TECHNICAL ASSISTANCE IN BRANDING, IN-STORE MERCHANDISING AND PROMOTIONS

KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT

November 25, 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by the KCBS project team of Chemonics International Inc. based on a Final Report prepared by Short Term Technical Advisor, Marilyn Phillips.

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THIS REPORT DESCRIBES ACTIONS TAKEN TO ASSIST SELECTED DAIRY PROCESSORS AND FIRMS MARKETING DAIRY PRODUCTS BY PROVIDING GUIDELINES FOR BRAND IDENTIFICATION MERCHANDISING AND PROMOTION. THESE ACTIONS INCLUDED CONDUCTING A NUMBER OF TRAINING SESSIONS AND DEVELOPING MATERIALS TO BE USED BY KCBS STAFF AND LOCAL INSTITUTIONS IN FUTURE TRAININGS.

Kosovo Cluster and Business Support project: "Technical Assistance in Branding, In-store Merchandising and Promotions"
Contract No. AFP-I-00-03-00030-00, TO #800

This report submitted by Chemonics International Inc. / November 25, 2006

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PURPOSE OF ASSIGNMENT

The purpose of the assignment is to assist selected dairy processors and firms marketing dairy products with guidelines for brand identification merchandising and promotion. Additionally, the consultant will conduct a number of training sessions and develop training materials to be used by KCBS staff and local institutions in future trainings.

BACKGROUND

Domestic food processors and marketing firms generally lack the branding, merchandising and promotional skills and experience of similar foreign organizations. It is one of the reasons domestic retailers often give more and better shelf space to foreign products. Most domestic retailers would like to promote domestic products if they can be offered at competitive value/price relationships compared to imported products. This can only be achieved if domestic firms merchandise and promote their products equally as well as foreign promoters.

Technical assistance is needed for domestic dairy processors and marketing organizations to improve their marketing strategies and implementation skills to effectively compete with foreign product.

Factors now having negative impacts on the marketing of domestic dairy products in the Kosovo market include:

- Excessive imports of a wide variety of dairy products, especially from neighboring countries (particularly Hungary and Slovenia).
- Imports of highly subsidized food products from other countries at “dumping” prices.
- Imports of food products not in compliance with commonly accepted international quality standards but at significantly cheaper prices than domestic products.

Compared to the dairy industry in neighboring countries, Kosovo lags considerably. This is particularly true in regard to the variety of dairy products, packaging and product design, as well as in maintaining consistent product quality. In general, the marketing of dairy products is oriented primarily toward conventional dairy products. Production and marketing of new and innovative dairy products is very limited, which is perceived as highly advantageous by importers and suppliers of foreign products. Domestic dairy processors and marketing organizations need to consider development and production of other products as well as more effective ways to merchandise and promote them.

EXECUTIVE SUMMARY

The consultancy focused on assessing the current domestic dairy marketing environment in Kosovo. Recommendations were made to processors and team as to how to better market products and brands to drive for more sustaining competitive advantage.

Improvements in quality overall (intrinsic quality as well as perceived quality in packaging and presentation) were emphasized. A protocol to objectively measure quality attributes (fresh and aged, in absolute and competitive context) was developed and left with the team.

A hierarchical approach to marketing priorities (Quality is job one, understanding your positioning niche in the market, getting your pricing and value right, the importance of quantity and quality of distribution (availability on shelf), and understanding the need and role of consumer and trade promotion), was presented and discussed with the Kosovo Dairy Producers Association (KDPA).

Seminar materials on branding overall and packaging principles were prepared but not presented. A review of the successful case history of the Seal of Quality program in Macedonia was presented.

Visits with individual producers and with two retailers (Shpeta and MAXI) underscored the need for the industry to rapidly increase their pace of sophistication and expertise in marketing dairy products. Like similar nearby nations (Macedonia), the retail sector is rapidly adopting Western retailing and merchandising principles and techniques. In this context, the domestic dairy industry needs to be as competitive as the importers in order to gain ground. The financial implications of this requirement need to be thoroughly analyzed by the team and by individual processors.

It became very clear that consolidation among dairy processors will be a requirement for Kosovo to compete effectively. Individual processors do not have the financial clout to make the necessary investments in marketing.

This will require that the KDPA harmonize their plans and programs more aggressively. They should also consider developing an umbrella brand ("Kosovo Dairy" for example) that all processors support, versus the individual branding model which is not sustainable.

The team should also explore and review marketing models other than the mass-market model (follow the leader) that is currently adopted by most processors. Such alternative models include:

- Focusing on becoming the Best in Class supplier to the Food Service trade,
- Becoming a co-packer to already existing brands in-country (e.g., Dukat or Meggle),
- Aggressively pursuing export opportunities,
- Becoming specialty niche dairies,
- Becoming the dominant regional brand
- Being private label supplier to major retailer(s)

These are all strategic alternative marketing models which could potentially be adopted for greater financial success by individual processors.

There is a significant disadvantage in Kosovo in that there is no consumer sales offtake, attitude and behavior market research data on the dairy category overall, or with other food sectors. There are *ad hoc* market research programs conducted for specific clients by market research firms such as UBO and MDA, but no comprehensive profile.

A cream cheese study has been initiated, and local service provider UBO was awarded the subcontract. This relatively small-scale research on one dairy segment may serve as a prototype for additional research.

This research gap must be remedied if a consumer and market-driven model is to be the basis for marketing plans and recommendations. Partnering with other donor agencies to conduct such a survey, with greater than one-time frequency to get at seasonality, may be a way to achieve this objective.

In fact, such knowledge base may be a critical factor in strengthening domestic producers' position with retailers and thus improving their on-shelf and promotional presence. Marketing knowledge is a tool of competitive advantage and importers are not likely to have the same knowledge base of Kosovar consumers.

Such grounding in consumer offtake will also assist in forecasting and planning. One of the critical distribution/availability issues is both out-of-stocks and out-of-code products on shelf.

Value-addition in new products is also essential. The domestic product lines are nearly all "me too" and offer marginal differentiation versus one another and importers. Exploration of niche added value products, such as aged specialty cheeses, is a requirement. "Differentiate or Die" in the famous words of Jack Trout. Innovation, not imitation.

Finally, a limited focus group among female staff of KCBS revealed a common set of expectations, wants and needs among them. Quality, freshness, convenience and value are their key priorities. If domestic products can fulfill these requirements, they will be part of the competitive set. This research was specifically focused on cream cheese, but has application more broadly to the entire dairy category.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

November 6-7, 2006

In-office briefing with dairy cluster team (Mr. Al Wannous, Sr. Livestock Cluster Advisor; Mr. Zijadin Gojnovci, Dairy Processing Specialist; and Mr. Todd Kirkbride, Senior Competitiveness Advisor).

Field visits to hypermarkets, supermarkets and local independent food stores to assess retail conditions, branding, dairy case profiles (shelf sets, merchandising, pricing, brands, product quality, benefit and feature/attribute segments)

Meeting with New Design (Fatmir Selimi), potential market research supplier for cream cheese market demand study.

November 8, 2006

Visit to green market to observe fresh dairy displays and customers

Meeting with Mr. Besim, Bosna Restaurants' owner and test purchaser of cream cheese form Ajka Dairy. Meeting with Mr. Ramadan Memaz for Ajka Dairy Plant.

November 9-10, 2006

Meetings in office with Mr. Todd Kirkbride, Mr. Al Wannous. Development of seminar materials on branding, packaging, marketing, market research. Development of RFP for cream cheese market demand study.

November 11, 2006

Meeting with M/D/A, potential market research supplier for cream cheese study.

Meeting with KDPA – Kosovo Dairy Producers Association. Brief presentation on marketing principles and overview of Macedonian dairy and meat industry "Seal of Quality" program

November 13, 2006

Visit to ABI Dairy Processors Offices in Prizren

November 14, 2006

Work in office on marketing presentations. Meet with core team to discuss presentation schedule. Prepare for presentation to KDPA for Wednesday, November 15, 2006).

Conducted focus groups with KCBS women respondents

November 15, 2006

Meet with Mr. Gasmend Abrashi, Owner and President of MAXI Supermarkets chain Exclusive Group. Meet with Mr. Afrim Kuci, Chief Operating Officer of Exclusive Distribution, subsidiary of MAXI Exclusive Group.

KDPA presentation postponed.

November 16, 2006

Meet with UBO consulting, potential market research supplier for cream cheese study

Work in office. Review RFP responses from UBO and M/D/A. Research and write protocol for Sensory Shelf Life and Aging testing.

November 18, 2006

Presentation to KDPA on marketing and branding principles

TASK FINDINGS AND RECOMMENDATIONS

Task 1

Conduct two group training seminars for representatives from dairy processors, marketing organizations, dairy product distributors, food retailers, plus KCBS staff and other local educators. Topics will include:

- Brand identification, Development and Promotion
- Merchandising
- Promotions (including purpose, type, timing, duration, etc.)

Develop training program outlines and provide materials for same on the topics listed above to be used by KCBS staff and other local educators.

Findings/Recommendations

Three seminar presentations were developed (Branding, Packaging and Marketing Principles). Upon review and discussion, it was agreed that the introductory module to the KDPA needed to be the Marketing Principles presentation, with more detail on the Seal of Quality program results in Macedonia. This discussion was presented briefly to a partial group of the KDPA on Saturday, November 11th, and again on Saturday, November 18th, to another KDPA quorum. The Branding and Packaging seminars (all presentations submitted as Annexes to this report) will need to be presented one-on-one to individual processors at a future point.

Task 2

Conduct private on-site interventions, consultations with selected dairy processors, marketing organizations and/or their representative distributors on the topics listed above.

Findings: Saturday, November 11, 2006 – Meeting with Dairy Association (KDPA)

Six core members of the Dairy Association met with us at the offices on Saturday. One of the key strategic imperatives from the dairy association is to better highlight the quality of domestic products (industry level) vs. imports. These processors are working with fresh milk and they have increased supply over the past few years and need to develop strong offtake (consumer pull) programs. Currently supply is outpacing demand, not because consumer demand has dropped (to the best of our collective knowledge) but because there is greater supply.

They believe a PR campaign on television which talks about quality would be helpful to address consumers' negative perceptions about domestic quality. They don't believe the story is getting out; that the quality improvements they've all collectively made would be meaningful to communicate. There is an agriculture program on TV which is popular and which would be a good showcase for the industry. There was a consensus that an international expert (e.g., Al Wannous) would be more effective and convincing about the quality improvements made in the industry.

There is a perception that the importers are out-marketing them (which is essentially true as they have a higher quality shelf presence, branding presence, better product presentation, as well as economies of scale from regional efficiencies). This importer strength is a barrier to domestic products' distribution.

There is a unanimous opinion that packaging and product quality needs to be improved for all domestic dairy processors, not just the largest ones. (We heard from ABI that the strength of the dairy industry here is only as strong as the weakest link. Poor quality small producers drive down the overall perception).

One of the processors with whom we work (Devolli) uses a significant amount of milk powder in his product and yet claims fresh milk. It was reinforced that the Association needs to work with the proper regulatory authorities to ensure that this mis-labeling does not happen as it drags down the industry.

The project reinforced the fact that the strategic plan of the association was its to own and develop. That they need to set their own strategic thrust and work together to accomplish it.

There is a need to develop better demand forecasting. This is difficult to do without total market figures, but a better understanding of total dairy products demand curves would help these processors determine the proportion of finished goods among the segments. The Executive Director of the KDPA talked about how she's collecting production data for internal use. There may be an opportunity for the project to help better display and use the data thus collected.

Overall, marketing knowledge is one sustainable competitive advantage that domestic industry can bring to dairy marketing in Kosovo. Importers are dumping product here, they are transferring success from other developed markets. However, the elements of consumer knowledge and service that domestic industry can bring to the supermarkets and food service chains is an investment importers are unlikely to make. And it's one that will help overcome historic branding disadvantages, as well as letting us compete on something over than price. Value add in service is a key relationship deliverable that needs to be focused upon

<u>Quality Milk Grading Standards – New Law enforcement:</u>

A mandatory pricing structure for raw milk grading will be implemented here effectively immediately. Al Wannous made a preliminary brief explanation of this mandate and a more detailed discussion will be held on Wednesday, November 15th. One topic that could be addressed in the PR plan is a feature on this new law.

<u>Seal of Quality Program in Macedonia – Useful Case History for Kosovo:</u>

There was interest in the learning from the SOQ program in Macedonia. It was explained that interventions were made at every linkage point of the value chain. In that way, consumer pull programs could be aired and be believable by consumers. A summary of the seal of quality program and interventions (final report if possible) will be forwarded.

Findings: Meeting with KDPA on Saturday, November 18, 2006.

We presented the Marketing Principles presentation to a small group of the KDPA who were engaged in an animated discussion about the implications of marketing successfully in Kosovo. There was agreement that classic marketing is required but their concerns are the following:

1) Dumping by importers are below-market prices, depressing the prices they can charge;
2) The need for the Kosovar government to match subsidies to help dairy farmers.
3) The need to build awareness of the fact that the quality has been built into domestic dairy so consumers will start to buy again.
4) Another concern is whether "fresh" as the key emphasis for an umbrella message will also embrace the significant business of Devolli who uses milk powder (in VitaMilk brand).

