

Marketing Technology Management Study Tour

Tour Completion Report

Meat and Dairy Industry Kharkiv, Ukraine

**May 15th to June 3rd
2000**

MTM Study Tour
Kharkiv Meat and Dairy Industry
May 15 to June 3, 2000

Executive Summary:

Using a program patterned after the post World War II Marshall Plan, the Center for Economic Initiatives (“CEI”), began a training program in 1995, to aid in the development of former Soviet Union (“FSR”) businesses. The CEI program uses a study tour of selected American businesses to teach management, technology, and marketing to a select group of FSR business leaders. CEI programs have assisted in development of businesses within the bakery, construction, dairy, food processing equipment, fruits and vegetable, health care, and meat industries.

Funding for the program comes from the United States Agency for International Development (“USAID”) and supports USAID initiatives in the areas where CEI has conducted training.

Participants in the May 2000 study tour were from the meat and dairy industries in the Kharkiv oblast of Ukraine. Each of the fifteen participants went through rigorous selection requirements including visits to their plants, mandatory attendance in the USAID Marketing Assistance Program training at specified centers, and an exhaustive interview process. The selection process was conducted in Kharkiv from February 1 through February 14 for participation in a May 15 Study Tour.

One exception to the selection criteria was made for an Oblast official (a sixteenth participant) to accompany the tour. The intent was to help educate governmental employees in how the U.S. free market operates.

Departing slightly from past tour practices, this MTM tour took the participants through the entire supply chain for the US meat and dairy industries. Two US farms were visited providing valuable insight into the sanitation and output of American dairy and cattle farms. Department of Agriculture personnel outlined government’s role in helping promote the growth of agribusiness in the US, and demonstrated their state-of-the-art testing labs to help assure producers and consumers the highest quality products. Two dairy cooperatives were visited for the purpose of demonstrating the power of unified marketing and the collective power of an association. Finally, following normal practice, seventeen American businesses were visited to highlight technology and marketing techniques in these highly competitive industries. In total, the tour traveled more than 5,000 miles in less than three weeks.

To augment the on-site training, complementary seminars on marketing research, packaging, and the US tax system were given to provide an understanding of monitoring trends and niche marketing tactics to improve overall results.

The Meat and Dairy MTM Tour met all its objectives. The Ukrainian participants identified many benefits from participating in the tour but four specific benefits were repeated by nearly everyone. First, packaging with a corporate logo is imperative to expanding market share and gaining market awareness. Every one of the participants expressed an interest in designing a package and logo to build a brand image for their company and products when they returned to Kharkiv. Second, US businesses depend on new products and penetration into new markets to sustain profitability. All the participating Ukrainian companies will try to develop a new product strategy similar to that observed in US companies. While access to capital may thwart some efforts, most participants felt there was room in existing budgets to develop at least one new product. Third, US businesses specialize in areas where they have core competencies rather than trying to control the entire supply chain. Upon return to Kharkiv, several of the business leaders intend to review their business plan to determine when and if they can trim some of the non-profitable areas and refocus their resources on their strength. Finally, US businesses provide much more authority and decision making power to line managers. Nearly all the participants plan to try to implement US style management practices including cross-functional teaming upon returning to Kharkiv.

There were two disappointments in the tour. First was a scheduling problem at one of the companies. Velvet Ice Cream was scheduled as part of the tour because they were supposed to be producing ice cream novelties on the day of the visit. When the tour arrived, Velvet was producing three-gallon cartons of ice cream to meet anticipated demand increases for Memorial Day weekend. Since the tour had two members who produced ice cream novelties in Kharkiv, there was no subsequent way to show them actual equipment in operation during the tour.

Second, attempts to schedule a large distribution operation were unsuccessful. Two large Cincinnati warehouse and distribution systems could not accommodate a tour prior to Memorial Day, and attempts to schedule a large regional warehouse and distribution center north of Cincinnati were ignored. As a result, the Ukrainian companies were not able to observe how American food stores get vast amounts of product to stores in a very efficient manner. A large warehouse/distribution center similar to those in operation in the United States could help many Kharkiv businesses to distribute their products over a much larger geographic area.

All the tour participants considered three visits exceptionally valuable. Archer Daniel's Midland which could potentially increase supplies of raw materials throughout all Ukraine, Bob Evans Farm which provided an actual American company marketing plan, and Lakeview Farms which demonstrated numerous new products capable of being produced by all the dairy companies on tour.

Follow-up visits to each participating company will be done later in 2000. During those visits, a detailed review of actual processes and savings or new product revenue will be identified. All the participants indicated they had at least three small improvements they could make back in Kharkiv which would not require any capital outlay. These will also be detailed in the follow-up report.

Tour Recap

The tour started on Tuesday, May 16, 2000 with four seminars. The first two focused on building a corporate marketing strategy, and were followed with a review of U.S. tax systems and how they promote reinvestment in a company's assets. The final seminar outlined American business practices and set the stage for what the participants could expect during plant tours.

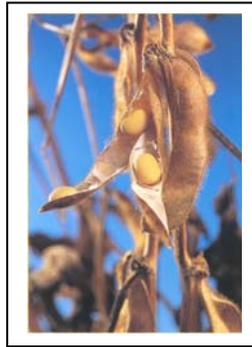
Debbie Vicchiarelli, Vice President Marketing, Cincinnati Bell Enterprises led off the presentations with a very in-depth marketing presentation. The concept of market stratification based on the wants and needs of various market segments was expertly presented in an end-to-end marketing campaign design. The Ukrainians were walked through the ideation process, segmentation, market research, feedback and modification, and development of a final marketing plan. Ms. Vicchiarelli gave the group a very in-depth look at how successful U.S. businesses develop market segmentation information and then develop products to meet the needs of the segment they choose to compete in. Participants were extremely pleased with the presentation and found it quite useful. It became the benchmark for measuring the effectiveness of the marketing programs in the companies that were visited throughout the tour.

Ed Watson, Marketing Consultant, followed with another marketing presentation stressing the importance of brand identification. This was a hands-on session where each of the Ukrainian companies were involved in explaining why a new consumer moving into Kharkiv would want to buy their products over those of their competitors (other Ukraine companies who were part of the tour). Mr. Watson also stressed how to use the information from that exercise to develop a brand name. A case study using Green Giant as the example was invaluable in creating an awareness of the power of branding for all the tour participants.

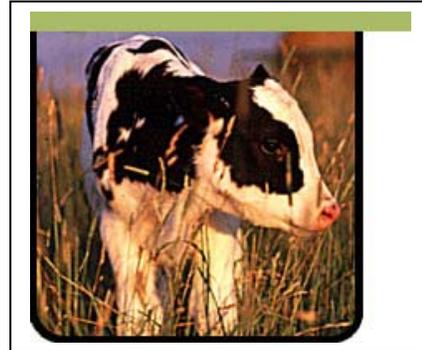
Bruce Vaillancourt, Tour Consultant, concluded the presentations with an overview of American business practices and a review of U.S. taxation regulations that promotes the reinvestment of capital into company assets. Business practices gave the Ukrainians an introduction into what to expect as they began their tour. Tax practices provided some insight into how U.S. depreciation laws help American businesses reinvest capital in their business to stay current with new technology and processing methods.



On Wednesday, May 17, the group visited Archer Daniel Midlands, the world's largest and most successful soybean and corn processing company. While the tour did not visit the manufacturing plant, it was afforded an opportunity to visit the development labs. Dr. Alan Grusby conducted the review of ADM and its products. Carefully outlining how soy can



increase yield and profitability, Dr. Grusby gave a slide-show presentation on how each of the companies in the room could benefit from soy protein. Soy can be used in the feed for both dairy herds and cattle herds. It can be used in dairy processing industry to improve quality and increase yield. It can be used in meat production to



enhance consistency, add essential vitamins and minerals, and increase shelf-life. Of most important to the tour was the presentation which showed how soy can increase yield in the meat production cycle by allowing for water absorption of up to 40% of the product weight. Dr. Grusby concluded the presentation with the



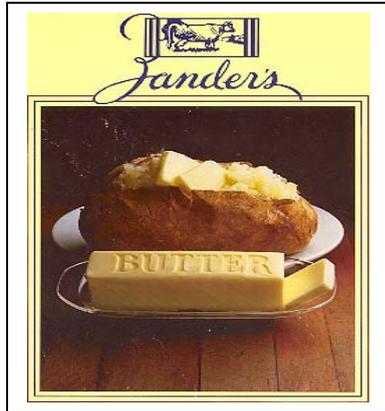
new directions of soy product development in pharmaceuticals and healthcare. In addition to the benefits which the tour members could gain, Dr. Grusby gave an impressive review of the ecological improvements at the Decatur plant including hydroponic gardening,

fishery, and the heating provided by burning used tires generating less pollutants than coal or oil. The tour concluded with a meatless luncheon of all soy products including a taco salad and chicken with broccoli cheese sauce.



ADM was a very successful stop on the tour by unanimous decision. Reportedly, there is a critical shortage of raw material in both dairy and meat for processing. Many Ukrainians saw ADM and soy as a means to increase the supply of raw materials. They were impressed with the training efforts of ADM for its partners and wanted additional information for applying when they returned to Kharkiv.

On Thursday, May 18, the tour went to Zander's Creamery in Cross Plains,



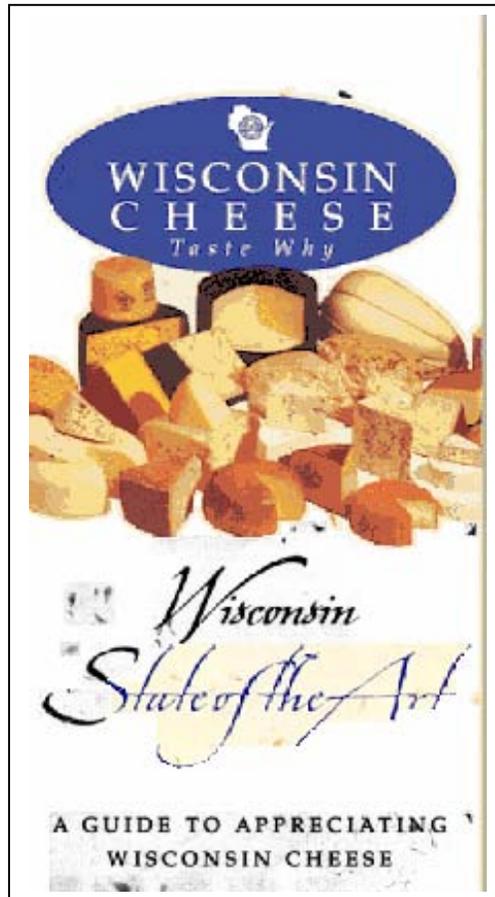
Wisconsin. Zander's is a family run business. The company has 45 employees (only four are salaried) and produces about 2.5 million pounds of butter each month. At the time of the visit, Zander's was operating at about 60% of capacity, generally more than double that of the Ukraine visitors. The equipment, though mostly 1970's vintage (except for a new German butter churn), was well maintained and looked almost new. The tour was able to observe production of five pound cartons, one-pound retail packaged butter, and one-ounce restaurant packaging. The tour also

included a review of receiving and back office functions required to support the Zander's business.

Zander's processes and packages butter not only under its own trademark, but also for many of its national competitors. The Ukrainians found this concept interesting and wanted to explore some of the same type of arrangement when they returned to Kharkiv.

The Ukrainians found the following benefits most useful from the Zander's tour and management discussion:

1. Building a quality reputation is a form of marketing bringing in new orders from customers who have had an opportunity to sample the company's product. Zanders packages print butter (small pats of butter wrapped in foil with a company logo embedded in the butter) for Walt Disney World in Orlando, Florida. Company executives who have sampled Zanders product there have called Zanders and placed orders.
2. Shift supervisors are given control of the day-to-day operations of the plant. Managers are called upon when a system fails, deliveries are late, or raw materials do not measure up to standards. Managers review daily production with supervisors at the end of a shift if there were problems, or at the end of the week if there were not.
3. Access to raw material is a problem for American companies as well as Ukrainian. Zanders was unloading a tanker from Texas when the tour group arrived, and explained that in the previous week Zanders had purchased a load of cream from California.
4. Focus on your core business and create the best product around and your company can compete with industry leaders such as Land-O-Lakes and Dean's in maintaining market share.



