding bargains concerning goods (sellers and buyers); a set of business operations and conditions determining the production and the sale of goods; an instrument of the effective distribution of the economic resources between different spheres of their application which is carried out finally according to the consumer will; a difficult mechanism allowing with the greatest completeness and efficiency to use information disseminated among an uncountable number of individual agents |
| Marxist                         | Market is a form of historically identified system of the economic relations of commodity production and its boundaries are set by an essential, deep contradiction: General relationship of producers, i.e., general isolation of manufacturers   |
| Keynesian                       | Market is a non-equilibrium macroeconomic system presented by a set of interconnected markets which determines the need of active government intervention into the economy   |
| Institutional                   | Market is an institute of the society perceiving, accumulating and creating its norms, values, requirements by means of which it forms the ways of the managing subjects interaction and carries out their social and economic behavior regulation which assumes various factors regard (transactional expenses, incompleteness of information, distribution and specification of property rights, limited rationality and opportunism, contract agreements and so forth)  |

and Wang, 2011; North 1989; Hayek and Bartley, 1988; Smith, 2011; Meissner and Galbraith, 1974; Jevons, 2013; Marshall, 1989).

Their comparison enables to identify key methodological propositions reflecting the main properties and characteristics of the market:

- Market relations represent the system of the public relations considered in the form of the subject relationships mediating realization of the reproduction processes by purchase and sale of goods and services
- Market relations are based on commodity production and circulation laws, competitiveness, seller and buyer interests balance, decentralized mechanism of the price signals, coordination, regulation and control of individual decisions and preferences
- Market mechanism is a special way of economic resources distribution between the spheres of their application, its efficiency is determined by the influence of various factors (degree of the market competitiveness, independence of manufacturers, freedom of resources exchange, completeness and symmetry of information, specification of the property rights, development of the market infrastructure, institutional bases, organizational forms, etc.).

However, due to the development and complexity of market relations in Russia, new approaches, that develop methodological aspects of classical positions appear. Thus, in this context, there is a need for their scientific basis and identification of practically important directions of the contemporary economic thought.

## 2. METHODOLOGY

The modern markets are a complex and multidimensional phenomena. The complex theoretical understanding and the identification of the

main conceptual approaches to the market essence analysis as a social and economic category have to precede their empirical studying. Thus, a complex integrated approach has been used as a base for methodology of studying agroindustrial complex and agrifood markets. To consider various aspects of agrifood market functioning improvement, the descriptive and analytical methodological approaches have been used. Official documents, which form a certain framework for sustainable development of the agricultural sphere of Russia were analyzed (Food Security Doctrine of the Russian Federation approved by the Russian Federation President Decree of May 12, 2009 No. 537, The Federal Law of December 29, 2006 No. 264-FL "On Agriculture Development" (as amended).

## 3. RESULTS

Assuming as a whole the systematic approach, it is necessary to mark out, as a part of the structure-forming elements of the market, not only the specific subjects but also the objects of the agrifood market. The agrifood market unites the agrarian market, where the agricultural raw materials and production of the processing industries are realized, the food market presented by the agricultural production and the suppliers of the natural resources, processing productions, public catering, and also the wholesale and retail trade. In structure of the agrifood market three independent but interconnected sectors are marked out: the market of agricultural raw materials where the products for further processing are sold; the foodstuff market where food products produced from the agricultural and other raw materials are realized; the market of agricultural production where sales of organic goods occurs. Each of the markets has its features, a specific structure of the contractors, the institutional organization and the infrastructure.

Thus, the agrifood market is a complex system which, on the one hand, is the sphere of the agrifood products

circulation and, on the other hand, provides interrelation between agricultural production and consumption of agrifood products, continuity and integrity of reproduction process. The basis of the agrifood market is made by commodity-money relations connected with production, distribution, exchange and consumption of agrifood products. The structural and functional organization of these relations is provided with a set of organizational, economic, financial and socio-economic institutional forms.

