



## Formation of new food market segments and features of its functioning under modern conditions

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### Abstract

The research showed that the food market is changing in structure and in product quality. The concentration coefficient of firms in the industry market is growing, and with the growth of the market for high-quality products, the elasticity of demand is increasing. The market is differentiated by product quality. It is forms segments of high-quality products. It means that competition has changed. Accordingly, regulatory methods and mechanisms must be brought into the system. In the regulation of pricing, the main attention should be paid to purchase prices, at which direct producers are forced to sell goods. In the regulation of product quality, along with market it has to be applied clear institutional rules, norms, restrictions. In price regulation, it is often necessary to use carefully developed and refined methods of influencing demand and supply, based on those changes that occur in the market structure and nature of demand.

**Keywords:** food market, market regulation, food quality, pricing, institutions, market structure, nature of demand

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### INTRODUCTION

The research topic is relevant, because for an effective development policy of the agricultural sector and the food industry it is necessary to deepen the knowledge of the laws governing the functioning of the market. The novelty of the work is that the formation of the high-quality food segment and the evolution of the market is considered in terms of changing its structure, the nature of demand, supply and competitive environment. The results are presented on the basis of analysis in the SWOT format, the five forces of competition, resources, abilities of firms, and institutional organization of the market.

It is necessary to proceed from the fact that food market regulation is an objective phenomenon. It provides tolerable conditions for the sale of the product for its initial producers - agricultural enterprises (Report on the development of the world, 2008). Due to the low elasticity of demand for many types of food, its purchase prices often fall disproportionately with increasing supply, which leads to a reduction in producer revenue to an unacceptable level. It most often explains the departure of many farms from the industry, which often takes on a massive scale. In such a situation, procurement interventions are most often used to support farmers, which reduce supply and increase

purchase prices. However, both procurement and commodity interventions do not always bring the expected results. It encourages the remaining manufacturers on the market to reduce costs and maintain profitability, using technologies and additives that degrade product quality. There is a decrease in the quality of food produced, starting from the production of primary raw materials and up to the last stage of processing. For a number of food types, the consumer is forced to acquire a substitute, which would be right to call a quasi-product. For more successful development of the high-quality food market and access to the world market, intensify the involvement of small farms in it, bringing them together by a rationally organized system of production cooperation.

The problem is also that it is impossible to know the quality of the product before the consequences of consumption. The market is filled with substitutes of varying degrees of suitability for consumption and the choice of quality products is limited (Mukhametshin et al. 2019). This situation testifies in favor of the fact that along with the low-quality food market, a segment of the high-quality food market should function, where prices

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are higher, but the choice is wider. Separation and deepening of such a segment will increase the level of food security of society. It will help establish proper nutrition for the population, especially children in preschool institutions and schools. Successful entry into this market of regional producers of small and medium-sized farms contributes to the growth of employment and the involvement in the reproductive process of currently unused labor and land resources.

The subject of the research is the firm-market-regulatory relations, at the stages of production, sale, exchange and consumption in the segments of the food mass-market and the market for high-quality products.

Based on it, the aim of the research is to obtain new knowledge about the laws governing the functioning of the food market, identify weaknesses in its regulation, substantiate the algorithm and develop regulatory mechanisms to enhance its effectiveness, improve food quality and accessibility.

## RESEARCH METHODOLOGY

It is applied the methods of competitive analysis of the industry market, SWOT analysis, analysis of consumer demand, as well as resources, abilities of agricultural producers. The results of the research indicate that regulation is often carried out without taking into account market patterns of circulation of goods with different life cycles, the degree of elasticity of demand for it in terms of price and income of consumers, as well as the nature of supply (Baibarin et al. 2016). Opportunities of domestic and regional producers, threats of far and near external environment, results of discretionary changes in it are not always timely and correctly determined and took into account (Podymov et al. 2019).

A comparative analysis conducted in the research of the structure of the general food market and the market for high-quality products made it possible to clarify the general laws of its evolution (Porter 1985). Elements of the STEEP analysis confirmed the existing trends in the development of food export-import relations, the development of competition, and the dynamics of food markets. Structural analysis of the high-quality food market revealed the reasons for the slow growth of this segment. A SWOT analysis (Grant 2008) helped to understand the capabilities of a new market segment and predict the threats that might be expected by existing and ready to enter the company market (Tumalanov et al. 2017). An analysis of the segmentation of intermediaries (Clarkson 1994) made it possible to single out strategic intermediaries in a row and identify conflicts of interest between them and direct food producers.

