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**RESTRUCTURING
AGRICULTURE AND AGRIBUSINESS:
PRIVATE SECTOR PROGRAM FOR POLAND
USAID GRANT EUR-0024-A-00-2042-00**

**Annual Report
1993**

from a consortium of

Land O'Lakes, Inc.
Sparks Companies, Inc.
The American Trust for Agriculture in Poland
Center for International Food and Agricultural Policy
of the University of Minnesota

in cooperation with the
Foundation for the Development of Polish Agriculture

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RESTRUCTURING AGRICULTURE AND AGRIBUSINESS:
PRIVATE SECTOR PROGRAM FOR POLAND (RAAPS)
USAID GRANT EUR-0024-A-00-2042-00

First Annual Report
(March 31, 1992 - September 30, 1993)

I. EXECUTIVE SUMMARY

The goal of the RAAPS/Poland project is to increase competition efficiency and the productivity of Polish agriculture in a free market economy. The strategy is to develop and implement business plans in agribusinesses to strengthen their ability to operate as private competitive enterprises. To reach this goal and to enact this strategy, the RAAPS consortium found it necessary to redesign the original project. They recognized that, in a rapidly changing economic environment, management issues are complex and solutions difficult to implement in the short run. Therefore, emphasis has shifted away from the originally planned short-term technical assistance interventions and towards long-term assistance of twelve to eighteen months. To ensure that the long-term interventions are successful, the consortium has begun implementing a systematic approach to the monitoring and evaluation of project activities, which incorporate benchmarks and objectively quantifiable outputs. This will provide clear indicators against which to measure the success of the activities in providing long-term, sustainable impact. The other activities--forums, workshops, and U.S. training--serve as a foundation from which long-term technical assistance interventions naturally proceed.

The annual workplan for fiscal year 1994 is submitted as a separate document.

Activity

Forums in Olzstyn, Lublin, and Krakow kicked off in-country activities, introducing the RAAPS program to the local agribusiness communities. Following this, Sparks and Land O'Lakes conducted 15 four-day in-country workshops: six on Agribusiness Management and nine on Intermediate Marketing. Sparks hosted 15 Polish grain traders in a one-week U.S. seminar on agribusiness management as it relates to commodities; the University of Minnesota hosted 8 Polish university professors to develop curriculum in the topics of macroeconomics, microeconomics, accounting, and finance. University of Minnesota professors travelled to Poland to finalize course-work first developed in the U.S. in February with the Polish professors.

A number of organizations applied for long-term privatization technical assistance. Of these, several enterprises were selected, and the consortium conducted nine technical assistance missions to help privatize and reorganize agribusinesses such as flour mills, meat and fruit processors, and seed companies. Many more organizations will be selected and will receive interventions in the upcoming year, in which a business plan will be formulated for each and specific business concerns addressed.

Program Coordination

The consortium team members worked together closely to ensure a coordinated effort. Land O'Lakes and Sparks Companies planned activities jointly as they modified and implemented the RAAPS program activities. The Foundation for the Development of Polish Agriculture (FDPA) coordinated the forums. The Land O'Lakes Warsaw office provided the in-country logistical support for Land O'Lakes' and Sparks Companies' activities. The University of Minnesota worked closely with Land O'Lakes and the Olsztyn University of Agriculture and Technology to set up and conduct their technical assistance interventions with agricultural universities.

II. FORUMS

Forums--one each in Olsztyn, Lublin, and Krakow--introduced the RAAPS project to participants from government, universities, and, agribusinesses. Averaging 70 participants each, they created interest in the workshops and technical assistance interventions, which are the core of the program. The forums established working relationships with the Olsztyn and Krakow agricultural universities as regional partners for the program.

III. U.S. TRAINING

The consortium presented two training courses in the United States:

- A. Sparks Companies presented an Agribusiness Management seminar to 15 Polish grain traders in Memphis, Tennessee, February 8-13, 1993.

