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CHEMONICS INTERNATIONAL INC

MARKET-ORIENTED FARM SUPPORT ACTIVITY

**MOFSA AGRIMARKETING SPECIALIST REPORT
ON THE VOLOGDA OBLAST DAIRY
ASSOCIATION DEVELOPMENT ACTIVITY**

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Submitted by
Chemonics International Inc
1133 20th Street N W Suite 600
Washington, D C 20036
Tel (202) 955-3300, Fax (202) 955-3400

Prepared by
National Cooperative Business Association
1401 New York Avenue N W Suite 1100
Washington D C 20005
Tel (202) 638-6222, Fax (202) 638-1374

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This report was completed by short-term Agrimarketing Specialist Mr Michael H Bein for the MOFSA Project in fulfillment of his deliverables as stated in the scope of work Mr Bein's assignment was conducted during the period January 18 - March 2, 1997

A Background

The agricultural sector of the Vologda Oblast has been in a downward spiral since the collapse of the Soviet Union in 1988-1989. Dairy production at both the farm and processor level is declining. From 1990 to 1995, per capita milk production has fallen 35% (from 555 kg to 360 kg) and commercial use has declined over 40% (from 426 kg/person to 252 kg/person). The oblast dairy industry continues to operate under severely stressed conditions.

Factors contributing to this decline include increased competition for a decreasing raw material base (fewer farmers producing less milk), significant seasonal fluctuation in milk supply, and strong competition from imported dairy products. Perhaps most importantly, the change from the old Soviet system represents a change in culture--from supply to demand-side economics. Processors had developed their operational capabilities, but few have any experience in marketing--creating sustainable competitive advantage for their products in the marketplace. This is the leverage point upon which this project is based.

B Project Objectives

Given the breadth of systemic problems challenging the dairy industry, MOFSA was faced with the question of how to make a sustainable impact with its limited time and resources. This is addressed by focusing on the development of "pull" for dairy products--identifying and executing against sources of increased demand for Oblast dairy products, which in turn will, over the long run, help generate more business for processors, more income and greater profit for dairy farmers.

The vision for this project is simple: begin to teach processors the decision-making, planning and executional skills necessary to compete in a market economy. Work with processors in a hands-on manner to penetrate the Moscow market, helping generate additional sources of sales and profit. Develop templates which will form the basis for continued learning.

To support this vision, the project objective is to build sustainable competitive advantage for oblast dairy processors by

- Building upon the recognized high quality and heritage of Vologda dairy products, positioning oblast products as "the quality standard" and thereby competing against high end imported products
- Strengthening the ability of oblast dairy processors to attend to those marketing functions which build value into both their brand and their efforts to move product to market
- Creating a Vologda dairy association, designed to act as a common marketing force for a line of dairy products made by member processors
- Bringing Association dairy products to Moscow as a practical means of working through the above objectives

C Activity-Based Findings

This section summarizes the status of Association-building efforts

C1 Activities

To continue building momentum for the creation of a dairy association, MOFSA undertook a series of activities within during January and February 1997, including

- Conducting store checks in Moscow with the purpose of testing the core concept--that Vologda dairy products can successfully compete against high-priced imported brands (see Appendices A & B)
- Holding a series of meetings with both individual processors and groups of potential association members to communicate market findings, and to gain commitment to the association and its goals (see Appendix C)
- Conducting market research taste tests comparing Vologda and imported dairy products
- Leading a trade mission to Moscow to call upon upscale Western-style stores to 1) further learn their impressions of the Vologda Dairy Association concept, and 2) to gauge the ability of association members to sell product under the concept banner
- Holding meetings to promote the success of the trade mission, with the goal being to promote and expand association membership

C2 Findings

The initial Moscow store checks clearly confirmed the going-in hypothesis that significant opportunity exists for Vologda dairy products to successfully penetrate the Moscow market (see appendix A for detailed findings) The high price of Western goods leaves room for transportation and distribution costs plus incremental margin for Vologda processors Store managers and dairy purchasing directors at Western-style stores were consistently optimistic about the competitiveness of a line of commonly branded Vologda dairy products positioned to sell against the high priced imports They strongly believe in the broadly recognized high quality image of Vologda dairy products Further, both they and their customers are increasingly seeking domestically made products of high quality

