

The different scale of the business - the same problems

In recent years, the Ukrainian consumer has witnessed significant changes in the domestic cheese market. The range of cheeses on the shelves is changing – imported brands have been replacing Ukrainian cheeses. For example, in 2021, the share of imported hard/semi-hard cheeses made up a third of the total sales of this type of product.

In addition, another segment of this market is becoming noticeable – the segment of craft cheeses, i.e. those produced in small quantities and differ from industrially produced cheeses in terms of production technology, production volume and assortment. In Ukraine, this type of cheesemaking gained particular popularity not so long ago. The number of people willing to create their own cheeses and develop it as a business is growing. In particular, significant growth occurred in the first year of the war. Festivals and contests are regularly held, there are training courses, and special shops are opened. In short, this segment cannot be ignored, it exists and is growing.

Like the large industrial cheesemaking plants that produce mass cheeses, crafters need to sell their products. Do they have to solve the same problems that their colleagues in the large-scale cheese industry face?

The problems of industrial producers who sell their products through retail networks are well known. Their struggle to settle relations with the retailers that take advantage of their de facto monopoly position and dictate their own conditions through purchase contracts to which suppliers must agree, has dragged on for more than one year. Further – more. Even these conditions, in the process of deliveries, are violated by the retailers that put new demands and delay payments for goods. These delays can often be as long as 90 days. Partial payments are also practiced, when the supplier does not receive the full amount, but only a part. The unpaid balance is deposited "in debt".

Dissatisfaction of industrial suppliers of food products with such "cooperation" with retail reached a boiling point two years ago. Several draft laws (No. 6068, No. 6068-1, No. 6068-2, No. 6068-3 and No. 6155) were submitted to the Verkhovna Rada. They were supposed to legally settle all disputed points, especially the terms of payment to suppliers. The fact that several draft

laws appeared at the same time did not help in solving the problem. The problem was discussed at several meetings where the Chamber of Commerce and Industry of Ukraine, the Committees of the Verkhovna Rada on Economic Development and Finance and Tax and Customs Policy, the Ministry of Agrarian Policy and the Ministry of Economy were participating. Associations of food producers were involved, memoranda were signed. Retailers were assuring the meetings participants of their loyalty and fulfillment of obligations; suppliers were talking about the billions of debts of the networks to them. Representatives of the aforementioned Committees of the Verkhovna Rada made statements about their commitment to the principles of market economy and non-interference in business relations.

In the end, the necessity to intervene became clear. In April, the Chairman of the Verkhovna Rada's Committee on Economic Development stated that, in his opinion, only legislative regulation can solve the problem and that the corresponding draft law will be submitted to the Verkhovna Rada for consideration at the beginning of this summer.

The above relates to the peculiarities of the sale of their products by large food enterprises, which sell the lion's share of their products through retail networks.

And what does the sale of craft cheeses look like? It turns out that the main distribution channel used is Internet trade as the most affordable way to sell the small volumes that are produced by craftsmen. This is what Iryna Demyaniuk, a farmer, professional cheese maker, founder and teacher of the School of Cheese Making, director of the NGO "Guild of Artisan Cheese Makers" says:

"Craft cheese production cannot be called simply "production". This is a unique type of creativity with unlimited opportunities for mastering new things and development. Frankly, not everyone has the opportunity to gain a new knowledge. Small families who keep their own cows and produce cheese have to do everything themselves, from obtaining raw milk to sales. It is a hard work that takes up all the time, leaving no room for improvement. There are also those who buy high-quality milk from farms, they are engaged only in cheese making. These people have time to develop, go to exhibitions, trainings, participate in professional competitions, etc.

And they all face the problem of selling. Why is it a problem? Because craft cheese production means small batches, these are products that need to be specially introduced to the consumer. Retail networks as specialized providers of trade services remain attractive seller of goods for craft producers.

"When I first started my cheese production, I didn't have to look for a network and persuade people to sell my products. At a certain stage, the network became interested in cooperation themselves. It all started well. For example, in 2009 my cooperation with Silpo retail network began just like this - they themselves approached me with an offer and I did not have to pay any "entrance" fees. But there were other networks where everything looked different - contracts with the number of pages as thick as half a stack of A4 paper, demands for payment for each item, even if the "items" differed only in the volume of the packaging. In addition, the conditions for returning goods in many networks meant simply losses for us.