The Sparks seminar brought experienced grain traders to the U.S. for an intense week of instruction on futures markets, risk management, hedging, options and cost/benefit analysis. Grain traders are in a unique position to inject competition in the Polish economic system, because at its core so much depends on information, its rapid dissemination and the competitive pricing of basic commodities. Establishing efficient and competitive trading operations throughout Poland will go a long way towards reducing the dominance of state-owned enterprises (SOEs) in the agricultural sector.

- B. The University of Minnesota presented a four-week seminar to 8 Polish Professors in Minneapolis, Minnesota, from February 15 to March 14, 1993.

The Center for International Food and Agricultural Policy (CIFAP) of the University of Minnesota hosted eight Polish University Professors in a program aimed at developing teaching capabilities in four subjects: macroeconomics, microeconomics, accounting, and finance. The Polish professors worked in small groups, under the direct supervision of Minnesota faculty, to structure courses, develop curricula, lectures, case studies and textbooks. The materials developed during these seminars were returned to Poland, where the individual professors translated and adapted materials to Polish needs, and

proceeded to develop a full course curriculum and workplan. During May and June, the Minnesota faculty traveled to Poland, to further refine the curriculum.

This portion of the RAAPS program is crucial to the long-term success of the overall program because it prepares local professors in the areas of expertise on which the agribusiness sector will depend to become competitive. These efforts serve to institutionalize the program into the fabric of the Polish higher education system.

Below, two University of Minnesota professors and two Olsztyn University of Agriculture and Technology professors meet with representatives of a feed mill on a site visit in Poland to prepare case studies for the microeconomics course. Central Soya is a former state-owned facility that is being privatized. Szczepan Figiel, professor at Olsztyn (second from the left), has been a key figure in institutionalizing the RAAPS program in Poland.



