

# Marketing Approach to Forecasting of Regional Market Consumption Potential

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## Abstract

Consumption potential is one of the key elements of the investment climate in the region. It determines the amount of effective demand in the region and is the basis for the manufacturers' assortment policy formation. The article represents the results of the study of the consumption potential as a fundamental element of the investment climate in the region. The models reflecting the dependence of the quantity demanded for the commodity lines on the main factor indices have been developed as results. Practical implementation of the formed models consists in forecasting the region's needs for basic food products.

**Keywords:** Consumer Demand, Consumption Potential, Forecast, Market, Region

## 1. Introduction

One of the conditions for the effective functioning of regional economic systems is their investment activity aimed at attracting different kinds of resources as well as their rational use. The volume of investments attracted is the criterion of performance of the regional development. However, we should take note of the presence of a sufficiently large gap between the required regional resources and their actual volume. In this regard, the assessment of factors forming the investment potential of the economic system serves an important step in the development of the regional growth strategy<sup>1</sup>.

Leading experts in the field of regional studies such as<sup>2-7</sup> and others were engaged in studies of regional economy for many decades. Summarizing the views of scientists, we can say that the investment potential is the quantitative characteristic that takes into account the regional richness by the (natural, labor, material) production factors and the existing consumer demand.

In previous studies on trends in the development of regional economic systems, we have systematized factors of the regional investment potential<sup>8</sup>. It was concluded that despite the diversity of approaches to the determination of the nature and structure of the regional investment potential, there is evidence of a link

between the regional overall economic development indicators and the aggregate purchasing power indicators. Currently, it is uncontroversial that the consumption potential is the most important and significant criterion of assessment of the regional readiness to successfully attract and implement investments, including in the food industry. This element of the investment climate in the region characterizes the customers' needs, opportunities and expectations. This factor is more significant in the sphere of production and circulation. Thus, in this study, assessment of the regional investment potential is based on the use of marketing approach, studying the consumer purchasing power.

The consumer market plays an important role in the reproduction process, as it provides the movement of the commodity weights and the combination of the interests of participants engaged in the process by regulating the economic relations between the subjects. As a result of the sale of goods, we obtain the reimbursement of manufacturer's expenses that ensures the continuity of the entire reproduction system's response by the laws of commodity-money relations (objective economic laws). The consumer market is associated with the service of all phases of the reproductive process and actively cooperates with the entire market system, acting as a liaison, which means that the consumer market is a dynamic system

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that operates on the basis of cooperation with all relevant markets. From this we can conclude that the efficiency level of the entire economic system depends on the level of development of the consumer market.

## 2. Analysis of the Regional Investment Potential

The assessment and forecasting of the regional consumption potential form the basis of the marketing approach to the study of the regional investment potential. Calculation of the actual and potential market capacities of consumer goods and services in Russia as a whole and in relation to the Central Federal District (Figure 1.) led to the conclusion that the manufacturers have the possibility to fill the missing consumer market capacity with the goods and services through the development of functional food products.

The development of market relations significantly affected the state of the food and processing industry, hence the overall production of food products. Processing industry along with consumer goods industry and investment demand sectors (metallurgy, machine building, etc) faced significant challenges associated, in most cases, with the weak assortment policy, insufficiently taking into account the real consumer needs. It was promoted by a backward technological level of the food processing equipment and farm machinery.

Most Russian companies orient production output on the effective demand. This fact is supported not only by the overall price<sup>9</sup>. So, increasing incomes of the population allow more increase in their production, but also the significant product differentiation by product line groups, quality and selectively treating the problem of the purchase of food products, choosing the ones that meet the customer needs to the maximum. This

means that companies need to look for ways of winning a competitive edge in order to increase customer loyalty, constantly conducting its evaluation and adjusting their marketing plans and strategies, because the price methods of competition for customers lose their effectiveness and cannot always be applied, and the solution of increasing the customer loyalty becomes the most promising in modern conditions.