Findings: Meeting with Besim, Owner of Bosna Restaurants, Wednesday, November 08, 2006

We met with Besim who is the owner of Bosna restaurant chain, a “fast casual’ restaurant serving typical authentic Kosovar meals as well as pizza, ice cream, coffee, etc. Besim is currently buying a new cream cheese from Ajka Processing and stated he is pleased with the product, but suggested some modifications. He currently buys mozzarella cheese from another domestic supplier. He buys domestic yogurt (Ajka did some co-branding with him), milk and cheese. His imported sources are for the Trappist yellow cheese, long-shelf life products. In addition to these products, he also makes fresh ice cream (from milk, not cream) and sells it to 15 restaurants around the city. He would be interested in better understanding the opportunity for domestic ice cream processing (this would most likely be his own Bosna brand). There are currently 27 ice cream importers in this market.

We asked him to help us understand what would better serve his needs. He immediately suggested a domestic substitute for the Trappista yellow cheese currently imported from Czechoslovakia.

In further discussions, he also said that if we could supply fresh white grating cheese that is used on shopska salads. He is currently buying this from a Balkan supplier in Czechoslovakia. The cheese is sold in 3 kg. sizes, cut carefully into blocks and vacuum sealed. The cheese cuts easily and does not crumble when grated (though it broke easily when we sampled it). He buys it for €4. He would be happy to have a domestic supplier and a rough calculation made on-site figured at price of €3.50 may be possible. He evaluates quality in terms of texture and structure, not the taste *per se.*

Currently it does not come already shredded, which may be a potential opportunity for higher margin value-add products. (Mr. Ramadan Memaj from Ajka Dairy Plant confirmed that his knows there is a market among food service for the white cheese as he’s been told it by his restaurant neighbors.)

Bosna would like to see more products from sheep/goats. He would b able to use them.

Bosna has used processed cheese bricks in some recipes and was happy with the results. His perception of the weakness in the domestic dairy product line is that there is lower quality, consistency of quality (product, delivery) and a lack of diversity in the product line.

Findings: Ajka Dairy Plant, Wednesday, November 8, 2006.

We visited with Mr. Ramadan Memaz from Ajka Dairy Plant. His plant processes 5-6 tons/day of milk, usually in yogurt. We talked about the cream cheese product and he feels his major issue is the lack of consumer awareness, lack of marketing in general (poor packaging). His concern is that there may be a market for a domestic product but it needs to be proven.

His experience in selling into the supermarkets is that he can develop a product, which is competitive to the imported ones in terms of taste and product consistency, but they fall down on the rest of the proposition: logo, branding, packaging, selling savvy, etc. Their lack of experience in professional selling really shows. He can’t get to first base with the retailers when the packaging and branding is not competitive to the imported products. Cuttings to show product superiority are not sufficient.

We asked him how he felt in general about being competitive to the imported products. He is not 100% sure, though he’d like to believe it. The packaging is very expensive and to make the consumers buy, the quality has to be there. His packaging equipment has problems. It was expensive, but it's not reliable. His most important issue is getting the consistent quality every day (from the packaging equipment).

His overall priority is to better understand how to be competitive in new products and how to implement better quality with his current product line. His immediate imperative is to make the cream cheese product successful (this, in the context of Trappista and white cheese for salads).

Findings: Visit to ABI dairy processor, Prizren, Monday, November 13, 2006 (Alajdin Fusha)

ABI is the largest dairy processor in Kosovo making a wide range (27) of dairy products including pasteurized milk, butter, cheese, *Sharri* cheese (artisan sheep cheese), yellow cheese, mozzarella cheese, yogurt, etc. They are privately held in dairy, owned by three brothers and the current young management is second generation. ABI is not only a dairy processor, they are also the largest processor and importer of fruits and vegetables and own a large trading company. Their processing business is a 50/50 shared enterprise with a family-owned company, Alef (19).

They are in the process of completing a large 3-level supermarket in Prizren which will be the largest in the country when completed (target date: December 15-16, 2006).

Initial interventions with ABI have been in the quality area (GMP in process, for example). They do not own their own production capacity but buy from a range of small and larger producers in dairy and produce. They work with milk collection centers on some of their routes and they have a refrigerated distribution network across Kosovo. They ship both dairy and fruits and vegetables together.

Currently ABI is not running at capacity in their processing (dairy and fruits/vegetables). They currently process 30,000 tons per day in dairy. They export to the Diaspora in many markets including Turkey, UK, Hungary, Dubai, Australia, New Zealand, Macedonia, and Albania. A limited amount to Serbia. They hire agents in these countries on small retainers and recoup their investment when customers are developed.

They currently make no specialty aged cheeses (outside of *Shari* cheese). Aged cheese may be an opportunity for them.

<u>Alef (19) Fruits & Vegetables Business:</u>

Within their fruits and vegetables business, about 10% is Export: to Macedonia, Dubai, Germany, Slovenia, Sweden, and to other Diaspora markets. They carry 67 SKUs and they have a good market share but their biggest problem in F&V is price. They have no preservatives in their products and other brands such as GEM (who do use preservatives) can undercut them on price.

Alef was one of the first brands in the market in fruits and vegetables. However, their image is weak and they've lost share. Competitors are out-marketing them and under-cutting them on price (dumping). Poor quality imitations are ruining the category.

They need to work on their brands and put their trust in their brands. We made the point that the shelf is the Point of Power for brand selection and the need to refresh the image of their brands (to which they agreed), but they are clearly focused on getting the retail supermarket up and running as a priority.

Retail Supermarket:

Their new supermarket is their attempt to control the entire value chain. They have encountered some resistance with Ben Af (the largest retailer in Kosovo) due to the fact that Ben Af is Turkish and favors products from Turkey (such as Pinar). They have had a good relationship with Ben Af, but with the retailer's focus on imported products (e.g., Pinar) they cannot make headway in dairy. The Ben Af in Prizren has 40% imported products.
In their new supermarket they will feature domestic products to the extent possible and will fill in with other products as necessary.

Key Marketing Challenges:

The ABI team spoke about the following key issues for their successful marketing:

1) Distribution access to the smaller independent food stores
2) Training for their sales staff (cashiers) in customer service. Need this prior to the new store opening in December. Can we do a one-hour session?
3) Help with a new slogan for the store. We offered the positioning platform of "Quality. Freshness. Value. Convenience" as four critical entry points for any retailers.
4) Open to other help such as shelf planning, DPP (Direct Product Profitability), store merchandising, etc.

In general, there is an industry need as well to bring back the trust in domestic product. Advertorials and features on agricultural TV shows which feature, for example, the modernity and quality of the ABI dairy group. Consumers think the domestic quality is bad. There's a lot of work going on in quality – GMP, QA labs, etc. People would be interested in this.

Findings: Shpeta: Small Independent Retailer (Monday, November 6, 2006)

Shpeta has a traditional grocery on the second level and a fresh dairy/meat store on the ground level. The supermarket itself was fully stocked, clean, and well-lit, with helpful personnel. There was a free-standing UHT milk display very near to the dairy case which had a good representative range of products including cream cheeses, some aged cheeses and fresh cheese. UHT milk was also in the refrigerated section. He also sold bagged fresh milk (a product which is not usually available in the larger supermarkets).

In contrast, the fresh store on the ground level was empty and sparsely stocked. There were two dairy cases (one not being used for refrigeration) and several meat display cases. Dried meat was displayed on a large open table. There was fresh brined white cheese available (portioned and packaged by the cashier). There was no merchandising in the store at all. The randomness of the products, the under-stocking, the open spaces and the lack of merchandising made the store unwelcoming. There are no impulse purchase opportunities around the cash register. This store has been open for eight months.

The cashiers were friendly, however, and told us that the foot traffic is over 200 per day.

We met with Kujtim Krasniqu, Manager of Shpeta, a small independent supermarket in the center of town. Our purpose was to discern his perception of locally-produced dairy foods and where he saw the opportunities. His perception of domestic dairy is the need to improve the overall quality in both actual product and in product presentation (logo, packaging, etc.). He is willing to stock domestic products if these criteria are met.

We volunteered comments about how to improve his merchandising and transaction value in the fresh dairy/meat store and he is enthusiastic about learning better retail merchandising techniques. We agreed that we'd do a separate retail merchandising training for him. This may be a good "before and after" case for the project.

Findings: Mr. Gasmend Abrashi, Owner and President, MAXI Supermarkets (Exclusive Group); Mr. Afrim Kuci, COO, Exclusive Distribution – Wednesday, November 15, 2006

The team met with this key retailer to discuss opportunities to partner on behalf of the domestic industry. MAXI, with two stores currently (two more planned for 2007 expansion) has 15% share of the Kosovo market. The Exclusive Group has five units, all with individual ownership, and he is 100% owner of the group in total. The group consists of the hypermarkets branded MAXI, two distribution units, a pharmaceutical division.

We began by asking questions about domestic products vs. imported products and how we can best partner to develop the domestic industry. He replied that there are two serious milk producers in Kosovo. Vita (Devolli) equals milk in his view, and ABI works hard to get it right working with them. He told us that they are "far from what needs to be done" but applauds their effort.

He profiled his dairy case business: 70% is imported products, from bordering countries (Serbia and Macedonia). Another 20% is from the broader region of the former Yugoslavia (Croatia, Slovenia). The balance is domestic and other. It is his perception that the quality and prices are better from other importers.

But in the case of domestic products, there are three problems: 1) We were the former Yugoslavia and it's difficult to change brand choice habits; 2) Transportation costs are cheaper within the region, and 3) to develop a strong domestic brand, we need to develop trust, understand the culture. Develop the relationship with MAXI and other retailers. That the relationship is stronger than the product.

He went on to say that people don't trust local producers, that for most product selection, there is a history of brand/product development that goes back 150 years, and for a new product to enter the market, it will be difficult.

We asked him about the ranking of the dairy products within his section. He told us that Alpsko (Serbia) from within the region is No. 1. That there is a Hungarian milk that is very good, but there have been consistency problems (supply/service). It is his perception that Meggle is No. 2 or No. 3 on the Kosovo market.

These products all understand the distribution dynamics and it is clear to him that the local/domestic producers do not understand this. They don't understand the system (by which he meant the entire supply chain). That it's all linked. He has been willing to take on a new supplier, but within three days there are out-of-stocks. What is required is DSD – direct store delivery – for fresh dairy products. The distributors need to be in the stores daily to replenish and pick up aged product. If they're not, it's lost sales. He is not willing to carry the inventory carrying costs to make sure OOS does not happen. That's the manufacturer responsibility and domestic suppliers don't understand this. There are possibly 7-8 domestic (ABI, Bucha, ALBI, Droga). We asked about Coral. "He is a good importer; he's not a good distributor."

<u>Structure</u>

His structure is that he is the President of the company. His wife, Aferdita Abrashi, is his general manager overall, responsible for marketing, promotion, loyalty programs, etc. He has individual store managers and he has category managers for each major product category. He also has a very important position of Imported Product Manager. He imports 35% of his product line.

His perception is that he is a leader in retail marketing in Kosovo. He does not want to move to an EDLP strategy (Everyday Low Price) as the other retailers are not as sophisticated, they will follow him and profitability will be taken out of the retail business. His preference is for his “High Low” strategy, with specific featuring, along with “entertainment/destination” value-added programs to build store loyalty.

Success Criteria:

For a domestic supplier to be successful, he must 1) have product quality, 2) have a high-quality, well developed supply chain, 3) have the consumer trust (to build repeat purchase and loyalty).

In terms of what it will take for domestic producers to be competitive in dairy, Mr. Abrashi was clear. 1) Quality has to be there. Make a good product; 2) Do the necessary marketing investment to develop consumer trust (awareness, trial, repeat); 3) keep the turns up on the product with the necessary investment and do the business required to keep the products on the shelf. He feels that the business discipline here is lacking, that this is a key problem. 80% of the dairy producers do take care to get the out of code stock off the shelves, but 20% do not. (Note: A potential cause is lack of good forecasting at the producer level.) He is going to look at the products carefully and if they are not moving, move them out.

He had another observation about quality: it’s good when first launched but then the habit is to cost-reduce the product and diminish the overall quality. An example offered was whole stuffed peppers were originally offered but over time, the peppers were halved to deceive the consumer.

STORE MERCHANDISING PROGRAMS:
Plan-o-Grams – Shelf Sets:

He makes his shelving re-sets decision in January for 90% of the line, leaving 10% discretionary for new products and other changes (at Category Manager discretion). They review category performance every 90 days, based on turns (scanner data) as well as item/category profitability. (It is unknown how the profits are calculated, whether they are on product mark-up only, or also include the manufacturers’ fees for slotting, etc.) The prize positions on shelf are paid for by the manufacturers.

Products which are unique have a better chance of getting shelf space though the question will be “If it’s such a great idea, why don’t the current competitors already have it in their product line?” This underscores the need to do thorough consumer research on new products, to help make a convincing sale (along with advertising and promotion).

