
Expenses analysis of small and medium enterprises for the competitiveness of Georgian honey in the market

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Abstract

"Small and Medium Entrepreneurship Development Strategy of Georgia for 2016-2020" approved in 2019 are in line with the basic principles of the Act European Small Business. It takes into account the best practices of EU countries in terms of small and medium entrepreneurship development policy. The main goal of the strategy is to create an appropriate environment for small and medium enterprises, increase their competitiveness, increase revenues, jobs, achieve sustainable and competitive economic development.

The opportunity for entrepreneurs to integrate into the EU market is increasing in the framework of DCFTA Agreement on a Deep and Comprehensive Free Trade which is accompanied by the expectation of increasing the export potential of products. Among them, beekeepers have high expectations for a significant increase in the export volume of Georgian honey on the European market. It is known that the demand for honey in the EU market is growing by 6% annually. More than half of the honey needed for consumption is imported, the average volume of which is equal to 150 thousand tons per year³. Georgian honey can also play an important role in the import of this volume.

There was conducted a questionnaire study of Small and medium beekeepers in Imereti region in order to study the specifics of honey production management and guidance. As the result of questionnaire, a clear picture of the skills and resources of beekeepers were emphasized which they have and use to develop this field. Their interest in increasing their honey export potential is high, especially as they consider the EU market to be particularly stable. Their interest in increasing their honey export potential is high, especially as they consider the EU market to be particularly stable. As the review in the introductory part of the article shows, despite the growing beekeeping farms, there

³ European Union for Georgia. Beekeeping and honey production in Georgia and the European Union.

<http://www.kedalag.ge/images/temp/2020/03/06/68d31d14d6301b04deef114d94c50b85.pdf>

is not radically increasing honey production. However, part of the beekeepers think that the sale of the existing volume of honey production is also a problem if its export is not stimulated for export.

The small research presented in the article cannot create a complete picture of the state of the Georgian honey market, but it presents an attempt to find out the problems that hinder the stimulation of the unique Georgian honey production and the possibility of increasing its export potential on the world market at the level of business management.

Keywords: Georgian honey, export potential, small and medium beekeepers, competitive pricing, the costs.

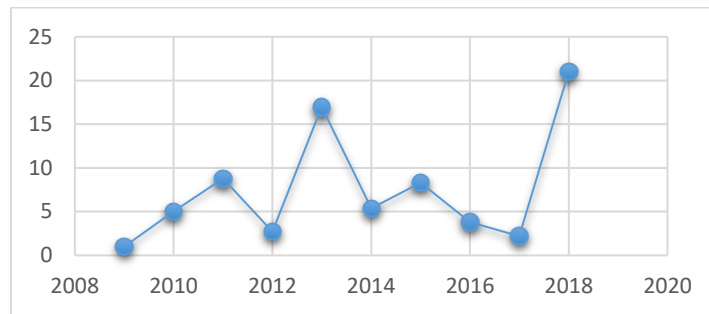
"Small and Medium Entrepreneurship Development Strategy of Georgia for 2016-2020" approved by the Government of Georgia in 2016 and "Small and Medium Business Development Strategy of Georgia for 2016-2020" approved in 2019 are in line with the basic principles of the Act European Small Business. It takes into account the best practices of EU countries in terms of small and medium entrepreneurship development policy. The main goal of the strategy is to create an appropriate environment for small and medium enterprises, increase their competitiveness, increase revenues, jobs, achieve sustainable and competitive economic development. The strategy defined an annual 10% increase in output of small and medium enterprises by 2020, as well as a 15% increase in employment and a 7% increase in productivity compared to the base year 2013[1, 2]. By the strategic plan, there also was identified the following measures to support the development of small and medium-sized businesses: further improvement of the legislative, institutional business environment, access to finance, development of entrepreneurial skills and modern entrepreneurial culture, support of innovation and research. Similar strategic measures are an opportunity to improve the business environment of small and medium enterprises.

The opportunity for entrepreneurs to integrate into the EU market is increasing in the framework of DCFTA Agreement on a Deep and Comprehensive Free Trade which is accompanied by the expectation of increasing the export potential of products. Among them, beekeepers have high expectations for a significant increase in the export volume of Georgian honey on the European market. It is known that the demand for honey in the EU market is growing by 6% annually. More than half of the honey needed for consumption is imported, the average volume of which is equal to 150 thousand tons per year[2, 3-68]. Georgian honey can also play an important role in the import of this volume.