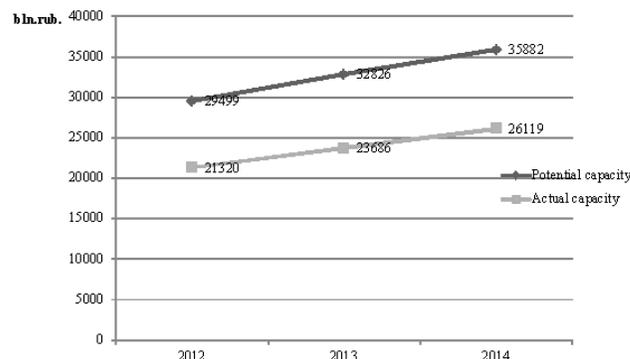


Figure 1. Dynamics of the Russian consumer market capacity.

In accordance with the above data, the potential capacity and consumer market saturation are far from ideal, though, for the three periods analyzed, there has been an increase in consumption, and in terms of increasing incomes of the population, enterprises offer more differentiated products. For example, in the context of dairy products, such types as organic products, dairy products with different flavors, milk shakes from milk and juice, cheese products with jams, biscuits are presented on the market today. Dynamics of production of basic food products in Russia is shown in enlarged form in Table 1.

Based on the analysis conducted, we can conclude that the food industry of the Russian Federation, providing the food market supply, has undergone some changes in the structure of total output for the years of economic

Table 1. Production of certain food products in Russian Federation

Commodity line	2010	2011	2012	2013	2014	Deviations 2014 from 2012
Meat and edible offals of slaughter animalsthous. tons	1184	1222	1342	1711	1930	588
Fruit and vegetable products, frozen, thous. tons	24,1	38,4	40,2	45,3	46,3	6,1
Fish and fish products, processed and preserved, thous. tons	3556	3642	3689	3788	3644	-45
Sausage products	1568	1598	1586	1566	1616	30
Processed and preserved potatoes, thous. tons	119	133	163	187	143	-20
Unrefined vegetable oils, thous. tons	3094	3080	4200	3945	4776	576
Whole-milk products (on milk basis), mln. tons	10,9	10,7	11,3	11,5	11,4	0,1
Bread and bakery products, other, thous. tons	116	115	114	118	127	13

reforms. Increase in food production, trade development and growth of income of the population in the stable development of economy had a positive impact on the development of food market and consumer demand growth (Table 2).

**Table 2.** Implementation of the basic kinds of food products to the population of the Russian Federation

Product name	2012	2013	2014	Deviation (+,-)	Growth rate (%)
Animal oils	154,6	169,	196,	41,3	126,7
Confectionery	635,1	701,1	775,6	140,5	122,1
Paste goods	109,4	125,1	132,9	23,5	121,5
Margarine	35,4	37,3	39,1	3,7	110,6
products					
Drinking milk	194,9	228,4	272,4	77,5	139,7
Flour	83,4	95,9	99,9	16,5	119,8
Meat	1734,1	1870,5	096,4	362,4	120,9
Vegetable oils	128,1	137,8	139,6	11,5	109,0
Fish and seafood	408,4	451,1	524,3	115,9	128,4
Sugar	166,4	177,5	201,	34,6	120,8
Fresh vegetables	295,2	341,1	385,6	90,4	130,6
Fresh fruits	341,2	381,1	437,7	96,6	128,3
Potatoes	88,6	113,2	135,3	46,7	152,6
Bakery products	469,6	533,7	569,1	99,5	121,2
Whole-milk products	431	507	601,2	170,2	139,5
Egg	130,3	145,3	160,8	30,5	123,4

Demand for food products is a key element of the market along with the price and supply and stands in close interrelation and interdependence with them. The food market supply is the amount of products that can be brought to realization in this market at a certain price within a certain period of time. At the regional market it can vary under the influence of factors such as resource prices (which, in turn, may vary depending on the season, production losses, etc), production technology, taxes and subsidies, prices of interchangeable and complementary products, price expectations, and the number of sellers in the market.

Between the supply and demand for specific food products at any given moment there is a certain ratio, characterizing market conditions, however, the main element of regulating the food market is the price.

The guiding function of prices is most clearly shown in the operation of the law of supply and demand. Under certain circumstances, in the food market, as well as in other markets, the income and substitution effects are in evidence<sup>10</sup>.