His product assortment is different from MAXI 1 to MAXI 2

Loyalty Card Program:

Maxi has a loyalty card program with a claimed membership of 7-8,000. He prints and mails 50,000 high quality catalogs to households in Kosovo every month. The participants collect points that can be redeemed for merchandise and there is also a 2% cash rebate on all purchases. This was formerly fulfilled through the mail, but due to difficulties here, it can now be redeemed in cash at the store.

The program has also been supported with substantial media (TV, radio, billboards, etc.). In late 2004-though 2005 he featured catalog editorials appealing to Kosovo patriotism (“Buy Kosovo products because we are Kosovars.”) Despite featuring local products, no local businesses were interested in supporting the program and he discontinued the message this year.

He publishes his circular (product features) twice/monthly (24/year).

Private Label:

We asked Mr. Abrashi if he is pursuing Private Label. He explained that he will launch four new private label items next week: sugar, rice, flour, and oil. He is pursuing bottled water but does not have a deal yet. He is buying in bulk and repackaging here under his logo. He will expand this program.

MAXI Distribution:

His distribution partner, Mr. Afrim Kuci, Chief Operating Officer of Maxi Exclusive, explained his selling methods: He is a wholesale distribution company, selling products (van distribution) to 250 customers. He acts as salesman for the product lines (Broker "Advance selling"), insists on media support for the product lines he sells. These costs are borne by the producer.

What can KCBS do to best help MAXI in Kosovo?

The response from both was the following?

1. Helps us better train our people. There is high turnover among the young people and they don't know the basic principles of customer service, especially in handling difficult service issues.
2. FIFO (First In, Firs Out) – help better understand product rotation
3. Category Management

Beyond these facts, they reiterated the need to help businesses in Kosovo understand good business practices in dealing with retailers such as MAXI. Fundamentals such as direct-store-distribution, product shelf life, picking up out of code products, investing in marketing and advertising, understanding the total distribution supply chain, etc.

We reiterated the fact that we are working through the different associations to help in the issues of branding, labeling and marketing (to which they were positive).

Who are the best marketers that you work with in Kosovo?

1. Bucha
2. Droga
3. Marketing & Distribution (this is the company that handles P&G, Gillette, etc.)
4. Exclusive – the distributor that handles MAXI (Henkel client)
5. NEXT – the other distribution line within Exclusive group
6. Delfine – handles meats, sausages and Meggle
7. ABI – understands consumer marketing activities such as sampling
8. Distributor SanPelegrino – handles the Vanessa socks line
9. Devolli
10. Ajka – oils (I think this is the company that they are working with in their private label oil product.

Findings: Saturday, November 11, 2006 – Meeting with MDA, potential market research supplier

We met with Ardian Jashari, Principal in MDA (Management Development Association), a potential supplier for our market research into cream cheese demand. This small firm (which has grown from €100,000 in 2004 to ca. €500,000 in 2006) was formed to provide business services to NGOs, private businesses and importers in Kosovo. Services range from business planning, marketing, management training, HR development, financial modeling, etc. They are a firm of 13 permanent full time people (three principals) and a part-time staff of enumerators/interviewers. Their research capabilities include design, statistical development and analysis, field work, tab work, analysis, and reporting. There is good training of interviewers and little turn-over. They can do focus groups and other qualitative (but telephone and internet research is not developed here).

For their consumer study, the total cost was in the range of €6,000-8,000 for 500 surveys for a rate of €12-16.00 per interview.

Some of the relevant business experience included a major study for Gorenje, a major home appliance marketer, and a current study underway for a major energy company (in conjunction with M/S/P). This study is to test the effect of branding and attitudes toward energy pre-and-post a communications campaign.

They also did a study with LGB (a meat processor who is also a client of KCBS) among other importers into Kosovo. The meat study was interesting in that it closely parallels our need in the dairy industry here. A combination of offtake studies (using quantitative techniques among 3,000 retail outlets, balanced for geography and urban/rural) as well as a sample of households for primary consumer consumption data (sample size: 500) They feel their interviewers are well-trained and the study design includes random respondent selection and is well-balanced for demographics and geography.

We questioned the access they had to supermarket scanner data and they confirmed that it is highly dependent on the relationship they have with specific retailers. Maxi is a client of theirs and was willing to share scanner data on specific business issues.

(One of the interesting findings from the meat study was a confirmation of market share of 3% for product, vs. projected 15% share that had been theorized. This has broad analogies for the dairy category.)

The approach that MDA used to collect the data was to interview numerous data sources and then reconcile one to another. Data sources included a) customs' offices, b) businesses, c) distributors. They were reconciled to within +/- 5% with one another.

Other studies included a bottled water study for an international client. Two years ago, Coca-Cola proposed to lead a multi-sponsor in-home survey of 500 households but it fell apart for lack of commitment, despite much progress being done on design. MDA works currently with Government offices, NGOs, and private companies in management training, strategic planning, etc.

The RFP was forwarded to MDA for a proposal (response due 11/17/06).

Findings: UBO Consulting Thursday, November 16, 2006

We met with Mr. Uliks Osmani, President of UBO Consulting which is a marketing research company in Pristina. He is one of the firms with whom we are discussing a cream cheese market demand study. Their competencies lie in both qualitative and quantitative studies. They have worked with KCBS on past projects in grain and have specific experience in dairy working with the Swiss Government. They have six full time staff working on research, have trained interviewers and have significant IT support (making a new investment in technology this year). Their statistician is among the best in Kosovo, working in statistics since 1968. This is a major challenge as there is a poor census database and demographic match is a challenge.

They are working with the government on an Early Warning System for social and political issues (monitoring activities in major geographic areas with 27 enumerators).

They are involved in private sector research (wholesalers and retailers). Within dairy specifically, they did qualitative studies on behavior and attitudes, and followed up with quantitative interviews. For a juice/mineral water company, Jeta, they've done research in Pristina to uncover the barriers to share growth. They did interviews among 2,000 retailers who are among the 57,834 contacts in their active database, to help them arrive at an effective selling strategy.

Their database is, in fact, a source of their competitive strength. It includes managers (usually the supply manager, sometimes the sales manager, oftentimes it's the same person) at hypermarkets, supermarkets and small retailers, as well as contacts within private industry beyond retailers. The trend is towards more private sector work. In the past year and a half, private sector research has increased from 20% to 40%; the balance NGOs.

In terms of work with NGOs, they've worked with M/S/P and SDC (Swiss Development Corporation – contact COP Barbara Bouri).

They have good relationships with the Customs office and the main importers. They have a history of direct contact with importers as they have had prior relationships with some of them working with Kosovo Import opportunities (from clients in Albania, for example).

They have worked with the KDPA and have suggested that they develop a marketing fund to jointly promote dairy products.

They did not share their sales figures.

In the past, much of the market research by NGOs was paid for by the projects, thus undercutting the capacity building of firms such as UBO. The trend now is to build these companies. We offered to supply books on market research/marketing and be a contact point for latest trends in US marketing and market research.

Cream Cheese Proposal:

With respect to the proposal (due 11/17/06), they expressed concern that it can be completed within the six-week window remaining in 2006, knowing the approval process for projects such as this one. We confirmed that there is some flexibility in timing.

There will also be a need to check the data we have on hand from the Customs to be able to provide trend information. It is doubtful that the Customs data will be detailed enough for our needs.

Findings: Potential Market Research Supplier (New Design: Fatmir Selimi

We met with a market research consultant to New Design. Fatmir has a Masters degree in Agro-Economics from KSU (Kansas State University). He has completed market research for numerous clients in Kosova and his company may be an additional resource for the cream cheese market demand study under consideration.

We discussed his contact network within Kosovo to get at some of the key information issues we seek. He has extensive contacts within the dairy importer network, knows how to access total import data from the customs database, and has completed qualitative studies on supermarket shopping behavior and shelf set observations. In the discussions with Fatmir we profiled the retailer universe in Kosovo:

Retail Environment Profile:	
Large Supermarkets and Hypermarkets: Est. share of dairy: 50%	15 in Pristina and about 40 in total Kosovo
(Ben Af: 5 outlets; Maxi: 2 outlets; Era, Interex, Albi C: 1 outlet each; El Cos: 4 outlets)	
Small/Medium Supermarkets: Est. share of dairy: 25%	40-50 in Pristina; ca. 400 in Kosovo
Small independent “Mom and Pops” Est. share of dairy: 25%	1,000 in Pristina; ca. 30-50,000 in Kosovo

Fatmir suggested it would be worthwhile to visit with the new Ben Af store being built in Frizren.

We discussed a potential market research design for the cream cheese market demand survey. Fatmir suggested the following methodology: 1) interviews with customs' agents to get to total volume/value of imported products; 2) interviews with importers using New Design's contact database; 3) qualitative interviews with supermarkets and selected small independent stores; and 4) qualitative interviews with selected processors and distributors to gain insight into marketing conditions.

Consumer Information:

It is Fatmir's opinion that the key lacks in the Kosovo market at the consumer level is products which offer the basics in quality, price and consistency. There is no or limited per capita consumption data on key dairy segments. Some assumptions can be made. There is basic demographic data available from Ministry and government sources. We agreed it might be beneficial to meet with EUR project (M/S/P) to understand what they have as sources.

Unemployment in Kosovo is now about 40% though it was 60% last year. Mostly young people and the population is the youngest in the entire region (if not all of Europe). 50% of the population is under 25. There was an exodus of skilled workers in 1999-2000 and as a consequence, there's a need for re-training and skill set development. On the positive side, there are new colleges and schools opening every year (30 in the last year).

Recommendations:

Marketing Research:

1. We need information about consumer demand, attitudes and behavior for the dairy category in total. This will help us prioritize new product initiatives and help us understand where there are gaps, opportunities, barriers, etc.
2. Such information would cover both attitudes and behavior from a consumer standpoint and would measure offtake for key dairy product segments (both imported and domestic): UHT milk (all fat levels and pack sizes); fresh milk in packages and bags (all sizes); yogurt – both drinking and set (all sizes, flavor and benefit segments); the wide variety of fresh cheeses, aged specialty cheeses, value-added products such as stuffed peppers in cream,; cream cheese, pavlaka, etc. The frequency of the data collection will depend on budget but it is desirable to get measures of seasonality of consumption. Other measures would include pricing (unit and kg.), market share, presence of absence of promotion/ merchandising, and so

forth. *NEXT STEPS: Understand joint funding opportunities with other NGOs; develop RFP.*

3. One of the key needs is to understand which new value added products should be developed. Specific consumer market research initiatives in aged/specialty cheese, into added benefit dairy products (such as pro-biotics, unique flavors, etc.), value-added ready prep foods such as the current stuffed peppers, etc. should be completed. *NEXT STEPS: Analyze market demand information and determine consumer gaps, opportunities.*

4. One of the key research needs is also to objectively measure quality perceptions of domestic vs. imported products in key categories and to better understand what are the quality signals to the consumer (packaging design, structure, graphics, shelf presence, product sensory aspects, storing, aging, etc.) *NEXT STEPS: Pending budget, write RFP draft for study of attitudes toward quality dairy.*

<u>Marketing Planning and Strategies:</u>

5. To be competitive with imported products, we'll need to be able to invest in every area of the marketing chain: branding, packaging, value, promotion, etc. Not every dairy plant will be able to make the necessary investment. (See Point. No. 12 below).

6. The one marketing model that is being explored is the "Follow the Leader" mass marketing model through retail outlets. Other strategies and models to be considered are: 1) food service market model (less investment in packaging, promotion); 2) the niche product/specialty product model;, 3) the co-packer model (pack in Kosovo for other countries' brands already sold on the market, and 4) the co-branded partner model (e.g., for local brands-- Bosna) or private label for retail supermarket chains.

7. Specialty cheese development and unique value-added products. It's clear that it will be very difficult for the industry to compete in the commodity product range. We must evolve to more value added products which are unique to this area, or can be positioned as unique. Value added includes unique packaging. There is too much "me-too" in the product range. History in the U.S. suggests it is very difficult to be successful in the low-margin commodity product range. A path to innovation is the only way of long-term success. "Innovation, not imitation."

8. Forecasting system – Develop forecasting method for production and demand that helps to build the optimum inventory planning levels. This needs to be based on the total category demand profile. The example is MAXI. They are unwilling to carry inventory to offset demand. That is the responsibility of the manufacturer. *Next Steps: Develop forecasting discipline, integrating with consumer offtake data (especially seasonal information).*

9. Explore whether the Seal of Quality program model in Macedonia might be useful for Kosovo. *Next steps: Provide an overview of the Seal of Quality Program in Macedonia, summarizing interventions (type, along the value chain) and the results achieved.*

10. ABI: Currently processed fruits and vegetables and refrigerated dairy are being shipped to distribution points in the same truck. A business model to understand if this is efficient or adding cost should be explored. Overall, marketing financial planning tools could be helpful to ABI among others. Tools and techniques such as gross margin analysis, SKU rationalization, forecasting and planning, developing customer profitability analysis, etc. could be of benefit. *Next steps: Pending budget, explore financial analysis tools and potential STTA.*

11. Developing Food Service “bench strength”. There needs to be a systematic approach to the food service and industrial food sector in Kosovo. Understanding the types of products (and sensory characteristics) in dairy products that the restaurants/chefs seek and having a foundation of knowledge to build sales upon is mandated. Chef’s panel could be created. Certainly, management audits (on- on- ones) or focus groups about chefs' wants/ needs/gaps in domestic, etc. needs to be done. *NEXT STEP: Pending budget, write RFP for food service/chef’s research plan.*

12. Industry Consolidation: There will be consolidation in the Kosovo dairy industry just as there has been in the Western markets. A path to collaboration and cooperation among the dairy producers (including the possibility of creation of an umbrella brand for Kosova domestic cheese products) will need to be outlined. Individual dairy processors cannot compete on their own against imports, nor can they have the individual power and clout that is required to develop a strong franchise position with the retailers.