Georgia has activated export of the honey since 2009, though the volume of exports is unequal by years.

Export of honey from Georgia in 2008-2019 (ton)

Diagram 1.



Source: EU for Georgia, a guide for beekeepers farmers and honey producers. [3, 3-74]

However, this inequality from 2009 to 2018 finally gives a 35% growing trend:

$$T_{\text{ср}} = \sqrt[10]{1 * 5 * 1.76 * 0.3 * 6,30 * 0.32 * 1.53 * 0.46 * 0.58 * 9.55} = \sqrt[10]{20,75} = 1.35 * 100 = 135\%$$

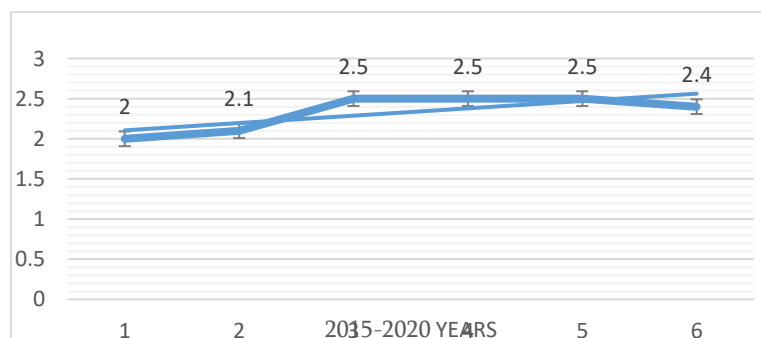
Statistics of honey export shows that according to ten years' data, in the conditions of not-so-stable export dynamics, in 2013 and 2018 there was a rapidly growing rate of exports. However, according to 2009-2018, in 2018 compared to 2017, there was an unprecedented growth rate of honey exports - 9.55%, where 84.2% of the total volume of honey exporter was Azerbaijan.

Production volume, price, quality and other factors can have a significant impact on the potential of honey export. We have to review the honey production and price index for these comparable years. If we study the dynamics of honey prices in the Georgian market by years (GEL/kg), we can see a monotonically growing dynamics and, unlike exports, there is no so called leaping growth in productivity over the years. In 2018, the market price of 1 kg of honey was 19.09 GEL, in 2010 - 12.29 GEL. Over the past ten years, price of the honey in Georgia has gradually increased by 55%.

As for the honey production index, according to the report of the National Statistics Office of Georgia "Agriculture of Georgia 2018", honey production in 2015 - 2020 with a slight increasing trend of 6% ($T_{\text{medium}} = \sqrt[4]{(1*1.05*1.19*1.0)} = \sqrt[4]{(1, 2495)} = 1.06 * 100 = 106\%$) is characterized.

Honey production in Georgia according to 2015-2020

Diagram 2.



Source: [4, 4-88].

It should be noted here that in 2018, compared to 2017, there was no change identified at all, 2.5 tons of honey was produced in both years. In the same years, the share of honey enterprises in

Georgia was doubled. The increase in the number of enterprises can be linked to the allocation of 44.5 million euros from January 15, 2015 until 2019 within the framework of the DCFTA agreement between Georgia and the European Union. A large part of this amount was envisaged for the development of priority spheres and farms. The representatives of the European Union inspected the honey production industry in Georgia and precisely considered honey as a product that has a real prospect of entering the EU market together with the nuts and wine which led to the development of this sphere and the expansion of production.

According to the data of 2015 and the next 2 years, Kakheti was the leader among the regions of Georgia in terms of honey production, from 2018 to 2020, the Imereti region went ahead. Totally, from the whole volume of honey produced in Georgia in recent years - 2.5 tons, the largest among the regions was produced in Imereti region - 0.8 thousand tons, which is 33.3% more than the productivity of the leader region of the previous year, Kakheti and was 32% of total honey. Also, according to the data of 2018, Imereti region was leading with the number of bee families - 55 thousand, and in Kakheti - 50 thousand families and in Samegrelo and Zemo Svaneti region - 41 thousand families. The promotion of honey production in Imereti region has led to the study of the economic and competitiveness potential of this field[5, 3 –73].