Assuming the above-mentioned, the agrifood market can be characterized as a complex system of institutionally organized economic relations between agricultural producers, the food and processing industry enterprises, infrastructure subjects, state and population integrating the processes of production, circulation and consumption of agricultural production, raw materials and food on the basis of commodity-money relations in the uniform reproduction process.

Thus, the agrifood market possesses a number of features distinguishing it from other commodity markets, represented in Table 2.

As the market represents a complex social and economic system, its formation demands an integrated approach. Absence or lack of development of at least one of the market elements (infrastructure, system of regulation, parity of the prices, etc.) causes serious malfunctions and development disorders.

## 4. DISCUSSION

In the domestic economic publications new approaches have been established which are developing methodological provisions of the economic thought. Let us highlight the reproduction approach developed on the basis of classical, marxist and neoclassical theories of the market. One of its consecutive supporters, an academician Abalkin, characterizing the modern market system, notes: "The bases of the market are formed in the course of public division of labor when exchange and distribution mediate the connection between production and consumption. The market mechanism becoming more and more difficult and branched influences both production and consumption and establishes the feedback so necessary for their successful development" (Abalkin, 2004).

**Table 2: Distinctive features of the agrifood market**

| Feature  | Description  |
|--|--|
| Limited opportunities of the supply amount control                             | It is subject to the influence of the natural factors owing to which the opportunities of agricultural producers to control the scales of production are limited, the supply of agricultural and food products fluctuates every year   |
| Instability and unevenness of the production supply                            | It is unstable which is caused by seasonal supply of many types of agricultural products on the market within a year and inequality of its supply during the years because of weather conditions fluctuation   |
| High branch risks  | High risks caused by instability of the market conditions in connection with the natural factors and also uneven supply of products on the market within a year are inherent. It causes fluctuation of the market prices which also increase additional costs on the production preparation for the future and its storage   |
| Low elasticity of supply   | Poorly responds to price signals as fixed costs in the branch exceed variable ones; high level of fixed costs leads to aggravation of the financial and economic position of the producers in case of output decrease  |
| Limited opportunities of the supply adjustment according to the demand changes | Manufacturers cannot quickly adjust production outputs according to the demand fluctuations, supply cannot be changed until the end of the production cycle even if demand increased or decreased  |
| Demand continuity  | Consumers rather evenly use food and cannot delay its consumption for the long-term. Market capacity is defined not only by the population but also by its physiological needs. Having saturated the market with the food according to the public needs, producers pay special attention to the production quality improvement, more profound processing of agricultural raw materials   |
| Low elasticity of demand   | Demand for the majority of the agricultural and food products has low price elasticity which is explained by the law of the decreasing marginal utility and moderation of the substitution effect. The population rather steadily uses a particular food basket and a very sharp prices decrease is needed to cause the consumption increase   |
| Increased stability of demand in comparison with supply                        | Demand for agricultural raw materials, finished goods and foodstuffs is more stable than supply. Changes in demand are determined by the influence of changes on the number of consumers, their purchasing power and consumer preferences  |
| Increased costs  | Agrarian business is characterized by increased costs owing to the specifics of public labour costing with a glance to the worst operational environment and greater capital endowment of agrarian industry against other sectors of economy   |
| Strong competition   | It is characterized by the strong competition because of a large number of agricultural goods manufacturers who can only be monitored but not influence the market prices  |
| Considerable regional distinctions   | Regional distinctions have a considerable influence. They determine not only the range of manufactured agricultural raw materials, finished goods and foodstuffs but also the amount of transportation costs and the level of production costs and market prices; the localization of some producers of agricultural products far from the centers of its consumption, places of processing and storage does not allow them to provide profitable sale terms |

Regarding to the basic provisions of the reproduction approach, we consider that researching the modern market essence characterized by the complicated structured interactions of the managing subjects has to be added with the institutional approach which will provide an effective combination of resource opportunities developed in various theoretical and methodological schools. Taking this into account, the market is characterized as a certain type of the economy functioning and formation of institutionally organized economic relations between its subjects on the basis of commodity-money relations regulating production processes, distribution, exchange and consumption (Ketova, 2005).

