The Russian Consumer Sector: Estimation Technology

The article describes the methodology for estimating the Russia’s consumer sector and the effect of its application. The monitoring procedure of the Russian consumer sector groups indicators into two units: the unit of the estimation of consumer goods and the services market estimation unit. The estimation unit of consumer goods is composed of two modules: food products and non-food products. This module offers two components that provide an estimation of the consumer sector: marketing (estimates the accessibility of retail trade and services for end users) and production (estimates the domestic manufacture). The results of the estimation show general improvements in the consumer sector in the period of 2000–2014, but overall development is evaluated as low. The analysis revealed that the financing is growing faster than the quality indices of development. As an example, the financing of agriculture has increased by 1.5 times over 15 years (against comparable prices from 2000), while agricultural production has not changed. Another most pressing challenge is the weak differentiation of the Russian economy, as evidenced by the low rates of non-food production (availability of non-foods of own production remains at a low level and averages 20 %). The results of the estimation suggest the need to reform the regulation of the sector primarily concerning priorities for its development and improvement of financial and economic mechanisms to achieve them.

Keywords: Russian consumer sector, food security, production, final consumption

Introduction

The consumer sector plays a leading role in the structure of the economy, providing reproduction of human capital and consuming the bulk of GDP. The ultimate goal for the function and development of any economy is meeting the ever-increasing and structurally complex needs of the population. Karl Marx wrote that “no needs, no production. But consumption reproduces the need” [1, 957].

Russian consumer sector is now being actively developed and has good prospects for development. In defense of the argument for continued growth in the consumer sector, it is worth noting that the consumer behavior model of the Russian middle class, which accounts for about 55 percent of the population, is similar to consumer behavior in developed countries, and as a result, we can expect a further growth in the domestic consumer market.

Furthermore, those sectors aiming at the consumer market account for two-thirds of Russia’s GDP and have generated 80 % of economic growth in the country since 2004.

The above leads to the conclusion, that the domestic consumer market is rapidly developing, albeit showing heavy import dependence, as evidenced by the imposition of the food embargo in 2014.

In addition, the domestic consumer sector is characterized by such problems as high inflation, low quality of goods and services.

However, a more thorough evaluation of the domestic consumer sector requires taking into consideration all of its components, and an analysis of the existing methods has been carried out in order to assess the components of the consumer sector.

Russian and foreign researchers distinguish four fundamental principles, for instance, to estimate food security [2]: availability (food), accessibility (defined mainly through the price level), consumption (rational food process), and stability (security of food supply) and quality of products.

The existing body of research offers different thresholds and criteria for food security depending on the methodology, with food security estimated as the ratio of calories consumed, the energy content of the diet, and protein, fat and carbohydrates per person to normal consumption (in Russia, the rates are developed by the Institute of Nutrition of RAMS). In this respect, the Olovyannikov’s method is worth mentioning [3].
Kostyaev and Timofeev [4] propose to use to assess the region’s dependence on the availability of food commodities, and aggregate the individual indices of consumption volumes, in addition, there are different models of food consumption by households [5, 6].

In addition, there are various indices for food security assessment: overall determinant of famines (ODF) [7], global hunger index, and composite index of household food security (CIHFS) [8].

Food security is also assessed on carry-over or required balance, which is defined differently. For example, security starts from 17% of total consumption for two months (FAO) and up to 40% of average annual consumption (United States) [9]. The ability to provide food from domestic sources of production is considered secure when it is above 80%.

One of the methods of diagnosis the state blocks the consumer sector, developed by the authors and presented later in this article, is the evaluation unit of the financial security manufacturing sector. To analyze the financial security of the manufacturing sector accounted indicators property organizations and sources of its formation; indicators of solvency and financial stability; Indicators of financial results of the organization, effective use of assets and sources of their formation, margins [10–12].