Hypothesis: The main reason for the accumulated problems in the functioning of the food market, the formation of its high-quality segment and their regulation

is the insufficient depth of theoretical knowledge about the functioning of markets of this type and the peculiarities of its segmentation in modern conditions. The regulation of the market for high-quality food does not always take into account changes in the structure of the market, the nature of demand, supply, difficulties and inequality in implementation (Cornilov et al. 2019). Insufficient attention is paid to the situation of small and medium-sized businesses in this segment and, accordingly, ineffective organizational activities of state bodies in this area.

## RESULTS

**General state of the food market and its regulation.** The research showed that the results of food market regulation were not satisfactory in all respects. Rising food prices in 2018-2019 amounted by 4%, while sugar increased by 28%, chicken eggs - by 3%, meat, including poultry - by 10%. It is increased in price bread, cereals, fish, seafood, butter, fats. Vegetable prices, in contrast, declined slightly. At the same time, the purchase prices at which retail chains are bought from initial manufacturers have not increased. It means that the market position of small and medium agricultural producers is not improving, but getting worse. The main income from rising prices goes to agricultural holdings and retail chains. The situation of agricultural enterprises is aggravated by an increase in prices for manufactured industrial goods, in particular, for the products of the fuel and energy complex. It is still not brought the desired result of restoring the parity of prices for agricultural products and industrial products that purchase for production purposes the procurement interventions of the Russian Federation Ministry of Agriculture and the Department of Regulation of the agro-industrial complex markets. It is not always coordinated with discretionary changes in the conditions of the distant external environment, in particular with the volumes of import and export. In 2019, the increase in value added tax did not add optimism in this area.

The deterioration in the quality of food products did not stop. Adverse changes in the distant external environment (sanctions, fluctuations in the exchange rate of the domestic currency, etc.) lead, along with the above factors, to an increase in costs for both producers of agricultural enterprises and the food industry. It indicates that the regulation of the food market does not always take into account the patterns of functioning and evolution of the food market.

Thus, at present, the problem of regulating the food market remains relevant. Since this market is more conveniently viewed differentially, the analysis according to the set goal was carried out with two different approaches in interconnection and interdependence: the general food market and the specific market for high-quality food products. It helped

**Table 1.** The coefficient of elasticity of demand for food types when the price of it changes

No.	Product name	The coefficient of elasticity of demand to price
1.	Wheat and rye bread	0.1 – 0.3
2.	Mass milk and dairy products	0.3 – 1.1
3.	Butter and sour cream of mass consumption	0.7 – 1.8
4.	Pork	0.9 – 1.3
5.	Beef	1.0 – 2.1
6.	Chicken meat	0.3 – 0.9
7.	Potatoes	0.1 – 0.2
8.	Local outdoor vegetables	0.1 – 0.3
9.	Indoor vegetables	0.5 – 1.2
10.	Local seasonal apples	0.6 – 1.0
11.	Local seasonal berries	1.1 – 1.9
12.	Imported Fruits	0.9 – 1.5
13.	Bee honey without lack of confirmation of its naturalness	1.0 – 1.2

Note: the coefficient of elasticity of demand for the listed goods is determined by the information obtained through empirical analysis.

to identify patterns of development of this market and outline the principles of its regulation.

The functioning and evolution of the food market as a whole has common patterns. In most product segments of the market, with the exception of those where advanced technologies are introduced and applied, costs rise in line with rising prices for industrial products for industrial use, profitability tends to decrease. To preserve profitability, manufacturers increase the use of herbicides and other plant protection products. Mineral fertilizers are widely used. In livestock, including poultry, the use of hormones and antibiotics has become common. It allows for a certain time to compensate for the increase in costs. A similar trend is observed in the food processing industry. As a rule, it is switched to the use of cheap, low-quality raw materials, substitutes, additives to improve the taste, appearance, smell, extend the shelf life, developed by the chemical industry. However, maintaining costs at the level necessary for profitability is difficult. Prices for manufactured goods are rising, and food producers have to become more and more sophisticated in order to survive. So gradually the deterioration of quality becomes a permanent process, which is typical for all market-capitalist production (it is no coincidence that the term “quality” is supplanted from economic scientific literature and textbooks, and “product differentiation” takes its place).