The income effect on food market is manifested in the fact that the decline in the price of any product increases the consumers' purchasing power and allows them to buy more of other products. The substitution effect is that at lower prices the consumer has the opportunity to buy cheaper products, for example, carbon water-containing products (bread, potatoes, and so on) are mostly bought at high prices for high-protein foods (fish, meat). The

**Table 3.** Analysis of planned and actual consumption of basic food products per capita in kilograms per person per year

Commodity line	Planned		Fact				
	rate	rate	2012 consumption level, %	2013 rate	2013 consumption level, %	2014 rate	2014 consumption level, %
Potatoes	97,5	110	113	111	114	111	114
Vegetable oil	11	13,5	123	13,7	125	13,7	125
Milk and dairy products	330	246	75	249	75	248	75
Meat and meat products	72,5	71	98	74	102	73	101
Vegetables and melons	130	106	82	109	84	109	84
Fish and fishery products	20	17,1	86	17,1	86	17	85
Sugar	26	40	154	40	154	40	154
Fruits and berries	95	60	63	61	64	64	67
Bread products	100	119	119	119	119	118	118
Eggs and egg products, pieces	260	271	104	276	106	269	103

substitution effect is manifested in the case when the price of one of the interchangeable products is reduced and the consumer prefers to buy this product (for example, with a decrease in price for beef, consumers buy it instead of pork, fish, poultry, etc).

Further analysis of identification of factors influencing the change in consumer demand is conducted without the breakdown of the number of consumers into groups depending on their ability to work. Table 3 represents the results of the calculation of the planned, approved by the Ministry of Health and Social Development of Russian Federation, consumption of basic food products per capita and its actually-formed existing level.

Based on this data it should be assumed that it is possible to stimulate demand for such commodity lines as milk and dairy products, vegetables and melons, fish and fishery products, fruits and berries. It is for these commodity lines that the population of the Russian Federation does not use food products in volumes established by the Ministry of Health and Social Development of Russian Federation.

We calculate the actual level of the consumer market for basic food products and compare it with the potential one (Table 4). With this, the actual consumption volume is taken equal to the retail sales revenue and the potential one is calculated by us in the course of factor analysis of the change in the consumer market capacity.

The market of fish and fishery products is noteworthy. Health care professionals note that the approved rate of consumption of fishery products is low. Rate of consumption of fishery products per inhabitant of Russia (according to the Ministry of Health and Social Development of the Russian Federation) is 22 kg, while the average European consumes 30 kg, and the Japanese more than 60 kg of fish per year. Since 2011 the consumption of fish and seafood in Russia is growing by an average of 1.5% per year. Experts predict that by 2015 sales of fish will be around 4 million tons. Analysts attribute the increase in turnover in wholesale and retail trade of fish to the growth in consumer demand, which is growing against the background of the increase in catching and transition to the consumption of cheaper and more useful fish in relation to expensive meat. This is largely connected with the popularization of healthy eating among the population. In the short term, the growth in demand for chilled fish, especially in regions where Japanese cuisine is actively developing, is expected. In this connection, the Russian fishery product market

saturation level, calculated in Table 4, can be considered over valued.

**Table 4.** Analysis of the actual and potential market capacity of certain types of food products (across the Russian Federation)