In addition, much of the literature concerns assessment of retail markets with such indicators as turnover, market size, estimates of rental payments, needs’ identification for retail markets, brand evaluation, and other indicators.

Prior to consumer sector diagnostics, we need to clarify the concept. In the author’s [13] earlier publications, the concepts were specified, and diagnostic methods were developed. This article is focused on the assessment of the consumer sector, i.e. evaluation of both consumption and manufacturing.

While the consumer market is considered by the author as a scope of goods and services for final consumers, the consumer sector is supposed to include both the scope of goods and services and the production of consumer goods.

The authors have divided the consumer sector into the end-use sector (consumer market) and the production of consumer goods, adhering to the classification developed by B. Kuzyk [14, 357], as it is in compliance with the methodology used and seems most complete.

**Methodology**

To carry out the consumer sector monitoring, a diagnostic method of assessing the scope of goods and services, with sale and production division, has been applied.

The data obtained as a result of this method initially allow for matching the level of development of Russia’s market of goods and services, and subsequently evaluating its impact on the economy and population of the Russian Federation. Finally, it permits economists to define key directions of development of Russia’s consumer sector by adjusting existing ones and setting new targets.

In order to assess the market of goods and services in Russia, we suggest an indicative analysis method [15], which helps to determine how achieved or projected indicator values comply with the thresholds that meet relevant requirements of social development and sustainable development of the regions of the country, with the consideration of the achieved level and objectives of development.

The method applied here provides diagnostic information about the consumer sector in general, as well as its groups and individual indicators for each subject of the Russian Federation. Figure 1 shows the structure of the monitoring of the consumer sector, which includes group and individual indicators Indicative.

To examine the consumer sector, indicative indices grouped into two units are used; namely, the assessment unit of the market of goods and that of the services market.

Each indicative unit includes modules (synthesized indicative figures), which comprise 57 particular indicators estimated from 104 statistical sets provided by the Federal State Statistics Service.

The assessment unit of the consumer products is divided into two modules: food and non-food products. The unit of consumer products allows for the evaluation of the consumer sector based on


two components: sales (acceptance of retailing by the end user) and production (domestic production of goods).

The assessment unit of the consumer services is also divided into modules: personal services and housing and communal services; transport and communications; health care; education; hotel and restaurant business.

The methodology for assessing the consumer sector is based on a benchmarking analysis [15], developed by the Ural School of Economics headed by A. I. Tatarkin (member of the RAS), Dr. A. A. Kuklin and Dr. A. L. Myzin. This method uses value mapping as a tool to correlate different natural units of indicators with their thresholds.

The identification of thresholds is a separate task. The control set of observations is formed and reviewed for the purpose of objects identification. The tasks of establishing threshold values for indicators and classification of observations are interconnected: to determine thresholds, it is necessary to know the original classification of observations concerning status levels; to classify...
observations by the status level, it is necessary to know the thresholds of the indicators. As a result, the process of establishing threshold values and classification of observations in the learning sample becomes an iterative process that requires accumulation of databases and knowledge bases [15]. The starting points for thresholds are: the direction of a country’s socio-economic development, programs of long-term development of territories, indicators of leading developed and developing countries, international standards of living and quality of life, etc. [16, Pp. 55].

Thresholds are formed by means of the application of different methods, such as normative, targeted, and expert evaluations.

The following standards of development are introduced in order to analyze the indicators of the Russian consumer sector: high (h), medium (m), and low (l). Medium and low standards comprise three sub-levels.

Attribution of territory $j$ (Russian Federation) by the indicator $i$, to any of the levels, is determined by the ratio of $X^i_j$ and its thresholds.