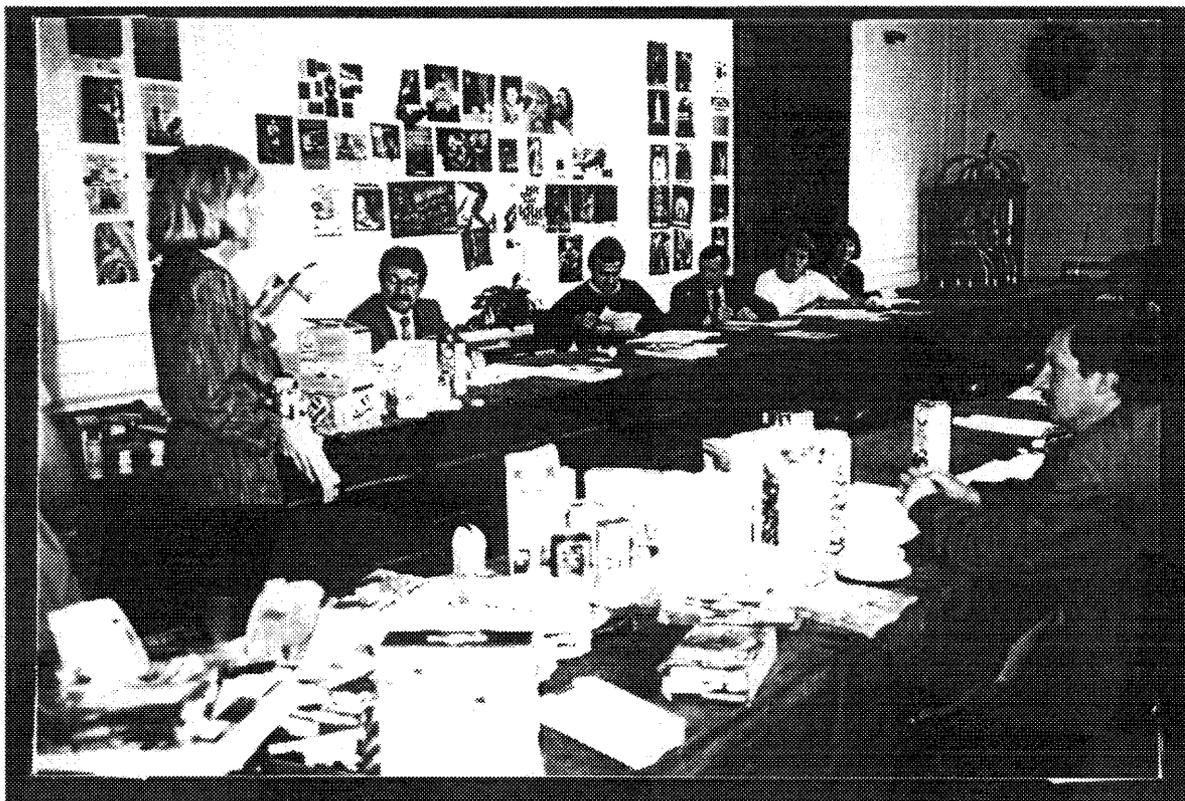
IV. IN-COUNTRY WORKSHOPS

The RAAPS program targets an audience ready for a course of instruction more advanced and focused than what was originally proposed in the RAAPS program. As a result, the workshop topics were consolidated into two courses: 1) Agribusiness Management and 2) Intermediate Marketing.

Six 4-day Agribusiness Management courses were provided to 138 participants (64% men, 36% women)--two courses in Lublin and four in Krakow. The workshops focused on the basic principles of supply and demand, price discovery, price forecasting, government intervention, commodity price, risk management, cost structure of firms, and capital budgeting.

Intermediate Marketing was taught nine times, to a total of 177 participants (54% men, 46% women)--three courses in Lublin, six in Krakow. Topics covered include the role of marketing, marketing mix, marketing management, the competitive climate, marketing strategy, market segmentation, market targeting, consumer behavior, market research, new product development and product, pricing, place, and promotion strategies.

Below, workshop instructor Maggie Woodburn uses samples of packaging (on the table) and of advertising materials (on the wall) to explain marketing principles to this Intermediate Marketing class in Krakow, July 1993.



Through these courses, agribusiness professionals from the full spectrum of agriculture, including fruits and vegetables, grain, and meat, have acquired a greater command of these subjects, skills they need to manage the complicated issues of privatization. The workshop instruction is structured to go hand in hand with technical assistance interventions, as well as to prepare and select intervention candidates. The courses emphasize hands-on, practical financial tools such as financial statement and cash flow analysis, asset valuation, and risk management--tools necessary for the application for commercial credit or the development of

a business plan. Case studies, based on current Polish company situations and requiring group study and problem solving, have been developed to make the courses relevant to Polish managers (see Attachment B). Nearly all participants commented favorably on the interactive and case study approaches rather than the more academic, lecture formats common to Polish educational institutions. The addition of Polish professor co-teachers to workshops provides sustainability.

Workshop Impact

Follow-up interviews of workshop participants are in the initial stages. One-fourth of the participants of each workshop will be questioned four months after the class to find out how to improve the contents of the courses to make them more relevant and how the students have applied what they learned. During Land O'Lakes' own internal evaluation of the RAAPS program, several participants shared improvements they made in their operations as a result of attending workshops. For example, the director of a grain company in Radom applied intermediate marketing principles to increase the level of customer service. He shifted his focus to meet the customer's preferences by:

- Adjusting the characteristics of the product according to the needs expressed by customers;
- Providing new bags with each shipment so the customer no longer had the nuisance of returning empty bags;
- Pricing the product with freight included;
- Improving response to customer's delivery needs, i.e., delivering product at a time convenient to the customer rather than to the company.

The director said, "It's easy to show that the customer focus works." The sales volume for January, 1993 (before he attended the course) was 260 tons. The product volume for August 1993 had grown by 461% to 1200 tons.

As an example of institutionalization, the ODR in Radom (extension service) used the marketing course as the core for developing a marketing course of their own, which has been presented to 140 ODR employees, farmers, and employees of businesses.

The following is another example of how teaching a few can reach many, and have a multiplier effect. Two women who are voivodship officials from Radom attended the Agribusiness Management course; one of them also completed Intermediate Marketing. The woman who had attended both courses works for the Department of Agriculture and Markets for the Radom Voivodship, monitoring agricultural produce markets in the voivodship and attempting to coordinate prices paid to and by state-owned businesses with the market price in the private sector. The other woman runs a business development office with services similar to a U.S. Chamber of Commerce. She provides information to anyone who asks about products and services provided by both private and state-owned businesses in the voivodship. Because of their positions, entrepreneurial people expect them to know about

running a business and marketing. The women indicated that, because of the courses, they can and do give good advice to these people. They both are highly visible to private business owners and "want-to-be" entrepreneurs, and, as such, influence many.

