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CHALLENGES AND OPPORTUNITIES IN VINEGROWING AND WINEMAKING INDUSTRIES OF UKRAINE

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ПРОБЛЕМЫ И ВОЗМОЖНОСТИ РАЗВИТИЯ ВИНОГРАДАРСКО-ВИНОДЕЛЬЧЕСКОЙ ОТРАСЛИ УКРАИНЫ

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Abstract. Based on the analysis of current features of vinegrowing and winemaking industries of Ukraine, it was defined the leading role of the winemaking industry in the formation and functioning of vinegrowing and winemaking complex (VWC) based on vertical integration. Examined the position of winemaking industry in the system of integrational cooperation within the food industry and priority areas for integrational cooperation between VWC enterprises and other market players. Identified the development stages (life cycle stages) of VWC as part of Agro-Industrial Complex (AIC), as well as effective integration tools. Examined possible scenarios of development of integrational cooperation between VWC, food industry, tourism industry and academic sphere.

Keywords: vinegrowing and winemaking industries of Ukraine, current state, prospects, organic winemaking, assortment of wines, terroir, vertical integration, horizontal integration, Agro-Industrial Complex, Vinegrowing and Winemaking Production-Territorial Complex, food industry, network

Аннотация. Основываясь на анализе текущих особенностей



виноградарских и винодельческих предприятий Украины, была определена ведущая роль винодельческой промышленности в формировании и функционировании виноградарского и винодельческого комплекса (VWC) на основе вертикальной интеграции. Изучили положение винодельческой отрасли в системе интеграционного сотрудничества в пищевой промышленности и приоритетных областях интеграционного сотрудничества между предприятиями VWC и другими участниками рынка. Определены этапы разработки (этапы жизненного цикла) VWC как части Агропромышленного комплекса (АИС), а также эффективные инструменты интеграции. Рассматриваются возможные сценарии развития интеграционного сотрудничества между VWC, пищевой промышленностью, туристической отраслью и академической сферой.

Ключевые слова: виноградарство и винодельческая промышленность Украины, текущее состояние, перспективы, органическое виноделие, ассортимент вин, терруар, вертикальная интеграция, горизонтальная интеграция, агропромышленный комплекс, виноградный и винодельческий производственно-территориальный комплекс, пищевая промышленность, сеть

Introduction. Current conditions of the national economy require expanding of theoretical and practical achievements on the effectiveness of interactions of participants of integration processes in the economic environment of Ukraine. Such economists, as H. Bakker, T. Galpin, T. Grande, G. Deans, S. Zeisel, F. Kroeger and others, made a significant contribution to the theory and practice of economic integration. They developed conceptual approaches to the effectiveness of integrational processes in various sectors of the economy. Among Ukrainian scientists there were some studies dedicated to the theory of integration, intensification of integration processes, development of the management system for integrated structures, research on integration dynamics in the plane of strategic management (Pilipenko, 2007; Skopenko, 2014; Nesterchuk, 2009; Sabluk, 2000). In their works they address theoretical, methodological, methodical and practical aspects of integration in food and agriculture, transformation of domestic agricultural complex, various aspects of the establishment and effective functioning of integrated unions.

It should be noted that in their works authors pay insufficient attention to the theory and practice of development of integrational cooperation between vinegrowing and winemaking industries within the structure of AIC as well as with other sectors (e.g. scientific, educational and tourism sectors). Therefore, it is of particular interest to investigate the integrational cooperation between VWC and the 3 sectors of AIC as well as study the prospects of creating of new integration models, such as the 4 focus model of integrational cooperation: *wine industry – food industry – tourism – academic sphere*.

This paper makes a positive contribution to the literature in this field, giving the analysis of the current state of vinegrowing and winemaking industries as well as development prospects based on the interviews with a wide range of industry experts.

Main text. Vinegrowing and winemaking have traditionally been and still remain important sectors of economy in the structure of AIC of Ukraine, the



successful operation of which has a significant impact on revenue generation, which accounts for 10 to 12% (\$1374 million per year) based on the data for 2015 (Hlebnikova, 2015; Kostenko, 2016) and on the economic development of the country.

Analysis of current features of VWC was held considering the influence of such factors: natural resources, political, economical, legal, social and cultural.