All the indicators expressed in named (natural) units are converted into index (normalized) form according to the following ratios:

$$
\begin{align*}
\text{if } X^i_j \geq X^i_{M1,j}, & \text{ then } X^N_j = 0; \\
\text{if } X^i_j < X^i_{M1,j}, & \text{ then } X^N_j = \frac{X^i_{M1,j} - X^i_j}{X^i_{M1,j} - X^i_{L1,j}}, \\
\text{if } X^i_j \leq X^i_{M1,j}, & \text{ then } X^N_j = 0; \\
\text{if } X^i_j > X^i_{M1,j}, & \text{ then } X^N_j = \frac{X^i_j - X^i_{M1,j}}{X^i_{L1,j} - X^i_{M1,j}},
\end{align*}
$$

where $X^i_j$—actual value of index $i$ for territory $j$, expressed in named units; $X^N_j$—normalized value of index $i$ for territory $j$, expressed in RU; $X^i_{M1,j}$, $X^i_{L1,j}$—thresholds of index $i$ for territory $j$, intermediate between high and middle, middle and low levels respectively, expressed in named units.

According to the ratio (1), normalized scores (NS) are defined when in the source (named) system of units the reduced indicator values lead to degradation of the system (indicators of ‘diminishing’ type), and according to the ratio (2)—if the increased indicator values lead to deterioration (indicators of ‘rising’ type). For simplicity, the ratios (1) and (2) omitted the index of a current period of time $t$.

Table 1 shows classification principles based on normalized values.

### Table 1

<table>
<thead>
<tr>
<th>№</th>
<th>Levels</th>
<th>Shortened notation</th>
<th>Normalized indices by thresholds</th>
<th>Scores $b^i_j$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High</td>
<td>$H$</td>
<td>$X^N_j = 0, \ X^N_j \neq X^N_{M1}$</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Middle</td>
<td>$M1$</td>
<td>$0 &lt; X^N_{M2} &lt; X^N_{M1}$ or $X^N_j = X^N_{M1}$</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$M2$</td>
<td>$X^N_{M2} \leq X^N_j &lt; X^N_{M3}$</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$M3$</td>
<td>$X^N_j \leq X^N_{M3} &lt; 1$</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Low</td>
<td>$L1$</td>
<td>$1 \leq X^N_j &lt; X^N_{L1}$</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$L2$</td>
<td>$X^N_{L2} \leq X^N_j &lt; X^N_{L3}$</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$L3$</td>
<td>$X^N_j \geq X^N_{L3}$</td>
<td>7</td>
</tr>
</tbody>
</table>

According to the ratio (1), normalized scores (NS) are defined when in the source (named) system of units the reduced indicator values lead to degradation of the system (indicators of ‘diminishing’ type), and according to the ratio (2)—if the increased indicator values lead to deterioration (indicators of ‘rising’ type). For simplicity, the ratios (1) and (2) omitted the index of a current period of time $t$. Table 1 shows classification principles based on normalized values.

After assessing by particular indicators, assessment by modules, units, and the system, in general, takes place by means of scores $b^i_j$. Experiments with different calculations have shown that in this case the calculation of the weighted average normalized estimate is the most appropriate for determining the normalized valuations, and the scores $b^i_j$ act as balance (Table 1).
\[ C_{ji} = \left( \frac{\sum_{i=1}^{N_{ji}} b_{ji} X_{ji}^N}{N_{ji}} \right) / \sum_{i=1}^{N_{ji}} b_{ji}, \]

where \( C_{ji} \) — normalized score of indicative module \( k \) for territory \( j \) (relative units); \( N_{ji} \) — number of indicators in module \( k \) for territory \( j \) (units); \( b_{ji} \) — numerical score for assessing indicators.

To assess the status of the unit (synthesized indicators), it is recommended to scale ratings, which makes it possible to reach qualitative conclusions about development (Figure 2).

**Results**

An assessment of consumer socio-humanitarian and life-support services should be carried out according to the following: system of health care and social services, education, culture and sports, services of hotel and restaurant business.

Each module includes assessment according to the methodology indicators: availability of service, quality of services, level of prices for services, status of funds and financial performance of the enterprises (organizations).