Product name	2012	2013	2014
<b>Drinking milk</b>			
Number, mln. people	143,056	143,347	143,667
Rate, kg/year/person	50	50	50
Price, rub./kg	33,88	38,64	43,81
Potential market capacity bln.rub.	242	277	315
Actual market capacity bln.rub.	194,9	228,4	272,4
Market saturation,%	80	82	87
<b>Poultry meat</b>			
Number, mln. people	143,056	143,347	143,667
Rate, kg/year/person	30	30	30
Price, rub./kg	117,2	107	137,39
Potential market capacity bln.rub.	503	460	592
Actual market capacity bln.rub.	265,4	346,6	402,2
Market saturation,%	53	75	68
<b>Bread and bakery products</b>			
Number, mln. people	143,056	143,347	143,667
Rate, kg/year/person	100	100	100
Price, rub./kg	33,62	36,12	38,21
Potential market capacity bln.rub.	481	518	549
Actual market capacity bln.rub.	469,6	533,7	569,1
Market saturation,%	98	103	104
<b>Eggs</b>			
Number, mln. people	143,056	143,347	143,667
Rate, kg/year/person	260	260	260
Price, rub./kg	43,34	56,01	57,76
Potential market capacity bln.rub.	161	209	216
Actual market capacity bln.rub.	130,3	145,3	160,8
Market saturation,%	81	70	75
<b>Fish</b>			
Number, mln. people	143,056	143,347	143,667
Rate, kg/year/person	22	22	22
Price, rub./kg	121,9	132,22	144,3
Potential market capacity bln.rub.	384	417	456
Actual market capacity bln.rub.	408,4	451,1	524,3
Market saturation,%	106	108	115

Thus, the consumer demand study allows drawing conclusions about trends in the development of the

consumer market in the region. Effective demand is aimed at satisfying many needs, but its significant part for the majority of Russian consumers is realized by meeting the food needs. Meeting the food needs, carried out by the food market, is a major area of regulation of social and economic component of the life of the population of both individual regions and the country as a whole

### 3. Methodology

In modern conditions, food production is becoming more flexible, focused on individual market segments and even on the individual consumer needs, and therefore the emphasis is placed on the production of competitive products, provided with the effective demand, in the activity of enterprises producing food products<sup>11</sup>. All this leads to the need to manage not only the economic and demographic factors operating at the macro level, but also the marketing ones operating at the micro level.

The consumer market of food products can be presented as a developing organism, which is exposed to the external environment, economic laws. In this regard, in this study, consumer food market is considered by us in dynamics. In addition to this evolutionary approach, we use the so-called technical approach. It allowed us to create a development model of effective demand for basic food products in accordance with the change of the most important factors - the number and income of the population, as well as food prices.

In the process of formation of market economy, the sales system, legal framework, financial and banking systems, pricing and information security systems are transformed and needs of the population are changed. This means that the basic forms and methods of

marketing management, underlying the management of the formation and development of the consumer food market, can be used in the Russian consumer market. The most important condition for the effective management of the consumer food market development is a market research and the study of conditions of formation and development of effective demand for food products. Thus, marketing fulfills its essential function – the analysis and forecasting of market development<sup>12</sup>.

The marketing approach to the management of the consumer market of food products presupposes a certain sequence of analysis, the study of factors forming the effective demand, the structural features of the food market, the analysis of the formation of food supply, changes in the quantitative and qualitative aspects of food consumption in the country.

The consumer food market, studied by us from the perspective of evolutionary development, is considered as a complex socio-economic system, possessing such a property as integrity. In this regard, the management of the effective demand in the consumer food market means achieving the main objectives of the market development, taking into account the objectives inherent in its subjects.

Marketing in the consumer food market is a set of solutions aimed at meeting the consumer needs in the quality and affordable food products through the effective demand promotion and the formation of the value chain for the consumer through the implementation of long-term relationships.

The creation of a value chain for the consumer is the key to successful relationships and further cooperation; therefore, the focus on its maintaining and strengthening becomes the basis and, at the same time, the main purpose of marketing. Consumer activation, its constantly

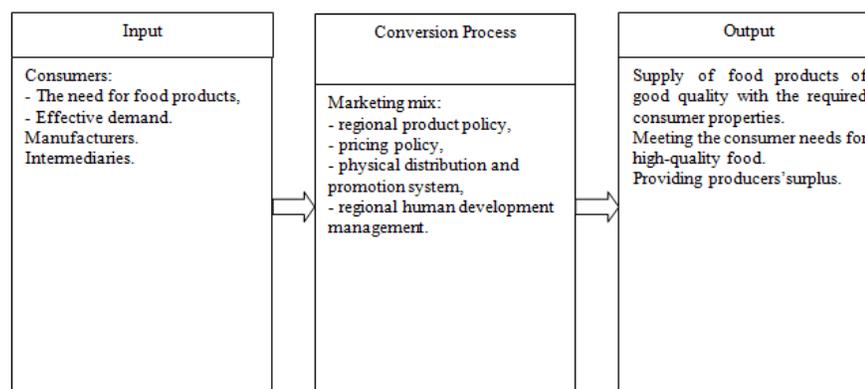


Figure 2. Marketing as a management system of the consumer food market.

increasing awareness, focus on improving consumer properties of the goods dictate the need for wider use of, in the food market management, the relationship marketing concept, allowing to increase the speed of response to changes in the environment, to reduce the risks of uncertainty and increase synergies from joint activity.