Planning and management of economic development in Ukraine is based on the concept of production – territorial complexes (PTC) at different taxonomic levels, from national to local. This kind of management was born during Soviet Union times – the period of planned economic management of the country.

Production – territorial complex (PTC) – is a form of spatial organization of the productive forces of society, specialization and proportional economic development of Ukraine.

Agro – Industrial Complex (AIC) is a typical PTC. AIC – is part of the economy that combines: agricultural production, agricultural processing, material and technical support of agricultural production (logistic services).

AIC combines industries that produce capital goods and service sector, as well as industries of preservation, processing and marketing of agricultural products.

AIC consists of three major industries:

1. **First sector** – tractor and agricultural engineering; machinery for the food industry; agricultural chemistry (manufacture of fertilizers and microbiological industry); feed mill industry; system of material and technical support of agriculture; amelioration and agriculture building.

2. **Second sector** – crop, livestock, fisheries.

3. **Third sector** – food industry; refrigeration, storage, specialized transportation sector; commercial enterprises and other organizations involved in bringing the final product to the consumer, including wholesale trade, retail trade and public catering (Snitynsky, 2000).

We have identified that vinegrowing falls under the **second sector** of AIC (crop production), while winemaking is part of the **third sector** (food industry).

AIC – is a diversified production system in which each sector performs its specific function. During the research we had 2 tasks:

1. Determine the position of vinegrowing and winemaking industries within this system and identify types of integrational cooperation with other sectors of the AIC (based on primary and secondary data);

2. Examine integrational cooperation between VWC and other industries outside AIC (based on primary data), such as education, science and tourism sectors.

The need to ensure the dynamic development of VWC enterprises in Ukraine in an uncertain external environment, requires to find a balance between external factors and internal environment, requires the development and implementation of modern concepts, technologies and effective management decisions in the plane of the restructuring and development of VWC enterprises for improving the efficiency their operation and economic growth.

Currently Ukraine' AIC shows general global trends in development of business economics through the growth of the consolidation of ownership, concentration of



share capital, expansion of cooperation and strengthening cooperation between market players, the increasing number of mergers and acquisitions (M & A), an association of enterprises, creation of integration structures, cluster formations and strategic alliances, reorganization of existing business groups, intersector expansion (Skopenko, 2014).

Recently, enterprises of the AIC experience the distribution/spreading of integration strategies and increased efficiency within the individual components of a single technological chain as well as in the production relations between them. Rational limits of creation and functioning of integrated unions are determined by market regulators – supply and demand. Increased market stability of production and consumption of wine, its popularization and development of wineries in general should be based on the integration of enterprises of AIC (Skopenko, 2014).

They are at different stages of the life cycle of food industry of Ukraine. Production of wines of different types in Ukraine also has its place (niche) in the dynamic integrational cooperation, elements of which interact between each other to promote products to the end consumer. Features of this interaction are shown in Table 1. The degree of concentration, intensity and efficiency of integration depends on the stage of development of the industry (Deans, 2004; Rahyn, 2010):

Table 1

Features of integrational cooperation between wine enterprises and other producers in AIC of Ukraine (Skopenko, 2014 and authors' own amendments to include wine production)

Parameters	Life cycle's stages of the food industries of Ukraine			
	Initial	Growth	Specialization	Balance
Sectors / sub-sectors of food industry	Production of organic and biodynamic wines Production of energy drinks, bottled drinking water, frozen semi-finished food, pastry, organic products	Production of authentic wines from indigenous grape varieties, production of local fruit wines, production of young wines (Beaujolais) Production of alcoholic drinks, mineral water, flour	Production of kosher products (especially wines) Bread and bakery products, oils and fats, dairy products, sugar, confectionery, meat production and processing, poultry industry and processing, industrial processing of fruits and vegetables	Production of beer and tobacco products
Strategic plans of the entities	The desire to increase their revenues and increase market share. Strategic development is	Getting competitive advantages. Growth–sale. The increase in market share. Expanding the boundaries of	Growth competitiveness. Increased profitability. Keeping market share	Gain competitive advantage. The maintenance of market share. Access