As the market is a complex formation it can be classified by a number of criteria (objects, economic value, competitiveness degree, sphere of use, territorial location, etc.). The appeal to the object structure of the market enables to pass to the analysis of its specific category i.e., “the agrifood market.”

## 5. THE AGRIFOOD MARKET ESSENCE

The agrifood market takes a special place in the branch structure of the market which is caused by its role to meet the demands for the corresponding production and ensuring the food independence of the country. The modern agrifood market is considered in the economic publications as the complex component, the social and the economic system. Thus, Vorobyev considers the agrifood market as a complex multifunctional system of commodity-money relations between manufacturers and consumers of agricultural products, transportation, processing, storage and realization arising in the processes of production, distribution, exchange and consumption (Vorobyev, 2006, p.16).

According to a scientific approach of agrifood market matter basic conditions are not only of interest but also certain institutional aspects. Thus, Savitskaya considers that the agrifood market is a system of economic relations and institutional forms of delivering agricultural and food production to the end user through exchange, wholesale, retail with the use of logistic and information networks (Savitskaya, 2007, p.55).

Nechaev, analyzing the grain market (one of the key segments of the agrifood market) as a difficult, multi-purpose social and economic system, marks out its following basic components:

- Subjects of the market, i.e., sellers (goods manufacturers and intermediaries), buyers (the wholesalers, processing factories, storages, households, public institutions), end users of products i.e., the population
- Institutional bases, i.e., acts and trading rules, units and methods of market infrastructure regulation and so forth
- Infrastructure, i.e., material, technical and organizational systems of purchase, transportation, storage and sale of products, exchanges, wholesale structures, retail networks, systems of financial transactions between sellers and buyers, information, consulting and marketing services
- Market basis of the relations, i.e., freedom of production (supply), demand (the choice of suppliers and consumers), pricing (Nechaev, 2009, pp.63-70).

## 6. THE INSTITUTIONS ROLE

Government institutions play a defining regulating role in the operation of the agrifood market. The common formula about “market self-regulation” is no more than a myth (Rizgayev and Mikhailushkin, 2008).

The legislative branch of the government formulates and adopts in the legal acts the “rules of the game” including the relations between market contractors, determining the technical procedures of goods production, customs regulation, tax system, sanitary and phytosanitary control, territorial and time restrictions of food trade, including drinks and tobacco goods.

Executive authorities, including regional ones, draft and enact the subordinate legislative acts regulating the agrifood market operation; stimulate the development of its separate parts by granting certain benefits (on taxes, rent, loan interest, tariffs, partial compensation of production costs, setting import quotas on certain goods, etc.); exercise the observance control of labor and tax legislation, technological procedures, fire safety rules, sanitary and phytosanitary requirements. However, one of the most important tasks of the executive authorities is an anti-corruption and criminal drive in the sphere of the agrifood market (Zakshevskaya, 2004).

