The Importance of Marketing Tools for Accessing Markets by Agribusiness Firms of Newly Emerged Market Economy Countries

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Agribusiness, as any other business activity, is effective and profitable when there is demand for its product in the market. In the highly competitive modern world, marketing is an effective tool for creating and maintaining the demand for a firm's product and can play a vital role in the success of an agribusiness firm.

After the collapse of the Soviet Union, one cause of downsized production by firms (enterprises) of post-soviet countries—including agricultural production—was the loss of markets. The main economic reasons for that were sharply reduced income of potential customers, and intervention of relatively cheaper and highly marketed products from abroad.

At this point the agribusiness in most of the post-soviet countries, and particularly in Georgia, is still underdeveloped. It should also be noted that the vast majority of agricultural products in Georgia are produced by households (approximately 95–99%), not the agribusiness firms (Department of Statistics of Georgia 2006). That is another obstacle for product development, because the lack of standardization and product quality from disaggregated household production makes even farmer cooperation to package specialized products difficult.

Trends in the environment, however, create attractive opportunities for local firms engaged in the agricultural activities connected with high-quality food production.

One of the trends is the growing income of citizens. As incomes raise demands for quality, specific attributes, and value-added products also increase (Farrelly 1996). Increases in consumer expenditures on food, derived from growth in income, tend to be associated with variety, quality, processing, and convenience (Fairchild 1990),

In last five years the average household income in Georgia has increased by 40% (Department of Statistics of Georgia). That trend seems to be a significant indicator of emergence in the country of a relatively small market (group of customers) that might be willing to pay some premium for a product in exchange for the value added to it (obviously by means of marketing).

That creates for local producers the challenge and opportunity to produce higher-quality branded products and market them to the target audience. That will increase the costs of production and marketing but at the same time the sales per unit will also be increased due to a higher price (mark-up) charged on products.

The optimization problem for producers can be set up in the following general way:

$$(1)\quad \text{Max } P^{MU}*Q - (\Sigma w_i z_i + \Sigma w_m z_m)\ ,$$

where P^{MU} is the marked-up price of product, $\Sigma w_i z_i$ is the sum of production costs associated with production of a high-quality product, and $\Sigma w_m z_m$ is the sum of marketing costs, subject to such constraints as available financial resources, available land, market (segment) size (quantity sold), etc.

The research will try determine the size of the market segments, the range of premium prices customers are willing to pay and the strength of their willingness-to-pay, and whether these premiums exceed the costs of marketing and differentiating the products, among other issues.

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