    Collaboration is essential from both an Association basis and from a branding standpoint. Even in well-developed markets such as the U.S. the dairy industry works together on non-proprietary issues. Dairy.com is a website that serves all competitors. We should consider these types of activities as a model or template and brainstorm around where and how collaboration can be effected here.

    The development of a Marketing Association such as the Grocery Manufacturers Association (GMA), the Produce Marketing Association (PMA), the International Dairy, Deli & Bakery Association (IDDBA) are models of information sharing and collaboration which could serve a broader sector.

    NEXT STEPS: Develop a plan to surface this issue and encourage KDPA to seriously entertain branded marketing collaborative efforts, marketing association development and joint websites.

13. New Product marketing: There is not a good understanding of the requisite steps in new product marketing, nor the sales/customer hurdles that need to be achieved. A detailed new products launch training program, showing the research steps and how the concept is validated at every step of the way could be of benefit.

14. MAXI is moving into Private Label. We need to determine if being a dairy private label supplier to Maxi is the right thing to do for the category and specific businesses. It is a category and margin killer. A review of Private Label dairy in more developed markets within the region is required, to determine which segments are likely to move into Private Label.

<u>Marketing Training:</u>

15. There is a need for training in the areas of: the marketing process, branding and brand building, logo design principles, food service marketing, new product marketing, among others.

16. Creation of a Marketing Fact Book – the repository of all knowledge about marketing factors in Kosovo (census data, consumer data, profiles of retailers, etc.). Key data gaps include Per Capita Consumption (P.C.C.) of key food consumables, S.W.O.T.s (Strengths, Weaknesses, Opportunities, Threats) on categories and competitors, better understanding of media habits (TV, radio, internet, etc.)

17. A protocol to do regular blind sensory testing vs. competitors needs to be done. *Ad hoc* plant taste tests are not sufficient. *NEXT STEPS; Write draft questionnaire and protocol; explore possible implementation in specific dairies. .*

18. A measure of how product quality declines over time with storage (aging studies) should be initiated for key products/brands**.** *NEXT STEPS: Explore possibility of using R-Tech (Land O'Lakes commercial sensory panel).*

19. ABI asked for specific training in the area of customer service and asked that the project support their new store opening in Pritzren with a one-hour session on customer service for the cashiers. This opportunity needs to be offered more broadly than just one store (we had a similar training request from Shpeta). One possibility may be for MDA to conduct the training session. They have done something similar to MAXI. *NEXT STEPS: Search available data bases from PMA (Produce Marketing Association), GMA (Grocery Manufacturers' Association), and IDDBA (International Dairy, Deli and Bakery Association) for training materials.*

20. Share Willard Bishop study on category profitability with KCBS.

21. We should do a detailed comparison of dairy shelf sets among all the key retail supermarkets in Pristina. Compare the shelf set of MAXI 1 and MAXI 2 to see what strategic differences are there and to see which products have the prize positioning (eye level shelf). Encourage processors to spend more time in the stores and teach them what to look for.

22. Support capacity development within marketing and market research by donating books on marketing including classics such as Michael Porter's "*Competitiveness",* Jack Trout's "*Differentiate or Die*" and James Surowiecki's "*The Wisdom of Crowds"* (team building).

23. Case histories on work that the Milk Marketing Board, the Washington Apple Board, the Pork Producers Council, etc. could be beneficial to the team and clients.

24. Consider bringing in an aged cheese expert (such as Bob Reese from Vermont Butter & Cheese Company) to assess the opportunity here for specialty aged cheeses (as a differentiation strategy).

Marketing Programs:

25. There is a clear need for an industry-level PR program which will help to get the quality story out there to consumers. Pursue development of domestic dairy quality story for featuring on agricultural show. *Next steps: Pending budget and plans develop draft of potential PR subjects for development (including tours of new plants, featuring the new law on grading, etc.)*

26. The more in-store promotion programs that can be done (including better signage at shelf), the more the branding of the processors will be strengthened.

27. Seminars on marketing commodity products need to be completed and targeted specifically to each critical stakeholder (farmer, processor, and distributor). Specific tactical activities that can be undertaken to have an immediate impact.

28. Training in sales expertise (understanding the supply chain in total) needs to be done to build capacity within the processors and better understand how to work with retailers and meet their expectations.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE ACTIVITY

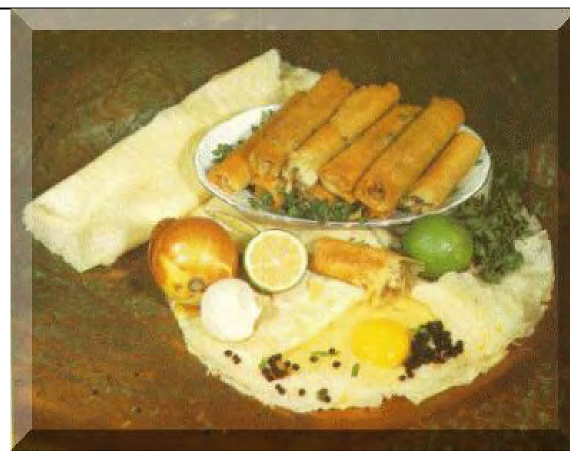
1. Continue building quality into the upstream end of the supply chain (milk handling and processing, packaging, etc.). Continue to reinforce quality as the single best strategy for long term sustainability.
2. Invest in consumer attitudes, behavior and demand research, to base future project activities on consumer market -driven model.
3. Complete Marketing 101 seminar materials (at a very basic level, with local examples) to use in individual marketing consulting with processors.
4. Continue to build "retail excellence muscle" by providing insights and knowledge to industry about how to more effectively develop retail-processor partnership.
5. Continue to build the "marketing muscle" of the Kosovar dairy processors with additional training in marketing, branding, packaging principles, retail excellence.
6. Better understand the distribution and demand components of the supply chain, to increase competitiveness of domestic dairy.
7. Working with the KDPA, lobby for favorable government support of the dairy industry in customs, regulations, etc.

ANNEXES

Annex I	Presentation of Marketing and Branding Principles
Annex II	RFP for Cream Cheese Market Demand Study
Annex III	Overview of Sensory Testing Protocol
Annex IV	Discussion of KDPA domestic dairy awareness/trial activities
Annex V	Cream cheese focus group protocol and final report

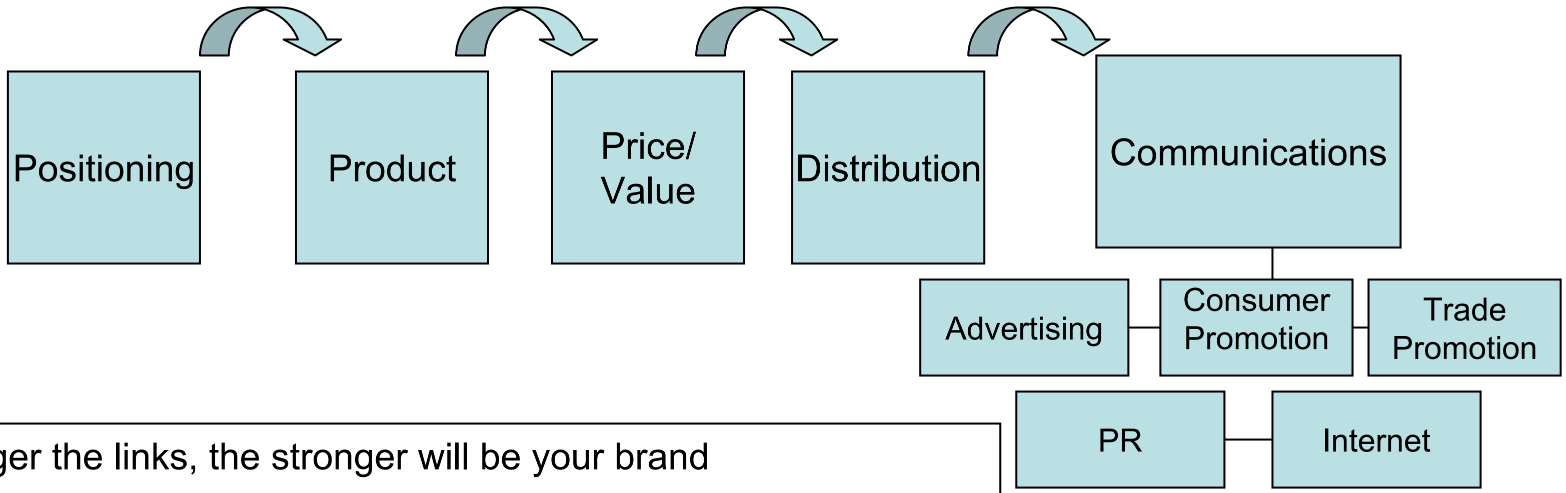
ANNEX I: Presentation of Marketing and Branding Principles

Key Drivers of Branding and Marketing in Food



Definition of Marketing

- Marketing is the entire <u>process</u> of brand building

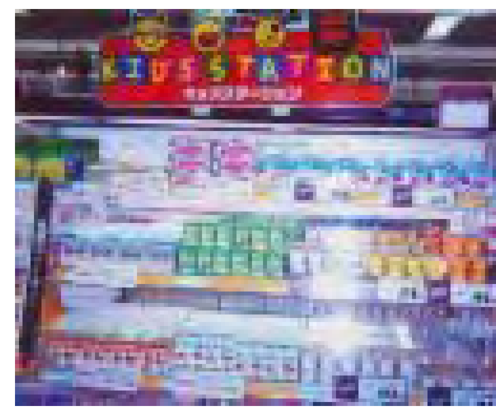


■ The stronger the links, the stronger will be your brand

■ If all elements are right, nothing will drive your brand harder than advertising and promotion. If one or the other elements is weak or non-competitive, advertising will not solve the problem and will be a waste of money.

The Five “Ps”

- Brand **P**ositioning
  - High Quality, fresh, made locally
  - “Made with pride, from Macedonia”
- **P**roduct
  - Contents, quality, packaging structure, graphics design, statements of assurance of quality
- **P**ricing and Value
  - Actual price on shelf within competitive set
  - Perceived value to consumer
- **P**lace : Distribution
  - Quantity and quality
- **P**romotion and Advertising
  - Consumer Promotion
  - Trade Promotion



1. Brand Positioning

- What is your positioning niche in the category in terms of:
  - Consumer category wants and needs
  - Vis-à-vis the competitive set
  - To which specific consumers
- Very important to define the category in which you compete:
  - Milk = dairy category
  - Milk = refreshment drink category
- The key to long-term success is differentiation within the category.
- Differentiation via the 5 Ps is how one <u>adds value</u> to the brand

2. Product

- The product design includes all the features and attributes of the category plus:
  - The characteristics that make it unique
  - The brand name, logo, packaging, sizes, etc.
  - The performance of the product on key category attributes such as quality, freshness, value, convenience, and taste.
    - Important to understand your performance versus competitors.

Product vs. Brand

- A brand is more than just a product
- Products can be interchangeable. Brands are not (unless the marketing is poor)
- Historically a brand stood for a single benefit
  - Example: Tropicana =taste like fresh squeezed orange juice

– However, brands evolved to stand for multiple benefits
  - Tropicana

  - Original, Grovestand, Homestyle, Light & Healthy with Calcium, Light & Healthy with Pulp Fiber, Low Acid, Healthy Heart, Healthy Kids, Immunity Defense
    - Meeting the wants and needs of multiple consumers
    - Leveraging the equity of the already-developed brand name
    - Building the brand power
    - Dominating the shelf

3. Pricing and Value

- Generally all categories have three tiers:
  - Category leaders – can command the highest prices
  - Category followers – follow the leaders but at lower price point
  - Market Niche brands – either lowest price entrants or highest price/premium brands.
- In US and Western markets, store brands (private labels) have become a dominant factor in most supermarket categories
  - Steals margin from established brands (Wal-Mart effect)
- Pricing strategies are among the most strategic you'll make
  - Need to be competitive within specific geography
  - Can gain temporary market share advantage via price promotion

3.2%
.68 liter

Index (112)

2.8%
.83 liter

Index (134)

3.8%
.83 liter

Index (134)

3.2%

.62 liter

Vita Mljeko (100)

Dukat chocolate milk:
.55 €cents
Single serving
11€/liter

Yazoo milk
.60€ cents
Single serving
12€/liter

Bailey's
Irish Cream
16.85€
Index: 153

3. Pricing and Value

- Pricing and value are not simply the unit price compared to competition:
  - It’s the value placed on brand image
  - It can be the right size or a convenient package
  - It’s a combination of tangible and intangible values

LAND O LAKES Half & Half and Heavy Whipping Cream Case History
Design changes (not functional)

Alignment with Butter

Unaligned – in revision

Double digit Sales increases

(No other increase in investment)

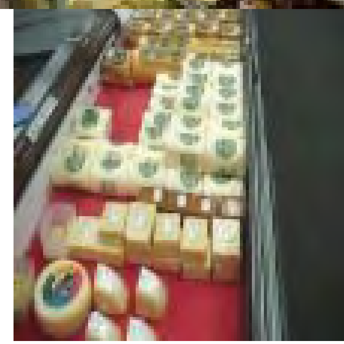
4. Distribution

- Where your products are available for consumers to buy
  - Quantity of distribution
  - Quality of distribution
- In some categories (e.g., impulse candy or on-the-go beverages) distribution presence is a key driver of business success.