However, the overall picture of the food market would not be complete if we did not pay attention to the nature of supply and demand, as well as to the structure of the food market and its individual segments. Demand in many respects depends on consumers' incomes, and its price elasticity testifies to its character. The consumer's reaction to changes in food prices, in most segments of its market, is weak. It can be calculated the coefficient by the formula  $E_p = \frac{\Delta Q\%}{\Delta P\%}$ , where  $E_p$  – the price elasticity of demand;  $\Delta Q\%$  – change in demand in percent when the price changes;  $\Delta P\%$  – price change in percent. A certain pattern is visible. Empirical analysis allowed us to

estimate the average coefficient of elasticity of demand at the price of various types of food products.

**Change in market structure and the nature of demand.** In the recent market of ordinary foodstuffs, in the recent past, there was obviously a combination of the atomistic structure of the market and the inelasticity of price demand. It led to the fact that the situation of producers (especially primary raw materials) is very unfavorable. Usually they could not conduct a normal pricing policy favorable to themselves. It was the case in countries with established market economies, for example, in the United States, when farming dominated the agricultural sector. The emergence of large agricultural companies has changed the situation. Market concentration rose sharply and large associations were able to influence the price level and the pricing process. The same tendency was outlined in Russia in the first decade of the 21st century. Large agricultural holdings, which own hundreds of thousands of land hectares and a huge volume of output, can affect pricing. In this situation, the combination of a highly concentrated market structure and persistent inelastic demand for prices can be successfully used by large companies in pricing and competition (inflated prices, price discrimination, dumping, etc.).

In these conditions, market regulation is complicated. Given the atomic structure and the absence of agricultural holdings in regulating the food market, it was possible to achieve parity with the usual methods of purchasing and commodity interventions, limiting sown areas, subsidies and dumping exports of agricultural products with state support. The difference was closed between the purchase prices of the initial food producers and the prices of manufactured industrial goods. With these measures, it was pulled up the initial purchase prices for food to the required level and it was achieved price parity.

Then, when organizing regulation, it was possible to form it based on the category of the general food market. Manufacturers are all equal, have the same opportunity to sell their goods on general terms at the same fair market price for everyone. Deviations from this fair price downward were corrected by purchasing interventions, limitation of sown areas with monetary compensation, dumping exports with the same compensation, direct subsidies. The deviation of the fair price towards overstatement was corrected by commodity intervention, the abolition of compensations and subsidies. However, the emergence and beginning of the dominance of large corporations in agricultural production and food processing industry largely eliminate these opportunities for market impact.

**Stratification of the food market by company scale.** Currently, in most market segments of the agricultural sector, it has formed the largest national and transnational corporations, which are increasingly enlarged through mergers and acquisitions. At the same

time, it strives to occupy key segments of the agricultural market. This is the way American companies Allera Seeds, Agria Corporation, which dominate the production of seeds, have enormous market power. Monsanto practically controls the market for genetically modified seeds of corn, soybean, cotton, as well as the herbicide market. It is characteristic that, through acquisitions, such companies become even larger and strengthen its market power. The purchase of Bayer Monsanto in 2019 was another step in the monopolization of the seed segment and the market for agrochemical products.

A similar process is taking place in the Russian market. GC "Commonwealth" is the largest producer of vegetable oils. Cherkizovo Group leads the way in pork production. Agroholdings Step, Avangard-Agro, GK Agro-Belogorye, GAP Resurs, Agrosila JSC and a number of other companies are rapidly increasing its market share in agricultural and food products.

This process is being intensified and indicates that the times of the atomic market in the industry are in the past. The formation and growth of large agricultural associations led to the transformation of the atomistic structure of the market and a sharp increase in market concentration in the industry. In essence, it is occurred its stratification. Large manufacturers have bargaining power and the best opportunities in pricing, while small and medium-sized enterprises have faced a deterioration in their market position and difficulties in selling its products. This is true for the agricultural sector of traditional market countries. Currently, this situation has developed in the agro-industrial complex of the Russian Federation.

On the one hand, the market has formed a powerful group of large agricultural associations with a growing scale of production, the possibility of combining resources, competing, increasing market share, selecting suppliers, franchising, manufacturing substitute goods, imitating innovations, and conducting pricing policies. There are not many of it and it has ample opportunities for absorption and merger, conspiracy, including secret, unspoken. In general, there are clear signs of market power inherent in the oligopoly market with a high concentration of firms.

On the other hand, a large layer of small and medium-sized enterprises with a small scale of production, which have remained in the position of the atomic market and do not have the advantages that large companies with market power possess, neither in combining resources, nor in enlarging market share, nor in terms of choice of suppliers, nor in pricing. In it, it was both price recipients, and they remained at that time, while large associations became price seekers. Its number is declining, although many of them have found their niche in the market and entrenched in them. Those who did not succeed leave the industry. Many are being taken over by large companies.