A more detailed discussion of these findings was merchandised to Vologda dairy processors, both individually and as a group, in an effort to promote the benefits of forming an association Processors' response to these findings tended to fall into one of three categories

Category 1 Dairy processors who recognize real opportunity, and are very or somewhat ready to address the challenges in moving to market (Zayra and Cherepovets dairies)

Category 2 Processors who recognize potential opportunity, but believe that the challenges of moving to market are too great to directly face at present (Vologda Dairy)

Category 3 Processors who do not recognize opportunity in moving product to larger more affluent markets and/or are unable to meet the challenges in becoming market ready (Experimental Plant and Sukhona Condensed Milk Combine Gryazovetes Powdered Milk Plant and Sheksna Dairy, while not present at this meeting, also fall into this category)

At this point, it was decided that MOFSA would work most closely with "the top of the class," those processors evidencing the most enthusiasm and ability to bring product to Moscow. It is believed that helping these processors gain a foothold in the Moscow market will provide incentive to other processors join the association.

It should be noted that Vologda Dairy, the largest and only growing dairy in the oblast has chosen to sit on the fence regarding association membership, exhibiting a Missouri "show me" attitude which stems from their own experience base. Vologda Dairy has attempted to bring product directly to Moscow, but was stymied by competitive forces which can become obstacles to product distribution. Vologda Dairy has chosen a simpler route, selling 13% of its product in Moscow through a wholesaler who picks product up in Vologda and distributes it in Moscow. This increases Vologda's sales volume, but not its margin, as product is sold at below local wholesale cost.

Both Zayra and Cherepovets Dairies were interested in participating in a Chemonics-led trade mission to Moscow. In preparation for this mission, a taste test of Vologda-made versus imported dairy products was conducted, and a guide to trade mission discussion points was executed (see Appendix B).

The taste test was designed to offer support for the proposition that Vologda-made dairy products are as good or better than high priced imported products. The blind taste test (respondents did not know product brand or origin) was conducted among 50 women and men in Vologda. Five sets of products were tested: butter, UHT milk, sour cream, farmers cheese, and kefir. Vologda-made butter, sour cream and UHT were preferred by margins of over 2:1 to imported product, while Vologda-made kefir and farmer's cheese were preferred equally to imported products. These results were readily accepted by the Moscow store managers and buyers presented to during the trade mission.

The trade mission to Moscow reinforced the beliefs of both MOFSA and the Zayra and Cherepovets Dairies regarding product opportunity in the Moscow market. Perhaps more importantly, this exercise offered the first opportunity for hands-on training in developing a sales presentation to this segment of the retail market.

The mission was positioned as a reconnaissance trip, information gathering being the first priority, followed by a low key discussion of processor product line, quality, pricing, etc. Five Western-style stores were visited, and the goals of the Vologda Dairy Association discussed (cooperative marketing of a broad line of Vologda-produced dairy products under common packaging carrying a logo/seal of authenticity from the association, product priced to compete with

high end imported product) All store managers and purchasing directors were consistently enthusiastic about the project's mission Further, an important lesson was learned on the trip

Zayra Dairy had come prepared to sell UHT at 4500 rubles/unit, up from their Vologda price of 3700 rubles/unit Under the proposed Association positioning (quality and price competitive with high priced imported brands), Chemonics believed that a higher price was warranted Upon guiding the Zayra salesman to this position he closed a deal for one palette of UHT at 5000 rubles/unit The learning for both Zayra and Cherepovets sales teams was that a different set of guidelines operate in more market-driven and affluent economies (such as Moscow) High price is a cue for quality, and if supported by quality product, packaging and service, retailers are quite willing to place product on their shelves for a trial effort

As a footnote to this learning, this UHT moved so well that two additional palettes were ordered and paid for in cash (as opposed to the standard payment after 15 days) This lesson helps to anchor the proposition that MOFSA, through the association, can offer oblast dairy processors valuable business-building benefits (templates) Additional benefits will be discussed in the Recommendations section of this report

Further meetings have been held, with more scheduled, to move processors forward from agreement in principle (with joining the association) to agreement in practice The necessary registration and incorporation papers have been drawn up and signed for the anti-monopoly committee We are awaiting solid commitments from two prospective association members Further, Sasha Alexin (the Chemonics translator who has helped to move this project forward by functioning in both translation and marketing capacities) has been nominated by the processors to be director of the proposed association MOFSA wholly supports this nomination, recognizing that it will take a proactive marketing-oriented director to help move this opportunity forward This represents another of the issues to be resolved among the potential association members