(11) Locationing is Advertising

"Location, location, location" is the most well-known mantra in the real estate game. Because of Starbucks, it is also becoming a well-known mantra for savvy businesses to receive free advertising exposure (*Tribal Knowledge*)


KRAFT

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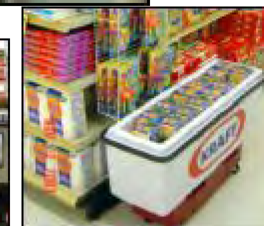

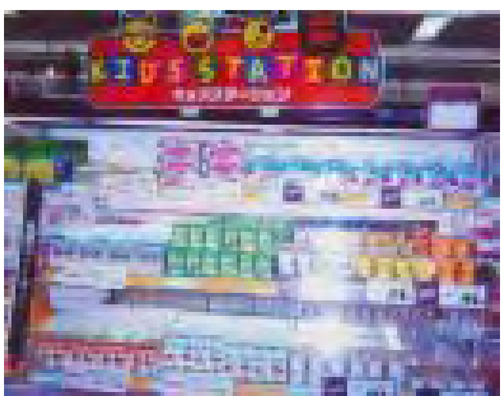
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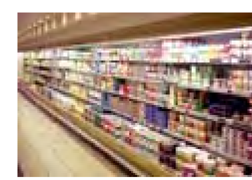


Shopping Dynamics

- The average US supermarket contains 45,000 items
- The average shopper fulfills 80-85% of their needs with only 150 items.
- Shoppers spend on average only 10-20 seconds making a purchase decision.
  - Studies have shown that shoppers don't even see <u>one third</u> of the brands on the shelf.*
  - Being seen quickly highly correlates with purchase.
- The shelf is the Point of Power (POP) for all brands.

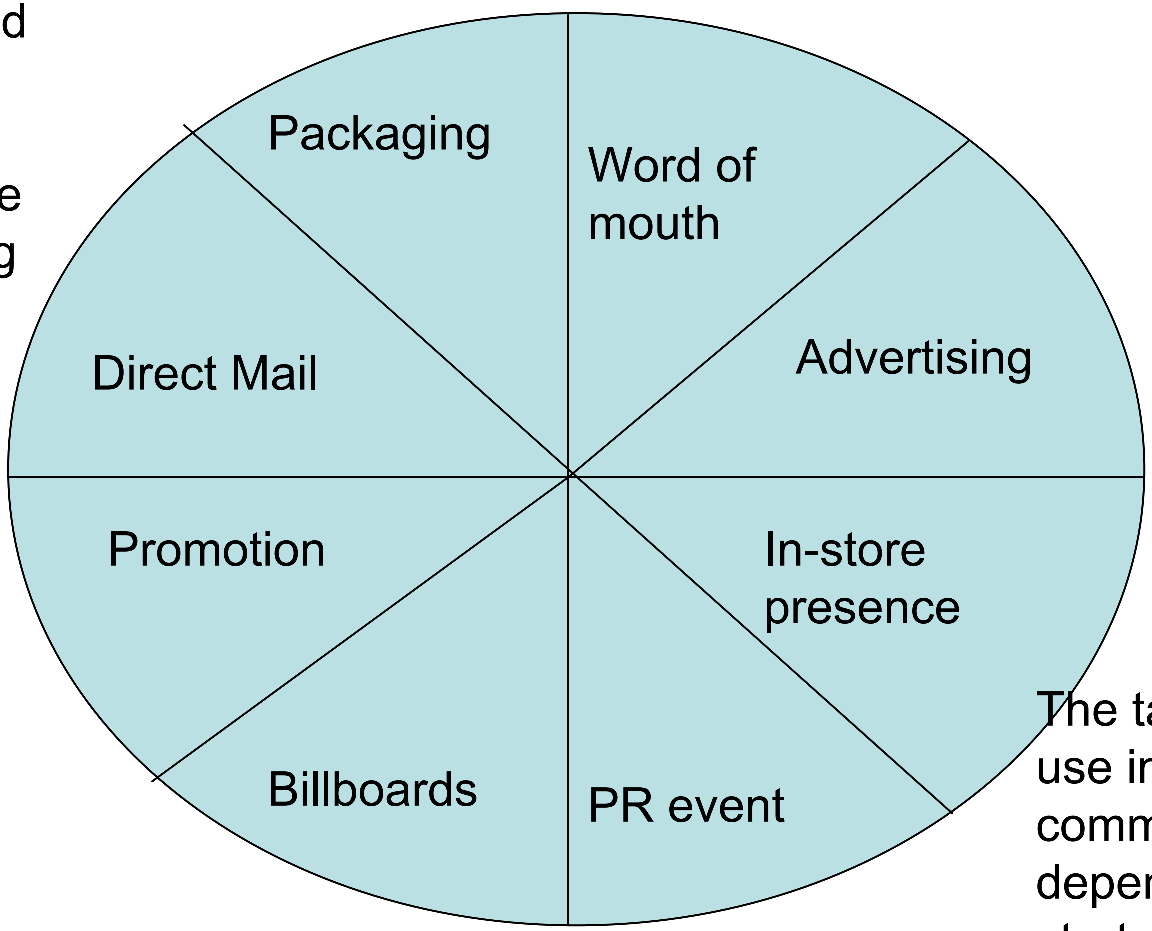
*PRS eye tracking *studies, Package Design* magazine

5. Promotion/Communications

- Essential for building awareness and to build added value in the brand name
  - Goal: Your brand mentioned as “top of mind” brand
  - Goal: Your brand as the epitome first choice brand of the category
    - The brand that defines the category attributes
      - Freshness
      - Creamy taste
      - Consistency of quality – etc.

5. Communications

There are a broad range of communication options to explore in communicating your distinct message.



The tactics you use in brand communications depend on strategy and brand life cycle.

An example of the Challenge

Buko
Dukat
Miree
Meggle
ABI
Sirella
Philadelphia
Exquise
Bayernland
(Among
many others)

New brand

1. Price
2. "New"
3. Store Promotion

Trial

Bayernland
Exquise

Criteria:
◀Shelf Visibility
◀Aesthetic Appeal
◀Competitive Differentiation
◀Personal Relevance

Consideration Set **Competitive Set**

5. Communications

- Consumer Promotion
  - An essential element in building your user base:
    - <u>New</u> buyers to try you
    - Current buyers to buy <u>more often</u>
    - Current buyers to buy <u>larger amounts</u>
- Too frequent consumer promotion can weaken your brand equity when the entire focus is a price reduction
  - Though it can drive volume

5. Consumer Promotion Tactics

- New customers to try for the first time:
  - Advertising to build awareness
  - Trial-size products
  - In-store sampling or at events
- Current Customers to buy more frequently:
  - Cents off coupons
  - Promotions around holidays or events
- Current Customers to buy in larger amounts:
  - Bonus, banded packs; special price packs (“Buy 2, save 30%”)
  - Larger sizes – temporary or permanent basis

5. Trade Promotion

- Primary purpose: obtain distribution of new products and maintain support for existing brands
- Essential tactic to gain special features and in-store displays
  - Builds in-store inventory and encourages retailers to display the brand
- Important to make the retailer your partner
  - Partnership goes beyond good products at good prices: it includes merchandising and category support such as Category Management
- Find ways to better merchandise your brand in-store

5. Trade Promotion

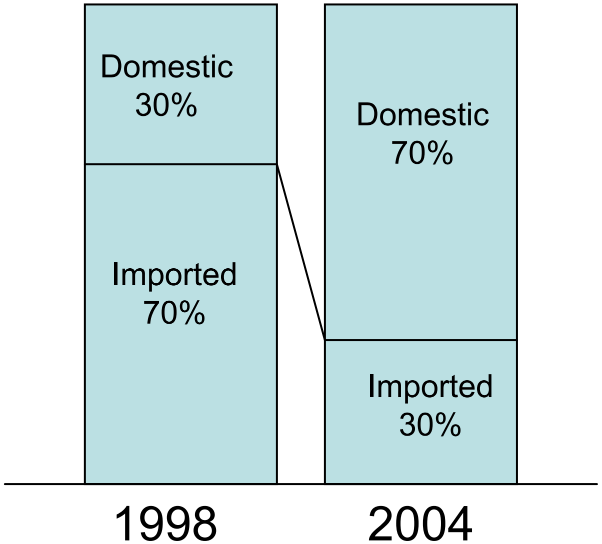
- Examples
  - Contests and incentives
  - Trade allowances – buying allowance, promotional, slotting/stocking
  - Displays and point of purchase materials
  - Sales training programs (retail and sales force)
  - Trade shows
  - Cooperative advertising (co-marketing)

Macedonia "Seal of Quality" Program

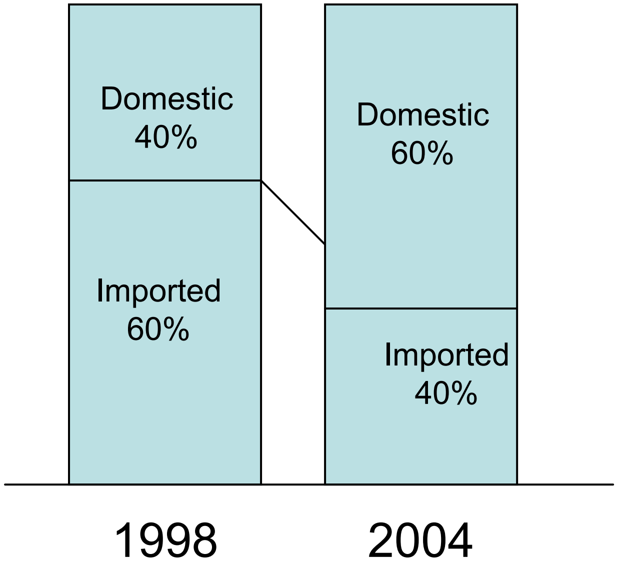
1998-2006

Growth of Market Share

Dairy Industry

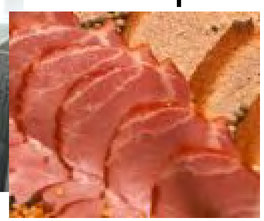


Processed Meat Industry



Case History: Macedonia Meat and Dairy Industries

Positioning Promise: “Made with Pride from Macedonia”

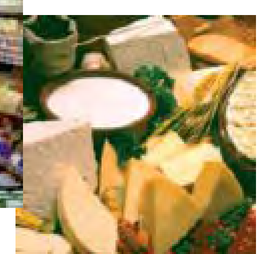


Product: Quality improvements

Packaging: Products that met quality standards carried the seal

Unique recipes
with Seal of Quality products

Promotion: Both industry level (PR, etc.) and SOQ products



Distribution: Worked with supermarkets to help better sell the category of dairy and meats

We look forward to working with you to make Kosovo Dairy Industry a great success. Thank you.

ANNEX II: RFP for Cream cheese Market Demand Study

Purpose of the Activity:
The purpose of this research is to better understand the market demand for cream cheese in Kosovo, so as to better help our client processors increase their sales, profits and position on the market.

Background:
Kosovo Cluster & Business Support (KCBS) is a USAID-funded project working within the dairy industry in Kosovo. As a critical part of sector support, particularly for new product development, we need to ascertain the volume and value of certain segments within the Kosovo dairy segment for both retail (consumer) sales and industrial/food service industry.

Dairy processors and KCBS would like to ascertain the market demand for cream cheese products. An examination of brands on the market shows that there are nine major brands (with several line extensions) available to the consumers in Pristina. They are imported from many countries: Germany, Austria, Denmark, Slovenia, and Turkey, among others. There are no domestically-produced brands on the market.

The differences among these brands and types are unknown, and consumer usage behavior research has not been conducted. The line extensions available on the market range from flavor extensions (herbs, paprika, etc.) to benefit-oriented line extensions (light, fitness).

Nearly all products/brands are packaged in high quality packaging, with good branding systems and high quality imagery. There appears to be distinct pricing tiers within the standard 200 gr. size: low end 69-99 cents (Pinar and Buko) to average: €1.15-1.69. The newest entrant, Philadelphia Cream Cheese (imported directly by MAXI from Kraft-Austria) is priced with the (perceived) market leader, Bayernland, at €1.69.

Business Objective:

■ Understand the opportunity for a domestic cream cheese in Kosovo. What is the annual volume and the sales value (sales in Euros) ? If possible, what is the 3-year trend?

■ Develop insight into the right pack sizes, product range (flavors and benefits), pricing, packaging, and promotion to be competitive to imported products in the retail segment.