Food market marketing can be represented as a system characterized by the ordering of events and based on the relationship and interdependence of all its components (Figure 2).

The above components characterize the essence of marketing as a management system of the consumer food market, which is a complex of stable connections and relationships that determine the main features and trends of system development. Analysis of the effectiveness of marketing impact is carried out by comparing the

relation between the criteria on system's input and output. The algorithm of marketing management of consumer demand on the food market is presented in Figure 3.

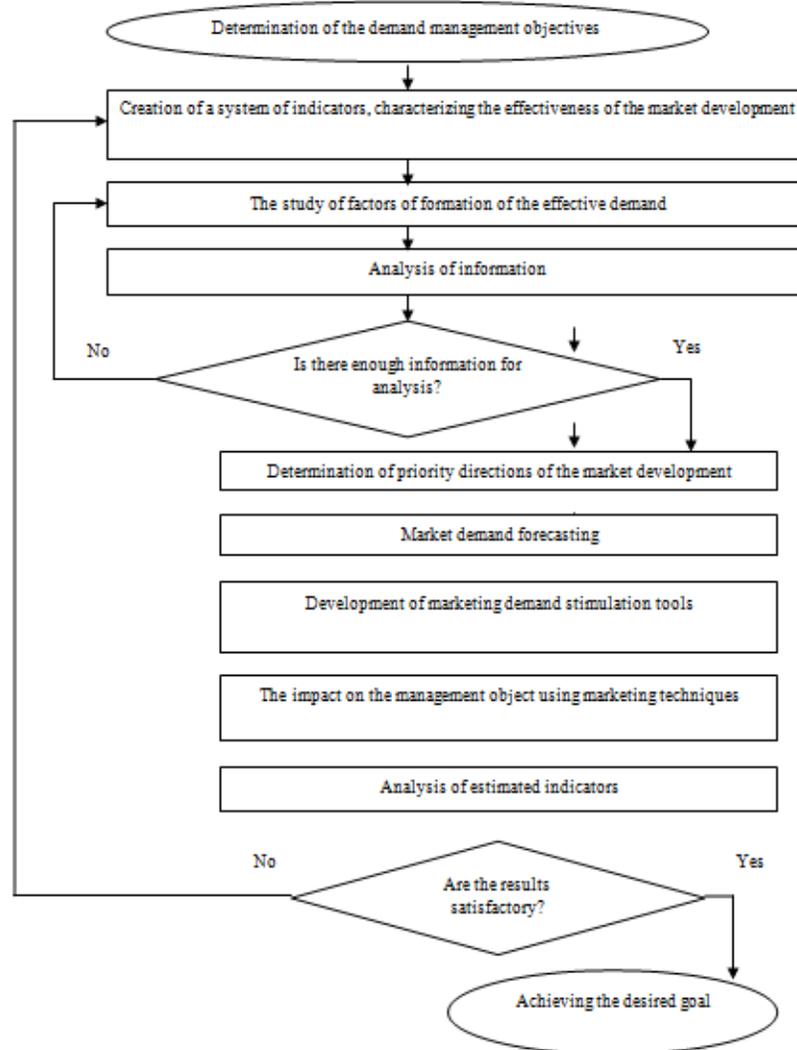
Marketing management of the food market is a set of interrelated processes that operate in order to solve the main task –to meet the demand of the population for high-quality food products.

We have developed an algorithm of demand management process in the consumer food market which consists of the following stages:

- Determination of the management objectives
- Creation of a system of estimated indicators.
- Food market monitoring.
- Analysis of the market performance indicators system.
- Development of indicators of consumer food market growth.