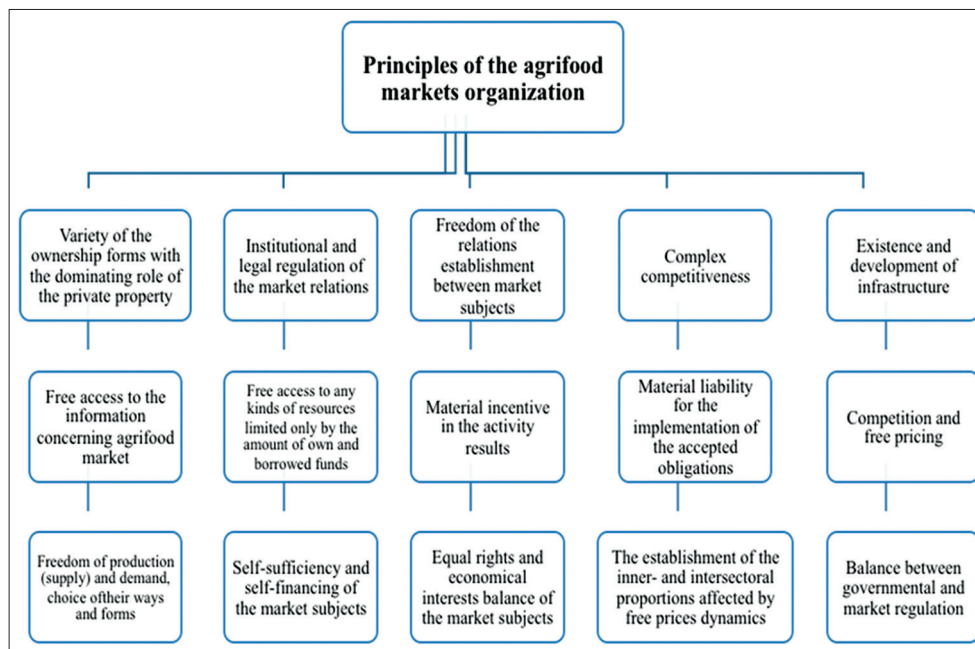
The agrifood market, as well as any other social and economic phenomenon, is in the process of the dynamic development. Its material and technical basis (of agriculture, processing industry and sale), the production infrastructure (specialized vehicles, the warehouse and cryogenic equipment) are systematically improved. With the transition to the innovative stage of development, electronics and use of modern communications are getting more important (Yakovets, 1990).

New communication opportunities have become the basis for the logistics in the agrifood complex infrastructure part, the formation of the system of information and consulting service for contractors, contactless forms of commercial transactions and other innovations.

Serious changes are noted in organizational and production structures of the agrifood complex, i.e., forms of ownership diversity and variety of managerial systems increase competition between market participants.

Processes of producers’ concentration, i.e., consolidation of individuals in the agricultural consumer cooperatives, formation of the cooperative and cooperative integrated systems, agro-industrial holdings, distribution networks, agro-industrial financial groups are increasing.

Innovative forms of commodity-money relations in the sphere of the agrifood market, i.e., futures transactions, price interventions, electronic payments, mortgage warehouse receipts, double mortgage certificates, Internet use for exchange and retail are being developed.

**Figure 1:** Key principles of the agrifood markets organization

With the development of the agrifood market infrastructure its globalization accompanied with the territorial specialization intensifies. The multinational companies covering certain commodity segments (dairy products, confectionery, canned food, sugar, etc.) are formed and successfully operate (Stiglitz, 2005). With general growth of agrifood market resources in the last decades, the share of agricultural production spent on the nonfood purposes (production of biofuel) has been increasing. It deters the growth of food resources and is one of the limiting factors of implementation of the UN hunger elimination program in the developing countries and is also reflected in the world prices for agro-production.

## 7. CONCLUSION

Besides, market is a dynamic system adequately reacting to the environmental changes, transformation of the technical and technological, organizational, economic, social and other conditions of the public reproduction. Taking into account the features of functioning and development of the agrifood markets, and also generalization of the positions presented in the economic publications enables by an addition and specification of the structure of the markets general organization principles to formulate the methodological principles of the agrifood markets organization (Figure 1).

In our opinion, the following principles have to underlie in the basis of the formation and efficient functioning of the domestic agrifood market (Figure 1).

Also it is important to note, that food needs have physiological nature and provide basis for life support in any social and economic form of the society, so they are constant, their satisfaction is necessary and fully depends on the optimal and effective agrifood market organization. Realization of the mentioned principles in

the Figure 1 will allow government to choose support strategy by own efforts, to overcome the long-term food dependence, to fully use powerful resource potentials (land potential, human capital potentials, etc.) and develop agricultural and other production spheres.

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