In the conditions of such a rearrangement of the market, the capabilities of firms with respect to the combination of structure with the type of supply and demand look different. For small and medium-sized firms, basically, they remain unfavorable. The inelasticity of demand in most types of food remains. The reaction of demand to changes in market prices is also the same - it is weak. As a result, the market price with a slight increase in the supply volume, as a rule, drops significantly, which puts small enterprises in a critical position.

Large companies have significant advantages in this regard. In such a situation they have a sufficiently wide space for maneuvering. Firstly, having a diversified corporate portfolio, it can increase production with a more elastic (more price-sensitive) type of demand and reduce the production of goods with inelastic demand. Secondly, large companies can influence the market price by changing the supply volume without waiting for government or regulatory interventions, especially if it has the opportunity to conspire. Therefore, it is obvious that government agencies can choose such leverage regulation that focuses on the interests of small and medium enterprises.

**Market stratification by food quality.** It is necessary to proceed from the fact that the food market is changing and regrouping not only in terms of the size of production units, but also in the quality of the produced and offered products. Currently, it has occurred such a stratification in the markets of many countries. It happens on the markets of Russia and its regions. These segments can be mastered by producers in a number of regions, provided with the appropriate resources of land, labor and capital. They should be very attractive for small and medium-sized enterprises, which are easier to specialize in the production of this type of food than large companies. This is favored by the fact that small and medium enterprises can conduct more flexible product and pricing policies. They are more mobile and free in their decisions. If agricultural holding companies specializing, for example, in the production of grain, are not particularly interested in switching to the production of this specific product, the demand for which is limited, then small and medium-sized farms that are being squeezed out of the markets for ordinary products can successfully enter these segments and gain a foothold there. The market structure of this type of product is different from the structure of the market for consumer goods. Even in the absence of large companies in the segment, it is non-atomic, since there are much fewer manufacturing participants, which allows us to compete on more fair terms using some market power in pricing policy.

In the high-quality food market, such an important property of a product as demand elasticity is undergoing a change. The degree of elasticity of demand increases, the reaction of buyers to price changes becomes more

**Table 2.** The coefficient of elasticity of demand for some types of food products of high quality with a change in price

No.	Product name	The coefficient of elasticity of demand to price
1.	Bakery products made from high-quality flour using technologies that improve the taste, smell, and extend shelf life	1.1 – 2.8
2.	Milk and fermented milk products from domestic cows, which are fed without the use of hormones and antibiotics	1.2 – 2.5
3.	Homemade butter and sour cream	1.0 – 1.5
4.	Home-fed poultry meat	1.5 – 2.1
5.	Beef, veal of cattle, fed at home without the use of hormonal additives and antibiotics	1.4 – 3.2
6.	Homemade chicken eggs	1.2 – 1.5
7.	Bee honey marketed by the beekeeper himself with confirmation of product authenticity	2.6 – 3.1

Note: the coefficient of elasticity of demand is calculated in the context of a constant increase in prices in the markets, mainly through a survey of sellers during a conversation with them.

sensitive. **Table 2** shows the results of calculating the elasticity of demand for improved quality food.

Consumers who shop at points of sale of high quality products can be conditionally divided into two groups. The first is small, consisting of high-income families that are poorly responsive to rising food prices and, accordingly, the elasticity of demand on their part is low. Another group of consumers shows an increasing degree of reaction to rising prices, the elasticity of their demand increases. It suggests that this nature of demand, along with the enlargement of the market structure as a whole, can make it very attractive for small and medium-sized enterprises and they will be able to conduct a more favorable pricing policy and competition in fair conditions.

**Terms of Sale.** It is difficult for agricultural holdings to dominate in this market, since this production requires other resources, different abilities and competencies of personnel than in mass production. Agricultural holdings dominate due to the scale of production, experience and developments of a simple nature. The convenience of this segment for small and medium-sized businesses is enhanced by the fact that entering and leaving it, as a rule, does not require large costs, although they can increase due to transactions. But this is already an institutional aspect of the problem and it is usually the state bodies that regulate it.

However, a very painful unresolved problem remains in this market – purchases from the initial manufacturer. Currently, institutional structures cannot cope with the functions assigned to them and plunge producers into conditions of nonequivalent exchange. It starts with purchases made by retail chains and their representatives. Empirical observations and surveys indicate that the primary producer sometimes receives only about 10% of the final selling price of the goods. Such a situation with the proportions of exchange and competition factors reduces the attractiveness of the market in question and devalues its natural advantages.