**Table 5.** Indicators of the effectiveness of the food market development

Assessment Focus	Indicators
Degree of consumer food quality satisfaction	<ol style="list-style-type: none"> <li>1. The index of satisfaction with the amount of food consumed</li> <li>2. The index of satisfaction with the quality of food consumed</li> <li>3. The index of satisfaction with the selection of food consumed</li> <li>4. The index of satisfaction with the trade organization</li> <li>5. The index of emotional customer satisfaction</li> </ol>
Quantitative and qualitative market characteristics	<ol style="list-style-type: none"> <li>1. Food market retail turnover structure</li> <li>2. The percentage of defective products</li> <li>3. Branded products turnover</li> </ol>
Infrastructure development of the consumer market of food products	<ol style="list-style-type: none"> <li>1. The volume of turnover in food wholesale trade</li> <li>2. The volume of turnover in food retail trade</li> <li>3. The volume of turnover in public catering facilities</li> <li>4. The volume of stock exchange turnover</li> <li>5. The amount of information and consulting services for the agribusiness and trade</li> </ol>
Economic availability of food products	<ol style="list-style-type: none"> <li>1. The purchasing power of incomes of the population (the ratio of per capita income to the product price)</li> <li>2. The total food availability factor (the ratio of the food costs to the per capita income)</li> <li>3. The coefficient of nutrition availability (the ratio of the nutrition costs to the per capita income)</li> </ol>
Food market saturation	<ol style="list-style-type: none"> <li>1. The potential food market capacity</li> <li>2. The actual food market capacity</li> <li>3. The degree of the food market saturation</li> </ol>
Social market orientation	<ol style="list-style-type: none"> <li>1. The number of jobs in agribusiness and food trade</li> <li>2. Enterprises' expenses for the domestic marketing (expenses for personnel, research, improving the employees' loyalty)</li> <li>3. Enterprises' sponsorship and charity activities</li> </ol>



**Figure 3.** Algorithm of demand management process in the consumer food market

- Effective demand forecasting.
- Determination of the directions of the marketing impact and its implementation.
- Analysis of estimated indicators.
- Analysis of the effectiveness of consumer food market management.

Indicators with which it will be possible to assess the effectiveness of demand management play a significant role in our model of marketing management of the consumer market demand.

In Table 5, we have systemized the possible indicators of assessment of the marketing impact on the consumer market.

The analysis of these indicators will allow to assess the effectiveness of marketing management of consumer

food market and to set new goals. The degree of demand satisfaction in a certain way acts as a measure of the effectiveness of consumer food market management, and the assessment results are the basis for determining the goals and objectives of the market development within the indicative plan.

A systematic approach to marketing management of consumer food market will allow, on the basis of market analysis, to determine the most effective methods of influencing it through integrated marketing, and as a result of a conversion process, in which the general management functions are implemented, to obtain a higher (compared to the system “input”) degree of needs satisfaction.

## 4. Factor Models

For practical implementation of a model of marketing demand management in the consumer food market, shown in Figure 3, we believe it necessary to establish a relationship between the quantity demanded and its forming factors. For this, we use a mathematical model of effective food demand<sup>13</sup>. It is a system of relations, including the characteristics of the state of demand and its parameters. In the course of the development of these relationships we took into account quantifiable factors.

In statistical research practice, we may often need to identify a particular relationship between the characteristics studied, presenting the identified relation in a strict analytical form. In this case, the result of research, the experimental relationship of the impact of any factors on the change in the studied parameter, can be represented not only as a graph, but also described mathematically using the approximating expression (empirical formula). The study of this situation is the task of regression analysis, allowing clearly allocating roles between the studied characteristics, one of which is an argument, and the second one is a function.

In previous studies we have found that purchasing power is formed under the influence of several factors<sup>14</sup>. Therefore, forecasting of the (demand) response variable on the basis of several factor variables will be carried out by the multiple regression method. The analysis in this graduate qualification work is carried out for the whole of the Russian Federation in the context of the main commodity lines of food products.