V. LONG-TERM TECHNICAL ASSISTANCE

As mentioned earlier, in re-designing the RAAPS project, the consortium has structured a program in which the interrelationship between activities provides a coherent and focused approach to privatization. Each activity has been designed to contribute to the others and, ultimately, to support the technical assistance process, which is at the core of the project.

As a result, over the past year, management workshops have served to introduce the RAAPS project to over 300 managers, government officials and entrepreneurs, and have provided the base from which to select qualified technical assistance candidates. At the same time, the University of Minnesota's educational programs, along with partnerships with the Agricultural Universities at Olsztyn and Krakow, have provided the project with wide-ranging contacts and well-trained faculties capable of participating fully in the technical assistance teams. These activities have effectively provided the foundation for successful technical assistance interventions over the next two years.

Concurrent with its other activities, the RAAPS program has developed a unique approach to technical assistance interventions. Recognizing that in a rapidly changing economic environment management issues can be very complex and solutions difficult to implement fully in the short-run, the consortium has shifted its focus towards a longer-term approach to technical assistance. Instead of the one-time interventions which have been so successful in dealing with technical and production issues, resolution of management issues requires a more thorough approach, with on-going assistance, monitoring, and evaluation for periods of between 12 to 18 months. To ensure that these long-term interventions are successful, the consortium team has adopted a systematic methodology under which each individual intervention is focused on the development of a business plan, with clearly developed financial statements and projections. Additionally, the business plan incorporates benchmarks, timetables, recommendations, and clear and quantifiable objectives to be monitored throughout the life of the project.

Within this approach, clearly defined selection criteria have been developed for candidates, focusing geographically in the regions surrounding partner universities in Krakow and Olsztyn, and within industrial sectors in the food processing and agricultural input areas. At present the team is working with seven Polish companies, each at different stages of the process. Additionally, the team has developed a list of potential candidates of over 200 companies and is in the process of evaluating and selecting additional recipients from among this list. The goal is to assist a total of thirty companies.

Current clients include:

- PZZ Plonsk Grain Mill
- PZZ Radom Grain Mill
- PZZ Lukow Grain Mill
- Radom Seed Company
- Ostrowiec Sugar Beet Seed Company
- Morliny Meat Processing Company
- Olsztynek Fruit Processing Company

As the approach to long-term technical assistance is refined, it is clear that to be successful the process needs to be driven principally by local Polish needs and perspectives. To this end the program has incorporated Polish expertise at every phase of the process and as an integral part of the project team. It is critical that USAID/Warsaw become a fully participating member of this team, and this has now begun to take place.

During a trip to Poland in late September, Michael Gormley and Jacek Klos of Land O'Lakes, Bill Motes of Sparks Companies and Szczepan Figiel of Olsztyn University had the opportunity to invite Magda Wyganowska, of USAID's Warsaw office, to accompany them on a visit to one of the technical assistance recipients -- PZZ Plonsk. The visit was scheduled to deliver to the company a draft business plan and its recommendations.

Beyond the particulars of the presentation, what the visit provided was an opportunity to discuss at length the reasoning and methodologies which are the basis for the consortium's approach to the RAAPS project. The discussion stretched from candidate selection criteria, at one end, to project evaluation, at the other. The visit also provided the opportunity to present the business plan, with financial projections and recommendations, and to discuss the process itself, and its interim results, with a client. Finally, the discussion provided a glimpse of the highly inclusive approach the team has adopted toward the resolution of a client's problems.

Magda Wyganowska's participation in the visit was very valuable, and her comments during the discussions offered fresh perspective. The RAAPS team expects increasingly closer coordination with USAID/Warsaw in the future.