■ What are the barriers and opportunities to distribution/sales within the primary supermarket channel? Within the industrial/food service channel?

Tasks:
The following is the type of data we'd like to collect. Our preference is for as much quantitative data as possible, but we recognize that the data sources may not be robust enough to provide these data. Therefore, we would like the proposals to reflect the possibility to collect this knowledge in the best possible way, recognizing that there will be gaps. Please note source of data for each component.

Key Data Needs:

1. Determine the annual volume in tons of cream cheese category in total. Quantify for each type (flavor and benefit segmentation) and pack size (e.g., 350 grams,

200/180/175/150 grams, 100 grams, and <100 grams. Please detail where you will get the data and show 3-year trends if possible.

2. Determine the annual sales value in Euros of cream cheese category in total. Quantify for each type (flavor and benefit segmentation) and pack size (e.g., 350 grams, 200/180/175/150 grams, 100 grams, and <100 grams. Please detail where you will get the data and show3-year trends if possible.
3. Estimate annual volume and value of category/types/sizes sold in key geographic regions (major cities) of Kosovo.
4. Estimate market share for leading imported competitors (on volume and value basis). Provide these data on regional geographic basis, if possible.
5. Estimate annual volume and value of category/types/sizes sold in retail outlet segments: (A) Large hypermarkets, large supermarkets, (B) medium/small independent stores. (C) Evaluation of volume and sales value done through distributors based on customers, processors and producers (likely to be both qualitative and quantitative input). Correlate with data from (A) and (B) to eliminate double-counting.
6. Annual Volume/sales value in (D) Food service channel including fast food. Total category broken down by pack size and type (flavor, etc.), if possible.

Secondary Data Needs:

7. Develop an understanding of the value chain in terms of margins, profits for the category in general: e.g., product cost (X€, %), distributor margin (X€,%), retailer mark-up (X€,%) and average retail price. Calculate primary sub-segment (200 gr.) as priority, with insights to other sizes if possible.
8. Understand the frequency and type of trade and/or consumer promotion that is done in the category at the major supermarket/hypermarket level. Ascertain whether there are slotting or new product introduction trade fees/requirements.
9. Obtain insight into end-use (type of food, e.g., bourek) for the food service/industrial sector and determine general specific product specifications required (if possible).

Deliverables:

1. Work Plan for Project. Included in Work Plan are the following elements:
    A. Proposal Stage: Proposed Methodology to implement study. Overall conceptual approach to study and detailed explanation of each key task (how will obtain data, assessment of data's reliability, how you will integrate these data points into conceptual whole).
    B. Explanation of both qualitative and quantitative approach to task.
    C. Explanation of source of data for each major conclusion/insight.
    D. Detailed budget and timing for each key component of Methodology.
    E. Provide list of retailers and importers with whom you have developed contacts and who may be potential interviewees.
    F. Provide sample of questionnaires to be used in data collection for review by KCBS team prior to study.

2. Draft report to include the following:

    A. Determine the annual volume in tons of cream cheese category in total. Quantify for each type (flavor and benefit segmentation) and pack size (e.g., 350 grams, 200/180/175/150 grams, 100 grams, and <100 grams. Please detail where you will get the data and show 3-year trends if possible.
    B. Determine the annual sales value in Euros of cream cheese category in total. Quantify for each type (flavor and benefit segmentation) and pack size (e.g., 350 grams, 200/180/175/150 grams, 100 grams, and <100 grams. Please detail where you will get the data and show3-year trends if possible.

C. Estimate annual volume and value of category/types/sizes sold in key <u>geographic</u> regions (major cities) of Kosovo.
D. Estimate <u>market share</u> for leading imported competitors (on volume and value basis). Provide these data on regional geographic basis, if possible.
E. Estimate annual volume and value of category/types/sizes sold in retail outlet segments: (A) Large hypermarkets, large supermarkets, (B) medium/small independent stores. (C) Evaluation of volume and sales value done through distributors based on customers, processors and producers (likely to be both qualitative and quantitative input). Correlate with data from (A) and (B) to eliminate double-counting.
F. Annual Volume/sales value in (D) Food service channel including fast food. Total category broken down by pack size and type (flavor, etc.), if possible.

<u>Secondary Data Needs:</u>

G. Develop an understanding of the value chain in terms of margins, profits for the category in general: e.g., product cost (X€, %), distributor margin (X€,%), retailer mark-up (X€,%) and average retail price. Calculate primary sub-segment (200 gr.) as priority, with insights to other sizes if possible.
H. Understand the frequency and type of trade and/or consumer promotion that is done in the category at the major supermarket/hypermarket level. Ascertain whether there are slotting or new product introduction trade fees/requirements.
I. Obtain insight into end-use (type of food, e.g., bourek) for the food service/industrial sector and determine general specific product specifications required (if possible).
J. Summary of Findings, Conclusions, Recommendations

3. <u>Final</u> report summarizing data, Findings, Conclusions and Recommendations.

Activity Period: November-December, 2006. All work must be completed before December 2006

Eligibility Requirements:
Firms should have demonstrated experience in data collection, relationships with retailers and other data sources (e.g., customs secondary and primary data sources, importers, etc.). Experience in data analysis, development of marketing insights from data, and reporting and presentation.

1. Name, address of company, how long in business in Kosovo
2. Legal status of company and date and number of registration
3. Name, address, telephone number of key principals and key contact name for study going forward. Resumes of key staff principals.
4. Name, address, telephone number of (3) references
5. Brief description of similar work completed for other clients

ANNEX III: Overview of Sensory Testing Protocol

Objective:
The objective of sensory testing is to evaluate the product performance on a series of important sensory attributes. These tests can be done on a monadic basis (on a single product only), or done in a comparative basis with competitive product. The following outlines the protocol for sensory testing.

Note: the protocol outlined below is not a replacement for sensory testing using trained sensory respondents. These respondents are trained to distinguish a wide variety of flavor notes and should be used in conjunction with this research. Trained sensory panelists can pick up off-notes and describe them which provides detailed feedback to product developers.

This study is more of a consumer preference study (Discrimination Tests) on specific attributes. Thus it will provide directional guidance and is not a substitute for formal sensory testing. A facility in the US (R-tech) may be able to support this project with trained sensory panelists.

It is possible that these sensory testing panels could be a shared cost by all dairy processors in Kosovo, keeping in mind the fact that there may be regional preferences (e.g., goat or sheep cheese from smaller regions).

Product Samples:
Benchmark ratings for a single product are obtained by using production samples that are representative of the product specifications. (A product specification sheet should be on file for each product produced). Samples taken off the production line are given a random number and stored, covered and protected, in a refrigerated environment. The samples should be evaluated by the Quality Control Manager to validate that they are in samples which are representative of product spec requirements.

Consumer Testers:
Consumers should be selected as representative of the users of dairy foods. They should reflect diversity in age and should be able to commit to a series of product tests over a 90-180 day period. Their time commitment should be no more than 30 minutes per session (usually less) and a small stipend (free UHT milk, for example) should be given as incentive for each test. Sample size should be a minimum of 30; sample should be over-recruited for 45 to allow for drop off.

The panelists should be screened for liking the products they are testing. No one who does not eat type of product being tested should evaluate the sample. This may require that a database of 100 or so panelists be recruited to allow for product usage drop-off.

Process:
Each consumer will be asked to evaluate the product sample (appearance, smell, taste) and fill out a simple questionnaire. Products will be tested on a blind, unbranded basis. (It would be desirable to hold the testing at a clean, unbranded Central Location Facility (CLT) if possible (with refrigeration). If not, a clean room in the production facility or offices (away from smoke and debris) will suffice. Each consume should be able to view the samples under identical lighting (fluorescent lighting is best).

Each consumer tastes the same sample, so one needs to be sure that there are 35 samples which are identical (cut equally, same size, same texture, dryness, etc.).

Frequency of Testing:

Production samples should be sensory tested on a frequency of quarterly at minimum, following the same process each time.

Competitive testing should be done at least once a year on current product lines; more often when a new product is to be launched in the market.

Aging (shelf life) tests should be done on the same sample from 4-6 observations and product degradation noted. We would recommend that one structure 6 observations over the course of the anticipated shelf life (two weeks for example). Depending on how often these tests are repeated, one may find that 4 observations are sufficient.

Key Measures:
There are two key measures for product discrimination tests: The “Just Right” score on attributes, and a Hedonic score.

“Just Right” scores (JAR scores):
For each sensory attribute or characteristic, the consumer is asked: “Is the ____(Characteristic)___ too _______, just right, or too ____? Here is an example:

“Please rate the saltiness of this cheese. Is the salt level “Too Salty”, “Not Salty Enough” or “Just Right?

The target JAR scores for each dimension is 90%. For example, “Saltiness”. The average of all respondents rating the sample “Just Right” was 90%. The balance rated it either “Too salty” or “Not Salty Enough”

This will provide product development guidance. This will also allow us to benchmark our product samples vis-à-vis competitive products and our own samples when aged.

The following are typical sensory measures for dairy foods. This list can should be customized for each dairy segment (UHT milk, drinking yogurt, set yogurt, soft white cheese, etc.). Some typical dairy sensory attributes are listed below.

Appearance before eating/drinking:
Color of sample (Too dark, too light, just right)
Texture (too soft, too hard, just right)
Smell (too much, not enough, just right)

After tasting:
Saltiness (too salty, not salty enough, just right)
Sweetness (too sweet, not sweet enough, just right)
Texture in the mouth (too liquid, too firm, just right)
Freshness (too fresh, not fresh enough, just right)
Aftertaste (too much, not enough, just right)
Sourness (too sour, not sour enough, just right)
Overall flavor (too strong, not strong enough, just right)
Bitterness (too bitter, not bitter enough, just right)

Other attributes should be added to subtracted depending on the product being tested.

Hedonic Scores:

After the JAR scores are obtained and after tasting, the respondent is asked to rate the sample on a score of 1-9 with (1) indicating "Dislike extremely" and (9) indicating "Like Extremely."

"Now I would like to ask you to rate this sample overall. Please taste ___(Sample)____ and check the box that reflects what you think about it.

- Like extremely
- Like very much
- Like moderately
- Like slightly
- Neither like nor dislike
- Dislike slightly
- Dislike moderately
- Dislike very much
- Dislike extremely

This Hedonic score can be used to evaluate one production sample vs. another, or for your sample vis-à-vis a direct competitor, or to evaluate the shelf life of the same production run.

This scale can also be used to evaluate specific attributes (e.g., texture or taste).

Comments on Shelf Life (Aging) Studies:
In order to best measure product degradation, one needs to keep a production sample as a control under refrigerated controlled conditions. Products that are picked up at retail should be matched to the same production code which has been stored as control.

The best conditions for preserving control products is to hold frozen product at a constant -10 degrees F temperature, and shelf-stable products at 35 degrees F temperature. This limits any product changes due to phase changes (such as water or fat crystallization, and in general, retards product deterioration).

The storage conditions for an ambient shelf-life study should mimic those it will encounter in real life. That includes not only temperature and freeze/thaw cycles, but also factors such as humidity, light, packaging and handling. (In the US, actual products from retail are picked-up).

Store more shelf life and control product than you think you'll need, up to 25-50% more. This is to provide product for retest or other emergencies, and to provide a pool of product to insure random selection. Make certain that each single unit put into storage is properly labeled to avoid sample mix-ups.

Finding the Shelf Life End Point Expiration Date:
When a product is no longer considered acceptable, it has reached its endpoint.

There are usually no government regulations; the corporate policy of the processor or marketer should set the guidelines. The product should fail when it no longer represents the product concept. Based on product testing outlined about, setting Hedonic target of 6.1-6.5 as a minimum and JAR scores below 85% (unacceptable).

ANNEX IV: Discussion of KDPA Domestic Dairy Products Awareness and Trial Activities

DRAFT COPY STRATEGY:

Objective:
Build awareness of Kosovo dairy products' quality among dairy consumers.

Brands/Products featured:
Fresh white cheese: ABI, Bylmeti
Yogurt: ABI, Bylmeti, Ajka, others?
UHT milk: Vitamilk (Devolli)

Target Audience:
1-Influencers:
Media, government, retailers

2-Consumers:
Women 18-54, primary buyers for households

Key Message:
1-Influencers:
Selective dairy processors in Kosovo have a commitment to, and have made significant investment and progress towards, quality dairy products for Kosovar consumers.

Reason Why:
Unique and innovative (for Kosovo) quality standards, labs, modern manufacturing facilities, etc.

2-Consumers:
Surprise and delight your family.

Reason Why:
The taste, freshness and quality of Kosovo dairy

Unique Selling Proposition (or slogan)
To be determined ("From Kosovo, with pride" – used in Macedonia)

COMMUNICATIONS PLAN

Objective:
Build awareness of Kosovo dairy products' quality among both influencers and general public, to generate trial and repeat.

Influencers include print and TV reporters (current events and/or family features), government officials, aid and donor agencies, etc.