There was conducted a questionnaire study of Small and medium beekeepers in Imereti region in order to study the specifics of honey production management and guidance. As the result of questionnaire, a clear picture of the skills and resources of beekeepers were emphasized which they have and use to develop this field. Their interest in increasing their honey export potential is high, especially as they consider the EU market to be particularly stable. Their interest in increasing their honey export potential is high, especially as they consider the EU market to be particularly stable. As the review in the introductory part of the article shows, despite the growing beekeeping farms, there is not radically increasing honey production. However, part of the beekeepers think that the sale of the existing volume of honey production is also a problem if its export is not stimulated for export.

The largest exporters of honey in the world are China and Argentina, but the leader among them is China. It is noteworthy that Chinese and Argentine honey is much cheaper than Georgian honey. In particular, in the EU market, Argentine honey costs about 3 euros, about the same price as Austrian and Mexican honey, while Chinese, even cheaper - costs 2 euros. According to Geostat, as of 2020, the average price of Georgian honey in the local market is 19 GEL, which is quite expensive compared to the price of large exporters. We can assume that despite the unique nature of Georgian honey, its price is non-competitive.

A survey of 18 honey-producing entrepreneurs was conducted on the social network. 18 respondents were surveyed, who are engaged in beekeeping in Imereti and they state that mixed and May honey are sold at different prices. Accordingly, the questionnaire provided for the sale price of honey by species. 50% of respondents say that they sell May honey for less than 17 GEL, the exact price can not be determined, but this price is not less than 15 GEL, because beekeepers say that mixed honey is sold more expensive and in high demand than May honey. We can assume that the price of mixed honey in the local market ranges from 15-17 GEL on average.

According to 61.1% of the respondents, they sell May honey for 15 GEL, while the remaining 16.7% of the respondents sell the same May honey for 15-20 GEL or 20-30 GEL. According to the questionnaire surveys, the price of both mixed and May honey in Geostat 2020, as mentioned above, is lower than the data (19 GEL), but still more expensive than the price presented by the major exporting countries of the market which can be a determinant of Georgian honey export potential.

The question arises, what are the expenses incurred by Georgian beekeepers that makes Georgian honey more expensive? It would be possible to answer the question by comparing the costs of the production process of Georgian beekeepers with the costs of honey production in the market leader country and identify the category of expenses that make Georgian honey more expensive.

In order to determine the expenses of honey production, the article examined the small honey enterprise of I/E Maradi Tsertsvadze with 50 beehives⁴, which costs were compared to the costs of the entrepreneurs surveyed by the questionnaire. I /E Maradi Tsertsvadze is a small entrepreneur, whose annual honey production in 2020 was up to 750 liters, out of which 350 liters of May honey was produced and 400 liters of mixed honey. The total annual takings from the realization amounted to 12050 GEL. According to the data, the annual cost of production in 2019 was 7650 GEL, as the result an average prime cost of 1 kg of honey was 10.2 GEL. As I /E states, since the taking out May honey takes place at the end of April (before the migration of the beehives), the expenses are lower compared to the cost of mixed honey and, consequently, the prime cost of mixed honey is higher compared to May honey. Along with the beneficial nature of mixed honey, the price of mixed honey also increases in terms of demand for it and beehives costs.

Individual entrepreneur Maradi Tsertsvadze, like other beekeepers, sells honey of May for 15 GEL and mixed honey for 17 GEL. Taking into account these prices, the selling price margin of May honey was 50%.

$$\text{Sales price margin (May honey)} = \frac{15 - 10}{10} \times 100 = 50\%$$

As for in case of mixed honey was 65.04%

$$\text{Sales price margin (mixed honey)} = \frac{17 - 10.3}{10.3} \times 100 = 65.04\%$$

In the case of I /E Maradi Tsertsvadze, the margin is especially high on the example of mixed honey (during the calculation of the margin, the increase in the cost of mixed honey is envisaged). The question arose, how is the selling price of honey determined in the case of other entrepreneurs, did they also have expenses in the amount of I/E Maradi Tsertsvadze and what is the selling price margin in their cases?

