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**KOSOVO**

# USAID KOSOVO PRIVATE ENTERPRISE PROGRAM (KPEP)

## MARKETING STRATEGIES TO ENHANCE MARKET SHARE OF DOMESTIC VALUE-ADDED DAIRY PRODUCTS

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## EXECUTIVE SUMMARY

### BACKGROUND

The dairy sector in Kosovo was greatly diminished during the war a decade ago. Still, it is believed to be a very important contributor to the local population's diet and Kosovo's future economic development. Although the country has favorable natural conditions for milk production, the local industry needs to consolidate farms for greater efficiency, and further increase processing quality and consistency in order to compete effectively with imported products. It is estimated that the Kosovo dairy industry has only 30% of total domestic market share of value-added goods, including UHT fluid milk. In addition, many of the highest margin business opportunities (such as fruit yogurt) have been "cherry-picked" by more sophisticated marketers from Western Europe, and are dominated by established regional brands that Kosovars have known and trusted for years.

In 2008, KCBS commissioned Prism Research to complete a comprehensive Dairy Market Assessment Study to highlight the current dynamics and consumption patterns underlying the domestic dairy sector. The key insights derived from this study are as follows:

- Value-added products represent only 36% of domestic milk consumption; the remaining share is comprised of home consumption and Green Market sales of raw unprocessed milk. In recent years, Green Market sales have declined as more urban consumers are frequenting Hypermarkets to fulfill their food and dairy needs. Domestically processed dairy products represent 10.6% of total estimated consumption, and 29.4% of the market for value-added goods.

	Percentage	Total (tons)	Local Production	Imports	Imports Share
Home consumption	34.4%	110,608.00	110,608.00		
Green (fresh) market	29.5%	94,727.00	94,727.00		
Processed market	36.1%	116,224.00	34,200.00	82,024.00	70.6%
Total	100%	321,559.00	239,535.00	82,024.00	29.4%

Source: Appendix 3, Annex 9, KARDP 2007-13 & Calculations of Consultant & KCBS staff (Kosovo Agricultural Rural Development Plan 2007 – 13)

- The dairy product categories with the highest household penetration are UHT milk (71% of households), fresh white cheese (51%), sour cream (45%), fresh pasteurized milk (40%) and drinkable plain yogurt (35%). Many households use pasteurized milk as an ingredient to make other dairy products themselves, believing this tastes better. Growing categories include high margin fruit and bio yogurts, and aged cheeses.
- The most important characteristics affecting dairy purchase decisions are "fresh tasting", nutritional value, natural ingredients and expiry coding. Children's preferences also play

a significant role in which brands parents buy. Promotions and price were less important, and consumers favored brands with which they have had a good past experience. For this reason, the consistent delivery of product quality is critical.

- Preferred imported brands include Alpsko (UHT milk), Dukat (drinkable yogurt), Feta (cheese) and Jogobella / Fructis / Zott Monte (fruit set yogurts).
- Milk producers are largely comprised of very small farms (70% of dairy farmers have under 5 cows), and processors are relatively small operations compared to international dairy companies, resulting in low economies of scale. As a result, domestic processors have little available capital to invest in modernized equipment, new product development or marketing.
- Raw milk supply varies greatly by season, increasing by 50% in the summer months. This variability makes it difficult for local processors to consistently produce a full range of products throughout the year. Some consumer desired products like Kashkaval cheese are only made during the summer months when more milk is available. Seasonality also affects the quality of raw milk supplies, since refrigeration at farms is somewhat limited.

### ENGAGEMENT OBJECTIVES

This engagement incorporated the following scope of work objectives:

- Review the Dairy Market Assessment Study conducted by Prism Research, and conceptualize potential marketing strategies for the Kosovo dairy sector.
- Complete a situation analysis of the domestic dairy value chain to better understand capabilities, predispositions, limitations and implementation feasibility.
- Recommend marketing strategies to grow market share of domestically produced value-added products versus imports.
- Begin to identify local firms and consultants who can help implement elements of the recommended strategies.