Tactics for Influencers:

Public Relations:

Event: A PR reception/ event at a nice hotel with samples of all the good products displayed in an appetizing manner. Maybe consider also featuring some of the fresh fruits and vegetables that Paul has been working on. The event is hosted by the dairy processors (KDPA) and there are government officials in attendance who make brief speeches. Gift baskets for influencers to take home for their families are made up. Media is invited to cover the event and they get gift baskets too. We did one big kick-off event and we also had a smaller one about nine months later, the focus of which was to talk about how great the sales were and how we were clobbering Imports.

Advertorials: Written advertorials for insertion is free content in magazines and newspapers. Hook is how great dairy is for health and how great Kosovo dairy products are. Should be a series of 4-5 to cover a period of a year. Not all publications will run them, but we got good coverage in Macedonia.

Direct mail campaign for influencers. We considered this, but did not do it in Macedonia. Create a small premium that is branded KDPA and send it to influencers to keep the awareness up and begin to develop a dialogue with them. Mail it along with a CD which is a 3-minute profile on the selective dairy producers (ABI, for example) with great clean modern plants. Permission to lift the footage for TV features.

Agricultural TV Show: Write feature for this popular business show (referenced during the KDPA meeting). The above-referenced CD could be lifted from that program, to get other media to re-broadcast it.

Consumer Plan (Review of Seal of Quality Activities in Macedonia)

In-store sampling – We did several events and they were very successful. We had retailer cooperation. We provided store personnel with hats and aprons and they continued to wear them after the promotion. I don't know if people use coupons in Kosovo, but we could consider extra loyalty card points program in MAXI, for example, if they buy the product.

Retail shelf signage – banners and shelf strips. These got up during the sampling period and many stayed for longer period.

TV/Radio/Print: We did all three in promotional burst periods. The ideal time to spend this money is when you have an umbrella brand or more participants.

Participation in Circulars: I would encourage the processors to couple these efforts with trade promotion with key retailers (e.g., MAXI) to get the domestic products featured in their circulars. They will have to pay for it, but it will be worth it.

ANNEX V: Cream Cheese Focus Groups Protocol and final report

Focus Group Discussion

Focus Groups for Cream Cheese – November 14, 2006

(Caveat: Qualitative – not able to project to Kosovo consumer universe in total)

Group Purpose:

Overall:

■ Ascertain qualitative insight into consumer usage of cream cheese category.

■ What are the benefits/attributes in cream cheese that are important to consumers (product, packaging, pack sizes, flavors, etc.).

■ Understand the differences among the imported brands available on the market. Which are perceived to be of highest quality, and why?

■ How do they shop the category? Do they seek brand first or type first?

■ What are their perceptions overall of domestic dairy foods?

■ What would be their perception of a domestic cream cheese? Expectations? Requirements?

Action Plan

Pre-work:

1. Recruit female staff and relatives of staff of KCBS (women 21-54,with and without children).
2. Develop invitation and make phone calls to invite personally.
3. Develop pre-focus group questionnaire to bring to meeting.
4. Set aside 2 ½ hours in conference room for group meeting.
5. Collect meeting materials (easel pad, markers, magazines, scissors, etc.)
6. Develop moderator's guide.
7. Purchase products within dairy category (representative of all segments; cream cheese competitors already purchased)

Invitation:

Do you buy cream cheese? Yes:_______No:_____

"We would like to invite you to a focus group on Tuesday, November 14th , 2006 from 1:45PM-4:00PM. The purpose of this focus group is to get your opinions about dairy products. The focus group will be held from 2-4PM, but we'd like you to come a little bit early so we can be started on time.

Before you come we'd like you to complete the attached mini-questionnaire and bring it with you. To help us understand your preferences, too, we'd like you to bring a package of your favorite dairy product, one that you buy regularly. We'll discuss it in the focus group.

Thank you in advance for your participation and please feel free to call us with any questions. Thank you."

Pre-Focus Group Questionnaire

Name: ____
Age: _______
Marital Status: _____Married_____Single
Ages of children: None____ Children: ______________________________

For the following dairy products, please tell us which ones you purchase daily, weekly or less than once a week. Please place a check mark in the right box.

Dairy Food	Daily Purchase	Weekly	Less than weekly
Fresh milk	_______	______	______
UHT milk	_______	______	______
Drinking yogurt	_______	______	______
Fruit yogurt	_______	______	______
Set yogurt	_______	______	______
Fresh white cheese	_______	______	______
Cream cheese	_______	______	______
Butter	_______	______	______
Yellow cheese	_______	______	______
Sour cream	_______	______	______
Ricotta	_______	______	______
Cheese in peppers/cream	_______	______	______
Cream	_______	______	______

Other products not on this list (write in):

______________________	_______	______	______
______________________	_______	______	______

Focus Group Moderator's Guide

Meeting Purpose (collection of questionnaires)

Warm up and Introductions (2:00-2:10PM)

Favorite Dairy Food (2:00-2:10PM) – 10 minutes

1. Tell us about your favorite dairy food (the one you brought with you)
What is it that you like about this product?
What makes it your favorite? Has it always been your favorite?

Dairy Products in General: 2:10-2:25PM) – 15 minutes

2. Let's talk about the products you buy regularly. If I were to check your refrigerator at home, what would you always have there? Products and Brands? Why are these your favorites? Where do you usually shop for dairy products? What package do you usually buy?
3. If not volunteered, probe for cream cheese usage. Which brand, pack size, flavor. Frequency.
4. What is your overall perception about dairy products: What do you like? What do you dislike? How could manufacturers make them better for you? Is there something missing?

Dairy Brands (2:25-2:35PM): - 10 minutes

5. Let's shift to dairy brands. What brand names do you know? Name them all? Are they imported or made here in Kosovo? Is that important? Are there any domestically made dairy products? Why or why not in your view?

Unveil dairy products (excluding cream cheese) and probe for ones that are not mentioned previously.

Cream Cheese Usage: (2:35-2:55PM) – 20 minutes

6. ___ of you said that you buy cream cheese. How many different cream cheese brands can you name? Which brands do you buy?
7. Importance ratings: tell me what is most important to you in cream cheese? (Probe for product quality, packaging, convenience, freshness, country of origin, etc.). How satisfied are you in general with your cream cheese choices. How do you use it (eating occasion). Does everyone in your home like cream cheese? Why or Why not?
8. (Bring out product array). Now I want to ask you to take a look at all these products and working as a group, sort them into the ones (1-3) you'd buy first and then the ones that you'd buy last. Take a few minutes as a group to do this.
9. Why did you rank them as you did? What differentiates these brands from one another? Why are some in the first group and those in the second? Are there brands that are interchangeable?

Tasting Session – (2:55 PM to 3:10PM)- 15 minutes

10. Tasting Session – Now we're going to taste these products. Let's taste the two leading brands, the ones you put in your first group. I want you to taste them and write down adjectives about the product on the piece of paper in front of you. Working as individuals, not sharing your impressions, describe the product you're tasting. When you've finished the first one, go to the second one.

11. What are your impressions. What words did you write down.

Imagery Exercise; (3:10-3:45PM)
(If there are distinct cream cheese brands that have loyal users, divide the group into two loyalist groups. If there does not appear to be any passion around any one brand, consider doing imagery exercise on leading dairy brand). Purpose of imagery exercise: to get at issues such as branding, user imagery, contemporary or old fashioned, etc.

Now I am going to divide you into two groups. This group will focus on ___(Brand name) and this group will focus on __(Brand Name)_.

Working as a group together, I want you to do a picture collage of what this brand represents. You can use any of the pictures you find in the magazines, or use coloring pencils or pens and words to describe what you want. When we get done, I want you to tell me what you mean by the pictures you select.

Debrief on brand and user imagery (3:45PM-4:00PM):

Please tell me your thinking about the picture you've drawn of this brand.

Wrap up.

Cream Cheese Focus Group Report
Pristina, Kosovo – Tuesday, November 14, 2006
Location: KCBS offices
Respondents: Female employees of KCBS

Caveat: All focus groups are qualitative in nature and cannot be used to project consumer attitudes and behavior to a broader universe. This group is even more limited in that it represents female work force at KCBS which is not 100% demographically representative, nor totally unbiased. However, from this limited standpoint, there are some insights into the cream cheese (Krem Sir) dairy segment here in Kosovo which can be used as further research is designed and implemented.

EXECUTIVE SUMMARY:
Based on this qualitative research (not to substitute for consumer research among a representative sample of Kosovar women):

1. The challenges to be successful at retail with a new cream cheese brand are significant. Though it may be possible for domestic marketers to meet the entrance requirements (branding, packaging, quality, etc.), consumer pull activities (advertising, promotion, sampling, etc.) will be essential to gain trial into the competitive set.

2. Brand and product differentiation is essential. The low level of interest in dairy, coupled with a limited competitive set and perceived low intrinsic product differentiation, suggests the difficulty of launching new brands into this market. Selecting the right target audience/brand positioning for a new cream cheese entrant will be essential. We will need to differentiate on imagery for the two leading brands have very different brand equities.

3. A strong partnership with key supermarket retailers will also be required. Retailers in Kosovo are rapidly adopting Western Europe marketing practices and an investment in shelf placement and awareness/trial/loyalty-building activities are essential (if not mandated by the retailers such as MAXI).

4. There are perceived equity differences among brands. Taking the net brand impression into account (packaging structure, packaging design and graphics, variety of flavors, etc.), it will be essential to build a loyal brand franchise via marketing/advertising, etc. One cannot succeed with "me-too" products, average brand graphics and similar packaging, average or even superior product quality. The consumers view the brands holistically. They are sensitive to the dynamics of "old

fashioned" and "modern, contemporary" and therefore, have high personal identification with the brands.

5. The minimum "cost of entry" into the category (any dairy food) will be high quality: quality equal to imported dairy products at the minimum.

6. There is a negative bias to domestic dairy that will need to be overtly overcome. Though not insurmountable, the imported dairy products hold the "high ground" in imagery and quality and there is an American halo to American brands such as Philadelphia.

7. Better market information on the success of different butterfat-content SKUs is essential. A range of products (high for children; low for women) appears to be indicated.

8. Rigorous product development in flavor profiles will be necessary to optimize the range for Kosovars.

9. Packaging system needs to equal importers' standards: foil for freshness and a resealable lid. Shape may be more discretionary (though DPP (Direct Product Profitability, a concept pioneered and adopted by numerous European retailers) concerns at the retailer level should be taken into account. Square/rectangle shapes have higher space utilization and potentially offer a larger billboard effect on shelf. Packaging design and structure issues need to be addressed with both consumer usage and retail shelf considerations in mind.

METHODOLOGY:

A broad range of *krem sir* products were purchased for use during the focus groups. There are eleven brands on the market, in wide distribution in the three/four major supermarkets. Fewer brands available at retail in the smaller independent stores. A range of typical dairy products (milk, butter, etc.) were also purchased for consumer reference during the session.

Respondent Profiles:

There were six women present for the entire session (two part time). Three of the women were single and the five were married with children. Three of the women had small children at home (ages 2-8).

DAIRY CATEGORY OVERALL FINDINGS:

A. Findings from Usage Questionnaire (6 completed questionnaires):

■ UHT milk, fresh white cheese, drinking yogurt and cream cheese are the products used most often in these households. *(The numbers after the item indicate the total responses.)*

■ Most products are purchased weekly. UHT milk is both a daily and weekly purchase.

■ Infrequently purchased products are fresh milk and stuffed peppers with cream (*speca me kajmak)*

■ Cream cheese is bought by five of the respondents, largely on a weekly basis.

■ In comparison to women with children, the three unmarried women bought any of these products less frequently (Less than weekly).

Purchase/Usage Record:

Dairy Food	Daily Purchase	Weekly Purchase	Less than Weekly
Fresh Milk (5)		X	XXXX
UHT milk (6)	XX	XXXX	
Drinking yogurt (5)	X	XXX	X
Fruit Yogurt (5)		XXX	XX
Set Yogurt (2)		XX	
Fresh white cheese (6)		XXXX X	X
Purchase/Usage Record:			
Dairy Food	Daily Purchase	Weekly Purchase	Less than Weekly
Cream cheese (5)	X	XXX	X
Butter (4)		XX	XX
Yellow cheese (4)		XX	XX
Sour Cream (3)		X	XX
Ricotta (3)		X	XX
Cheese/peppers/cream (4)			XXXX
Cream (3)	X		XX

B. Favorite Dairy Food

When asked favorite dairy food, the responses were random but centered around cheese: *"Gorgonzola cheese – any smelly, strong cheese", "any cheese", "special white cheeses from specific cities/regions (Sjenica). "Drinking yog*urt" was also popular along with milk for cereals or coffee (not for drinking).

C. Products Bought Regularly

On an unprompted basis, we asked the products that would typically be found in their refrigerators at home. This questioned expanded the product list (above) to include butter, UHT milk, and fresh goat cheese. When prompted for cream cheese usage, five respondents verified that they usually have this product on hand. It is known as *krem sir* in Kosovo and there was some confusion when we said "cream cheese" to the respondents. It is also known as a dipping cheese.

D. Aided Product Usage

We showed an array of products and asked for typical usage. In addition to the above list, consumers added Butter (Bayernland Gold), Rama margarine ("What is this called?" *"This is butter*."), ABI and Bylmeti fresh white cheese, fruit yogurt and chocolate milk. One also said she used Zottarella fresh mozzarella cheese upon occasion. And kajmak was seen as a product used infrequently.