In the afternoon, the group visited Prima Kase, a unique family run cheese-manufacturing company located in Monticello, Wisconsin. Monticello is in the heart of what is commonly referred to as America's little Switzerland. Randy Krahenbuhl, one of the first Master Cheesemakers in Wisconsin, conducted the tour of Prima Kase. Prima Kase makes 29 varieties of cheese with a capacity to go up to 150 depending on the cultures available. Prima Kase was selected for the tour visit because they have a mixture of old and new processing methods. Two copper vats are maintained to produce an Old World style 200-pound block of swiss cheese (only company in U.S. still using this method). The remaining varieties of cheese are made using modern methods in equipment that is only 3 years old. Prima Kase has won world recognition for its Harvati and Fontina cheese and won "Best in World" for its new Sweet Swiss. Due to difficulties in obtaining raw materials, Prima Kase produces only

3,000 – 4,000 pounds of cheese per day. The company is run by the Krahenbuhl family plus one hourly employee. Productivity is high (1,000 pounds/day/employee) as a result of efficient plant and equipment layout. The company has no marketing other than word-of-mouth. Their customers are upper middle income families who appreciate top quality and can afford the extra cost for direct shipment. Lack of an effective marketing organization was seen as the major weakness of the company. Many Ukrainians felt that such a high quality product line should have a well defined marketing organization to promote growth. The Ukrainians expressed the following benefits from the plant tour and discussions with Mr. Krahenbuhl:



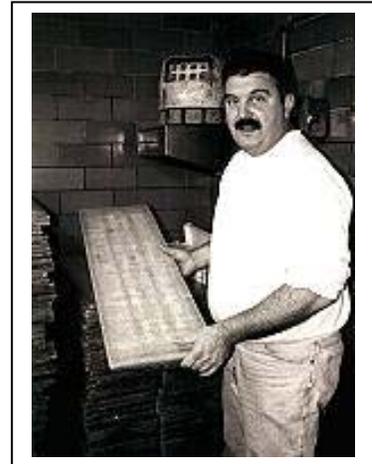
1. Strict adherence to recipes is a must to ensure quality.
2. Well-maintained equipment can help reduce the need for capital to buy new.
3. Diversification should be in the core business through new products, not through horizontal or vertical integration.

The tour started Friday, May 19 with a visit to the Chalet Cheese Co-Op in



Monroe, Wisconsin. Chalet Cheese is a cooperative of 28 Wisconsin dairy farms organized in 1885 to pool resources and compete with much larger regional farms. The average farm in the cooperative today generates about 3,500 pounds of milk per day. The largest criteria for remaining in the co-op is the quality of milk the farm

produces on a daily basis. Size of the dairy herd is not considered instrumental in co-op participation. The smallest farm produces 800 pounds/day and the largest produces 9,400 pounds/day. Only eleven farms have been voted out of the cooperative in its 53-year history. The high quality of raw materials ensures only the highest quality end products. Because of its reputation for top quality milk production, Chalet Cheese is able to sell excess quantities to companies such as Zander's Creamery and Land-O-Lakes.



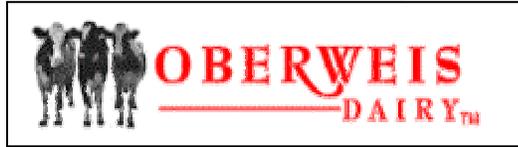
Chalet Cheese is the last U.S. manufacturer of Limburger cheese producing approximately one million pounds per year. While not a favorite with the group during the product sampling, some Ukraine dairies thought Limburger could be used to meet the needs of a small market segment in Kharkiv. In total, Chalet produces four million pounds of cheese annually achieving productivity of about 250-

pounds/labor hour.

The key points of interest to the tour were:

1. How cooperative members are paid for their milk.
2. How profits are distributed to individual farms.
3. Management structure and delegation of authority.
 - Board run, General Manager daily oversight
4. Marketing without a sales force.
 - Use of trade-show competition and Internet applications
5. Finding new market opportunities.

Friday ended with a tour and open discussion at Oberweis Dairy in North Aurora, Illinois. Oberweis is a regional milk and ice cream manufacturer. The company is one of the few dairies in the U.S. which purchases raw material direct from a few very select dairy



farms, uses glass bottles for packaging, maintains a vast network of home delivery customers, and supports strategically placed retail stores. Oberweis ice cream is considered gourmet quality and attracts customers from throughout the Midwest. Bob Reneaut, Chief Operating Officer, led the management discussions, which followed the plant tour. Oberweis operating statistics are impressive; 25 employees in production generate 25,000 gallons of milk and 2,500 gallons of ice cream daily, \$10,000 sales/employee in the retail stores, and \$7,200 revenue/employee in home delivery. Average revenue per retail store is nearly three times that of other gourmet ice cream/dairy franchises in the United States accounting for Oberweis' continued market share improvement.



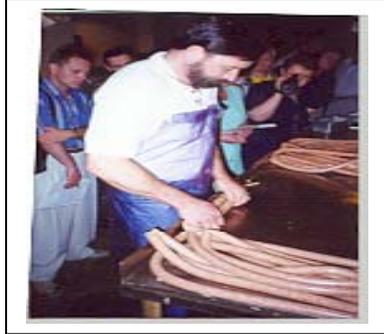
Oberweis gave the Ukrainian dairies an opportunity to explore how to price products that are well above industry quality standards and earn higher than average profits as a result.

Specific focus of the management discussions were:

1. How to price above market for quality products.
2. Management organization and performance standards.
3. Ensuring quality from source of raw materials.
4. Plant layout and design.
5. Capital investment per retail store and return on investment.
6. Total Quality Management techniques and applications. There was peak interest in how to get an 18-day shelf life on fluid milk.

Following a sightseeing weekend of Cincinnati attractions, the Tour started up again on Monday, May 22 with a seminar on current trends in packaging by Al Constantin retired executive with Crown, Cork, and Bottle. Mr. Constantin demonstrated the numerous types of packaging used in the world meat and dairy industries. The presentation gave growth rates of the various types of seals used in packaging. This seminar provided a great deal of useful information for those Ukrainian companies interested in expanding exports such as Kupiansk Milk. Kupiansk will soon begin to export condensed milk to the U.S. market.

In the afternoon, the tour visited Avril/Bleh Meats. Avril/Bleh is a small specialty



sausage producer located in downtown Cincinnati, Ohio. The company makes about 40 varieties of sausage including a full line of smoked meats. The front of the plant is the retail outlet, and the back portion of the facility is the production/smoke house. Avril has 10 employees (one of which is the owner) with three journeymen doing the processing and seven clerks working retail sales. The company averages 14 pounds of finished product/labor hour in the

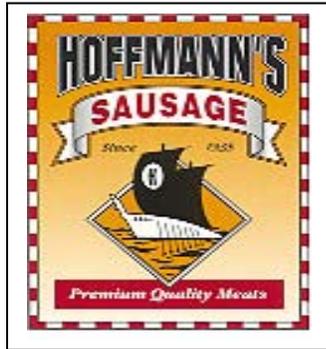
production area. Len Bleh, owner, conducted the tour and led the operational review. Avril/Bleh is approximately the size of several of the Ukrainian meat processing companies on the tour.

Avril/Bleh was not a successful visit for most of the Ukrainians. First, the retail side of the operation was closed for the day so that preparation could be done in advance of anticipated Memorial Day needs. As a result, there were many varieties of sausage which were not observed being made or sold. Second, since Memorial Day in Cincinnati creates a very large demand for brattwurst and mettwurst, the workload for the day of the visit was all brat's and mett's.

The key points of interest were:

1. Use of synthetic casing for skinless sausages.
2. Maintaining quality and taste appeal by refusing to use preservatives or coloring.
3. Specialty sausage recipes for expanding product lines.

Tuesday morning started out at Hoffman Sausage Company located in Cincinnati, Ohio. Hoffman produces a full line of lunchmeats, mettwurst, and hams which is sold in Ohio, Kentucky, and Tennessee. Howard Tallen, president, led the plant tour and the discussions afterwards. The company operates on three floors of an old meat processing plant with each floor set up for a separate processing function. The main offices and administrative support are on the top floor, receiving and shipping and the main production are on the first floor, and storage/refrigeration is in the basement.



Hoffman produces approximately 2.6 million pounds of finished product each year and productivity averages nearly 50 pounds of finished goods/labor hour. The company was of particular interest because it provided the Tour with an opportunity to evaluate the difference in plant size and employees needed to expand markets when compared to the one city location and limited production capabilities of Avril. While on the plant visit, the Tour was able to observe an FDA inspector performing his routine inspection of facilities and food handling practices. The inspector took time to explain the U.S. guidelines and frequency for inspection.



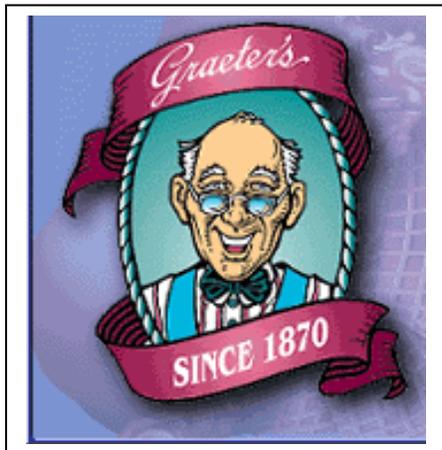
The Chief Financial Officer from Hoffman was able to join the management discussions which followed the tour. He covered various costs associated with running the business including production, advertising and promotion, and delivery. There was some very in depth discussions which followed concerning costs of raw materials and how to use that information in the establishment of retail pricing. For the most part, everyone benefited from open and frank discussion at this level of the business.

Hoffman gave the tour an opportunity to compare how American companies grow from a sole proprietorship (Avril/Bleh) into a regional competitor.

Of significant interest on the tour were the following:

1. Use of soy products to improve water absorption.
2. Marketing and promotion to expand existing business.
3. Recipes for new product lines.
4. Measuring and maximizing production by employ.
5. Distribution channels and effectiveness.

On Tuesday afternoon, the tour visited Graeter's of Cincinnati, Ohio. Graeter's is a family run business that makes and sells gourmet French Pot ice cream, candy, and bakery products.



Graeter's was founded in 1870 and has grown into one of the most successful family run businesses in the Midwest.



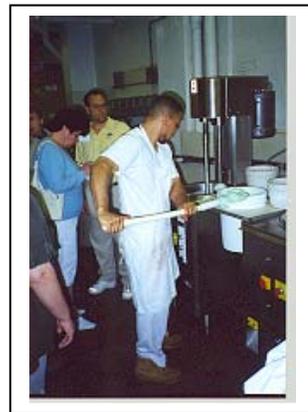
Richard Graeter conducted the tour and answered questions immediately following. Graeter's was selected as a tour stop because its ice cream is



made using old world family recipes and has grown through strict adherence to quality control. The company is one of the few left in the U.S. to hand pack its ice cream into quart containers. It has developed its niche market such that customers from around the United States contact Graeter's to have ice cream

shipped to them via air-mail at a price of \$50.00. The product (four quarts) is shipped to them in a special container using dry ice to keep it frozen.

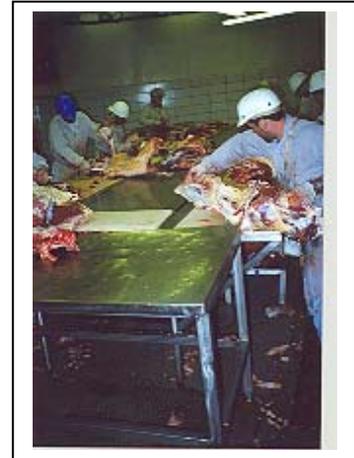
Using twelve ice cream production machines, Graeter's uses two work shifts to meet the demand for its ice cream. Four of the twelve machines are the original equipment specially made for Graeter's back in 1934, four of the machines are Italian design and approximately 20 years old, and four are relatively new, purchased to support the rapid growth of Graeter's over the past few years.



Graeter's provided extremely useful information in the following areas:

1. Identifying and developing niche markets through target marketing.
2. Implementing quality control measures and standards.
3. Finding quality suppliers for raw material.
4. Determining pricing strategies for target markets.
5. Building employee loyalty.

Wednesday, May 24 started out with a visit to New Horizon's of Cincinnati, Ohio. New Horizon's is a slaughterhouse located in the heart of the city. The company started operations in 1899 and changed its name from Kleuner's Meats to New Horizon's in 1998. Mike Kleuner led the plant tour and discussions that followed. New Horizon's kills and processes approximately 100 cattle per day (10 choice, 10 bulls, 80 cows). Livestock is typically purchased from local stockyards in the Ohio, Kentucky, and Indiana region (New Horizon's has its own buyers who frequent the stockyards). However, due to shortages which may occur from time-to-time, it may purchase livestock from as far away as Texas.