### KEY ACTIVITIES

To complete this scope of work, these two STTAs were partnered with Fatmir Selimi, a local dairy marketing consultant who has extensive knowledge of historical studies, value-chain operations, government policies and other issues related to this sector. Mr. Selimi leveraged his wide contacts to quickly identify key stakeholders for discovery. In addition to reviewing many of the historical studies/reports – including all studies commissioned on raw milk quality, processor capabilities and product marketing – together we conducted in-country interviews with all major stakeholders, including:

- Commercial processors
  - Devolli
  - ABI
  - Bylmeti
  - Kabi
  - Ajka
  - Lakto

- Hypermarket store checks/headquarter interviews
  - ETC (Elkos)
  - Ben-af
  - Interex
  - Maxi
  - ABI Center
  
- Trade associations
  - Kosovo Association of Milk Producers (KAMP)
  - Kosovo Dairy Processor Association (KDPA)
  
- Government agencies
  - Ministry of Agriculture, Forestry and Rural Development (MAFRD) – Kosovo Veterinary and Food Agency (KVFA)/Livestock
  - Ministry of Education
  - Ministry of Trade and Industry (MTI)
  - Customs
  - Ministry of Economy & Finance (MEF)
  - National Institute of Public Health of Kosovo
  
- Field visits
  - Milk collection center
  - Pristina Green Market
  
- Local support resources
  - MDA
  - GAP
  - Riinvest
  - Kosovo Education Center (KEC)
  - Ubo Consulting
  - Studio D-Line
  - Zero Pozitive
  - MSG
  - Kaon

## CONCLUSIONS

The vitality of the Kosovo dairy sector is limited by issues related to quality, consumer confidence, consistency in delivery of brand proposition, sub-optimal trade and fiscal policies, outdated manual production facilities, undeveloped management skills and insufficient margins resulting in a lack of funds to support marketing initiatives. All of these

factors put domestic processors at a disadvantage versus imported products. Importantly, these issues negatively impact the entire dairy value chain.

Farmers and Milk Collection Centers are not segregating good quality raw milk supplies from lower/poor quality. This results in both diminishing overall raw milk supply quality, and hurts farmers who invest in processes/equipment to ensure good quality. Greater incentives need to be put in place to encourage both quality processes and a consolidation of farms into larger entities that can capture economies of scale to take the proper steps to ensure high quality.

Processors are limited by inefficient, manual manufacturing lines which result in high costs of production and limited margins. As a result, they do not have the funds to invest in facility modernization or expansion, nor new product development or marketing. In addition, they seek less expensive packaging alternatives which greatly diminish consumer appeal and product safety – resulting in poor consumer confidence in their brands and products.

Consumers and retailers express strong sentiments regarding supporting locally produced dairy products. However, they have had bad experiences in the past with inconsistent/poor product quality, which has resulted in them favoring imported brands. In addition, because of the limited range of products offered by domestic processors, consumers are forced to buy imported products. The challenge for domestic processors is made greater by the fact that consumers have a long history of using brands from Slovenia and Croatia. They have had good experience with these products, and remain loyal to them as a result.

Based on our review of historical studies/reports and in-country observations, we recommend the following actions (which are further articulated later in this report):