However, despite these activities the processors have yet to commit to forming an association

D Project Challenges

A range of executional and cultural challenges face this project Executional challenges include

- Determining a sufficiently broad product line which can be moved to the Moscow market now, and within the next 3-6 months
- Developing an association logo/seal which communicates made in Vologda authenticity
- Setting quality standards for using the seal
- Developing contemporary packaging and labeling which supports Vologda positioning as directly competitive with imported goods
- Examining and working to change standards which act as barriers to Vologda's exporting product to Moscow (including shelf life standards, and "Vologda" butter labeling standard, namely, attempting to restrict the use of the Vologda name to butter processed only in the Vologda Oblast)

- Introducing market research and information gathering as integral elements of the marketing process (including packaging and customer identification/profiling)
- Consumer and retailer communications, including advertising, promotion, sales materials, and public relations
- Simplifying invoicing for a broad dairy product line

Cultural challenges are the most significant drivers of (as well as impediments to) progress. Here, cultural challenges handicap dairy processors, keeping them from breaking out of their self-reinforcing downward cycle by directing them to focus on short term rather than fundamental solutions. These cultural challenges include:

- Operating in a market versus supply-driven economy. The desire to take orders rather than create orders is the starting point for too many processors. There are insufficient models which illustrate how to take proactive measures to grow the market.
- Processor risk profiles. Creating new and empowering choices which result in doing business differently is not a process which has been positively rewarded in the Soviet culture.
- Working together cooperatively rather than competitively. While some cooperation currently exists regarding packaging and raw ingredient affiliations between Vologda dairy processors, these processors continue to see each other as competitive for raw milk and market opportunities. The idea that growth and more profitable demand can change these relationships is not understood by most.
- Learning from models and templates. American learning is based upon connecting to an already established knowledge/experience base. Schools, jobs, networking are all based upon the universally perceived value of building upon the accumulated experience of others. Here, that experience does not exist, the value of learning from other's successes and failures is not understood, nor is how to manage that process. Choosing to utilize external expert resources (for example, Chemonics experts, packaging or communications agencies) and managing those effectively also needs to be facilitated. It is important to recognize that creating a marketing association implicitly builds upon these underpinnings.

E Recommendations

E1 Association Building

The key to addressing project objectives and gaining a measure of success in terms of sustainability is the flexibility with which association goals (and not necessarily the "association" itself) are pursued. That is, the concept of the association is based upon developing a structure which will begin to positively change the business practices (and, over time, the business culture) of participants. The association is seen as a vehicle for change, and clearly that change is maximized by having as members the six processors comprising over two-thirds of oblast dairy production. However, due in large part to the cultural realities identified above, an association of these dairies at this time is not to be

Within this context, this project's primary goal is to insure that an ongoing mechanism for teaching processors the decision-making, planning and executional skills necessary to compete in a market-driven economy is set in place. Should only a small number of processors choose to make the changes and take the risks inherent in moving product to Moscow, then over time their success can become the engine which levers "wallflower" processors to join in a growing success. Recommendations supporting this point of view include

- Working with, and giving disproportionate benefit to those limited number of processors who "get it" and are willing to take the necessary risks, and make the necessary changes to compete in a market-driven economy. MOFSA cannot "push the rope" to effect change among unenthusiastic/fearful processors
- Positioning this group as a marketing and brand-building entity. Expertise would be accessed and shared by tapping the MOFSA conduit for technical assistance
- Developing a seal of authenticity identifying Vologda-made dairy products. Ownership of this seal, which over time can become a competitively-insulating mechanism, should go to those processors who come together to penetrate the Moscow market. Ownership of this seal could become a leverage point to encourage others to join the association
- Consideration of alternative forms of a "common marketing group." As the association has been considered an interim step toward forming a dairy cooperative, a for-profit marketing venture might alternatively achieve similar ends
- The "common marketing group" should act as a marketing manager for the range of products represented, fulfilling brand building and market penetration functions. The latter would best include facilitating, though not directly executing, the sale of product
- Merchandising the success of Moscow marketing efforts to a broader stakeholder audience which has the power to influence non-participating processors to join this effort. This might include efforts to reach farmers, dairy plant boards of directors, plant workers, lending institutions, Oblast government, etc

