

# **INDUSTRY ANALYSIS AS AN INTEGRAL PART OF STRATEGIC MANAGEMENT (BY THE EXAMPLE OF UKRAINIAN AGRO SECTOR)**

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Each industry has differences in terms of its customer base, resources availability, market share among firms, industry-wide growth and potential, competition, regulation and support, business cycles, etc.

Inherent industry profitability is one important factor in determining a company's profitability. Analysts should try to understand industry structure – the industry's underlying economic and technical characteristics – and the trends affecting that structure. Basic economic factors – supply and demand – provide a fundamental framework for understanding an industry.

We must also stay current on facts and news concerning all the industries in which the company operates, including recent developments (e.g., management, technological, or financial). Particularly important to valuation are any factors likely to affect the industry's longer-term profitability and growth prospects such as demographic trends.

The objective is not to prepare some formal framework representing industry structure or corporate strategy, but rather to use a framework to organize thoughts about an industry and to better understand a company's prospects for success in competition with other companies in that industry.

According to this approach market investigation of Ukrainian Agro sector was performed within the frameworks of the CFA Institute Research Challenge. It was applied for business valuation and company's strategy assessment. Main findings of research are presented below.

## ***Ukrainian agro sector overview***

### ***Global market trends and developments***

**Demand.** Growth of agricultural products consumption has been remarkable resilient over the last years and is anticipated to strengthen hereafter. Generally, stronger consumption growth set to continue due to three major drivers: population growth, changing consumption patterns as well as expanding biofuel sector. World population is projected to reach 9.3 billion by 2050. In respect to these estimates, FAO forecasts that global food production will need to increase on 70% up to this year.

**Price.** According to FAO projections nominal prices on agricultural commodities are expected to trend upwards over the next ten years, but prices in real terms (adjusted for inflation) will remain flat or decline slightly from current levels, but still will be on a higher plateau.

**Supply.** Resource constraints and high costs limit production growth, despite upward trending prices. The slow down of the output growth for the next years is anticipated, but it still will be positive. Limited global arable land,

environmental pressures, and higher costs for some inputs are anticipated to inhibit supply response. That's why more attention should be paid to increasing sustainable agricultural productivity growth.

*Agriculture is one of the most promising sectors in Ukraine*

We believe agriculture is one of the most promising and perspective sectors in Ukraine to invest in. Among the main factors of attractiveness are the low level of operating costs comparing to European countries due to inexpensive labor force and low land rent rates, domestic highly fertile black soil, as well as the strong demand and high prices for agricultural products in the world as a whole and in Ukraine in particular. These numerous advantages enable Ukrainian agro holdings to show higher efficiency than world peers and reach impressive EBITDA margins of 30-50%, compared to Developed market peers' 12-15% margin.

*Agriculture is one of the most 'protected' industries during recession*

Adding to strength, agriculture is one of "protected" sectors – sectors that are the most resistant to world economic fluctuations. It is proved by the stable amount of gross agricultural production during the crisis of 2008-2009, as well as the increase in exports of agricultural products in 2012. Surely, people still have to eat even during a recession. Because food is a basic necessity, the agriculture is showing more resilience to the global economic crisis than other industries.

*State support to agricultural producers*

Agriculture is certainly one of the most promising sectors of Ukrainian economy, but its successful functioning considerably depends on state support. Nowadays in Ukraine there is a regime of the most-privileged status for agricultural producers. According to Ukrainian tax legislation they may choose special tax regimes, including subsidy VAT regime, and the fixed agricultural tax (FAT). In addition government provides the concessional lending and subsidies for agro business.

Thus, comprehensive industry overview may be useful as analysts focus on the following questions relevant to understanding a business:

- How attractive are the industries in which the company operates in terms of offering prospects for sustained profitability?
- What is the company's relative competitive position within its industry, and what is its competitive strategy?
- How well has the company executed its strategy and what are its prospects for future execution?

Економічні проблеми сталого розвитку : матеріали Міжнародної науково-практичної конференції, присвяченої пам'яті проф. Балацького О.Ф., м. Суми, 24-26 квітня 2013 р. / За заг. ред. О.В. Прокопенко. — Суми : СумДУ, 2013. — Т.2. — С. 274-276.