In the course of the study, it was found that the main factors determining the demand for food products are (Figure 4):

- Value of money incomes of the population.
- The number of population.
- Price dynamics.
- Change of consumer preferences.
- The economic policy of the Government of our country.

One of the famous Russian scientists, the professor Anatoliy Nikolaevich Asaul, in his works, identified factor and regression models among the methods of evaluation of the regional investment attractiveness<sup>15</sup>.

Using this theoretical approach to the analysis of economic systems, we have established a relationship between indicators forming the demand for the following commodity lines:

- Meat and meat products.

- Fish and seafood.
- Bread and bakery products.
- Milk and dairy products.
- Eggs.

According to the results of comparing the check statistics coefficient with the Student's distribution coefficient, it was concluded that there was the relationship between the variables: "income" and "number", "income" and "turnover", "number" and "turnover", "income" and "price", "number" and "price", "price" and "turnover".

To clarify the nature of the relationship between variables, we have carried out the regression analysis. The values of the "incomes of the population" indicator ( $y_M$ ) were taken as the independent variable. Independent variables:  $x_1$  - money income,  $x_2$  - the average price of meat products,  $x_3$  - the population of the Russian Federation. To construct a three-factor model of demand dependence of the level income, prices of sold meat products and the number of the population, the results of analysis of variance have been used. As a result, we obtained the following models of consumer demand:

- For meat products (formula 1):

$$y_M = 6144711,169 + 6,7297 * x_1 - 39508,335 * x_2 + 637,523 * x_3 \quad (1)$$

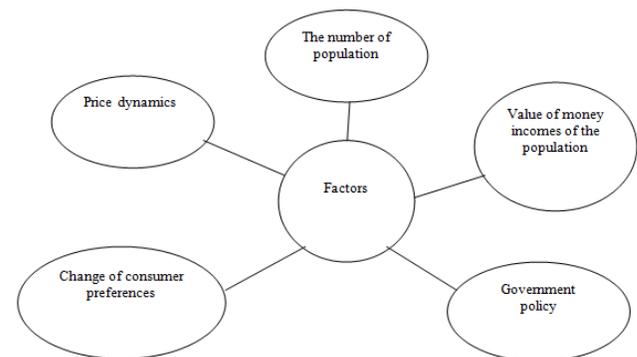
- For fishery products (formula 2):

$$y_P = 1146592,469 + 6,450 * x_1 + 5021,9475 * x_2 - 9474,857 * x_3 \quad (2)$$

- For whole-milk products (formula 3):

$$y_{\text{МОЛ}} = -23843555,6 + 16,69 * x_1 - 1584,43 * x_2 + 167556,08 * x_3 \quad (3)$$

This procedure of constructing mathematical models was carried out in order to forecast the socio-economic processes and in particular the assessment of the effective food demand of the Russian population



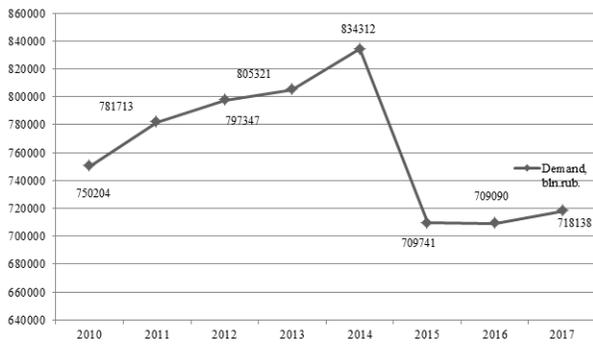
**Figure 4.** Factors affecting the consumer demand of the population of Russia.

## 5. Results

Using the built factor models, reflecting the forecast of

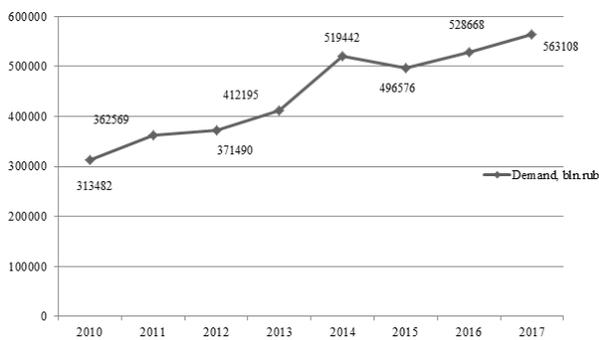
consumer demand of the Russian population for basic food products, we have made a forecast of consumption of these types of products.