VI. INTERNAL EVALUATION

In September 1993, Land O'Lakes conducted an internal evaluation in coordination with Ted Weihe, Executive Director of the U.S. Overseas Cooperative Development Council. The evaluation noted that the RAAPS consortium had realized early on, in mid-1992, that it needed to move the project towards long-term technical assistance for individual firms. The consortium restructured the project activities so that each activity supported the long-term technical assistance interventions, and thereby created a more coherent approach. The evaluation concluded that the restructuring of the RAAPS project was the correct strategy, and that this revised strategy continues on course. The results of the internal evaluation have been presented to USAID.

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ATTACHMENT A

Financial Report

RESTRUCTURING AG IN POLAND
 # EUR-0024-A-2042-00
 FINANCIAL SUMMARY

	Expenditures		
	Actual Grant to Date	Actual 7/1/93 to 9/30/93	Projected 10/1/93 – 9/30/94
1. Direct Labor	\$83,208	\$20,476	\$105,114
2. Fringe Benefits	28172	6143	25227
3. Consultants	46236	20559	98799
4. Travel/Per Diem	49289	22060	126141
5. Expend. Supplies/Materials	2570	1075	16073
6. Nonexpendable Equipment	20427	0	0
7. Subcontracts/Subagreements	347970	14856	527653
8. Other Direct Costs	79605	13685	278048
9. Evaluations	0	0	0
10. Indirect Cost	<u>168797</u>	<u>41532</u>	<u>402300</u>
Total Federal Funds	<u>\$826,274</u>	<u>\$140,386</u>	<u>\$1,579,355</u>

This report represents a summary of actual and accrued expenses for the referenced agreement or grant. If accrual expense amounts were not available for activities occurring in the reported quarter, those expenses will be included in the next financial summary.

ATTACHMENT B

Polish Case Study

INTERMEDIATE MARKETING -

THE FOOD PROCESSING INDUSTRY IN POLAND
A CASE STUDY

PRESENTED BY:

LAND O' LAKES, INC.

AND

THE UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT

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COMPANY OVERVIEW

The changing political and economic environment in Eastern Europe has left many Polish companies in a difficult business position. Increased foreign competition and the loss of former Soviet Bloc customers combined with a loss of State support to cripple many businesses. Following is a profile of one such company.

Company "x" is the largest Polish processor of fruit and vegetables, selling both domestically and abroad. Their product line includes frozen fruits and vegetables; fruit drinks and juices; fruit juice concentrates; fruit and vegetable preserves; candied fruits and ice cream. In existence for several decades, this company is widely known and respected for producing quality products. However, domestic consumption of processed fruit and vegetable products has historically been low and marketing support to educate consumers about the value of these products was negligible until 1992.

PRODUCT LINE

Company sales are concentrated in low-processed frozen fruits and vegetables. Until recently, 90% of the FFV volume was exported in unbranded 25K bulk containers for further processing or re-packaging under foreign brand names. Sales in Poland have been low due to a lack of awareness of the nutritional value of FFV, low product diversification, poor quality unbranded packaging and poor distribution due to a lack of freezer capacity at the retail level. Frozen fruit is more profitable than vegetables, accounting for 25% of processed volume and 26% of sales while frozen vegetables make up 31% of processed volume and contribute only 15% of sales.

Unbranded fruit concentrates are the second largest category of company production and are the most profitable. While they make up only 18% of volume, concentrates account for 32% of sales. Much of this product is exported for ingredient use or re-packaging. However, branded fruit juices and drinks are also produced for sale in Poland. These products are well-known by consumers and provide the primary vehicle for consumer exposure to the company name and logo. Distribution is nationwide.

Ice cream is produced in only two of eleven plants for regional sale. The line includes flavored stick and cup products. Targeted primarily at children, the line borrows the equity of a popular children's' cartoon character for the brand name and logo. The company logo appears less prominently on the package. Given retailer equipment limitations and heavy competition, no expansion of this product line is planned for the near future.

PRODUCT MARKETS

Eighty percent of products are exported. Over-production is sold domestically. Markets for these products include Germany, the UK,

France, The Netherlands and Austria. Eastern Europe previously accounted for 38% of sales but has dropped to 24% since the break-up of the former Soviet Union.