1. Take action to better understand consumer hedonic preferences and increase quality across the entire dairy value chain to optimally meet consumer expectations.
2. Complete the required research and analysis to build a strong case for revised government tax/trade policies that are more favorable to the growth of the domestic dairy sector, and advocate to a roundtable of Ministries recommendations for change.
3. Heighten lead domestic processor capabilities in critical areas such as food technology, manufacturing, packaging, sales/distribution, marketing and branding best practices to increase their ability to compete more effectively with imported products. As feasible, consider financial incentives that encourage capital investment in expanded, more automated facilities that comply with HACCP/ISO 9001/GMP standards.
4. Explore the feasibility of developing a domestic packaging company to support domestic production, and provide potential for increasing exports and domestic GDP – consistent with KPEP’s overall mission to grow private enterprise and help Kosovo transition from an agrarian economy to a strong industrial economy. Seek investment from both domestic companies and international sources, including Diaspora communities.
5. Improve consumer perceptions with regard to locally produced dairy products:
  - Short term: develop a primary school curriculum-based program to educate children about the local dairy industry, its importance to the local economy, and better health, nutrition and food safety practices.
  - Long term: develop a “Seal of Quality” program (governed by a coalition comprised of dairy association leaders, KVFA and others) to highlight domestic dairy products/brands that employ quality standards across the value chain from farm to consumer. Support with a broad awareness/confidence-building consumer campaign (PR,

industry ads, retail promotion, etc.) funded by private enterprise's association dues based on an equity structure that is based on production volumes.

As a final note, we want to emphasize that it is critical to address the existing issues within the value chain before dedicating significant marketing dollars to fund a consumer communication campaign. Marketing is a multi-faceted discipline. An optimized strategy must include an articulation of brand positioning, product design and range, pricing, distribution/availability as well as awareness-generating advertising and promotion. Products that are promoted to consumers must meet their expectations. Otherwise, consumers will reject these products/brands in the future, resulting in long-lasting negative perceptions and wasted marketing expenditures.

## **IN-COUNTRY DISCOVERY– DETAILED FINDINGS**

### INDUSTRY OVERVIEW

#### **February 9, 2009 – Fatmir Selimi, Local Agricultural Consultant**

There have been many historical studies of the dairy sector in Kosovo, and Fatmir copied us on these reports for review. Past industry issues include: (1) inconsistent product taste and quality, (2) insufficient product quantity to consistently meet consumer demand, and (3) unbalanced supply of quality raw milk, especially in the winter when production is about 65-70% of the level produced in summer, and when cows are getting inferior feeds.

There are 19 dairy processing firms licensed by the KVFA in Kosovo, but many are very small niche players that only produce yogurt. ABI, a family owned business in Prizren, is deemed to have the strongest management and overall dairy expertise – they have been in business since 1996 and received early support from the GTZ. They have a diverse product line (recently recognized with 7 honors) and strong relationships with milk collection centers; own a supermarket and also process fruits and vegetables. Bylmeti is the dominant local processor in the Pristina market, also with a diverse product line of drinkable yogurts, cheese and a niche product of peppers packed in cream. Devolli, in Peja, concentrates on UHT processed fluid milk. Although they have had problems with off flavors in the past, they provide more consistent quality today. Due to the need for high quality raw milk to produce UHT fluid milk, Devolli tends to pay premium prices for their supply. Magic Ice (which makes ice cream and cheese) and Ajka (which makes cheese and yogurt) are two other smaller domestic processing firms. Lakto, in Suharekë, is a new company that is selling pasteurized milk with a 7-day shelf life in Tetra Pak packaging.

Together, the 19 licensed dairies process about 100,000 liters of milk per day in the winter, and up to 150,000 liters in the summer months. The quality of milk tends to be better in the winter due to spoilage caused by summertime heat. Based on guidelines set by the Ministry of Agriculture, Forestry and Rural Development (MAFRD) in its "Raw Milk Decree", processing firms pay farmers 0.09€ per 1% of milk fat in a liter of milk. The average fat content of domestically produced milk is 3.5%, so the average farmer receives 0.32€ per liter of milk, with up to -20% deductions for poor quality (note, some milk is outright rejected at the milk collection center as unacceptable), and up to 15% price premiums for high quality.

Imported products represent about 70% of value-added dairy products sold in Kosovo. All use local distributors to move their products to the retail channel, and tend to support their brands with substantial marketing budgets. They also have the financial means and experience to offer products in superior packaging. The most significant imported brands are Dukat (from Croatia), Alpsko (from Slovenia) and Sole (from Hungary).