The demand for meat and meat products will be reduced, according to our estimates, from 834,312 million rubles in 2014 to 718,138 million rubles in 2017 (Figure 5).

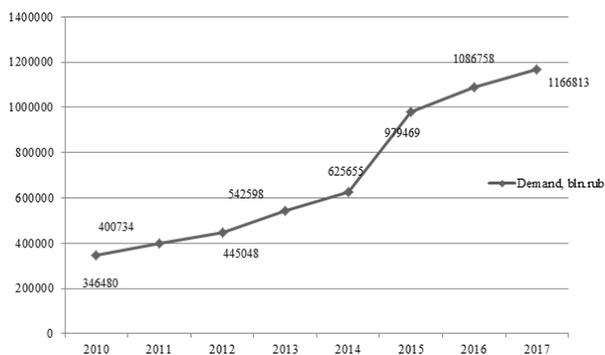


**Figure 5.** Dynamics of consumer demand for meat and meat products in the RF.

Dynamics of consumer demand for fishery products is shown in Figure 6.



**Figure 6.** Dynamics of consumer demand for fishery products in the Russian Federation.



**Figure 7.** Dynamics of consumer demand for whole-milk products in the RF.

Calculation of forecast value of consumer demand for whole-milk products is presented in Figure 7.

The study found that the factors having the greatest influence on the formation of effective demand for food products on the market (y) include consumer food prices (X1), average per capita income (X2), and the number of population (X3). Based on the analysis performed, the multifactor model of effective food demand formation (for the main commodity lines) was presented

In modern conditions, macroeconomic risks can be referred to the risks that may prevent obtaining the forecasted development of effective demand. As a result of the economic crisis and the reduction of incomes of the population, the effective demand for food products, and, above all, for high-animal protein foods, vegetables and fruits may be reduced.

At the meso-level, the main task is to create conditions for the development of marketing partnership: The development of fair competition, assurance of the information adequacy.

At the micro-level, lasting relationships with customers, suppliers, intermediaries can significantly increase consumer demand. Horizontal integration of enterprises can reduce prices by increasing the volume of purchases, the joint market researches provide their cost reduction and the joint loyalty programs provide the preservation of consumers and strengthening the market position.

## 6. Conclusion

Developed market largely promotes the faster and qualitative development of the economy and society. Presenting a complex system of interacting entities and forces, market allows to the maximum to meet the needs of its participants. The degree of needs satisfaction is largely determined by the level of market development, its social management direction, and based on the characteristics and specificity of a particular type of market.

Among the main differences of the food market, it should be noted the constant presence of demand, which though is affected by many factors, however, always exists there; and the dependence of food supply not only on producers but also, in a large extent, on climatic conditions. An important difference of the food market is that its condition has an impact on the level of economic development of a particular area (region, country) and determines the level of food security.

The processes of economic development in modern Russia determine the degree of investment attractiveness of the territory for domestic and foreign potential investors. The interest of investors to invest in projects in the territory of the Russian Federation is directly linked with the level of development of the various subsystems of the regional economy. Their correct and objective assessment determines the efficiency of the implementation and operation of the project at all stages of its life cycle. Lacking the formalized analytical tools to assess the situation in the country as a whole and in the regions in particular, where the object can potentially be placed, investors often make decision on its implementation on the basis of perception of the investment attractiveness of a particular territory. Thus, the consumer demand forms components characterizing the investment climate in the country as a whole and its investment attractiveness in particular.

In this context, analysis and forecasting of consumer demand are the basis of the decision on the appropriateness of investing in a particular object, product, and commodity line. The study of the factors forming the consumer demand is the basis of this process. Forecasting trends in the consumer demand development can provide investors with a cost-effective investment.

## 7. Acknowledgment

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