Partially, the situation with purchase prices can be corrected by the producers of the agrarian sector and manufacturing industry themselves. A cooperative system is currently operating in many countries. A cooperative created by the interested parties themselves can take on all the work of arranging loans, providing machinery, equipment, fertilizers, plant protection products, antibiotics. He will also deal with the

organization of labor, the sale of manufactured products by wholesalers. A cooperative can hire professionals in animal husbandry, crop production, and gardening. It is very convenient to hire for plowing, cultivating, cleaning professional machine operators with their own equipment. It's easy to find and hire an experienced financier. And in the restoration of this cooperative movement (not only consumer, but also production), all subjects of very small, small, medium business of agricultural production and food processing industry can take part.

In general, despite the growing interest in the high-quality food market, both by consumers and producers, its growth and institutional ordering is slow. Government structures, business, banks, society as a whole need to strengthen work in this area so that the consumption of high-quality food becomes the lot not only for high-income families, but for the entire population of the country.

## DISCUSSIONS AND CONCLUSION

The problems of the food market, the development of the food and processing industry, in particular the formation of the organic food market in recent decades, have attracted the attention of a number of domestic and foreign researchers. So, M.L. Vartanova (2019) investigated the prospects for the formation and development of a single market for organic products of the Eurasian Economic Union. It was proposed to create conditions for the unhindered circulation of organic products within the EAEU. The issues of standardization and certification are considered by E.A. Mitina and T.O. Bykova (2016). They also touched upon the problem of state support for producers of environmentally friendly products. A.V. Gorbatov (2016) substantiated the outstripping growth in demand for organic food and the prospects of this business. A.H. Tambiev and A.G. Druzhinin (2019) offer a number of marketing mechanisms to promote organic food. The mechanism of regulation of the food market of organic origin proposed by T.M. Svechnikov (Svechnikova, 2019). Demand, supply, price of organic food analyzed by I.P. Chupina and Y.V. Voronina (2019). It has been identified the development trends of this market. The functions of the cooperative in the development of organic production are evaluated by V.M. Kruchinina (2018). It is

justified the benefits received by the participant in cooperatives, mainly small farms. Some foreign authors put the long-term viability of the soil in the first place. It provides agricultural development and, ultimately, the health of the G. Kuepper (2010) nation.

Changes in the distant external environment and industry competitive environment had a double effect on the food market. On the one hand, they created good conditions for investing in the agricultural sector and food processing industry. On the other hand, costs were increased and the disparity in selling prices of producers and prices of industrial products that agricultural enterprises purchase for production purposes were increased. It strengthened the process of decommodification of food products (loss of products of its marketable qualities).

1. The food market is stratified. Most consumers are forced to consume an ordinary product of low quality, and the wealthy part of the population is focused on high-quality food. A market segment of such food is also being formed.

2. The formation of the high-quality food segment is taking place slowly in the regions of Russia. The reason for this is the insufficiently high demand for it, the small volume of supply, the lack of interest of large agricultural holdings in it, unfavorable conditions for entry and competition of small and medium-sized agribusiness on it.

3. It has been established that entry and competition in the high-quality food market can be favorable. While the dominance of holdings in the segment of ordinary food products worsened the position of small and medium-sized businesses, in the segment of high-quality food with a combination of a low concentration coefficient and growing demand-price elasticity, it facilitates the pricing policy of small and medium-sized producers.

4. In these conditions, it is being grown the importance of the institutional organization of the food market, its

improvement and orientation towards supporting small and medium-sized businesses of the entire regulatory process, especially in the high-quality food market.

5. It is necessary to develop and adopt the basic Law "On the food market". Based on it, establish institutional norms, rules, restrictions that prevent decommodification of food products, regulate the food market at all stages of the cycle: production, sale, exchange and consumption.

6. It is advisable first of all to involve very small, small, medium-sized enterprises in the process of forming this segment, which, with flexibility and efficiency of regulation and support, will solve the problems of employment and use of land and natural resources for their intended purpose.

7. Affordable and effective type of organization and rallying of small and medium-sized enterprises are associations according to the type of industrial cooperation.

The results of the research indicate that regulation contributes to the survival of agricultural holdings, and hence the intended use of agricultural land. However, regulatory mechanisms exist that are used quite often and worsen the conditions for the use of arable land and pastures. It is not practical to use such regulatory methods.

The materials of this research can be used to organize and regulate the common food market and the high-quality food market in order to solve economic and social problems and strengthen the food security of our society.

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