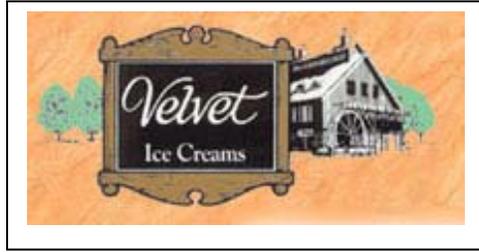
The tour followed the slaughter process of cattle from the “kill” area all the way through to its final processing into what is referred to as primal cuts. The sanitation process for each phase was explained as the group entered each new area of the operation. The use of conveyors, metal meat hooks, and mesh gloves to decrease human contact was noted in each phase of the operation.

Several of the Ukrainian meat packers noted that U.S. meat plants leave more on the bone than Ukrainian companies. Mr. Kluener explained that the boned material and scraps are sold to rendering companies which makes “picking the bone clean,” less of a necessity. In addition, it minimizes bone chips in finished goods. There were numerous questions regarding how to make contact with such companies and whether they exist outside the U.S. No one could answer those questions.

New Horizon's customers are typically retail food chains and restaurants in the Tri-State area that further process the products they buy. New Horizon's provided valuable insight into the supply chain segmentation of the U.S. market for beef products. Points of interest included:

1. Use of a “22 cartridge” kill gun in killing area.
2. Use of hydraulics and conveyors in kill area to minimize walk time between job functions.
3. Management organization and control.
4. Job descriptions for various functions.
5. Piece-meal compensation for employees to improve productivity.
6. Use of plastics and steel to reduce sanitation problems.
7. Use of a chlorine wash to eliminate surface bacteria while in storage.

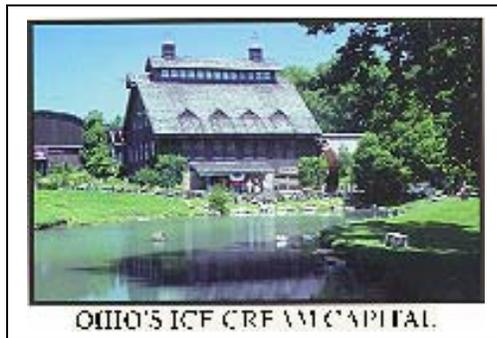
Wednesday, May 25 started at Velvet Ice Cream, a large regional supplier of ice cream and ice cream specialties to retail supermarkets, schools, and convenient stores. Velvet started production in 1914 and is located in Utica, Ohio. Joe and Mike Dager's, grandsons of the original founder, manage the business today. Both led segments of the plant tour as well as answered questions regarding operations



following the tour. Velvet has more than 500 recipes on file for making various ice cream flavors. It maintains its own flavor research department to continually develop new products. Their ice cream is packed into one-half gallon cartons as well as three-gallon plastic pails.



During the peak ice cream production season of spring and summer, Velvet employs 120 individuals. Production and distribution account for 30 employees on a regular basis. Shipments of Velvet ice cream go to 26 states in the U.S. generally through agent sales. Velvet was selected as a participant because it makes most of its own ice cream novelties. Unfortunately, on the day of the visit Velvet was in full production of three-gallon pails to meet anticipated demand for Memorial Day celebrations.



Velvet Ice Cream is located in a very picturesque area close to Ohio's capitol. Numerous ice cream festivals are held in the area. The plant is the center for many summer activities which promote both the Velvet name and its products to visitors who come from throughout the state.

The elements of the tour that were beneficial include:

1. Use of local promotions to maintain brand awareness.
2. Maintaining high quality standards beginning with the receipt of raw materials.
3. Establishing effective distribution channels to promote growth into new markets.
4. How to build a brand name.



Wednesday afternoon was spent with Bob Evans Farm of Columbus, Ohio. Amy Skidmore, marketing consultant, presented a full afternoon of marketing techniques and market planning in a

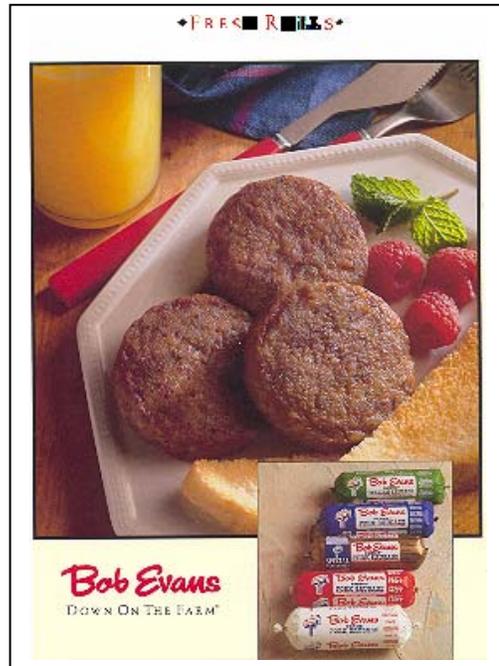
slideshow presentation. The focus was on new product development. Steve Garber, vice president of product and planning along with Earl Beery, vice president of production and transportation led the discussions regarding operations. Bob Evans was founded in 1953.

The company currently has more than 30,400 employees and operates



production facilities in Ohio, Michigan, and Illinois as well as 441 restaurants

covering one-half of the United States.

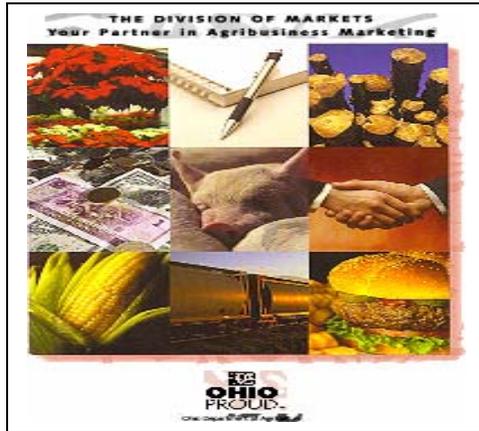


The Bob Evans presentations gave the Ukrainians first hand knowledge of how a major U.S. company develops a new product strategy, conducts market tests, and implements new products to sustain revenue growth. Ms. Skidmore's presentation went into the financial budgets for new products and included such detail as the percent of the budget spent for media time versus advertising development.

Bob Evans was one of the highlights of the tour and included such benefits as:

1. A working copy of Bob Evans marketing plan.
2. How to develop a new product cycle in both a short-term (4 – 6 months) and a long-term (3 – 4 years) version.
3. Performing and evaluating both quantitative and qualitative research.
4. Financial planning for new product development.
5. Profit contribution of new products in various life cycles.
6. Selecting and promoting a brand name.
7. Obtaining customer feedback from various sources to determine product enhancements wanted by the marketplace.

On Friday, May 26 the tour began with the Ohio Department of Agriculture at its principle offices in Reynoldsburg, Ohio. Liana Lee, Chief, Division of Markets led off the meeting that was followed by a tour of the state-of-the-art testing labs located on premises.



The members of the tour in the meat industry were given a special presentation designed



specifically for them by the Dr. Tom Brisker, Head of Division of Meat. Likewise, the dairy participants had a customized presentation on the role of the State in promoting agribusiness in the state as well as ensuring the safety of consumers by Lewis Jones, Department Head, Dairy Production and Farming. The question and answer period took up the majority of the time devoted to the visit but helped promote a better understanding of how U.S. regulatory bodies try to help farmers and businesses succeed. The oblast official who accompanied the tour was most impressed by the presentations and requested additional time with Liana Lee while the rest of the tour visited the labs. Unfortunately Ms. Lee had a court appearance in downtown Columbus and could not accommodate the request.

The tour of the state-of-the-art labs impressed all the Ukrainians. Apparently state run testing labs are not equipped nearly as well as the ODA's. The ODA lab, which also serves as an FDA



approved testing facility, was recently updated and is now gaining a renewed reputation for excellence. One Ukraine dairy was particularly interested in the testing and potential cure surrounding cancer in cattle herds.





Friday afternoon was spent at Tamarak Dairy located in Newark, Ohio. It is Ohio's largest dairy and a part of the industrial arm of The Kroger Company. The Kroger Company is the largest retail food chain in the United States and operates 16 of its own dairy processing plants across the country. Tamarak is the second largest in all of Kroger. Kevin Vondersaar, plant manager,

conducted the tour and led all the discussions regarding operations. Bob Zaborsky, production manager, and Chris Hale, quality assurance joined in the open discussion following the tour. The plant opened in 1978 and processes roughly one million pounds of milk per day, seven days per week, 364 days per year (closed on Christmas).

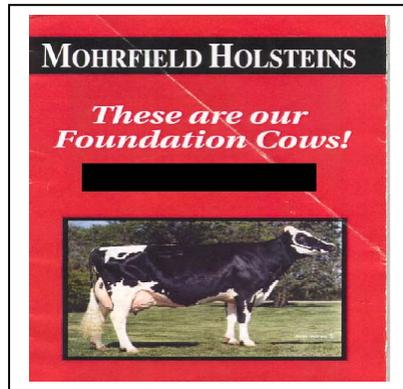


The plant receives an average of 32 truckloads of raw milk per day. On the day of the tour, Tamarak was receiving two loads from as far away as Wisconsin. Tamarak produces a full line of milk products (fluid milk, cottage cheese, yogurt, etc.). This plant does not produce ice cream since Kroger maintains separate facilities dedicated solely to ice cream and ice cream novelties production.

Tamarak plant has 225 employees. Almost all the output from the plant goes to meet the needs of Kroger stores throughout Ohio and portions of West Virginia. However, the plant also produces product under private label for some of its smaller competitors. Packaging products for competitors was a fairly new concept to the Ukrainians who asked numerous questions about why a company would supply their competitors with product.

The tour of the plant and the question and answer period were extremely beneficial to the Ukrainians. Those benefits included:

1. Space utilization to optimize production.
2. Automation to improve throughput.
3. Measuring and tracking employee performance.
4. Designing and implementing quality control standards.
5. Use of materials handling equipment to expedite product movement.
6. Scheduling techniques to improve productivity.
7. Management practices to promote employee retention.



On Saturday, May 27 the tour visited two farms near Cincinnati. The Mohrfield Farm in Pleasant Plain, Ohio is primarily a breeding farm for blue ribbon Holsteins. Though the primary product is breeder stock, the cows are nonetheless milked on a daily basis and the proceeds are sold to the American Milk

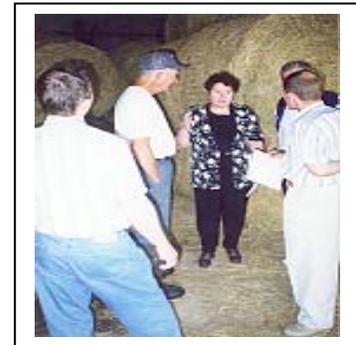


Cooperative. Louis Porter, farm manager, led to tour of the facilities and explained the heritage of each cow. The milking room was of particular interest to the Ukrainians. A demonstration was not possible since milking for the morning had already been completed.



In the afternoon, the tour visited the Fred Zaenkert Farm in Okeana, Ohio. This visit provided the Ukrainians with a hands-on experience of true American dairy farming. They were able to see and discuss the tractors on hand and their uses. They were provided the current

market price of each tractor they observed. They were able to witness the milking of cows in the milk room and the sanitation procedures used prior to and following the milking process. They were shown the harvesting equipment, the silage process, and virtually everything they wanted to know about life on a typical dairy farm.



The benefits of the farm visits were designed to give each of the participants knowledge of how the food chain in the U.S. dairy industry begins. It is the beginning of sanitary standards which ensures the quality and long shelf life of dairy products in the United States. Both visits fully achieved that objective.

Sunday, May 28 and Monday, May 29 (Memorial Day) were free days. On Monday afternoon, the entire Tour group was given an opportunity to see how Americans celebrate Memorial Day. They attended a picnic style dinner in one of the suburbs of Cincinnati.



On Tuesday, May 29 the group began its final leg of plant tours. A visit to Smith Dairy, Wayne Division in Richmond, Indiana was the first stop. Tom Jacobs, quality assurance

manager and Phil Baker, plant manager conducted the tour and led the discussions right afterwards. The Smith Wayne Division in Richmond processes standard and long shelf-life milk using ultra pasteurization. The plant was selected because of the long shelf-life process. The long shelf-life product (50% of the plants fluid milk production) has a 60-day life compared to 21 days on conventional processed milk. The investment in equipment for the UHT processing was \$2 - 3 million.

Smith's main plant and headquarters in Orrville, Ohio produces the majority of the needs for the business. The Richmond plant was converted to the new technology for long shelf-life products in 1998. Since that time it has regularly expanded weekly output to meet not only Smith needs, but the long shelf-life product needs of many of its competitors. The UHT investment has more than doubled the output of the plant over the past two years.