E2 Executing Association/Marketing Group Functions

The primary directive for the proposed marketing entity is to develop the competitive marketing capabilities of its members. Toward that end, activities should include

- Developing an association logo/seal. This seal should communicate made in Vologda, quality, heritage, and environmentally sound. A colorful Vologda-version of the Saint Springs bottled water label illustrates one set of possibilities.
- Developing graphic elements for labeling. Labels should be distinctive, offer shelf presence, have contemporary design, be graphically simple, have appetite appeal, reinforce brand name recognition, and communicate "higher priced but worth it" (evidencing a higher quality, made in Vologda image superior to imported competition). Bar coding will be necessary for the Moscow market by May 1, 1997.
- Multiple graphic executions should be produced and evaluated. Themes might include cows and environment or just contemporary elements (perhaps multi-colored bands of rich royal colors) which could edge commonly branded products. Experienced design talent should be used from the start of this exercise.
- Conducting basic market research. Packaging and labeling should be tested in the Moscow market. Basic consumer and media research should also be undertaken prior to developing advertising/public relations efforts. Issues to explore include
 - a) purchase process: what, where, when, how much product is purchased per week?
 - b) who is primary purchaser of dairy products?
 - c) brand loyalty: brands preferred/considered
 - d) important differences between brands
 - e) perceptions of Vologda dairy products. Are these (quality) perceptions held across age, sex and demographic segments?
 - f) what newspapers, magazines and radio stations are regularly partaken of?
- Accurately estimating market potential for varied dairy products may be a long term task. However, contacts with friendly retailers, distributors, suppliers, market research organizations and other stakeholders can help to place boundaries upon these ever-refined estimates.
- Networking. An association or for-profit marketing group should broaden the capability of processor members to capture industry knowledge/experience to be used as input to their decision making. Developing a network which offers this support might include connecting to market research houses, communications companies, suppliers to the industry, sellers of non-competitive dairy products, selected store managers/purchasing directors, food distributors, Vologda Oblast government officials, and associations from other oblasts.
- Consumer and retail communications. Based upon the broadly recognized quality image enjoyed by Vologda dairy products, it appears that introductory consumer and retail

communications could be anchored in public relations rather than electronic media

- Supporting print and radio will likely also play a role. The Association should consider the importance of crafting a simple message which communicates the quality, heritage, the seal of authenticity (look for it!), and possibly the pristine origin of all Vologda dairy products. Communications efforts should be launched once a broad product line is ready for market. Clearly, butter is the core product anchoring Vologda imagery, and needs to be included in the product mix. Professional Moscow communications/public relations experts should be used for this effort, as well as developing sell sheets (targeting retailers) for the range of products and processors involved.

Appendix A

1 Review of Learnings from Moscow Store Checks of 1/23/97

Store Check Objectives

- to identify potential areas of opportunity for Vologda dairy products, including
 - butter
 - UHT
 - kefir
 - soft and spreadable cheeses
 - sour cream

We visited 13 Stores, and interviewed 3 store managers. Store managers granted us immediate access, and were open and forthcoming with information.

Information collected consistently supports original hypothesis that opportunity exists for selected Vologda dairy products to penetrate the high end dairy market in Moscow.

2 Key Moscow Market Trends

Grocery Stores

- more Western-style food stores are opening to service a growing market (perhaps 20 currently exist)
- larger "supermarket" stores are opening
- growth of target audience customers, including
 - new Russians
 - professional Russians (often working for Western firms)
 - Westerners
- retail market is becoming more competitive (more distinctive products are sought to support store differentiation)

Products

- wide variety of product categories, and products within categories
- it is not unusual to carry 5 brands of butter, with 3-5 varieties/sizes of the more popular brands
- about 90% of stocked dairy products are European (with some American specialties), 10% Russian. This is not store policy. European goods are seen as better meeting customer and store needs.
- several American products are widely distributed. These typically Russian products are likely made for export only: kefir, tvorog, and flavored yogurt drink.