PRICING & DISTRIBUTION

All production plants have similar capabilities for producing the full product line (with the exception of ice cream). Product pricing is left to each individual plant, based on their production costs. It is possible to find the same product at different prices in different regions.

Distribution is also controlled by each plant. Produce generally comes in from neighboring regions for processing. The company works primarily with company member farmers. Over 50% of berries and 75% of vegetables are grown by member farmers who receive seed, supplies and consulting services from the company. Distribution of output is inefficient, with several wholesalers delivering to different areas under different contractual arrangements. Unreliability of wholesalers has required the company to continually search for alternatives.

PRODUCT BRANDING

In the past, the lack of a perceived domestic market for processed fruit/vegetable products, minimal competition, and the presence of a large foreign market for bulk produce allowed the company to concentrate on unbranded products. Now however, foreign competition at home and a new interest in healthy foods have stimulated the domestic market, particularly in the branded juice/drink area, encouraging local competition. To maintain their market share, the company believes that they must brand their products so that consumers will recognize and choose their product over the competition when given a choice. They will now focus marketing efforts on generating awareness of the company name and linking that name with healthy products.

STRATEGY FOR THE FUTURE

In order to maintain sales and grow the market for processed fruit and vegetables, Company "x" has decided that they must develop the domestic market to grow their volume and protect against competition, primarily foreign. In addition, they will look for new markets beyond Europe and try to protect their share of current export markets, amid rising competition. Company "x" may also try to stimulate volume among former clients in Eastern Europe through alternative purchasing arrangements.

In order to reach these markets, the company will focus on improving product quality and health perception by branding products, improving packaging, and expanding the product line to include new varieties and "light" versions of existing products. Marketing will focus on health and the positive value of the company reputation.

CASE STUDY #1
CORPORATE STRATEGY

Export markets for Company "x" are shrinking due to the following:

- Reduction of buying power among former Soviet Block countries.
- Rising production costs making company products less competitive among Western European countries.
- Increased competition from other Eastern European countries in Western European markets.

Domestic market remains small but growing given:

- Market development by foreign competitors.

In FFV, Olsen of Norway already in market. Bonduelle of France entering in 1993.

In drink/juice area, Austrian brand Donald Duck sold nationwide.

- Development of "supermarkets" with large freezer/storage capacity. Billa of Sweden entering in 1993.
- Growth in urban populations which may have greater time constraints and a desire for convenience products.

STRATEGY

Company "x" has decided to focus on growing the domestic market for FFV and fruit drinks/juices in order to broaden exposure of their brand name and ensure that foreign competition doesn't dominate the local market. Given lower transportation costs and large contracts with local farmers, Company "x" believes they can sell these products more profitably than foreign companies. Domestic competition is currently small and regional and capital expenditure required to enter is expected to be a barrier for many domestic companies.

QUESTIONS:

- Do you think the company's strategy to focus on the domestic market is appropriate? Why?
- What must the company do to encourage greater consumption of processed fruit & vegetable products?
- Do you think that the current product offerings will need to be changed or improved to increase domestic sales?
- Should the company continue producing all product lines, even those with low volume? If not, which should it eliminate?

CASE STUDY #2
MARKET TARGETING & POSITION

Company "x" produces a line of branded fruit juices and fruit drinks which are sold nationwide. Products are packaged in .20, .25, .50 and 1.0 liter Tetrapak boxes.

Fruit juices are made of 100% real fruit juice and come in the following varieties:

-Apple	-Cherry	-Black Currant
-Strawberry	-Orange	-Tomato

Because they are made from 100% juice, they are priced slightly higher than fruit drinks. The fruit drink line includes:

-Apple	-Cherry	-Raspberry
-Strawberry	-Orange	

Fruit drinks are made from approximately 70% real fruit juice, combined with water and sugar. Company "x" developed fruit drinks as a less-expensive, healthy alternative to juices for a less affluent market. However, the VAT will tax drinks at a higher rate than juices, eliminating the current pricing advantage.