Like a few other dairies visited on the tour, Smith Wayne Division purchases its supply of raw material directly from local farms. When capacity requires additional purchases, large dairy cooperatives are contacted to supply the increased need. Prices for raw materials at Smith Wayne Division generally run below the price of cooperative supplied milk. Dealing directly with local farmers helps keep the Wayne Division more than competitive with other regional dairies.

Smith employs 125 individuals in the plant and processes 300-400,000 gallons of milk per week. Fifty percent of their input is converted into ice cream mix for companies like McDonald's and Graeter's Ice Cream of Cincinnati.

The benefit of the visit included:

1. Exposure to new technology for extending shelf life.
2. Uses of raw material other than fluid milk or milk products.
3. Plant layout and design to optimize production.

Michigan Milk Producers Association

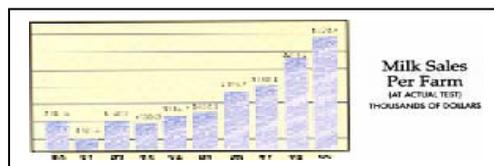


On Wednesday, May 31 the tour made two stops, both to the Michigan Milk Producers

Association. The first stop was in its processing plant in Constantine Michigan. Tom Carpenter, plant manager, led the tour and the discussions immediately afterwards. This plant basically takes excess capacity from the Association and converts it into powdered milk or butter. The powdered milk is sold to ice cream manufacturers such as Bryer's, and to candy manufacturers such as M&M Mars. The plant, built in 1908, is close to the vintage of that of many of the Ukrainian facilities so it provided a lot of similarities for the dairy producers on the tour. The equipment in use was also of similar vintage with the newest piece having been purchased in 1980. The plant employs 35 people and processes about 800,000 pounds of milk per day. The powdered milk and condensed milk production was of special interest to Kupiansk Milk, the largest Ukraine producer of such products. Observations of the group included:

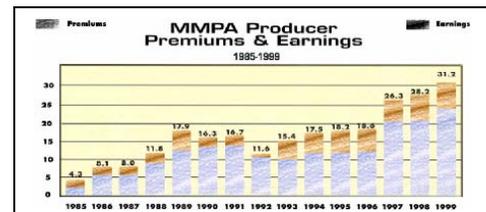
1. An excellent maintenance program can reduce costs and keep equipment looking nearly new.
2. American employees need little or no supervision because they are well trained in their jobs.
3. Maintaining quality at the receiving docks is critical to ensuring a quality product.
4. It is not necessary to employ a lot of people to achieve success and maximize productivity. A small workforce of dedicated employees can achieve much more than many half-hearted employees.

In the afternoon the Tour visited the headquarters of the Michigan Milk Producers Association in Novi, Michigan. Walt Wosje, General Manager, led the discussion



on how a milk cooperative can create value for its members as well as help assure effective quality control of the raw material it sells. Mr. Wosje explained that in 1954 there were 18,000 farms as part of the MMPA. Today there are only

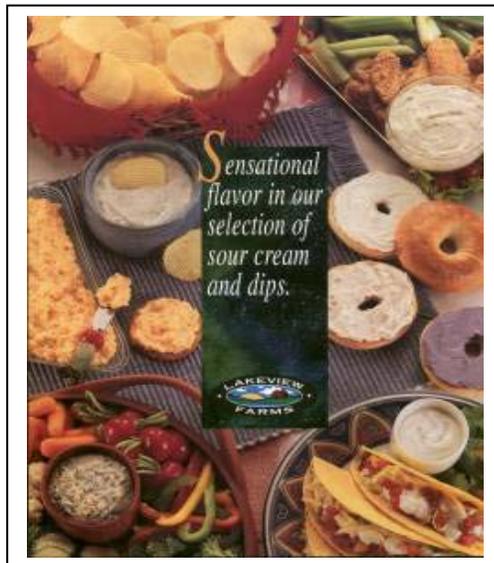
2,500 farms. The average output per farm is up more than enough to offset the loss of farms however. Pricing dominated the discussions, however There was a lot of discussion around how profits are split among the participating farms. The meeting with the MMPA concluded with a discussion about the functions the Association provided to its members which include representation in all regulatory and legislative hearings, funding research to improve output and reduce common diseases, and marketing MMPA products around the United States.





On Thursday, June 1 the tour started the day with a visit to Lakeview Farms in Delphos, Ohio. Lakeview Farms, founded in 1988 is a fast growing company using innovative product development to develop new markets. Products with a dairy base (cheese and sour

cream) form the nucleus of its core offers, but gelatin-based products are growing rapidly. The plant tour was conducted by Chris Burd, Vice President – Sales & Marketing, and Brian Smith, Plant Manager. Marty Garlock, Chief Financial Officer, and Hal Peters, Technical Service joined the group for the question and answer session.



The company employs about 240 people with 150 in the Delphos headquarters. The company does about \$60 million in annual revenues. Their products are sold by retail food chains in 33 states. One of the interesting

points of the visit was that the products manufactured and marketed by Lakeview Farms are small serving size containers with the packaging making up about 30% of the cost of the product. Their product lines include gelatin based products, sour cream based products, cheese products, and flan/mousse based products.

With its wide diversity of products and own research and development labs on-site, Lakeview was one of the more popular stops on the tour. Lakeview Farms impressed the group in the following areas:

1. New product development – Lakeview had its own lab in the facility and could develop new products to meet any customers needs almost on a daily basis.
2. Marketing techniques – the use of in-store sampling at no cost to the retailer was very impressive.
3. Gelatin based products would be entirely new to the Kharkiv region and would afford an ideal opportunity to gain a competitive edge.



The tour ended on Thursday afternoon with a visit to Buchy Foods of Greenville, Ohio. Buchy Foods is a distributor of food items to

retail grocers, convenience stores, restaurants, and hospitals in mid-Ohio. Kate Buchy conducted the tour of the facility. Buchy Foods was selected to be part of the tour so the Ukrainians could learn how American businesses use distributors, such as Buchy, to achieve deeper market penetration. While the concept struck an interest with several Ukrainians, prohibitive gasoline prices and a poor highway system seemed to negate most of the intended benefit of the tour.

Discussions with two FDA inspectors and the visit to the Ohio Department of Agriculture provided significant insight into U.S. safeguards of critical sanitation and food handling practices. It was especially beneficial to the oblast official who realized how excessive Ukrainian regulatory inspections are. Many Ukrainian businesses reported some form of inspection at least three times per month.

On Friday, June 2 exit interviews were conducted.

On Saturday, June 3 the participants departed for Kharkiv.

Benefits

All participants agreed there were some key areas where they gained knowledge, regardless of the industry they were in, that could not have been obtained without having been on the tour. Those benefits are reviewed in this section.

First, U.S. companies have very formalized procedures for maintaining their equipment. In every business visit, all the equipment necessary to process raw materials was so well maintained that it was difficult to tell its age. In companies like the Michigan Milk Producers Association plant in Constantine, Michigan and Graeter's Ice Cream in Cincinnati, Ohio processing equipment was so well maintained that the Ukrainians did not realize it was older than what they have in use in their own plants until they were told its age. The tour participants were under the misunderstanding that most U.S. companies simply purchase new equipment on a regular basis in order to keep up with technology. It was beneficial to see how Americans reduce their capital needs by maintaining their old equipment.

Universally, every Ukrainian participant thought they could establish similar procedures when they returned to Kharkiv. Since it would not cost any money to implement such a practice and it could lead to some long-term cost savings, they felt getting approval would be easy to obtain. Though impressed with U.S. procedures, no Ukrainian company requested a copy of any of those procedural documents to speed up the implementation.

Second, successful U.S. companies build their businesses by strict adherence to product specifications (mixtures, recipes, etc.). They establish a loyal customer base by building a reputation for consistent product quality. Before changing suppliers of raw material, companies establish standards that must be met by anyone wishing to become a supplier to them. They then test each delivery of raw material received to insure that shipments meet those specifications. If a load of product fails to meet specifications that load is rejected and the company looks for alternate supplies.

Most American companies have multiple suppliers for raw material. Maintaining multiple suppliers creates competition between suppliers and helps to ensure low cost supplies.

Tour participants were highly interested in implementing a similar type of quality control for receiving. Each company was also going to try to find alternative sources of raw material. However, due to the reported shortage of raw materials in Ukraine, implementing such programs will probably not occur until supplies increase.

Third, branding and packaging are key elements of every American marketing plan. Building brand awareness is the foundation for market expansion and product growth. Virtually all the Ukrainian companies collected samples of packaging and product logo's to assist in developing a similar program back in Kharkiv. For some, due to the high expense of packaging American style, implementing something similar will be delayed until the economy improves.

Finally, access to transportation is a vital part of all American businesses. Getting finished goods to end user customers inexpensively helps provide a marketing advantage. Having the least cost distribution system can raise a barrier to entry for many would be competitors. Barriers to entry is not a concept well understood in Ukraine's meat and dairy industry. Unfortunately, mass distribution channels such as those that exist in the U.S. do not exist in Ukraine. This should be developed to assist in the growth potential for Kharkiv businesses and could be incorporated in additional study tours.

Suggestions for Improvement

First, Oblast or city officials who accompany the MTM Tour's should be given an opportunity to meet individually with their counterparts in city, county and state agencies. The focus would be on economic growth and how U.S. governmental agencies help promote business growth.

Igor Kolot, Department Head, Economy and Property, Kharkiv oblast accompanied the Meat and Dairy MTM Tour. He was extremely observant of U.S. policies that help promote business growth during plant tours and discussions. His insight into the role government should play in economic development is instrumental in providing a framework for change in Kharkiv. Mr. Kolot noted that governmental agencies not only provide regulatory oversight in specific areas, they also work with industry and producer groups to resolve potential problems. While they have some police-like powers, they use them only in extreme cases.

Mr. Kolot also noted that development in the United States includes reuse of existing buildings. Production facilities can be converted to storage or retail space. Evacuated buildings can be converted to industrial use. It does require some form of tax relief or development incentive to encourage businesses to locate in those facilities. Such incentives do not currently exist in Kharkiv.

Providing access to key governmental officials could have enhanced Mr. Kolot's experience. Liana Lee, Chief, Division of Markets, Ohio Department of Agriculture was unavailable for open discussions with Mr. Kolot due to court proceedings which required her presence. If there had been time for discussion, Mr. Kolot could have benefited by gaining valuable knowledge of what is needed to encourage the growth of agribusiness. In addition, scheduling Mr. Kolot into county and/or city departments for economic development and regional planning would have helped assist in outlining a program for possible use in Kharkiv.

Second, as a group, the Ukrainian business people requested an overview of the forms of U.S. businesses and the advantages of each form (e.g., sole proprietorship, partnership(s), and various forms of corporation). An explanation was provided while on tour. However, this should be done as part of a formal presentation during the indoctrination phase. In addition to the forms of businesses, the presentation could then include current trends in the U.S. industry that would give the participants a better understanding of what to expect prior to starting the tour.

Third, it is recommended that the tour coordinators develop an outline to hand out prior to the actual tour. The outline should explain what each U.S. company can contribute to a better understanding of competition in a market economy, and why the company was selected as a host. Each tour participant can then review their questions to insure they get maximum benefit from the tour. They lack sufficient knowledge of their American counterparts and thus the outline can serve as a means to create a better understanding before they enter the plant.

Finally, distribution channels are a critical element of every U.S. business success. Similar channels are not available to Ukrainian businesses. It would, therefore, benefit each Ukrainian business to understand the various channels used by their U.S. counterparts to learn how they are used to strategic advantage. In lieu of an MTM study tour for transportation, a presentation should be developed explaining the various forms of distribution systems used by the industries on tour, and the advantages/disadvantages of each. In many cases, the Ukrainian businesses on tour could be instrumental in getting similar distribution systems to begin developing in Ukraine as well. Through forming associations or by encouraging start-ups by contributing funds earmarked for their own purchases (trucks, etc.), these companies encourage such development in Ukraine.