	possible in two ways: localization niche or continued expansion and growth	the market. The size of the company is crucial characteristic while the source of competitive advantage is the ability to take advantage of economies of scale and the effect of storage of industry experience		to new markets, including those not related to the old ones
The optimal development strategy	Active integration. Expansion by creation of independent business units. Integration in related field only if the occurrence of synergy or as part of resource support	Horizontal and vertical integration. Absorption competitors. Participation in various associations (unions, associations). Diversification of production	Horizontal and vertical integration. Reducing diversification. The disintegration through allocation or sale of non-core assets	Transnational integration. Integration into other sectors. The disintegration through allocation or sale of non-core assets. Disclaimer of own sales and service for independent intermediaries
Integration tools	Integration with all possible tools, including M & A and to support the development of advanced tactics	Enterprises increased its size by buying (M&A) competitors with their market shares (horizontal integration). Integration with marketing organizations. Participation in associations (unions, associations) facilitates the	Absorption-industry competition. The integration of industry leaders from other companies to their corporate structures, not only through direct acquisitions, but also through the sale of rights to use their business models and technologies. Sale of non-core assets	Alliances with domestic and foreign competitors geographical expansion of markets. Changing distribution system through cooperation with other agents. Sale of non-core



		search and allows customers to reduce transaction costs		assets. The creation of new industries and independent sectors
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1. The **initial stage** is characterized by absence or low market concentration, as the activity starts by creating new companies in sectors or sub-sectors that have been separated as a result of consolidation of industries or sectors that just went through the processes of deregulation or privatization;

2. On the **growth stage** enterprises increase their size through the purchase (M&A) of competitors with their market shares, appear initiators of consolidation and integration;

3. Stage of **specialization** is characterized by increasing specialization and continuation of aggressive consolidation of efforts concentrated in the most favorable for a sector increasingly capturing significant market share, getting rid of inefficient units;

4. During the **balance** stage and creation of alliances, the concentration in the industry grows to a significant size and reaches equilibrium is almost equal consolidation companies (alliances), the market has a small number of large integrated structures.

Research has established that, production of organic and biodynamic wines (as subsector of VWC) is at the initial stage of the life cycle of the industry along with other subsectors (production of energy drinks, bottled drinking water, frozen semi-finished food, pastry, organic products).

At the stage of growth is subsector of production of authentic wines from indigenous grape varieties, production of domestic fruit wines, production of young wines (Beaujolais), together with other sectors (production of alcoholic drinks, mineral water, eggs and egg products, flour).

At the stage of specialization is the subsector of production of kosher products (including wine), along with other subsectors (production of bread and bakery products, dairy products, sugar, confectionery, production and processing of meat, poultry industry, industrial processing of fruits and vegetables).

At the stage of balance (equilibrium) is brewing industry, manufacture of tobacco products.

Authors own research of specific features of VWC trends and taking into account the development of integration processes in the food industry Ukraine, analysis of the degree of concentration in the food industry and predicting changes in the sectoral concentration (Skopenko, 2014) allowed to identify promising areas of interaction between VWC enterprises and integration of VWC with other sectors of the food industry (Table 1).

The research on the development potential of integration cooperation within the food industry in Ukraine led to the conclusion that every company chooses its effective strategic direction of the integration, taking into account motives and goals



of integration, expected benefits of integration and optimal integration tools, depending on the stage and dynamics of the industry development. At the initial stage consolidation processes begin and appear arising initiators/champions of integration. At the stage of growth companies increase their sizes through acquisition (M&A) of competitors with their market shares (horizontal integration), associations appear that initiate consolidation and integration. The stage of specialization is characterized by large-scale consolidation, with the aim of creation of global integrated companies, obtain economic benefits through economies of scale, the size of the market share, cost optimization. Balance stage is characterized by activation of alliances at high risk of antimonopoly intervention of the state (Skopenko, 2014).

Gastronomy and wine (enogastronomy) historically played a key component of national cultures and lifestyles, and at present have become an important factor of the growth of tourist activities. Tourist activities, simultaneously linked to vinegrowing and winemaking, and integrating ethnocultural traditions of food, is represented by such type of tourism as wine-gastronomic (enogastronomic) tourism, which became for many countries a unique opportunity for regional development. Enogastronomy acts as an important component of tourism and recreation potential of the territory, source of its identity formation while vineyard, wine technology, wine, food and authentic cuisine acquire the status of objects of tourist attraction.