Brands/products never used included the Meggle drinking yogurt, Meggle set yogurt, Meggle sour cream (*pavlaka*), imported Croatian 3.2 yogurt (green packaging), Kisela Smetana (*pavlaka*) and pizza topping processed cheese. These consumers also did not use the soft white cheese of Akadia (Denmark) nor Pinar soft white cheese.

E. Unaided Brand Name Recall

Top-of-mind brand mentions were UHT Milks: Vitamilk, Alpsko; Gold Butter (Bayernland), Drinking Yogurt: Dukat, Jokobella (fruit) and Fit; ABI cheese and Kabi Cheese. When probed for Domestic vs. Imported brands, Vitamilk was cited as a good local brand that they've known for many years. A product called Shari cheese was also cited as a typical Domestic product.

F. Purchase and Shopping Behavior:
These women shop the supermarkets and the small independent food stores (MAXI, Era, Interex, Ylli). They buy the standard sizes (e.g., 1 liter milks, often 6-packs). Vitamilk as volunteered as the (only) local brand, similar in quality and price to imported products. There was recognition that it was made by Devolli

G. Importance Ratings of Dairy Category Overall and "Likes/Dislikes":
This question was not easy to answer for these consumers. "Taste", "Smells good" and "healthy" were the top-of-mind wants for dairy in general.

We asked for "Likes" and "Dislikes" and the consumers responded that they can tell if the quality is bad in a dairy food. The first signal is the taste – that it has an unexpected or "off taste. They can tell the quality taste from brand to brand in the same segment. They are also aware that small independent retailers have been known to erase the expiration dates on fresh dairy products so as to sell through the aged product.

Signals of quality include the taste – if it has a sour or bad taste, if the color is not right (to yellow indicates that it's not fresh). If the texture is smooth and not runny, that is a sign of quality for them.

Another criticism is the package design. They are sensitive to attractive packaging graphics and cited ABI's design as "old fashioned".

CREAM CHEESE SPECIFIC FINDINGS:

A. Unaided Brand Name Awareness:
Top-of-mind brands were Philadelphia Cream Cheese, Boursin, Happy Cow and Dukat. Consumers were unable to name more brands when asked. They stated that brand choice is often dictated by distribution (e.g., in the smaller stores).

B. Aided Brand Name Awareness:
We showed an array of cream cheese brands to the consumers. In addition to the above brands, consumers were familiar with Miree, Pinar and Bayernland.

C. Cream Cheese Brand Sort:
We asked the consumers to sort the *krem sir* products into two categories: Top brands (top three choices) and others. Philadelphia Cream Cheese was the unanimous choice for No. 1. No. 2 was Happy Cow for the majority of the group. There were three No. 3 brands: Miree, Dukatella and Exquise, largely based on their own consumption experience.

D. Brand Satisfaction
Generally speaking, consumers were well satisfied with their brand choice. They go to other brands only when there's distribution out-of-stocks in their habitual outlet.

E. Price Expectations
We asked for familiarity of pricing for *krem sir* products (in the marketplace the prices range from .69€1 (Buka) to 99- 1.15€ (Happy Cow, Exquise) to 1.69€ (Bayernland, Philadelphia). There was no price sensitivity to the segment, with most consumers believing that they are all priced relatively close (with 10 cents€). When probed for the expected price point for a domestic entrant into this segment, the consumers felt it could be priced comparable to the brand leaders if the quality was equal.

> *"There is a prejudice now* [that the domestic products are not as good as the imported ones].")

“Except for cheese. Cheese brands have more credibility – the testing labs and so forth.” (The latter may be an insight from the KCBS team that is not projectable to total consumers.)

Contrary to the above, one consumer stated that Happy Cow was “quite cheap”. (It retails at .99€1 for 150 gram portion (6.6€/kg. vs. 8.45€/kg. for 200 gram Philadelphia cream cheese).

They make a correlation with price=quality and see packaging as cues to quality.

F. Product Usage

Krem sir is eaten by everyone in the household (especially loved by kids – “Children like too much!”) and is typically eaten on toast and often in a meat sandwich (as a spread). “

G. Product Tasting

We asked the group to taste two products – their preferred brand choice and then a second choice brand.

Bayernland Edelpilzkase Crème
“Flavorful, rich, but not right consistency, too shiny.”

Bayernland Feta Crème
“Mmmmm, delicious and interesting taste of herbs, refreshing taste of olives, very Mediterranean.”
“Too spicy.”

Bayernland Fein & Mild (herbs)
“Too high fat level”

Philadelphia Liptauer Mild
“Gritty, sweet, can’t taste cream cheese.”
“Easy to open, but too tasty.”
“Too spicy”

Pinar
“Dull taste, leaves a bad taste in the back of the throat. Too sticky.”
“Difficult to open. Nothing special.”

Miree with Paprika Chili
“Tasty, can easily spread.”

Miree with Herbs
“Too strong onion taste.”
“Good, but too much onion”

Dukatella
“I do not like the taste; it’s more like yogurt and I think it would be better if it contained more fat.

“It said it was with herbs, but they are not visible when I open the package. I want to see the colors.”

H. Butterfat Levels:

On an unprompted basis, the consumers volunteered that they search out the fat levels of dairy products as they are interested in controlling their fat intake. There was a perception that these products were high in fat in general. One cited 50% fat as typical and too high.

The level of 0.2% was cited as good (some do buy the Light varieties). One consumer volunteered that it's very difficult to get low fat and fat free milk in Kosovo. One tried 0.6% and said it was *"like water."*

Despite this fat concern for themselves, those with children said that they buy the higher fat products *"for their children, as they do not need to watch their weight."*

<u>I. Packaging</u>
A resealable package (either plastic see-through lid or printed cover) was seen as ideal. There are products for single servings, but they are seen as too much (70-100 grams) for single serving size. Some people expressed preference for more unique shapes (than standard rectangle). For example, Miree round tub and Bayernland oval tub were cited as good packaging.

<u>J. Visual Image Exercise</u>
We asked the consumers to do two brand image collages: one of Happy Cow and the other of Philadelphia cream cheese. The brands have quite different imagery.

<u>**Happy Cow** Collage Insights:</u>
Overall, **Happy Cow** has a very positive image, centered around nature, the kitchen and children/families. The green color of the packaging was reflected in the color choices of the visuals. Six large visuals were chosen, and seven word phrases chosen. All were aligned in an orderly fashion in the collage.

Visuals that depicted "comfort food" were chosen. Top of mind associations were *"family", green and natural".*

Specific words which described the products were:
"100% natural"
"Classic" (which was defined as "*having been around a long time.", 'not new",* "the *standard").*
"All about options" which related to the fact that Happy Cow is an option to *"buy* something good for the family".

"Big on rich, creamy taste" was another expression chosen for the collage.

The phrase "*People are talking about"* next to the brand name **Happy Cow** is an indication of affiliation with the brand. The cartoony picture of a farm aligns with the cartoon illustration of the **Happy Cow** on the brand packaging and was deliberately chosen for that reason. A key visual of a man and woman made from wholesome bread is a clear depiction of both the product's suitability for bread, but also depicts all family usage.

The tidiness and careful placement of the pictures, with an equal balance of words and pictures, suggests a logical and literal assessment of the brand.

From this collage it is possible to see that **Happy Cow** cream cheese is a healthful brand for the whole family. A tasty part of the everyday diet.

<u>**Philadelphia** Cream Cheese Collage Insights:</u>

In contrast to **Happy Cow**, **Philadelphia** is seen as a more personal brand. There were only three pictures on the collage and three of the four depicted people. Two were of attractive, healthy women, representing the aspirational nature of the brand associations. The strong taste language "*Mmmmmmmm",* and the written phrase "*Some good things are either illegal or fattening…others are called Philadelphia"* suggests a strong involvement with the brand.

This is further reinforced by the choice of words. Eighteen words were chosen, all of which had a lot of personal power:

"My secret"
"The true magic"
"Relaxes"
"My family",
"Special"
"Sante" (meaning health)
"Fast"
"Health"
"Nurture"
"The joy of the moment"
"Nature"
""It's our passion"
"Seduction"
"Cool"
"As seen on TV"
"Pure perfection"
"Flavors"
"As moms who know"
"Make mine a double"

From this collage it is possible to ascertain that the krem sir eating experience is indulgent and personal. It also contributes to a healthy lifestyle.

<u>**CONCLUSIONS**</u>
From this qualitative research it is possible to gain some insights into the product and brand usage of cream cheese in the Kosovo market.

■ Overall, this group is not overly involved with the dairy category in general. This is shown by the low level of product and brand recall at the top of mind level. There are some products which excite the consumers (specific cheeses which they really love, e.g., *Sjenic*a or *Shari* cheese) but generally dairy products play an average role in their lives. (More passion would be shown for personal products such as cosmetics, for example).

■ Many sub-segments of dairy foods did not rise to top-of-mind levels: cream cheese, butter, sour cream, "margarine", kajmak, fruit yogurt, chocolate milk. This was true even though these products were purchased, some with a weekly frequency (cream cheese, set and fruit yogurt).

■UHT milk is the flag-bearer product for dairy (in all the households, purchased weekly or daily). This is the only category in which domestic origin plays a role. The local brand Vitamilk from Devolli is the most frequently purchased brand.

■ Compared to other markets in the region, Meggle did not have top of mind awareness or purchase (despite having a breadth of dairy products available here. Dukat, an imported regional player from Croatia, appeared to have a stronger impression and familiarity.)

■ Brand awareness, in general, is low across the category. Only one-two brands per segment were mentioned, suggesting a limited competitive set in each household.

■ Distribution will play a key role. Brand substitution happens, especially in the smaller retail shops.

■ The consumers have a good understanding of what defines quality in dairy foods. "Freshness" is key and is indicated by smell and color. They pay attention to code dates and know when the retailer has "jiggered" them.

■ With regards to cream cheese, despite the proliferation of brands on the market (eleven brands in major supermarkets, with numerous flavor SKUs), there is a limited competitive set consisting of Philadelphia, Happy Cow, Dukat, Miree and Exquise. Philadelphia has gained a strong leadership position on the market in a very short time.

■ Despite being cream cheese users, there was low awareness of the full range of brands – and there was low awareness of price differences. This highlights the difficulty it will be to penetrate a well established brand set. *(Note: However, we may find greater price sensitivity among a broader target audience. These respondents work for USAID and have higher salaries than the average Kosovar.)*

■ Cream cheese is enjoyed by all members of the family. Children like it especially, but it is also a personal indulgence (e.g., Philadelphia collage exercise which showed strong personal identification with the brand).

■ These women are very butterfat-sensitive and a range of butterfat offerings will be required to be competitive. Butterfat, in fact, will be a key issue for any new product in dairy.

■ Not all products are equal in recipe preferences. Especially ones which had "strong" flavor profiles (e.g., onions).

■ Resealable is a key entry requirement for packaging; both imprinted plastic lids and clear plastic overwraps are acceptable. Foil sealing for freshness is essential.

IMPLICATIONS

1. The low level of interest in dairy, coupled with a limited competitive set and perceived low intrinsic product differentiation, suggests the difficulty of launching new brands into this market.
2. There are perceived equity differences among brands. Taking the net brand impression into account (packaging structure, packaging design and graphics, variety of flavors, etc.), it will be essential to build a loyal brand franchise via marketing/advertising, etc. One cannot succeed with "me-too" products, average brand graphics and similar packaging, average or even superior product quality. The consumers view the brands holistically. They are sensitive to the dynamics of "old fashioned" and "modern, contemporary" and therefore, have high personal identification with the brands.

3. The minimum “cost of entry” into the category (any dairy food) will be high quality: quality equal to imported dairy products at the minimum.
4. There is a negative bias to domestic dairy that will need to be overtly overcome. Though not insurmountable, the imported dairy products hold the “high ground” in imagery and quality and there is an American halo to American brands such as Philadelphia
5. Selecting the right target audience/brand positioning for a new cream cheese entrant will be essential. We will need to differentiate on imagery for the two leading brands have very different brand equities.
6. Better market information on the success of different butterfat-content SKUs is essential. A range of products (high for children; low for women) appears to be indicated.
7. Rigorous product development in flavor profiles will be necessary to optimize the range for Kosovars.
8. Packaging system needs to equal importers’ standards: foil for freshness and a resealable lid. Shape may be more discretionary (though DPP (Direct Product Profitability, a concept pioneered and adopted by numerous European retailers) concerns at the retailer level should be taken into account. Square/rectangle shapes have higher space utilization and potentially offer a larger billboard effect on shelf. Packaging design and structure issues need to be addressed with both consumer usage and retail shelf considerations in mind.
9. The challenges to be successful at retail with a new cream cheese brand are significant. Though it may be possible for domestic marketers to meet the entrance requirements (branding, packaging, quality, etc.), consumer pull activities (advertising, promotion, sampling, etc.) will be essential to gain trial into the competitive set.
10. A strong partnership with key supermarket retailers will also be required. Retailers in Kosovo are rapidly adopting Western Europe marketing practices and an investment in shelf placement and awareness/trial/loyalty-building activities are essential (if not mandated by the retailers such as MAXI).