Itinerary

Center for Economic Initiatives MTM Study Tour Dairy & Meat Industry May 15, 2000 to June 3, 2000

Monday, May 15

Arrive Cincinnati
Check-in at Vernon Manor

Tuesday, May 16

6:00 AM – 8:00 AM	Breakfast
8:30 AM – 9:00 AM	Introductions/Tour Plans
9:00 AM – 10:00 AM	Marketing Seminar – Ed Watson
10:00 AM – 11:30 AM	New Products/Growing Mkts. – Debbie Vicchiarelli
11:30 AM – 12:30 PM	Lunch
12:30 PM – 2:00 PM	American Practices/Taxes – Bruce Vaillancourt
3:00 PM	Depart for Decatur Illinois
8:30 PM	Arrive Country Inn & Suites 5150 Hickory Point Rd. Decatur, IL 62526 (217) 872-2402

Wednesday, May 17

6:00 AM – 8:00 AM	Breakfast
8:30 AM	Depart for Archer Daniels Midland
9:00 AM	Arrive ADM 1001 Brush College Road Decatur, IL 62525 (217) 424-5200
	Contact: Dr. Alan Grusby
1:30 PM	Depart for Comfort Suites, Madison, WI
8:00 PM	Arrive Comfort Suites 4822 John Q. Hammons Dr. Madison, WI (608) 836-3033

Thursday, May 18

6:00 AM – 7:00 AM	Breakfast
7:00 AM	Depart for Zanders Creamery
7:30 AM	Arrive Zanders Creamery 1300 Main Street Cross Plains, WI 53528 (608) 798-3261
	Contact: Timon Zander
10:30 AM	Depart for Prima Kase
1:30 PM	Arrive Prima Kase W 6117 Highway C Monticello, WI 53570 (608) 938-4227
	Contact: Randy Krahenbuhl
4:00 PM	Depart for AmericInn Monroe, WI
5:30 PM	Arrive AmericInn 424 4 th Avenue Monroe, WI 53566 (608) 328-3444

Friday, May 19

6:00 AM – 8:00 AM
8:30 AM
9:00 AM

11:30 AM
1:30 PM

4:00 PM

Saturday, May 20

6:00 AM – 8:30 AM
8:30 AM – 10:00 AM
10:00 AM

Sunday, May 21

Monday, May 22

6:00 AM – 8:30 AM
8:30 AM – 11:00 AM

11:30 AM
12:00 PM

2:30 PM

Tuesday, May 23

6:00 AM – 7:30 AM
8:00 AM
9:00 AM

12:00 PM
12:30 PM – 1:45 PM
1:45 PM
2:00 PM

4:00 PM

Wednesday, May 24

6:00 AM – 8:30 AM
8:45 AM
9:15 AM

1:30 PM
3:30 PM

Breakfast
Depart for Chalet Cheese Co-Op
Arrive Chalet Cheese Co-Op
N 4858 Highway N
Monroe, WI 53566 (608) 325-4343
Contact: Myron Olson
Depart for Oberweis Dairy
Arrive Oberweis Dairy
951 Ice Cream Drive Sweet #1
North Aurora, IL 60502 (630) 801-6100
Contact: Bob Renaut or Dawn Nila
Depart for Cincinnati

Breakfast
Introduction to Cincinnati
Free Time/Store Visits

Free Time

Breakfast
Seminar on Packaging Trends
Al Constantin
Depart for Avril Meats
Arrive Avril Meats
33 East Court Street
Cincinnati, OH 45202 (513) 241-2433
Contact: Len Bleh
Take Metro Bus back to Vernon Manor

Breakfast
Depart for Hoffman's Meats
Arrive Hoffman's Sausage Co.
2111 Kindell Ave.
Cincinnati, OH 45214 (513) 621-4160
Contact: Howard Tallen
Return to Vernon Manor for lunch
Lunch
Depart for Graeter's Ice Cream (walking)
Arrive Graeter's Ice Cream
2145 Reading Rd.
Cincinnati, OH 45202 (513) 721-3323
Contact: Richard Graeter
Return to Vernon Manor

Breakfast
Depart for New Horizons
Arrive New Horizon's
2842 Massachusetts Ave.
Cincinnati, OH 45225 (513) 681-2850
Contact: Mike Kleuner
Depart for Red Roof Inn Columbus, OH
Arrive Red Roof Inn
I-70 and Brice Road
Columbus, OH (614) 864-3683

Thursday, May 25

6:00 AM – 8:00 AM
8:15 AM
10:00 AM

Breakfast (at Bob Evans)
Depart for Velvet Ice Cream
Arrive Velvet Ice Cream
11324 Mt. Vernon Rd.
Utica, OH 43080 (740) 892-3921

Contact: Janelle Clark
Depart for Bob Evan’s Farm
Arrive Bob Evan’s Farm
3776 High Street
Columbus, OH 43207 (614) 491-2225
Contact: Chip Stockdale or Amy Skidmore
Return to Red Roof Inn

12:30 PM
2:00 PM

5:00 PM

Friday, May 26

6:00 AM – 7:30 AM
8:00 AM
8:30 AM

Breakfast
Depart for Ohio Department of Agriculture
Arrive Ohio Department of Agriculture
8995 E. Main St.
Reynoldsburg, OH 43068 (614) 466-2732

Contact: Liana Lee
Depart for Tamarak Farms
Arrive Tamarak Dairy
1701 Tamarak Drive
Newark, OH 43055 (740) 522-9235
Contact: Kevin Vondersaar
Return to Cincinnati

11:30 AM
2:00 PM

5:00 PM

Saturday, May 27

6:00 AM – 8:00 AM
8:30 AM
10:00 AM

Breakfast
Depart for Mohrfield Enterprises
Arrive Mohrfield Enterprises
10279 State Route 132
Pleasant Plain, OH (513) 877-2300

Contact: Louis Porter
Depart for Fred Zaenkert Farm
Arrive Zaenkert Farm
7461 Cincinnati-Brookville Rd.
Okeana, OH 45053 (513) 738-1350

Contact: Fred Zaenkert
Return to Cincinnati and Vernon Manor via I-74 East

12:00 PM
2:30 PM

4:30 PM

Sunday, May 28

Monday, May 29

Free Time

Memorial Day Celebrations and Free Time
American picnic at Vaillancourt’s

Tuesday, May 30

6:00 AM – 8:00 AM
8:15 AM
1:00 PM

Breakfast
Depart for Smith Dairy
Arrive Smith Dairy
1590 NW 11th Street
Richmond, IN 47374 (800) 875-9296

Contact: Jeff Kerchner
Depart for Three River Inn, Three Rivers, MI
Arrive Three Rivers Inn

3:30 PM
7:30 PM

Wednesday, May 31

6:00 AM – 8:30 AM
8:45 AM
9:15 AM

12:00 PM
3:30 PM

5:00 PM
5:30 PM

Breakfast
Depart for MMPA in Constantine, MI
Arrive Michigan Milk Producers Association
125 Depot Street
Constantine, MI 49042 (616) 435-2835
Contact: Tom Carpenter
Depart for MMPA, Novi, MI
Arrive Michigan Milk Producers Association
41310 Bridge Street
Novi, MI 48376 (248) 474-6672
Contact: Walt Wosje
Depart for Red Roof Inn, Farmington Hills
Arrive Red Roof Inn
24300 Sinacola, Court
Farmington Hills, MI 48335 (810) 478-8640

Thursday, June 1

6:00 AM – 7:00 AM
7:15 AM
9:00 AM

11:30 AM
2:30 PM

4:30 PM

Breakfast
Depart for Lakeview Farms
Arrive Lakeview Farms
1700 Gressel Drive
Delphos, OH 45833 (419) 695-9925
Contact: Martin Garlock
Depart for Buchy Foods, Greenville, OH
Arrive Buchy Food Products
195 N. Broadway
Greenville, OH 45331 (937) 548-2128
Contact: Kate Buchy
Depart for Cincinnati and Vernon Manor via I-75 South.

Friday, June 2

6:00 AM – 8:30 AM
8:30 AM
6:30 PM

Breakfast
Exit Interviews
Farewell Dinner

Saturday, June 3

To Airport for return to Kharkiv

U.S. Host Companies

Marketing Technology Management Study Tour

May 15 to June 3, 2000

- May 16, 2000** **Archer Daniels Midland, Decatur, IL**
Reason for selection: World's largest soy bean processor
- May 17, 2000** **Zander's Creamery, Cross Plains, WI**
Reason for selection: Butter production and exclusive partnership with Oberweis Dairy for growth into Chicago markets
- Prima Kase, Monticello, WI**
Reason for selection: 7 varieties of cheese – only US mfr. of 180 pound Wheel Swiss and Sweet Swiss
- May 18, 2000** **Chalet Cheese Coop, Monroe, WI**
Reason for selection: 6 varieties of cheese – known for experimental vat techniques
- Oberweis Dairy, North Aurora, IL**
Reason for selection: Specializes in home delivery and premium ice cream
- May 22, 2000** **Avril Meats, Cincinnati, OH**
Reason for selection: Premium grade sausage and meats, niche marketing
- May 23, 2000** **Hoffman's Sausage, Cincinnati, OH**
Reason for selection: Hams and sausage production, regional distribution
- Graeter's Ice Cream, Cincinnati, OH**
Reason for selection: Premium Ice Cream, national distribution
- May 24, 2000** **New Horizon's, Cincinnati, OH**
Reason for selection: Slaughter house – primal cuts
- May 25, 2000** **Velvet Ice Cream, Utica, OH**
Reason for selection: Ice cream and ice cream novelties production
- Bob Evan's Farms, Columbus, OH**
Reason for selection: Marketing, vertical expansion into new markets

- May 26, 2000** **Ohio Department of Agriculture, Columbus, OH**
Reason for selection: The role of the State in the growth of Agribusiness
- Kroger Tamarak Farms Dairy, Newark, OH**
Reason for selection: Large-scale production to support a regional presence, vendor relationships
- May 27, 2000** **Mohrfield Enterprises, Pleasant Plain, OH**
Reason for selection: Dairy farm – US farming techniques
- Zaenkert Farm, Okeana, OH**
Reason for selection: Dairy farm – milking operations
- May 30, 2000** **Smith Dairy, Richmond, IN**
Reason for selection: Long shelf life milk production
- May 31, 2000** **Michigan Milk Producers Assn., Constantine, MI**
Reason for selection: Print butter and condensed milk production
- Michigan Milk Producers Assn., Novi, MI**
Reason for selection: The role of an association in the promotion of farmer’s interest and new markets.
- June 1, 2000** **Lakeview Farms, Delphos, OH**
Reason for selection: Diversification, distribution, new products introduction
- Buchy Food Products, Greenville, OH**
Reason for selection: Brokers and distribution centers role in the growth of American businesses

Meat & Dairy Companies - Kharkiv, Ukraine

Marketing, Technology, and Management Tour

May 15th – June 3rd 2000

Dairy

Molochnaya Sloboda Ltd.

Started 1999 200 employees 1999 Revenues = N/A

Primary products: Butter and sour cream

Artyom Bartyshev, President

Konstantin Lykov, Marketing Director

Pervomaisky Milk Processing Plant

Started 1962 40 employees 1999 Revenue = \$250,000

Primary products: 2.5% milk, sour cream, butter

Nina Berenko, Finance Director

Karpidzhani Ltd. (JV with Italians)

Started 1995 16 employees 1999 Revenues = N/A

Primary products: Ice cream and fruit ice

Olga Grinchenko, Chief Technologist (Production Control)

Milk Ltd.

Started 1996 25 employees 1999 Revenues = \$160,000

Primary products: Milk, sour cream, kefir, cottage cheese

Valentina Kabaenko, Director (General Manager)

Vira Levshnya, Commercial Director

Plavlenyie Syry

Started 1998 40 employees 1999 Revenues = \$240,000

Primary products: spreadable/processed cheese

Luydmila Konogina, Director

Kupiansk Milk Company

Started 1957 570 employees 1999 Revenues = N/A

Primary products: condensed milk, dry milk, whole milk products, butter

Sergey Kotelnik, Manager New Business

Daria

Started 1998 21 employees 1999 Revenues = \$450,000

Primary products: Ice cream novelties

Tatiana Kovaleva, Chief Technologist (Production Control)

Mayak
Started 1991 131 employees 1999 Revenues = N/A
Primary products: Milk, sour cream, cottage cheese
Grigoriy Gubskiy, General Director

Molprom Laboratory
Started 1998 7 employees 1999 Revenues = N/A
Primary products: Lab testing, equipment maintenance for dairy industry
Zoya Kohan, Director

Meat

Druzhba
Started 1993 410 employees 1999 Revenues = \$300,000
Primary products: Sausage
Vladimir Tkachenko, Chairman of the Board

Mercury Ltd
Started 1995 34 employees 1999 Revenues = \$190,000
Primary products: Sausage
Mikhail Torosyan, Deputy Director

Taifun Ltd.
Started 1992 18 employees 1999 Revenues = \$225,000
Primary products: boiled and smoked sausage (hot dogs included)
Andrey Zaytsev, Commercial Director

Verbovshoye
Started 1996 1999 Revenues = \$100,000
Primary products: 19 varieties of sausage
Olga Zhigailo, Chairperson of the Board

Oblast Official

Igor Kolot
Department Head, Economy and Property
Kharkiv oblast

Exit Interviews - Meat & Dairy Study Tour

Leland M. Cole - June 2, 2000

Bruce Vaillancourt – June 2, 2000

Igor Kolot - Kharkiv Oblast Administration

Igor was very appreciative for the opportunity to be on the tour. He looked primarily at the business structures. The tour was organized at a very high level and he had a chance to see a range of businesses. Upon his return he will inform the Governor of the Kharkiv Oblast, Mr. Dyomin, of the benefits of the program. He will also talk about the program to USAID and the US Ambassador.