It was surprising that, showing interest in craft products, the networks did not want to take into account the specifics related to this sort of production and take some steps to make cooperation convenient for us, those who supply products in small batches. For example, they did not want to take goods from FOPs (individual entrepreneurs), insisting on re-registration of the supplier in LLC (limited liability company). This cut off a significant share of potential suppliers who conduct the entire business independently according to simplified reporting and cannot afford hiring an accountant who would deal with the relevant papers, reports to the tax service, and so on. It was also required to bring the goods on a 5-ton truck, because it is convenient for the networks for the unloading procedure. But the delivery of a few heads of cheese or bottles of goat's milk with such a vehicle made the very idea of sales through retail network pointless.

It is worth mentioning the trade support service, in particular, the qualifications of sellers. If the managers in most networks are qualified people, the same cannot be said about the salespeople in the halls. They are not familiar with the assortment, do not know where a product is displayed and, of course, cannot tell the buyer anything about it. There were cases when we found our product on the lower shelves, in the second row behind other products...

Well, now about the problem of payments. In our contracts (purchase of cheeses), a payment period of 40 days is specified. At the same time, as a rule, we received payment much

later. Sometimes after 2-3 months. And we did not receive it in full. Part of the money remained at the disposal of the network, replenishing the debt that had already been accumulated by that time due to such "payments".

Of course, for families where cheese making is not a fashionable hobby, but a business to make living, this is a very painful issue. Therefore, although sales through retail chains are attractive, the disadvantages of cooperation with them force to look for other ways. For example, I opened my own small shop. I understand that not everyone can afford it. Online sales remain one of the main sales channels for most craft cheese makers. I would like more understanding of the specifics of sales of our products from the side of retail chains."

The relationship between suppliers and retail chains is a hot topic not only for domestic manufacturers. In the EU, the problem of unfair trade practices also exists. Sometimes it was the reason for spectacular demonstrations of dairy farmers who had to survive at a time when the retail industry felt quite comfortable. It happened that sometimes farmers drove milk trucks to Brussels and poured milk in front of the European Parliament. That is why, in addition to other measures, the [Directive \(EU\) 2019/633 of the European Parliament and of the Council on unfair trading practices in business-to-business relationships in the agricultural and food supply chain](#) was adopted. It was supposed to become a safeguard against distortions in business relations and protect participants with a weak negotiating position. The Directive was adopted to preserve the stability of the food industry for its strengthening and development. Because the most effective way to force the strong to yield for the sake of the common good is through the law.

In Ukraine, as we can see, large industrial and small craft producers of food products are approximately equally dependent on trade networks. The first step to solving the problem - reducing this dependence - is the adoption of the appropriate law, as it has already been done in the EU. This will create the basis for balancing the market power of suppliers and trade networks. And this power will be balanced all the better and faster, the more European networks will enter the Ukrainian market and thereby destroy the trade monopoly that has developed in Ukraine. This is exactly what Alexander Anton, the Secretary General of the European Dairy Association, said while addressing the participants of the 2nd Expert Discussion "World, Europe, Ukraine - a view from the EU", which was held by The Entrepreneurship and Export Promotion

Office, the national project Diya.Business and the analytical agency INFAGRO with support of Switzerland within the framework of the Swiss-Ukrainian Program "*Higher Value Added Trade from the Organic and Dairy Sector in Ukraine*" implemented by the Research Institute of Organic Agriculture (FiBL, Switzerland) in partnership with SAFOSO AG (Switzerland).

INFAGRO

This publication has been produced with the support of Switzerland within the framework of the Swiss-Ukrainian Program "Higher Value Added Trade from the Organic and Dairy Sector in Ukraine" implemented by the Research Institute of Organic Agriculture (FiBL, Switzerland) in partnership with SAFOSO AG (Switzerland). The contents of this publication are the sole responsibility of the author and do not necessarily reflect the views of the SECO, FiBL, SAFOSO AG, www.qftp.org.