The sector of socio-humanitarian and life-support services over 15 years has remained at a low level, although the sector has made some insignificant improvements, and in general, the normalized score (NS) accounted for 1.736 RU in 2000 and 1.443 RU in 2014 (Figure 3).

The situation in the health system is considered to be the most favourable. The average level of the health system can be viewed through the major private indicators, such as the availability of hospital beds to pregnant and admitted women (on average, 56 beds per 1000 persons), supply of doctors (on average, 49 per 10000 persons), supply of medical staff (on average, 107 per 10000 persons).

Private indicators for the entire period under review are less favourable. They include: consumer price index for medical care (on average, 116 % for the analyzed period—current December to December of the previous year), which is low by the established thresholds; renovation rate of fixed assets (on average, 4 %, low by the established thresholds); fixed capital investments into the health
system and social services per person (on average, 301 rub per person in 2000 comparable prices, low by the thresholds).

In addition, the issue of return on investment in the health system also imposes a problem. The cost of financing of health care system increased by 8.7 times over 15 years (in 2000 comparable prices), while the number of physicians increased by 1.5 times, renovation rate by 5 times, fixed assets depreciation increased by 1.5 times, and the reduction in the number of hospital beds per 10000 persons by 1.5 times.

This situation signals the ineffectiveness of government regulation and the need to create a new mechanism.

The least favourable situation in the service sector can be observed in the education system, which level of development is estimated as low.

The following issues remain urgent: structural imbalance in educational attainment (higher-secondary-primary education), inadequate focus of educational institutions on current needs of the national economy, which results in a decrease in the effectiveness of professional education.

Using private indicators, the analysis reveals an increase in the number of higher school students from 2003 to 2008, but since 2008 this indicator has decreased by 20 % (in the following period between 2008 and 2014), as well as number of students receiving specialized secondary education (by 31 % in the period 2000–2014).

It also should be noted that, unfortunately, there is no direct correlation between the growth of investment and improvement in quality. Funding for education increased by 3.5 times (in 2000 comparable prices), although the quality has increased only by 0.5 times (NS in 2000 was 2.193 RU, in 2014—2.064 RU).

The analysis illustrates the need for regulatory reform of the education system, particularly in regard to setting priorities for its development and improving financial and economic mechanisms to achieve them.

According to the author’s methodology, the food products sector can be assessed by two components: assessment of the status of sale and that of production.

The sale sector evaluates retail trade, i.e. to what extent it is acceptable to the end user. This module provides an estimation of the degree of per capita satisfaction of needs for basic agricultural products; quality and prices of food products; funds and financial performance of retailers.

The production sector allows for the evaluation of Russia’s food safety and includes such indicators as the availability of basic food goods produced within a territory; consumer price index for agricultural products, agricultural funds; financial performance of agriculture (includes return on goods sold and financing of agriculture from the consolidated budget of the Russian Federation).

Figure 4 shows the food products sector in general and separately for the two modules (sector of sale and sector of production).
It is evident from the period 2000–14 that the food sector has mainly improved from a low to medium level (change of normalized score (NS) from 1.343 RU in 2000 to 0.858 RU in 2014, or 36 %).

However, the dynamics have not been positive for the whole period. In 2003 and 2004, the food production sector experienced decline (in 2003, change of NS by 9 % against 2002, in 2003/2004 by 4 %), with similar observations made during 2006 and 2008 (2006/2005 — by 8 %, 2007/2006 — by 8.5 %, 2008/2007 — 5 %) and 2011 (2011/2010 — by 25 %).