On the tour he saw many companies, both large and small. Many were family operated but some were large, such as ADM. He found the marketing and sales practices very interesting. Each company had found their market niche.

This program was very intense and the facilities provided were quite adequate. In the future, he suggested that we select fewer technologists so the program can concentrate more on marketing which is the area of greatest benefit. He also suggested a better trip focus before the tour. He believes that 16 days would be an optimal length for tours. [CEI: Mr. Kolot agreed that people are always anxious to get home as the travel period nears its end, no matter how long the trip. CEI believes that anything short of the 3 week period would be a serious mistake.]

The Oblast officials need a different and better orientation on industry in the US and on the relationship between government and business.

Personally, he benefitted very much. He is not a farmer but he knows the industry. He was sorry that he did not have a chance to meet State officials. [CEI: This had been arranged, but the officials had an emergency meeting elsewhere and the meeting with Mr. Kolot had to be canceled.] He also wanted to know more about how the Ohio executive branch ran. [CEI: Possibly Scott Johnson could help in this regard.] He thought the tour should concentrate more on the relationship between retail businesses and others.

Mr. Kolot thought that Machine Building industry in Kharkiv would benefit from such a program since it is so important to the overall economy. Realistically, he does not expect many foreign firms to invest in Ukraine. Conversion from defense to non-defense is very important to Kharkiv. He also thinks an Agricultural study tour would be very beneficial. He also listed Hotel and Services (cleaners, laundry, etc.) and Transportation (roads, restaurants, gas stations, road infrastructure, etc.)

Volodymyr Tkachenko - Druzhba

At ADM he saw how to make money from water. Bucky Foods made money from air. The small sausage companies were the most beneficial since they were most like his. He needs to decide what to do with some of his small operations which are now idle. The U.S. companies have a long history. Unfortunately he visited only two farms. He has an interest in grain processing which is now being privatized in Ukraine. Collective farm managers don't know what to do. There would be a great benefit in an agricultural tour.

Maybe it would be good to be an ADM distributor. Hydroponics might also be of interest.

When he returns to Ukraine, he will:

1. Tell people how to do the milking operations such as hygiene.
2. Tell people how to organize the processing employees to improve quality.
3. He will add a trade mark if possible.
4. He needs to divide his operations and privatize them. They will need to promote their own operations. These will be sausage, cheese and macaroni. For this he will set up a holding company.

This tour will help him to reorganize his operations. The first order of business will be to organize for cleanliness and hygiene.

Lyudmyla Konogina - Plavlenye Syry

She was interested in the relationship between suppliers and manufacturers. She was also interested in what she saw at the Michigan Milk Producers Association (MMPA) regarding pricing. She was impressed with ADM and their promotions. Oberweis Dairy was impressive and it was amazing what can be gained from using more powerful equipment. She was amazed by the family owned businesses which developed their own style, logos, recipes, etc. Ukraine has nothing like this. All the operations appeared to run very smoothly. The explanation of the U.S. tax system was very good. An income tax makes sense. She was also impressed how milk prices are set.

In her company she currently has 10 flavors and she will try to increase this to 30. She should concentrated more on quality and become more specialized. She will drop unprofitable products.

She liked the milk producers' association. They will work on a similar system in Ukraine. The association would also be able to lobby the legislature for laws and regulations to benefit the industry.

Milk quality should be controlled at the level of the farm. It is much more difficult to control at the manufacturer level.

Andriy Zaytsev - Taifun

The most important companies were Bob Evans Farm and Oberweis Dairy. Bob Evans was a very serious company - like Taifun. They have a clear food marketing plan. The way they define new products is very good. The transportation system is also excellent, including the "backhaul" operation. The company has a rapid growth and he would like to intern there for 2 weeks.

Oberweis Dairy has found its own niche. It also provides transport services for other products. They have developed their own more reliable distribution method.

The least liked operation was Prima Case. He also liked Zanders Cream in Madison Wisconsin. It was old but clean. He felt he could use some of the same equipment as he saw at Zanders. There were several machines for different sized packaging.

He liked the clear business plans and he will implement a planning system. Employees need to have narrow specializations. Ukrainian managers now handle too many small issues. There needs to be delegation in decision making.

The marketing seminar at Bob Evans was very good and he will implement some of the ideas.

Suggestions: Prepare more material beforehand. [CEI: Good idea, but it would take time and effort.] There should be 3 people from each company. [CEI: This would restrict the number

of companies who would benefit from the program.] They should reduce the number of companies visited and increase the amount of time spent at each. He wanted more in-depth training at each company. [CEI: This is probably not possible since few companies will make more time available.]

Zoya Kokhan - Molprom

This was a well constructed program. She took 4 video tapes. She would like to expand and set up a distribution network. She thinks she has found her niche distributing food products and equipment. She works with the Krasnograd Dairy, Bliznyuki and others.

She liked the cleaning and sanitary methods and use of anti-bacterial materials.

She has concluded that Kharkiv really needs an association (they had one in the past). The question is how to make the organization fit the needs of the smaller firms including distribution firms. It needs to provide for information exchange.

Sergiy Kotelnyk - Kupiansk Milk

He has gained many new ideas, information and friends. The most important is the use of soya and soya products. However, this will require investment. His company will supply soya milk to the farms to increase the supply of milk to the dairy. They will also add cottage cheese, powdered milk and condensed milk, all based on soya. They will use the residual oil in sausages. They may purchase soya technology from Russia.

As far as new products are concerned, they can add more natural fillings in farmer's cheese (Tvordg). They need to do more market research. Currently they just duplicate imported products. He liked Fruit Jell-O, an absolutely new product for Ukraine. They will revisit the question of chocolate milk which was not popular when it was introduced as a result of the first MTM study tour. However, the product was not promoted. They also need to do more market research.

Kupiansk Milk plans to start exporting condensed milk to the U.S. later in 2000.

In the U.S. the packages are more convenient. For example, they are self-opening. Also in the U.S. there is a lot more marketing feedback from the retailer to the suppliers. They should also work more closely with the customers to improve customer service.

They need to get a better quality of milk from the suppliers. Possibly they could offer higher prices for higher quality milk.

With respect to marketing, they actually do not do any marketing such as sampling. They must first identify a need and then satisfy it - such as convenience, quality and a better relationship.

Program suggestions: too many things of interest.

Olga Zhygaylo - Verbovskoe

These were 3 very interesting weeks. She liked all the visits, especially ADM. There they learned how to make use to soya and get better prices. Today they can buy soya milk for young calves from Kupiansk Milk.

She believes they should change the sausage packaging to be more distinctive which will improve its attractiveness in the market. These will also be vacuum packages.

At Mohrfield enterprises she liked the cattle breeding

She liked the idea of the Farmers Cooperative and Association. An association in Ukraine would help with products, supplies and prices. This is the idea she will bring to the attention of the Rayon and even the Oblast.

She liked the idea of mixing meat and dairy people on the tour since they both work with the farmers.

Tetyana Kovalyova - Daria

The tour covered the entire dairy cycle, including the ice cream plants and the equipment. She was able to learn something from each company they visited. She liked what she saw at Graeters and they will make sorbet by changing formulas. She also liked the Graeters containers for shipping ice cream out of state. She loved the “Velvet Ice Cream” novelties she saw. She saw that she could improve the cottage cheese based on what she saw at Tamarak Dairy. She also loved the Peppermint flavored ice cream. Ice cream/gelatine desserts are a possibility.

Artem Bartyshev - Molochnaya Sloboda

Artem was very interested in the workings of the U.S. economy and was disappointed that CEI did not provide more information on the government, taxes, etc. He did not understand how the macro and micro economics interacted, how companies were organized and how they made their decisions. He also felt it would have been good to have broken the group into two sections, one for managers and the other for technologists. Technology issues could be covered just as well in Ukraine. It was not useful to look at equipment since there was no money to purchase it in Ukraine.

Regarding the general business philosophy, he learned a lot. He observed that few people are required to generate large manufacturing volumes. He will consider restructuring his company. He will differentiate functions rather than laying off workers and taking on others with different skills. One change is that Quality Control should be considered a separate function.

Product introductions are very important and useful. He will create a single trademark and will unite all his products under it. He was interested in the pricing mechanisms but these were not applicable to Ukraine.

One thing that was very interesting was how to motivate personnel and the development of a corporate culture is an interesting phenomenon. The Marketing and Human Relations functions were also very interesting. He noted that in the U.S. there is non-price competition that doesn't depend on the government. He liked seeing a family business since he and his uncle have one.

In manufacturing, the space was used very efficiently. As far as products were concerned, there is a great need for smaller packages of cheese and cream since that market in Ukraine is currently unsatisfied.

He felt that Cooperatives were very feasible and realistic. They will help to integrate the farms who produce the raw materials with the food processing companies. The next level is the retail stores. He will not get into the retail business such as Kupiansk Milk which is adding retail outlets.

The U.S. products are great. It is unrealistic to have same packaging since it is too expensive.

The tour confirmed that a plant should specialize He will analyze his operation to see if any products should be dropped.

Konstantin Lykov - Molochnaya Sloboda

There were too many good ideas. As for Marketing, there was the idea of promoting one product over all others. His goal is to find their own niche, customers, suppliers, etc. They need to change the minds of the Ukrainian market. This will take time. They need to motivate their people but they do not have the financial resources. He would like to get a bank loan but this is not realistic.

He suggested that the group be split. He would also appreciate an intern program.

Personnel questions are of great interest and he thought they should have been given more information on this topic.

He really liked Bob Evans Farms which operated at a very high level.

Mykhaylo Torosyan - Mercury

He was impressed with ADM and will possibly start using soya in his sausage products. He had no idea that soya could be used so extensively! He would like to become their distributor. He also learned the accelerated process for making sausage in which it does not need to be fried. This currently costs 2 hours of electricity at his plant.

He will increase his distribution function in Kharkiv. In the U.S. it is so easy to do everything by phone. In Ukraine you have to go around by truck to pick up all the raw materials.

Marketing: They have a stable market in Ukraine and don't do any marketing.

Suggestion: He would like to have a one week internship program in a sausage company.

Olga Grynchenko - Karpidzhani Ltd

She has many bright impressions of the program.

1. She does not think Ukrainian farms will achieve the same level of output as the U.S.
2. She was interested in the raw material quality control at U.S. factories. In Ukraine, all science is at the government level and not at the plant level. There is no short term solution to this problem.
3. The U.S. the personnel are at a high technical level. They can do the same in Ukraine. She was impressed with Oberweis, Lake View Farms, Bob Evans and Graeters. Graeter has unique products. She had a marketing "Brain Attack" at ADM. The presentation was great. In her company, the products do not have special features. She will recommend they introduce an elite ice cream.

Her company does not currently have a marketing department. This is really needed and they will need a trained person. She has concluded that her firm needs new products that are not seasonable like the ones she saw at Lake View Farms. For example, they should have desserts and dressings that are not competitive. She can use mayonnaise and sour cream as a base for dressings.

She had no suggestions for the program. She felt it was a good idea to have a varied tour group. She liked the participant selection process and the follow-up. She will make a training video upon her return to Kharkiv. She is also interested in restaurant operations.

Nina Berenko - Permovaisky Milk Processing Plant

She liked all the companies, especially the sanitary conditions and equipment. One of the distinctive features of the tour was that she learned that companies have to specialize in one type of product.

Butter in Ukraine is not profitable due to the lack of raw material. Cows in the US are kept in better condition than in Ukraine. The result is a better quality of products.

In Ukraine she will add a fruit juice line and they can get a loan to finance this. She liked the production flexibility of the U.S. plants that produce what is most profitable.

She plans to increase the varieties of milk available by adding 2% milk and chocolate milk. They will be able to make butter but send it out for packaging. They will look into making hard cheese since it looks as though that can be successful.

Currently her company does no marketing or advertising.

The companies she liked most were Chalet Cheese Co-op, Zanders Creamery and especially Prime Kase (cheese). It was amazing that 5 employees could generate \$1.2 million in sales.

Valentyna Kabanenko - Milk

Valentina is a technologist and she found many ideas to implement but they will have difficulties selecting the best. One of the most important is to go to the farms and change the contracts to increase the quality. This is the only solution to increase the quality and product demand.