The major retailers in the hypermarket sector are Ben-af (Prizren based), Interex (Pristina based), Elkos (Peja based) and Maxi (Pristina based). Together, Fatmir estimates that these retailers control about 50% of hypermarket sales in Kosovo. These retailers, most predominantly Elkos, also function as distributors for a wide variety of imported products. Given their financial interest in imports, they may not be excited about growing market share for domestically produced dairy products – this should be explored. It was determined that we should visit each of these retailers to learn more about their operations.

Both dairy associations (KAMP and KDPA) are deemed to be weak, inexperienced and mostly focused on legislative lobbying efforts. Financially, they are mostly supported by grants from private organizations/NGOs versus dues from members. Of the two associations, KAMP is deemed to offer the best potential as a partner in an industry-wide quality initiative.

After a review of historical learnings, and further discussion, the following opportunity areas were highlighted as areas deemed worthy of further exploration:

- Public education is believed to offer good potential for increasing consumer preference for locally produced value-added dairy products.
- A collaborative joint promotion of the entire dairy sector by several lead processing firms is believed to be a viable strategy for building domestic market share, as long as these firms can see “what’s in it for them.”
- Lead dairy processing firms have received significant training in quality production protocols, but may benefit from training in packaging, branding, quality distribution methods and retail merchandising.
- Drinkable yogurt, including bio yogurts, offer good margin potential – sour cream, although widely used, offers low potential as consumers prefer to make it themselves from raw ingredients as they perceive this will be fresher and better tasting.
- The KVFA (part of the MAFRD) may offer the best potential for managing an industry wide seal of quality program longer term. This would include establishing industry standards, governing testing of raw milk supplies and conducting audits on a regular basis.
- Segregation of low-bacteria count milk from more contaminated supplies offers tremendous potential for local processors if it can be achieved at the major milk collections centers. It is deemed that around 40 of the 100 milk collection centers in Kosovo handle the majority of supply. Quality milk results in better end-products and higher revenue potential for the producing farmers (+10-20%).

Based on this discussion, the team developed an action plan for visiting lead processing firms, key retailers, milk collection centers, government agencies and associations. It was also decided that a consumer focus group might be helpful for verification of strategic recommendations as they are formulated.

## LEAD PROCESSING FIRMS

### **February 9, 2009 – Ymer Berisha, Director of Bylmeti Dairy**

Founded in 1990, Bylmeti chose the name “Bylmeti” because it means “milk based product” in Albanian. They currently processes 8,000 liters of milk per day in the winter months, and have processing capacity to do over 20,000 liters/day in the summer; however storage and distribution of this larger quantity is something that they cannot handle with their current infrastructure. The company currently produces 10 unique products in 24 packaging SKUs: drinkable yogurt, peppers in cream, pasteurized milk in plastic bags, three types of fresh white cheese, cream, butter, sweet sour cream and Kashkaval. Yogurt and peppers in cream represent the highest margin opportunities for the company. They sell yogurt in one liter plastic bottles and single-serve containers targeted at restaurants/institutional eating, such as in-plant feeding at the local power plant. Kashkaval is a new product, which they are selling as shredded product in bulk bags to pizza restaurants, and as block product in hypermarkets. They are contemplating cream cheese, which offers high profit margins at small production quantities (only five tons/year). They tried to sell drinkable fruit yogurt for two years, but didn’t achieve sufficient volume (only 200 liters per day) to warrant continued production. They accredit this result to the high price point associated with this category.

Summer milk supplies from their exclusive farmer and milk collection center contracts triples in the summer months. To utilize this supply, the company is focused on producing more fresh white cheese for export to Albania, targeted primarily at Kosovar tourists. They believe that their unique peppers in cream product could provide potential for export to Bosnia and Turkey; but due to limited supply, they are currently focused on domestic and Albanian consumption. This product is geared towards the winter season, as they typically purchase and preserve peppers in August and run out of supply by April.