Product Pricing

- customers at up scale Western stores are not price sensitive "Price is not an object Customers think the higher price the better the product "
- at specialty stores, the dairy markup was said to be 25-30%
- significant differences may be seen between the same products sold in high vs low-mid end stores

3 Upscale Western-Style Grocery Stores Operate Against a Higher Standard of Performance

These stores are more responsive to customer (as well as their own retail) needs, including

- product quality
 - taste
 - Russian certification
 - consistent quality
 - contemporary packaging, including bar coding
 - labels which extend a product's shelf presence
 - shelf life
- product choice/selection
 - varied brands
 - varied sizes and types, especially for basic goods
 - demand for more Russian-made products
 - distinctive products
- brand recognition is generally necessary to achieve product placement
- frequent and flexible (time and quantity) product deliver
- terms -- smaller stores may seek delayed payment (15-30 days)

4 Summary of Potential Leverage Points for Vologda Dairy Brands

- high price of Western goods leaves room for transportation/distribution costs plus incremental margins
- desire of Western grocers and their customers for more high quality Russian goods
- Vologda brand name has untapped equity
- embedded brand recognition
- broadly recognized quality
- potential exists to use more cost effective promotional (versus advertising) efforts aimed at building brand recognition and gaining shelf space
- initial positioning compete against top European goods on both quality and price
- Vologda association has the potential to sell a broad product line (to better serve grocers)
- more responsive delivery time than European products
- ability to accelerate market penetration via Chemonics

5 Additional Considerations Regarding Penetrating the Moscow Retail Market

- "You only get a single chance to make a first impression " Care needs to be taken in approaching Moscow market before quality elements are fully developed
- we should recognize that this is a new way to do business
- continuous improvement in product quality, consistency (product, delivery)
- being continually responsive to customer needs, and setting up mechanism to promote ongoing two-way dialogue
- need for sales tracking systems on product and store basis
- work together as an "association"

Appendix B

Sample Dairy Products

Survey Dates

January 20-23, 1997

US\$ exchange rate @5,700

rubles DM exchange rate

@3,600 rubles

Product	Manufacturer/Origin	Package	Size	%Fat	Currency	Price per Container	Price in Rubles
New Arbat Grocery, Kalininsky Prospect							
Cream butter	Ochakovo Moscow	foil wrap	0 2 kg	?	RR	6 100	6 100
Vologda Butter	Sheksna VO	wood barrel	1 0 kg	82 0	RR	210 000	210 000
Vologda Butter	Sheksna VO	ceramic jar	1 0 kg	82 0	RR	185 000	185 000
Pasteurized Milk	Moscow	Tetrapak	1 0 liter	3 2	RR	4 300	4 300
Kefir	Moscow	Tetrapak	1 0 liter	3 2	RR	5 200	5 200
Baked Milk	Moscow	Tetrapak	0 5 liter	3 2	RR	3 300	3 300
Effect Yogurt	Moscow	Tetrapak	0 5 liter	3 2	RR	4 200	4 200
Ryazhenka	Moscow	Tetrapak	0 5 liter	4 0	RR	3 500	3 500
Farmer's Cheese	Moscow	paper wrap	0 25 kg	18 0	RR	5 900	5 900
Farmer's Cheese	Moscow	paper wrap	0 25 kg	9 0	RR	4 000	4 000
Chocolate Coated F/Ch	Moscow	foil wrap	0 05 kg	?	RR	2 500	2 500
Cottage Cheese	France	plastic cup	0 4 kg	?	RR	30 000	30 000
Farmer's Cheese	France	plastic cup	0 4 kg	18 0	RR	34 000	34 000
Chocolate Butter	Bryansk Russia	paper wrap	0 2 kg	?	RR	6 800	6 800
UHT Milk	Lithuania	TetraBrik	1 0 liter	?	RR	7 500	7 500
Kefir	Danone France	plastic cup	0 5 liter	1 5	RR	5 800	5 800
Farmer's Cheese	Danone France	plastic cup	0 5 kg	8 0	RR	16 900	16 900
Condensed sweet Coffee	?	can	0 25 kg	?	RR	6 800	6 800
Condensed sweet Cocoa	?	can	0 25 kg	?	RR	6 700	6 700
SADKO-ARCADE							
UHT Milk	Valio Finland	TetraBrik	1 0 liter	?	\$	1 50	8 550
Pasteurized Milk	Valio Finland	Tetrapak	1 0 liter	4 2	\$	1 20	6 840
Ryazhenka	Lifeway USA	plastic bottle	1 0 liter	?	\$	6 90	39 330
Prostokvasha	Lifeway USA	plastic bottle	1 0 liter	?	\$	6 90	39 330
Kefir	Lifeway USA	plastic bottle	1 0 liter	?	\$	6 90	39 330
Farmer's cheese	Lifeway USA	plastic cup	0 454 kg	?	\$	6 45	36 765
Sour Cream	Hofgut Germany	plastic cup	0 2 kg	32 0	\$	1 95	11 115
Lower-end Milk store, Kutuzovsky Prospect							
Chocolate Butter	Russia	paper wrap	0 2 kg	?	RR	5 700	5 700
Butter	Russia	block	1 kg	?	RR	23 000	23 000
Farmer's Cheese	Moscow	paper wrap	0 25 kg	5 0	RR	4 500	4 500
Sour Cream	Moscow	plastic wrap	0 5 kg	20 0	RR	7 000	7 000
Pasteurized Milk	Moscow	plastic wrap	1 liter	3 2	RR	3,600	3 600
Pasteurized Milk	Moscow	plastic wrap	1 liter	3 2	RR	4 000	4 000
Kefir	Moscow	plastic wrap	1 liter	2 5	RR	3 600	3 600
Ryazhenka	Moscow	plastic wrap	0 5 liter	?	RR	2 000	2 000
Foodcenter, Kutuzovsky Prospect							
Pasteurized Milk	Moscow	Tetrapak	1 liter	3 2	RR	4 200	4 200
Kefir	Moscow	Tetrapak	1 liter	3 2	RR	5 000	5 000
Chocolate Coated F/Ch	Moscow	foil wrap	0 05 kg	?	RR	2 400	2 400