She will also change the technology with the new and interesting ideas. They will expand the product line by using soya. She and Vira Levshyna, also from Milk, have discussed this day and night while on the tour. She liked the program since there were so many dairy enterprises. She saw how to reduce the energy costs. "Cold Separation" is not currently used in Ukraine. They will also use different additives. She liked the U.S. company flexibility.

She also found that the U.S. legislation is not so strict as in Ukraine. At least once a week some government official visits the plant to inspect, train, etc. Many have the ability to close the plant.

She does not have a favorite firm they visited. There was something to learn at each plant.

Vira Levshyna - Milk

She really liked the idea that businesses can be purchased. This is not practical and thus not practiced in Ukraine.

She loved the soya products and this will enable them to expand their product line. She also liked Bob Evans Farms and its old country setting. She learned something from every company they visited and she will have much to share when she returns home.

Her firm will have to lease more floor space to implement the new ideas. They will need to get a loan to start a marketing operation. They can get a 20% loan in Kiev.

She liked the gelatine molds they saw at Lakeview Farms. They will new packaging and this they can get in Kharkiv.

She would have liked to have seen more of the retail side of business. There needs to be more focus on marketing on the tour.

Through her contacts in Kharkiv she will make a report to Kharkiv TV.

She found the U.S. companies to be very honest and open.

As a result of the tour they should be able to increase sales 10%. They will be able to reduce costs through the use on more automatic lines, but she declined to estimate by how much.

Bruce Vaillancourt

Igor Kolot – Kharkiv Administration

Mr. Kolot was pleased that the tour covered a selection of both large (Archer Daniels Midland) and small companies. He believes that this is important to Kharkiv. He believes that the tour provided a good frame of reference for all participants. The MTM Tour was the interesting project project started by government and USAID.

Points which Mr. Kolot will promote on his return to Kharkiv will be organizational structure, determining market penetration (almost all the tour hosts knew their market share), marketing practices, and of particular interest was niche marketing. Niche marketing would allow small businesses in Kharkiv to develop a pricing strategy and customer following. This would promote business development in nearly every industry in Ukraine. The U.S. companies are much more advanced in these areas than any company in Kharkiv.

Mr. Kolot's recommendations for future tours include:

1. Include fewer technologists.
2. Questions need to be more technical rather than economic.
3. Focus the group on questions they should be looking for answers to.
4. Optimal term of the trip could be sixteen days.
5. Need a general overview of business and industry as an introduction.
6. Focus more on manufacturing and sales. Look at a chain from the point of view of retailing.
7. Other industry suggestions – machinery (market is gone and could convert to consumer goods), food processing (this group is most responsive to change), agriculture (American farms have a lot to teach Ukraine), hotels, service industries (dry cleaners, etc.), and road/interstate development (gas stations, convenience stores, etc.)

Volodymyr Trachenko – Druzhba

The most beneficial part of the tour were the visits to Archer Daniels Midland where they were taught to make money from water (ADM showed how the use of soy can increase the absorption of water into meat), and Buchy Foods where they were taught how to make money from air (air is referring to warehouse space used to accumulate vast amounts of product for sales to numerous small food operations). The small meat companies which were visited on the tour added significantly to the effectiveness of the tour. Most were of a size similar to Druzhba.

The general areas which Mr. Tkachenko will promote through meetings and presentations immediately upon return to Kharkiv are as follows:

1. Small areas which are out of use can be privatized and given to private individuals to develop.
2. Ukraine companies need to establish a brand name and make it well known. American companies have a long history and have found a niche market which allows them to charge reasonable prices for their product while making a decent profit.
3. Production of raw materials was much further advanced in the United States. The Zaenkert Farm was most important because it showed a single farmer doing his own grain processing and feed production – sufficient to get his herd through the winter. Collective farms do not know how to develop markets.

Druzhba specific improvements which will be made throughout the year will include:

1. Investigate becoming an ADM distributor. Druzhba can exchange technology, with Druzhba learning more about year round production using hydroponics.
2. Gather all employees immediately upon return to educate them on how to keep equipment in working order and looking new.
3. Improve sanitation methods and procedures immediately.
4. Organize production for quality. Implement quality procedures to protect Druzhba's trademark.
5. Divide processing into small parts. Need some investment to fund privatization of these units so that each unit can concentrate on producing only enough quantity to meet demand. Mr. Tkachenko understood that mass production was not the key to creating value in an enterprise.

Lyudmyla Konogina – Plavleneye Syry

Ms. Konogina's favorite tour stops were Chalet Cheese which is a cooperative, Michigan Milk Producers Association because of the discussions involving economics and finance, ADM because of how technology can help meet raw material shortages, and finally Oberweis Dairy which is a family run business that has kept their tradition and recipes for generations. In all, the tour provided a great deal of very informative detail about how successful businesses in the United States build and maintain their reputation using quality as a foundation.

General observations of the businesses which the tour visited include:

1. U.S. employees are very quiet and very attentive. There is a smoothness management style, and organization of manufacturing is very high.
2. The taxation seminar was very helpful in providing an understanding of why American businesses reinvest their capital in modern equipment.

The specific areas where improvements will be made upon return to Kharkiv are:

1. Will increase flavors of cheese from the current 10 varieties to 30 varieties within the year.
2. Will increase production and reduce costs. Ms. Konogina saw many ways to reduce costs in cheese production at the small plants visited in Wisconsin.
3. Plavlenye Syry will drop unprofitable product lines. Ms. Konogina will develop a financial model that will help identify the cost and revenues of each line of business (she was able to see this type of data at Lakeview Farms).
4. Work diligently to reintroduce a dairy association in Kharkiv. The MMPA benefits to its members was extremely interesting and had much application to the Kharkiv dairy industry. It would help promote cooperation between suppliers and producers.
5. Control milk quality at the farm not at the manufacturing level. Finished product in Ukraine has the sanitation and quality requirement. In the U.S. the quality starts on the farm and is maintained throughout the manufacturing process. It improves shelf life and reduces bacteria before it is a problem.

The one area where Ms. Konogina was disappointed was with the MMPA visit. She would have liked more time to discuss finance with them.

Andriy Zaytsev – Taifun

The most important part of the tour was Bob Evans Farm which not only did a formal presentation of their marketing plan but also gave them a copy of this year's marketing plan. Mr. Zaytsev felt that Bob Evans was a very serious large company involved in fast food like Taifun. They had clear cut plans for marketing and new product development. The discussions of transportation was fascinating especially getting a clear understanding of "back-haul" opportunities and how it is used to reduce cost.

Following closely behind Bob Evans was Oberweis Dairy. Oberweis had a very distinct market strategy and everyone knew how the company was going to achieve its strategy. The company had found a niche with home delivery including other companies products. They provided a model for Taifun to look at their own network not only the retail chains. Mr. Zaytsev was impressed with the cooperation between real estate (holding company level) and the dairy. The holding company is basically located above the dairy occupying office space that would be dead air/rafters in Ukraine.

Least favorite parts of the tour included Prima Kase Cheese which had no real marketing plan, and Zanders Creamery which was an old facility with old equipment and technology.

Specific plans Taifun will implement when Mr. Zaytsev returns to Ukraine are:

1. Install production line capable of changing packaging to meet customer needs. Packaging in numerous sizes is very popular in the U.S. and promotes sale of product to a much larger base of customers.
2. Develop clear cut marketing and financial plans.
3. Employ a very narrow area of specialization delegating responsibility to attain daily production quotas to shift supervisors.
4. Develop a formal marketing plan similar to Bob Evans.

Recommendations for improvement are first, develop a company profile of each company to be visited ahead of time including management, financial, and technical characteristics. Second, two to three hours per visit is not enough. He recommends at least a week or two (intern program).

Zoya Kokhan – Molprom

Ms. Kokhan was very impressed by the tour. It added significantly to her understanding of operating a business for a profit, and how associations can assist companies grow and prosper. Having been in charge of a dairy association in Kharkiv during Soviet times, she was particularly impressed with Michigan Milk Producers long history (70 years) and interested in how membership benefited farmers.

Upon return to Kharkiv Ms. Kokhan will:

1. Conduct a seminar for 19 Kharkiv businesses in the dairy sector on American methods and procedures. It will include the benefits of membership in an association and seek to re-institute such an organization in Kharkiv.
2. Become a distributor of equipment (new and used) in Krasnograd, Bliznyuki, and Sakhnovsfichina in the dairy industry. This will require some capital and some contacts with American manufacturing – preferably Toledo Scales.
3. Develop and cleaning and sanitation method using a pulsating spray upon receipt at meat plants.
4. Work with Kharkiv businesses to develop a bacterial treatment similar to what was observed in the U.S.

After the tour Ms. Kokhan is convinced that Ukraine is not 100 years behind the United States. For the dairy industry there is a great need for an association similar to those that exist in the United States. There are political improvements which can be gained as well as economic gain for members of an association. In addition, associations can help in implementing new methods, training businesses in modern techniques, and help control the supply of raw material within an area to ensure a fair price is received by farmers. She suggests that there be an information exchange between what she can organize in Kharkiv and MMPA.

Sergiy Kotelnyk – Kupiansk Milk

Sergiy probably gained more from the tour than any other. He was most observant and asked very pointed questions seeking specific information. He summarized his impression of the host companies with this quote, “American businesses identify a need – then they satisfy it.” Kupiansk will benefit from Mr. Kotelnyk’s participation in the following manner:

1. Kupiansk has already started working with soy and soy products. It requires some investment to expand but Mr. Kotelnyk will try to work with the Odessa Soy Institute to improve the use within Kupiansk. There is now only a limited number of consumers and agricultural processors who use it for feed. Sergiy will suggest that they provide soy to farmers in exchange for an increase in raw milk. They will also use soy to make milk and cottage cheese as well as use the oil for sausage making. It is an ideal opportunity to purchase soy technology from Russia.
2. Kupiansk will increase the variety of products they produce.
 - They will add fruit to Tvorog cheese to create a new product.
 - They will do more “pull” marketing and research and test their own products. At present Kupiansk simply copies many of its major competitors.
 - Kupiansk will add fruit flavored gelatin molds as a new product. Samples at Lakeview Farms were excellent and Mr. Kotelnyk thought there would be a large market potential in Ukraine as well.
 - Review the market for chocolate milk. Change positions of who will buy and start city wide promotions to people who can afford the product instead of mass advertising.
3. The company will increase packaging options for consumers.
 - Sergiy will investigate the use of self-opening lids on cans which Kupiansk uses to pack their products in.
4. Manufacturing is tied to producers in the United States which provides a great deal of feedback on market needs. Mr. Kotelnyk will get sales personnel into the field for follow-up.
5. Add a higher quality of raw material into supply chain. Sergiy observed that U.S. companies were willing to pay a premium for top quality raw materials. They simply built it into the retail price which customers paid because they were sure of consistent quality.
6. Kupiansk will investigate sampling in large supermarkets and with certain distributors. Kharkiv is not as receptive to this tactic as is the U.S. market and it may prove to be too expensive.

Mr. Kotelnyk suggests the program can be improved by homogenizing the groups – more like interests in each tour. For example, all marketing then all finance and then possibly all transportation.

Olga Zhygaylo – Verbovskoe

Ms. Zhygaylo enjoyed the visits to all the companies on the tour. She believes there is a great benefit in the exchange of management techniques between companies that have a long history of success in competing against large companies and small relatively new start-up companies.

Ms. Zhygaylo plans for employing the information she gathered on the tour include:

1. ADM showed how to use soy to improve production, increase output, and reduce costs. Verbovskoe can purchase soy from Kupiansk, then use it for sausage production to increase profits.
2. Soy from Kupiansk will also be used to feed the farm animals – both beef and pigs. Soy is cheaper than buying whole milk for feed mixtures.
3. Sausage production can be improved significantly.
 - Vacuum packaging prolongs life and allows branding
 - Can upcharge for custom packaging increasing revenues without a significant increase in cost.
4. The visit to Mohrfield Farm provided very good insights into how to repopulate herds. Lycosis is a problem in Ukraine and farmers are reluctant to acquire additional cattle to replace infected cattle for fear of adding to their problem.

The visits to Michigan Milk Producers Association and Chalet Cheese Cooperative convinced Ms. Zhygaylo that there is a large need to set up an association for agricultural enterprises in Ukraine. She will work within the rayone to establish such a cooperative, and will recommend a national initiative to Kiev on her next visit. Ms. Zhygaylo is chairperson for a Ukraine women in management organization.