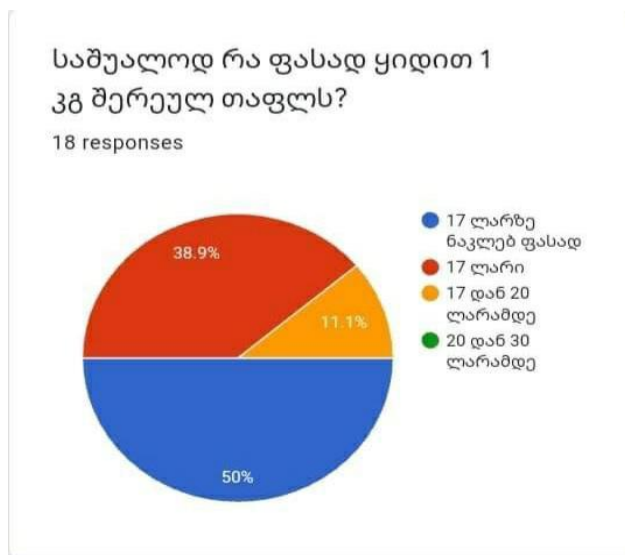
To compare expenses, at first we were interested in how much beekeepers needed for seasonal migration of beehives (migration is considered necessary to improve the consumer and taste properties of honey and increase productivity), which in itself would increase the expenses of mixed honey. It should be noted that I/E Maradi Tsertsvadze lives near the mountain, as he notes, there is no need of beehives migration and the mentioned cost does not figure in the prime cost of honey.

⁴ From the information provided by the entrepreneurs.

In order to determine the pricing regularity, during the questionnaire survey should be taken into account the costs of beehives migration. It was interesting how many of the 18 respondents needed this cost and how much the average cost was in their case.

**Survey results on the question:
On average, what is the price of 1 kg of mixed honey**

Graph 1



According to the questionnaire, 66.7% of respondents ran a small-scale beehive farm like Maradi Tsertsvadze. Approximately 15 respondents (83.3% of respondents) state the need for seasonal migration and therefore migration expenses are included in their expenses. As we have already mentioned, 50% of the respondents state that the selling price of mixed honey is less than 17 GEL, while almost 39% - 17 GEL and only 11% say that they sell mixed honey for more than 17 GEL. As we can see, the interviewed entrepreneurs who need to migrate to beehives sell mixed honey at the same and in some cases cheaper price than I /E Maradi Tsertsvadze. Most of the entrepreneurs make less profit when selling honey than Maradi Tsertsvadze and despite the lower expenses Maradi Tsertsvadze does not reduce the price of honey.

In fact, this small study revealed unhealthy competition of honey producers in the Georgian market, which could be further complicated by the current conditions of COVID pandemic, which this article does not cover at this stage. Even before the pandemic, entrepreneurs complained about the existence of unsold honey stocks for years, the expected increase in unrealized remains on the background of the pandemic will further aggravate the pricing policy of healthy beekeepers. Over the years, problems with the realization of honey have developed the instinct of Georgian beekeepers to set the selling price of honey by acting against the laws of the market. So as honey is not a perishable product, entrepreneurs increase their honey supply at the desired price in anticipation of the product buyer. Over time, this action will lead to the disappearance of beekeepers' entrepreneurial motivation and the restriction of the expansion of Georgian ecologically clean and unique honey production. High-expenses beekeepers are unfortunately less take care about the expenses optimization and do not try to see the only way to stimulate profit in a policy of healthy competitive pricing mechanism.

As Fred Deluca, co-founder of METRO International Fast Food Network, states: "there are only two ways to make money: increase sales or reduce expenses." Increasing sales is almost always a priority for businesses, unfortunately when beekeepers who have the opportunity to increase sales artificially hold up the sale of honey. If the enterprise cannot sell the product, the reduction of expenses becomes priority; on the example of Georgian honey, the rules of the market are undone, even when expenses are low, the sales policy is aimed at leading a policy of high margins. It is significant and noteworthy that enterprises do not reduce expenses even when their sales are high. A small study may not provide a complete picture of the state of the Georgian honey market, but there is sufficient reason to believe in the need for in-depth research into the field. Stimulating the production of unique Georgian honey requires in-depth research in the field and raising the business awareness of entrepreneurs in order to develop this field and increase the share of Georgian honey in the world market among honey suppliers.