Ryazhenka	Moscow	Tetrapak	0 5 liter	4 0	RR	3 300	3 300
Farmer's Cheese	Moscow	paper wrap	0 25 kg	18 0	RR	4 800	4 800
Sour Cream	Moscow	Tetrapak	0 2 kg	25 0	RR	4 300	4 300
Sour Cream	Moscow	Tetrapak	0 5 kg	25 0	RR	9 500	9 500

Kalinka Store, Kutuzovsky Prospect

Farmer's Cheese	Moscow	paper wrap	0 25 kg	?	RR	3 700	3 700
Butter GOST 37-91	Russia	foil wrap	0 25 kg	72 5	RR	5 500	5 500
Sour Cream	Moscow	plastic cup	0 2 kg	20 0	RR	4 000	4 000
Condensed Cocoa	Gomel Ukraine	can	0 25 kg	?	RR	4 500	4 500

Danone Store, Tverskaya Street

Kefir	Danone France	plastic cup	0 47 kg	?	RR	5 800	5 800
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Greenfield Cash & Carry, Sokolnicheskaya Square

Sweet Cheese (Tvorog)	Lifeway NY USA	plastic	0 45 kg	?	\$	5 90	33 630
Country style soft cheese	Lifeway NY USA	plastic container	0 45 kg	?	\$	5 90	33 630
Tvorog (farmer's cheese)	Royal Baltic NY USA	plastic cup	0 34 kg	?	\$	4 75	27 075
Chocolate Tvorog	Royal Baltic NY USA	plastic cup	0 34 kg	?	\$	4 75	27 075
Milk	Lifeway NY USA	plastic bottle	1 liter	1 5	\$	1 30	7 410
Milk	Lifeway NY USA	plastic bottle	1 liter	3 5	\$	1 80	10 260
Ryazhenka	Lifeway NY USA	plastic bottle	1 liter	?	\$	7 20	41 040
Fruit Kefir	Lifeway NY USA	plastic bottle	1 liter	2 0	\$	6 90	39 330
Drinking Yogurt	Onken ?	plastic bottle	0 5 liter	?	\$	1 70	9 690
Anchor Butter	New Zeland	foil wrap	0 25 kg	?	\$	1 35	7 695
Light Scandy Butter	Scandinavia	plastic	0 25 kg	?	\$	1 40	7 980
President Butter	France	foil wrap	0 25 kg	82 0	\$	2 00	11 400