Tetyana Kovaloyova – Daria

Ms. Kovaloyova was impressed that she was able to observe the whole cycle of meat and dairy processing as well as visit testing labs. She particularly enjoyed the trips to Mohrfield Farm and Zaenkert Farm which demonstrated how the quality process in the United States starts on the farm. Daria is primarily an ice cream producer and Tetyana gained very valuable information on the visits to the numerous ice cream manufacturers on the tour. The ability to observe production using old fashioned methods and equipment as well as modern equipment was invaluable in helping plan the growth strategy for Daria.

Specific plans to be implemented at Daria include:

1. From Graeter's Ice Cream in Cincinnati, the sorbet's were outstanding and Tetyana will try to duplicate and add to Daria's product line in Ukraine.
2. Velvet Ice Cream published their mission statement for all to see, including their employees. Tetyana will develop a mission statement for approval of Daria Board of Directors and then post that statement in all Daria locations.

3. Tetyana will introduce new flavors of ice cream on a regular basis. Almost all U.S. companies have flavors of the month or seasonal flavors. The first attempt will be peppermint.
4. Daria will develop an ice cream and gelatin product similar to that which was sampled at Lakeview Farms. There is nothing like that in Ukraine and Tetyana believed, based on the comments of all the tour members who sampled the product, that it would be well accepted. This new product could potentially move Daria into the number one market share ice cream company in Kharkiv and if they act quickly enough, in all of Ukraine. Daria currently only has 4% market share with Khalaprom holding the areas largest share of market at 20%.

Artem Bartyshev – Molochnaya Sloboda

Mr. Bartyshev was somewhat disappointed by the tour. He believes that there should be some macro environment overview ahead of time. This would allow the participants to trace the connection between the macro and micro environment and explain why the U.S. is structured the way it is. He also felt it would have been advisable to split the group into managers and administrators on a first tour and technologists on a follow-up tour.

The benefits Mr. Bartyshev received and the observations he was able to make include:

- A better understanding of general business philosophy.
- There is a high degree of effectiveness of human resources utilization
 - Few employees for high volume of output
- Floor space in all U.S. facilities is well utilized – much more so than in Kharkiv.
- Most U.S. businesses concentrate on the highest quality of products at affordable prices.

Specific plans to be implemented on return to Kharkiv include:

1. Restructure for improved performance
 - Functional changes to improve throughput
 - Quality Assurance as a separate function reporting to the President
2. Implement a new product development process similar to that of Bob Evans Farm and Lakeview Farms.
3. Isolate a market segment for deep penetration – generally believe that is the middle-class market who currently purchase most of Molochnaya Sloboda products today.
4. Develop and begin using a trademark for all Molochnaya Sloboda products
5. Review product lines for profitability and delete products which do not add to company profitability (milk and cheese) – concentrate on core business
6. Package into smaller containers to increase sales to the low end of the market
7. Improve floor space utilization.

As sales increase and profits improve, Molochnaya Sloboda will change its packaging. It will also purchase a couple of farms to provide vertical integration.

Based on information attained on the tour, Molochnaya Sloboda will not purchase retail stores. They will concentrate on developing relationships with retail outlets which allows them to expand their markets. They will investigate a better use of distributors to reach outlying markets.

Konstantin Lykov – Molochnaya Sloboda

Mr. Lykov is the marketing manager for Molochnaya Sloboda. He found the tour to be most rewarding in the areas of marketing, finance, and the utilization of human resources. His suggestion for improvement was to break the group into two segments one for technologists and one for managers. In addition, he recommended the development of an intern program so that those companies which needed skills development such as in marketing could spend four to six weeks at a company such as Bob Evans.

Konstantin will implement the following on his return to Kharkiv:

1. Emphasize one main product for promotion. Currently try to promote all their products at the same time. In the U.S. most companies promote each of their products at different times placing emphasis on when they sell the best.
2. Reorganize to increase efficiency. This will take time since internal competition for capital will make any restructuring difficult.
3. Increase trust in employees by eliminating guards at the front gate. In the U.S. employees are free to come and go as they please. U.S. companies use security to keep track of visitors and to ensure employee safety.
4. Develop a “work ethic” similar to that observed in U.S. companies. Low wages in Ukraine does not promote personal dedication to improving performance. In the U.S. many companies used “piece rate” incentives to attain higher levels of production.

Long-range improvements will include the purchase of new, more modern equipment capable of producing more than ten times the volume in use at Molochnaya today. Konstantin hopes that financing could be arranged similar to that of American businesses such that the loan would be for 25 years at low interest rates.

Mykhaylo Torosan – Mercury

Mr. Torosan was nearly overwhelmed by the tour. American firms were willing to share not only their management philosophy but also recipes and manufacturing processes with the group to help them when they returned to Ukraine.

Mr. Torosan observed that the markets in the U.S. look so stable. In Ukraine, meat processing companies have to drive around to pick up hogs and cows for production. In the U.S. there are stock markets where farmers bring their herds to sell.

Mykhaylo will make the following changes upon return to Kharkiv:

1. As he learned from ADM, soy can be used to increase supply. Soy derivatives are mixed with raw meat and water added to increase the weight of the product by as much as 40%. A 40% increase in material for production would significantly impact Mercury sales in Kharkiv and give them a larger market share.
2. Work with other Kharkiv meat companies and establish the buying power to become an ADM distributor.
3. Change sausage making methods. In the U.S. there is no frying of raw materials, the product is ground and then smoked or cooked. Mercury fries its meat for two hours before using it in production. By eliminating the frying process, Mercury can reduce electrical consumption, reduce loss from frying, and cut the production cycle considerably.

Mercury has a regular following in Donetsk and four open market locations in Kharkiv. There are roughly 120 competitors making sausage in Kharkiv. Unlike U.S. companies, Ukraine businesses sell their products without packaging. It is not an immediate priority, however, Mercury will investigate the cost of adding packaging and a brand logo to its products sometime in the future.

Olga Grychenko – Karpidzhani

Ms. Grychenko is the chief technologist at Karpidzhani and is working on a doctoral degree. The tour provided two benefits to Olga, one which benefitted Karpidzhani and the other as detail research for her doctoral dissertation. She had many excellent impressions.

Olga was glad that the group included a wide spectrum of participation from Ukraine. There were managers, board of directors, specialists, and even someone from the oblast administration to observe how Americans succeed in business.

Her observations include;

- After visiting the Zaenkert Farm and Mohrfield Farm she is convinced that Ukraine farms will not achieve such a level in the near future. She recommended that a farm tour be organized to demonstrate how to improve farming techniques and increase production.
- U.S. companies pay more attention to raw materials. Testing is done at many levels to ensure quality. In Ukraine it is the producers responsibility to test the final product to assure compliance with governmental standards. There are no standards for farmers nor brokers who deliver the raw material to the processing plants.
- U.S. technology deployment and equipment can be duplicated in Ukraine. Oberweis Dairy, Graeter's Ice Cream, Bob Evan's Farm, and Lakeview Farms all made good use of old and new equipment to deliver products which satisfy today's consumers. Ukraine businesses believe they need all new equipment to compete in European markets.
- Olga was greatly impressed with the ADM presentation. It was, "a brain attack" in marketing.

Specific improvements to be implemented at Karpidzhani include:

1. Develop Karpidzhani's own features. This means Karpidzhani will distinguish itself in the market place. We will have our own flavor's and distribution outlets.
2. By the summer of 2001, launch a new high quality ice cream aimed specifically at the wealthy. Only the highest quality ingredients will go into the product similar to that used by Graeter's and Oberweis. Karpidzhani will try to capture the lions share of the upper income segment with its new product.
3. Establish a marketing division. This will require some additional money to hire a marketing manager with the type of experience to rapidly grow Karpidzhani's business beyond Kharkiv.
4. Create new products which are not seasonal. Some production lines convert easily such as those at Velvet Ice Cream, others will require more space and time.
 - New products will be introduced that have gelatin in them such as those from Lakeview Farms. No such product exists in Kharkiv today so speed to market will be Karpidzhani's challenge. Other members of the tour also want to introduce similar products.
 - Some production lines convert easily to the manufacture of other products such as those observed at Velvet Ice Cream. Karpidzhani will study the feasibility of minor modifications in equipment and layout to produce such products as dressing with sour cream (now an empty niche in Kharkiv).

Nina Berenko – Permovaisky Milk

Ms. Berenko liked the visit to all the companies. She was impressed with American sanitary conditions throughout the plants that were visited as well as the excellent condition equipment was kept in. Routine maintenance made all equipment appear to be fairly new even though it was quite old in many cases.

Ms. Berenko's favorite visits were to Chalet Cheese Cooperative where all the farms contribute to the success of the cheese operation, Zander's Creamery where the family run business has developed and maintained the highest quality products for nearly one-hundred years, and Prima Kase, a cheese producer who has won international awards for their old world recipes (who also generate more than \$ 1 million in revenue with only five employees).

Nina's pertinent observations of American businesses were:

- Americans specialize in certain types of products. They do not try to produce numerous products in the same plant. For example, Tamarak Farms dairy used the raw milk to produce their products. However, cream is removed prior to processing so that multiple varieties of milk and milk by-products can be produced (change fat content). The excess cream is sold to a creamery miles away (similar to Zanders) for butter production. In Ukraine, every bit of the raw material is used up within the plant that receives it.

- American farms are well cared for. They are the beginning of the excellent quality of product produced in the United States. There should be a tour for Ukraine farmers to show them how to increase quality and improve output of their herds.
- In the U.S., managers have more to say about production. They are given the latitude to do their job the way they believe is the most efficient. They report to the plant manager on a daily or weekly basis with actual results.

Nina will work with Permovaisky to implement the following:

1. Increase the varieties of milk produced. Two products will be introduced within a year; one with butterfat added (closer to whole milk in the U.S.) and the other will be chocolate milk.
2. Manufacture butter and ship to Kharkiv for packaging. Will joint-venture with a Kharkiv company if one can be found (Zander's packages butter for two of its major competitors).
3. Investigate the possibility of making feta cheese. This product will be sampled at local stores as a means of introducing it to the Kharkiv region.
4. Work to develop a trademark to establish the Permovaisky name throughout the region.

Valentyna Kabanenko – Milk Ltd.

Ms. Kabanenko liked the tour very much. She felt like it was weighted toward dairy. She especially liked the flexibility American companies have in not only achieving their daily production requirements, but also in obtaining alternative sources for raw material.

Ms. Kabanenko obtained a lot of worthwhile information while visiting the Ohio Department of Agriculture and in discussions with FDA inspectors. She noted that in the U.S. regulatory bodies work to help companies succeed. In Ukraine, Milk Ltd. is inspected at least once per week and the laws are designed to punish rather than help.

Nina will work to implement the following on her return to Kharkiv:

1. Go to the farms and change contracts. Pay more for better quality of raw material delivered. Increased quality of raw materials will increase the quality of the finished products.
2. Expand product offers to include soy products. Samples of milk with soy additives in the U.S. compare favorably to the milk sold in Kharkiv today.
3. Will experiment to see if cold separation for pasteurization can be implemented. Michigan Milk Producers Association used this process successfully in their Constantine plant, and if Milk Ltd. can duplicate that process it would save considerable gas cost.
4. Change technology – upgrade to more modern equipment.

Vira Levshyna – Milk Ltd.

Vira was impressed with the tour. She found it incredible that you can actually buy an ongoing business in the United States. No one can buy a whole business in Ukraine. She was especially pleased with the presentation of the use of soy by ADM, and the marketing process from Bob Evan's Farm.

Ms. Levshyna's recommendations for improving the next tour include a trip to several retail outlets. While she learned a lot about marketing from the manufacturers end, she still has no idea how to help retailers market Milk Ltd. products. She also wanted more of a focus on marketing. A lot of the tours focused on the production process which for the most part is similar to that used in Ukraine. Marketing is a Ukraine weakness and the tour did not focus enough on that piece of training.

As a final recommendation Vira suggests a class on basic English for all participants. Leisure time allows all the participants the ability to go where they choose. If they knew basic English they would not have to stay in a group. It would also allow the interpreter time off.

Ms. Levshyna will implement the following on her return to Kharkiv:

1. Develop a buffet style restaurant similar to Old Country Buffet (one of the lunch stops on the tour). All the Ukraine participants thought this was the best restaurant they ate in while on tour. Vira would like to develop the business in Kharkiv and expand as sales warrant.
2. Lease more floor space from the Milk College to expand operations
3. Get a loan to purchase more equipment and work with Kiev to develop ring molds.
4. Introduce new products
 - Create gelatin based products similar to those sampled at Lakeview Farms

Vira plans to put on several public presentations on her observations from the tour. Her plans include TV coverage and public presentations to nearly 900 business people throughout the Kharkiv oblast (100 in each rayone). Coverage in rural Kharkiv will be accomplished through a Red Cross funded project to provide milk, sour cream, and butter to the needy families in rural areas.