Bylmeti has HACCP certification, 5,000 liter/day pasteurizer capacity, a very small warehouse space and fleet of small trucks to collect milk from farmers. To encourage higher quality, the company has provided free refrigeration units to some farmers. To support expanding operations and improved quality/cost-efficiencies, Bylmeti is seeking funding to build a warehouse addition behind the current plant facility, to purchase larger trucks for improved refrigerated product distribution, more equipment to increase yogurt production capacity and packaging equipment to transition pasteurized milk to Tetra Pak. They are also currently exploring new, more cost-effective packaging design and materials in Turkey. The company owns and manages four distributors in the Pristina market (its only trading area), and rewards employees for increased sales and proper product rotation.

Currently, fat content analysis is conducted at the milk collection centers, but chemical analysis for bacteria/somatic cell count is done twice/month at a KVFA facility. They do not believe that bacteria count testing can be done at the milk collection center level, making it almost impossible to segregate high quality from contaminated milk. The company does have a working policy of never sourcing milk again from a farmer whose milk is found to be contaminated with antibiotics, as this would create a complete plant shut-down for a full day.

Bylmeti has collaborated with Devolli by shipping them excess quantities of raw milk supply during the summer months. They do not view Devolli as a direct competitor since they focus on UHT fluid milk, which Bylmeti does not produce. They would consider further collaboration efforts with other dairy processors to fight a major incursion by import brands or to support a quality seal program which highlights those firms with good quality assurance

protocols versus those that do not follow these standards. Bylmeti stated that they would not collaborate on a shared production facility, however, as they are concerned about their competitors learning their proprietary product recipes.

Bylmeti currently invests little in the way of product promotion and advertising, as it sells everything it makes due to limited capacity. They do see a value in consumer education, and have set up a plant viewing area for school groups to visit. They also are planning to invest in a minibus to transport consumers to the facility for a plant tour, and to invest in a new on-premise shop to showcase their products to these visitors. For efficiency, they would also utilize the minibus to transport employees to the facility during commuting hours. Although they have participated in agricultural fairs in the past, they are not doing so currently as they believe these events have been poorly organized and attended. Finally, they believe that potential for their products will increase in the future when the EU will eliminate its farmer support programs in 2013, decreasing the amount of imported product that is currently “dumped” into the market at sub-market prices.

### February 10, 2009 – Alajdin Fusha, Director of ABI Center (ABI Dairy)

Founded in 1996, the ABI Dairy is the second largest dairy processor in Kosovo. They make 27 dairy products, but capacity limitations allow them to produce only 15 products on a daily basis, despite existing demand for more product. Currently they process 20,000 liters/day in the winter months and 30,000 liters/day in the summer months (even though 50,000 liters/day of milk is available at this time). Representative photos of the current ABI dairy facility, which highlight their manual operations, are below:



Truck Receiving Area & Lab to Right    Manual Yogurt Packing Station    Cheese Production Area

To improve operational margins and product quality, increase capacity, separate yogurt production from cheese production, introduce new products to address child preferences/demands and eliminate rental payments associated with their current facility; ABI has the following future plans:

- Invest in a new, cost-efficient, owned facility designed specifically for dairy production that has the capacity to process 100,000 liters of milk per day.
- Fully implement HACCP protocols throughout the plant at the highest level.
- Purchase equipment for the automatic production of fresh white cheese (currently made manually), and for drying milk and whey.
- Introduce several new products including: (1) drinkable and set fruit yogurt, packaged to appeal to children and adults, (2) puddings for children, (3) flavored whey drinks, and (4) powder milk for the winter months utilizing excess raw milk supplies in the summer months. (Note: it was discussed that they could also produce whey powder for sale.)