Stokmann store, Zatspeysky Val

UHT Skim Milk	Parmalat Russia	TetraBrik	1 liter	1 8	\$	1 75	9 975
UHT Skim Milk	Parmalat Russia	TetraBrik	1 liter	0 5	\$	1 50	8,550
Hyla Cream for Coffee	Valio Finland	TetrapBrik	0 1 kg	10 0	\$	1 75	9,975
Pasteurized Milk	Valio Finland	Tetrapak	1 liter	3 5	\$	1 10	6 270
UHT Milk	Valio Finland	TetraBrik	1 liter	-	\$	1 80	10 260
UHT Milk	Valio Finland	TetraBrik	1 liter	1 5	\$	1 80	10 260
Midnight Sun Butter	Valio, Finland	foil wrap	0 25 kg	?	\$	1 50	8 550
Salted Butter	Valio Finland	foil wrap	0 5 kg	?	\$	2 50	14 250
Cream Cheeses	Valio Finland	plastic cup	0 1 kg	?	\$	2 35	13 395
Viola Processed Cheese	Valio Finland	foil wrap	0 2 kg	?	\$	1 70	9 690

Garden Ring Store, Garden Ring

Ryazhenka	Lifeway NY USA	plastic bottle	1 liter	?	\$	7 55	43 035
Fruit Kefir	Lifeway NY USA	plastic bottle	1 liter	2 0	\$	7 55	43 035
Masmix Fat Blend	Europe	plastic container	0 4 kg	?	\$	1 05	5 985
Voimix Fat Blend	Europe	plastic	0 4 kg	?	\$	1 10	6 270
Deutsche Marken Butter	Germany	foil wrap	0 25 kg	?	\$	1 90	10 830
Belle Nature Butter	France	foil wrap	0 25 kg	82 0	\$	1 25	7 125
Elle & Vire Butter	Europe	foil wrap	0 25 kg	82 0	\$	2 25	12 825
Farmer's Cheese	Lifeway NY USA	plastic	0 45 kg	9 0	\$	6 50	37 050
Country style soft cheese	Lifeway NY USA	plastic	0 45 kg	9 0	\$	6 50	37 050
Chocolate Tvorog	Royal Baltic NY USA	plastic cup	0 34 kg	?	\$	5 10	29 070
Soft Cheese (Tvorog)	Royal Baltic NY USA	plastic cup	0 34 kg	?	\$	5 10	29 070

Union Store, Bernikov Lane

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Lactel Vitamine Milk	France	plastic bottle	1 liter	?	DM	2 99	10 764
Lactel Skim Milk	France	plastic bottle	1 liter	?	DM	2 99	10 764
Pasteurized Milk	Mozhaiskoye Russia	glass bottle	0 5 liter	3 2	DM	0 99	3 564
UHT Milk	Parmalat Russia	TetraBrk	1 liter	3 5	DM	1 49	5 364
UHT Milk	Parmalat Russia	TetraBrik	1 liter	1 8	DM	1 29	4 644
UHT Milk	Parmalat Russia	TetraBrik	1 liter	0 5	DM	1 19	4 284
Farmer's Cheese	Lifeway NY USA	plastic	0 45 kg	9 0	DM	11 29	40 644
President Butter	France	foil wrap	0 125 kg	82 0	DM	1 39	5 004
President Butter	France	foil wrap	0 2 kg	82 0	DM	2 29	8 244
President Butter	France	foil wrap	0 25 kg	82 0	DM	2 79	10 044
President Butter	France	plastic	0 25 kg	82 0	DM	3 09	11 124
Ripoz Butter	imported origin unknown	foil wrap	0 25 kg	?	DM	1 59	5 724
Savenay Butter Red	France	foil wrap	0 25 kg	?	DM	2 29	8 244
Savenay Butter Green	France	foil wrap	0 25 kg	?	DM	2 49	8 964
SIWA Supermarket, Kutuzovsky Prospect							
Prostokvasha	Valio Finland	plastic cup	0 2 kg	?	\$	0 50	2 850
Butter	Valio Finland	foil wrap	0 5 kg	?	\$	2 30	13 110
Gefilus Kefir	Valio Finland	Tetrapak	1 liter	?	\$	1 60	9 120
Kefir	Valio Finland	Tetrapak	1 liter	?	\$	1 15	6 555
Kefir	Ochakovo Moscow	Tetrapak	1 liter	?	RR	4 552	4 552
Sour Cream	Valio Finland	plastic cup	0 2 kg	12 0	\$	0 80	4 560
Sour Cream	Valio Finland	plastic cup	0 25 kg	42 0	\$	1 40	7 980
Sour Cream	Valio Finland	plastic cup	0 5 kg	42 0	\$	3 85	21 945
UHT Milk	Valio Finland	TetraBrk	1 liter	1 5	\$	1 05	5 985
UHT Milk	Valio Finland	TetraBrk	1 liter	-	\$	1 05	5 985
UHT Milk	Wimm-Bill-Dann Moscow	TetraBrik	1 liter	3 5	RR	4 268	4 268