International experience in enogastronomic tourism development shows that gastronomy and wine are the objective prerequisites for successful development, of both – national and international tourism in countries such as France, Italy, Spain, USA, Argentina, New Zealand and other.

In Ukraine, the formation process of integrational cooperation between VW complex and tourism industry occur in specific conditions:

- Enogastronomic resources remain unnoticed by Ukrainian tourism industry, are not systematically studied and there is no register.
- Legally wine and gastronomic tourism is not included in the legislative field of Ukraine and thus there are no regulations for its development.
- Today in Ukraine there is an acute shortage of specialists in enogastronomic tourism.
- There are no effective mechanisms for the transfer of international experience to establish cooperation between the government and professional public institutions representing the interests of vinegrowing, winemaking and tourism.
- Lack of experience in the practical implementation of sustainable tourism development in the agricultural regions of Ukraine.

Therefore, VWC of Ukraine is going through the initial stage of formation of vertical integration links with the tourism industry and the education sector.

The most effective form of such integrational cooperation at an early stage is networking. During the research we identified that currently there are professional networks formed in each of the sectors: in the field of vinegrowing and winemaking (Association "Vinegrowers and winemakers of Ukraine", Sommelier Association of Ukraine, Ukrainian Association of winemakers and sommeliers, the Union of Private growers and winemakers in Transcarpathia); in tourism (Association of Leaders of tourist industry of Ukraine). In 2014 was established the Association for the



Development of Gastronomic and Wine Tourism of Ukraine as a joint initiative of representatives from the academic sphere, tourism, vinegrowers and winemakers. Association's activities are aimed at developing networking at national and international level for the implementation of the principles and mechanisms for sustainable development of enogastronomic tourism of Ukraine. In March 2017 the Association supported by the Department of Tourism and Resorts of the Ministry of Economic Development of Ukraine initiated the creation of the National Food Wine and Tourism Network, which was announced during The Ukraine International Travel & Tourism Show (UITT). VWC production has a high potential of becoming part of the Ukrainian tourist product, tourism branding focus of vinegrowing and winemaking territories.

Author see the potential of Ukrainian National Food Wine and Tourism Network (**new 4-focus model of integrational cooperation**) as the progressive integration entity, to lead the formation of a new integrated system, which will give participating VWC enterprises additional competitive advantages and consequently change the market position and increase the market power of all participants of integration cooperation.

The suggested 4-focus model of integrational cooperation will promote the consolidation of certain general functions, solving common tasks; create effective strategies and members' integration process development programs based of sustainable development.

Along with government agencies controlling the wine industry in Ukraine created many public non-profit and non-profit institutions. The most powerful institution among them is the branch professional formation AIC Ukraine Corporation viticulture and winemaking "Ukrwineprom", which represents the interests of wine producers, both within our country, and abroad, as a member of the International Federation of wines and spirits (FIVS). At the same time we can note the absence of a consolidation between the state and public institutions, which makes it impossible targeted industry development, promotion and improvement of wine consumption.

Results and discussion. We have identified the place of vinegrowing and winemaking in the structure of AIC. Despite the high dynamics of the environment changes and external conditions, VWC of Ukraine is at the stage of growth. One of the ways of increasing the efficiency of VWC enterprises in a competitive environment is strengthening the integrational relations and forming integrated structures of different types within the complex of the food industry and with scientific, educational and tourist sectors. Authors see the potential of the 4 focus model of integrational cooperation: *wine industry – food industry – tourism – academic sphere* and proposed a form of implementation of such model – Ukrainian National Food Wine and Tourism Network and identified stakeholders. The Network will contribute to the promotion of wine products to the end consumer.

The essence of integration cooperation for Ukrainian VWC consists of purposeful process of establishing and developing sustainable production and economic relations between the VWC enterprises and other entities based on joint ownership (in case of tight integration) or through the joint venture agreement (in



case of flexible integration) which leads to a new system based on the union of a number of enterprises (institutions) that interact in the production and promotion of products on the market.

For the successful implementation of intergenerational cooperation there is a necessity of the transfer of international experience in building networks, establishing cooperation between public administration and professional public institutions that represent viticulture, wine and tourism, development of wine and gastronomic tourism and the practical implementation of sustainable development in the agricultural regions of Ukraine.

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