Negative dynamics during certain years can be associated with a change in the indicators:
— deterioration of the quality of food products according to the audits of the Federal service for supervision of consumer rights protection and human welfare in 2004 and 2006 (in 2003 NS was 27.90 RU, in 2004 — 29.60 RU), increase in the number of goods of inadequate quality by 6 % in 2004, as compared with 2003; NS was 0.44 RU in 2005 and 0.6 RU in 2006; increase in the number of goods of inadequate quality by 36 % in 2006 with reference to 2005;
— reduction of per capita needs in basic agriculture in 2004, against 2003 (in 2004 NS was 0.451 RU and 0.395 RU in 2003), decrease in the level of satisfaction by 1 %;

So, negative dynamics of indicators in the sector of food production are observed in 2003, 2007–2008 and 2011, and can be explained by the change in the following private indicators: reduction in funding, rise in consumer price index, decreased the profitability of the sold goods (works, services) of agricultural enterprises.

Russia experienced reduced financing of agriculture up to 2012, for instance by 23 % in 2002, with respect to 2001 (in 2001 NS was 1.782, in 2002 –1.84, by 13.5 % in 2010 with respect to 2009).

A case in point is the analysis of agricultural production output and public funding for agriculture. From 2000 to 2005, 31 % cost reduction is observed for one ton of agricultural products (in comparable prices), however, from 2005 to 2014, the cost has risen by 104 %. The minimum cost of one ton of agricultural products (in 2000) amounted to 268 thousand roubles, and the maximum cost — 548 thousand roubles (in 2000). From 2000 to 2014, the cost of one ton of agricultural products (in 2000) grew by 76 %, while in natural units the whole output accounted for 23 %.

The author believes that these dynamics can mainly be explained by the growth of transaction costs and corruption, and in a less degree by the decline in yields.

It is worth noting that the degree of availability of basic food products manufactured within the territory has remained at a high level throughout the period.

The consumer goods sector is estimated being similar to the food products sector according to two modules — the sale sector and production sector.

![Figure 5. Performance of non-foods sector](image-url)
Figure 5 provides data on the non-food products sector as a whole and separately on the sale and production sectors.

In general, the sector shows an up-turn from low to medium over the analyzed period (in 2000 NS was 1.441 RU and 1.014 RU in 2014).

However, such positive dynamics are not observed everywhere, for instance, the sale of non-food products sector demonstrates decline in 2003, 2006, 2009, and 2011 due to the change of private indicators, such as 21 % deterioration in the quality of goods in 2003 as compared with 2002, by 2.5 % in 2006/2005, by 7.5 % in 2009/2008, and 64 % reduction of profitability of the sold goods in 2003/2002, by 45 % in 2009/2008 and 2011/2010.

The sector of non-food production demonstrates a less advantageous picture and is assessed as being at a low level. This is caused by moderate output and insignificant financial support. Financing of this sector’s development is from Russia’s consolidated budget and since 2008, this has included light industry. Over the period of 2008–2011, it went up from 252 million roubles to 1,817 million roubles, however, since then there has been a gradual decline, compounded by a high degree of depreciation of basic production assets.

With regards the availability of household goods of own production, the indicator remains fairly low, on average, at 20 %.

This situation in the sector of consumer goods production is associated with low differentiation of the Russian economy.

On the whole, the state of things in the sector of nonfood production is caused by a low differentiation of the Russian economy.

**Conclusion**

The results of the estimation, made in line with the author’s methodology, show that in general, the consumer sector improved its status over the period 2000–2014, however, the overall development level is assessed as low.

The sectoral analysis revealed that funding increased more rapidly than did the quality of development. For example, financing of the agricultural sector over 15 years grew 1.5 times (in 2000 comparable prices), while the volume of agricultural output remained unchanged. With 3.5 times increase in financing of education, its quality indicator increased only 0.5 times (NS made up 2.193 RU in 2000 and 2.064 RU in 2014).

The low differentiation of the Russian economy imposes another pressing challenge, as evidenced by the low rates of non-food production (availability of non-foods of own production remains at a low level and averages 20 %).

This demonstrates the need to reform regulation of the consumer sector, especially in setting priorities for its development and improving financial and economic mechanisms to achieve them.

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