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Appendix C

Penetrating the Moscow Market with Dairy Products Produced in Vologda

Discussion Guide for Working Meeting
2/5/97

Project Objectives

- brand building to create sustainable competitive advantage for a cooperatively marketed Vologda-based dairy brand which targets the upscale (Western) Moscow market
- to develop a process which encourages the growth of Vologda-based dairy manufacturers through both this and future cooperative marketing efforts
- to begin developing the highest level "customer-oriented" marketing process of all Russian dairy brands

Key Leverage Points

- processing of high quality dairy products
- strong consumer and retailer recognition for Vologda's heritage of dairy quality
- domestically made "Russian" products
- concentrated, well managed processing base with broad product-line capabilities
- Chemonics support in entering Moscow market

Focus on Satisfying Retail and Customer Needs by Delivering Quality

- consistent product
- consistent delivery
- contemporary packaging
- labeling which communicates Vologda image and provides shelf presence
- service identifying customer expectations and proactively dealing with potential problems

Becoming Market-Ready -Discussion of Marketing Elements-

Product

Objective to convince upscale store managers and their customers of products' high quality performance

Key Considerations

- certified quality standards (examine Russian and European, attend to shelf life issue)
- delivering consistent product quality and taste across association plants
- providing consistent quality year round

Packaging

Objective. to create distinctive contemporary European-style/quality packaging and labeling which carries a common Vologda brand/logo

Key Considerations

- selecting common packaging and labeling versus common logo
- including bar coding
- creating European-style graphics
- determining packaging attributes (quality, made in Vologda/Russia, heritage)

Pricing

Objective. to introduce higher margin products which are competitive with European brands, yet priced higher than alternative Russian brands

Key Considerations

- deciding upon uniform pricing for products
- examining discounts and terms

Promotion

Objective. to stimulate brand/quality recognition for Vologda-based dairy products among both Western retail grocers and their up-scale target consumers

Key Considerations

- learnings from other products launched into Moscow market, and from your own experience penetrating other markets
- examining avenues for promotional/public relations efforts

Distribution

Objective. to develop a reliable, low cost, flexible distribution system

Key Considerations

- transportation/wholesale options and cost estimates
- examining setting up Moscow warehouse
- examining opportunity to carry return freight
- evaluating possibility of transporting non-dairy products to the same Moscow markets

Information Systems

Objective. to be capable of tracking product movement and profitability on a product and store basis, to be capable of capturing target audience consumer information

Key Considerations.

- developing a common/compatible sales and inventory tracking system for association members
- identifying and connecting to sources of information regarding the Moscow target audience's behavioral and consumption trends, and product preference

New Product Development

Objective. to be capable of identifying, developing and introducing higher margin new products

Key Considerations

- information capabilities (competitive set, added value, product differentiation,)

- test marketing products

Next Steps

- addressing fundamental brand building issues, including
- product line, product consistency, packaging, distribution,
- association structure and membership

The Types of Questions That the Vologda Dairy Producers Should Be Prepared to Answer From Moscow Retailers

- Q - Tell me about the steps you take to make your products quality ones
- Q - How will you insure consistent quality between plants (for each product type)? Discuss product quality assurance in terms of refrigeration
- Q - What will be your product line, when will it be ready?
- Q - How frequently can we expect delivery?
- Q - What is the minimum order per delivery?
- Q - How will the product be transported/warehoused/delivered?
- Q - What does your full line of packaging look like, and when will it be ready?
- Q - What, if anything will you do to promote your products?
- Q - What is your long term price commitment? .