- Establish long contracts with producing farmers, ensuring them a market for their raw milk and securing better prices and quality from them in exchange.

ABI sees imported products as the major threat to their business. They noted that imported products have superior package design and materials, longer shelf lives and are backed by high marketing support (frequent TV advertising, flyers and consumer give-aways in-store, and in-store sampling with staff that directs consumers to their products). Unlike imported yogurts from Slovenia which go through a double pasteurization process allowing a 30 day shelf-life with refrigeration, domestic products have a shorter shelf life and more quickly develop off-tastes. Domestic processors also have to contend with insufficient milk supply in the winter months and poor milk quality from some producers which negatively impacts cheese flavors and cost effectiveness – for example, they require 6-7 liters of high quality milk to produce one kilo of fresh white cheese, but it requires 10 liters of poorer quality milk to produce the same yield. Domestic producers also cannot afford expensive TV advertising (on average at a cost of 10€ per second for a national spot) nor in-store sampling and give-aways to match imported competitors. Finally, in order to be price competitive, domestic processors tend to use less costly packaging materials and designs sourced from Turkey and Serbia – imported products use better quality German/Italian packaging materials. ABI noted that they believe that retail price is the primary factor influencing purchase decision for 70% of Kosovars. (Note: the Prism research indicated that taste and natural are more important.)

Looking forward, ABI listed the following operational priorities:

- Complete HACCP implementation plant-wide.
- Secure better quality packaging materials and equipment to implement change.
- Leverage consulting experts to train marketing associates to build their skills.
- Improve milk quality at their production farms and milk collection centers.
- Provide 6+ month training internship opportunities for production people with organizations demonstrating best practices in lead European countries.

In addition, ABI would like to strengthen the dairy associations (both KAMP and KDPA), and envisions them playing a more effective role in enhancing raw milk/finished product quality industry-wide. They believe that the associations can also help secure greater access to sales opportunities (i.e., encouraging the government to refine their tender process for institutional feeding, eliminating current practices of additional soft monies paid by importers to secure contracts). ABI supports collaboration with other lead processing firms for their mutual benefit. They believe that the KVFA is currently understaffed with too few veterinarians, which causes costly time delays in product testing required by law. They noted that the farmers prefer that an independent agency such as the KVFA conduct biological tests, as these producers don't trust the processing firms which they see as motivated to pay lower prices versus price premiums for high quality raw milk.

With regard to future marketing strategies to build their business, ABI likes the idea of school education programs to build consumer awareness and preference for domestically produced dairy products. After the value-chain quality issues are addressed and domestic firms are able to deliver high quality products on a consistent basis, they would like to see an industry-wide "Made in Kosovo" campaign that supports these products, similar to the "For Our Good" campaign that was successful in Macedonia. ABI noted that progress has been made in the Prizren region by the Sharri Cheese Association in implementing

production controls, a logo and campaign promoting “real Sharri cheese”, supported by farmer and processor members.

### **February 11, 2009 – Ismet Bojku, General Manager of Devolli Company**

We began our visit with a tour of the dairy facility. They have five 30,000 liter refrigerated holding tanks, well above their normal daily milk collection of 30,000 liters in the winter and 50,000 liters in the summer. The plant is highly automated and fully computerized – requiring few employees, allowing for highly efficient operations. They can process 12,000 liters of milk per hour, so UHT milk is produced only a few days each week. On the other days, the expensive packing equipment is utilized for UHT juice production. They currently produce two premium brands (Ideal and Vita) with different fat contents, and one lower cost brand (Alp), which provides a sales channel for lower quality milk. Packaging materials and design are supplied by their joint venture partner, Tetra Pak out of Sweden.

Devolli has 260 employees today. They commenced business in 1995, first producing chemicals, then beds and spare parts, dairy operations in November 2003, and coffee and juice production in 2004. The company launched the dairy business recognizing a growing opportunity based on the amount of imported UHT milk passing through their customs center. When UHT milk did not fully utilize their UHT production capacity, they decided to launch a juice production business leveraging their expensive investment in equipment.