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მცირე და საშუალო საწარმოების დანახარჯების ანალიზი ბაზარზე ქართული თაფლის კონკურენტუნარიანობისთვის

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ანოტაცია: „საქართველოს მცირე და საშუალო მეწარმეობის განვითარების სტრატეგია 2016-2020 წლებისთვის“ აგებულია და შესაბამისობაშია ევროპული მცირე ბიზნესის საქმიანობის შესახებ აქტის ძირითად პრინციპებთან. მასში გათვალისწინებულია ევროკავშირის ქვეყნების საუკეთესო პრაქტიკა მცირე და საშუალო მეწარმეობის განვითარების პოლიტიკის კუთხით. სტრატეგიის მთავარი მიზანია მცირე და საშუალო საწარმოებისთვის ხელსაყრელი გარემოს

შექმნა, მათი კონკურენტუნარიანობის შესაძლებლობების ამაღლება, შემოსავლების, სამუშაო ადგილების ზრდის, მდგრადი და კონკურენტული ეკონომიკური განვითარების მიღწევა. ღრმა და ყოვლისმომცველი თავისუფალი სავაჭრო სივრცის შესახებ DCFTA-ის შეთანხმების ფარგლებში იზრდება მეწარმეთა ევროკავშირის ბაზარზე ინტეგრაციის შესაძლებლობა, რასაც ახლავს პროდუქციის საექსპორტო პოტენციალის ზრდის მოლოდინი. მათ შორის, დიდია მეფუტკრეთა მოლოდინი ევროპის ბაზარზე ქართული თაფლის, საექსპორტო მოცულობის მნიშვნელოვნად გაზრდასთან დაკავშირებით.

ცნობილია, რომ ევროკავშირის ბაზარზე თაფლზე მოთხოვნა წლიურად 6%-ით იზრდება. მოხმარებისთვის საჭირო თაფლის ნახევარზე მეტი იმპორტირებულია, რომლის საშუალო მოცულობა წელიწადში 150 ათას ტონას უტოლდება. ამ მოცულობის იმპორტში ქართულ თაფლსაც შეუძლია მნიშვნელოვანი ადგილის დაკავება.

იმერეთის რეგიონის მცირე და საშუალო მეფუტკრეების მიერ თაფლის წარმოების მართვის და გაძღოლის სპეციფიკის შესწავლის მიზნით მოხდა მათი ანკეტირება. ანკეტირების შედეგად ჩამოყალიბდა გარკვეული სურათი მეფუტკრეების უნარების და რესურსების შესახებ, რომელსაც ისინი ფლობენ და იყენებენ ამ სფეროს გასავითარებლად. მაღალია მათი ინტერესი თაფლის საექსპორტო პოტენციალის გაზრდის მიმართ, განსაკუთრებით სტაბილურად ისინი თვლიან ევროკავშირის ბაზარს. როგორც სტატიის შესავალ ნაწილში წარმოდგენილი მიმოხილვიდან გამოიკვეთა, მეფუტკრეობის მზარდი მეურნეობების მიუხედავად, თაფლის რადიკალურად მზარდი წარმოება სახეზე არ არის. თუმცა, მეფუტკრეთა ნაწილი ფიქრობს, რომ თაფლის წარმოების არსებული მოცულობის რეალიზაციაც პრობლემაა, თუ არ მოხდა საექსპორტო მიმართულებით მისი გაყიდვის სტიმულირება.

სტატიაში წარმოდგენილი მცირე კვლევა ვერ შექმნის თაფლის ქართული ბაზრის მდგომარეობის სრულ სურათს, მაგრამ წარმოდგენილია იმ პრობლემების მიგნების მცდელობა, რომლებიც აფერხებენ უნიკალური ქართული თაფლის წარმოების სტიმულირებას და მსოფლიო ბაზარზე მისი საექსპორტო პოტენციალის გაზრდის შესაძლებლობას ბიზნესის მართვის დონეზე.

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