In addition to expanding these lines with new flavors, Company "x" is introducing a "light" line of fruit drinks. These drinks will be made with Nutrasweet, the low-calorie artificial sweetener. Packaging will carry the Nutrasweet symbol. While the company can't afford to advertise this line heavily, Nutrasweet will advertise their sweetener nationwide, highlighting products which use it. This advertising is expected to benefit the company's "light" line.

TARGET AUDIENCE

The company currently considers mothers of small children and wealthy older Poles to be the primary domestic customers for the juice line. While some company materials depict young adults drinking the "light" line, they believe that young people prefer soft drinks to healthy drinks, and don't plan to target this audience with any advertising.

QUESTIONS:

-Do you agree with the target definition for the juice/drink products? Which market segments apply?(i.e.-demographics, psychographics..)

-Do you think that the target for the "light" line should remain the same? If not, who are potential targets for the "light" products?

-How would you position the "light" line? What are the product benefits? Consider all product benefits, not just the sweetener.

-Given the VAT, do you think the company should eliminate the drink line? What could they do? Is pricing the only benefit of drinks?

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CASE STUDY #3
COMMUNICATIONS AND PROMOTIONS MIX STRATEGIES

Company "x" has decided to focus on growing the domestic market for its FFV line. Current consumption of these products is higher in urban areas given the lack of space for large gardens and a fast-paced lifestyle which makes convenience products such as FFV more desirable.

The secondary target of rural areas is very undeveloped but remains a low opportunity until larger retail operators with greater freezer capacity begin operation in these areas. In addition, the large number of small retailers who can purchase limited quantities makes distribution difficult and less profitable.

In order to maximize a small marketing budget, Company "x" is focusing on the primary urban market. Within that market, they consider women to be the primary purchasers of food items and thus their primary target.

QUESTIONS:

- Do you agree with the primary target definition? Who might be a secondary target within the urban market?
- What communication vehicles would be most effective to reach this target? Design an introductory communication plan for the FFV line.
- What FFV products might sell best in this market? New product ideas?
- What should the primary message be to consumers about these products?

CASE STUDY #4
MARKET RESEARCH

Company "x" is introducing a line of "light" fruit drinks which contain the low-calorie artificial sweetener Nutrasweet. The company is introducing this product without any consumer research to determine the potential size of the market. However, foreign companies have introduced products such as Coke Light and Pepsi Light with some success. In addition, products like Slim Fast have found a market among consumers looking to reduce their weight. Given the presence of these products and a sense that consumers are becoming more health/weight conscious, the company believes that there is a market for their products.

To reduce calories, the artificial sweetener, Nutrasweet will replace the sugar used to sweeten the regular line. The Nutrasweet symbol will appear prominently on the package front to alert consumers that the product is low calorie. However, consumer awareness of Nutrasweet is very low and the company doesn't have a large marketing budget to educate consumers. The company hopes that advertising by Nutrasweet will benefit sales of their product.

QUESTIONS:

-Should the company have conducted market research before introducing the "light" product line? Why?

-What type of research would you recommend for this product?

-Do you think that putting the Nutrasweet symbol on the package is helpful for consumers or could it cause confusion? How could the company find out?

CASE STUDY #5
NEW PRODUCT DEVELOPMENT

In order to increase domestic sales of FFV, Company "x" wants to develop additional uses for/forms of frozen fruits and vegetables to increase year-round use of frozen products. Focusing on the primary urban market, they are considering the following:

- Complete frozen entrees, including a line of "light" meals and vegetarian meals.
- Frozen juice concentrates for sale at the retail level.
- New mixtures of fruits and vegetables.
- Frozen fruit desserts other than ice cream. (i.e. fruit pies)
- Vegetable side dishes like pasta/vegetable combinations.

QUESTIONS:

Recognizing that production capacity and financial limitations requires the company to prioritize their ideas for development and testing, which product(s) do you believe will have the broadest market appeal?

-Any other new product ideas? What are the main considerations in the development of any new FFV products for the urban market?

-Should the company conduct market research before developing any of these products? What type of research should they conduct?

-Where should the company look for new FFV ideas?