Devolli has existing relationships with 500 farmers – some direct, and some through milk collection centers. Until recently, they accepted all available quality milk supply, but currently they have excess inventory of finished goods due to strong competition by importers. There are more than 20 UHT imported brands, and quantities are not limited by Kosovo trade laws, nor are quality or labeling requirements enforced for these products. This has resulted in imported products flooding the market, decreasing the opportunity for Devolli milk. Imported products also have significant cost advantages due to state subsidies. Serbia, for example, provides 80 –150€ per dairy cow per year to farmers and 200 – 400 € per year per hectare of farmed land – they also subsidize diesel fuel down to 0.40€ per liter (versus Devolli’s current cost of 0.90€) and loan interest above 5.75% (while Devolli pays interest in the 9-14% range). Devolli has no access to government subsidies, so is forced to assume higher costs, resulting in tighter margins. In addition, harsh export requirements set by Macedonia, and CEFTA laws inhibiting export to other neighboring countries (because Kosovo is not recognized as an independent state), do not allow Devolli to take advantage of these markets as a sales channel. If the Kosovo government does not take action to rectify this situation, Devolli is seriously considering ceasing dairy operations as early as June 2009, due to currently making no profit on this activity.

The company shared with us its future desire to expand its production facility by privatizing an additional nine hectares of land and adding infrastructure and equipment to produce new yogurt and cheese products. However, under the present conditions, they cannot afford to make this investment. Some issues they see as needing to be addressed are:

- Government laws and policies need to be revised to favor local dairy processors versus imported goods especially since Kosovo is restricted from exporting goods to many of these countries as it is not currently recognized as an independent state.
- Farmers need to receive incentives to improve raw milk quality – farmers currently receive premiums for higher quality milk, but their operating costs are also higher mitigating margins to the point that they seldom make money on milk – they only profit

from the sale of calves. High quality farmers co-mingling their milk with lower quality farmers in milk collection centers also get penalized for the overall reduction in batch quality. Currently, Devolli pays a 10% premium for first class milk, a 5% premium for second class milk and a 5% premium for milk transported to their facility by the farmer. Devolli deducts 20% from the base rate for poor quality.

- Safety standards at the milk collection centers need to be put in place to increase quality of raw milk, which will result in better final product quality.

Due to large overstocks of UHT milk, Devolli is currently fielding promotions and advertising that results in zero profit from their dairy business. They are offering retailers a free pallet with the purchase of 10 pallets, providing consumers with bonus packs (2 free liters with the purchase of a 12 liter pack), and running high levels of advertising (TV and newspaper). They use Zero Positive as a marketing agency partner for these initiatives. The company's joint venture partner, Tetra Pak, also provides dollars to help fund marketing support.

Devolli shared some financial information to help us understand the very tight margin structure that exists in the Kosovo dairy sector. At best, Devolli is able to make only 5-10 margin points on the sale of their UHT milk (without special promotions being taken into account). They also believe that the retailer only makes about a 10% margin on UHT milk and other dairy products, inclusive of the fees they make for facilitating processor funded in-store marketing programs.

The company highlighted the following as desired future initiatives:

- Executing a marketing awareness campaign (advertising, PR and promotion) to explain the benefits of UHT packaging to consumers (i.e., quality, 90-day shelf life, etc.), and to build awareness that Devolli brands use the same or better packaging technology as imported brands, giving them a locally produced alternative of superior quality at reasonable prices. By supporting local enterprise, consumers can contribute to the growth of the national economy.
- Ask the Ministry of Economy and Finance to reduce the current 16% VAT to something more reasonable such as 5%. Treat dairy products as a consumer necessity, not a luxury good, and tax accordingly, similar to the way that many US states charge no sales tax on clothing and food.
- Engage experts to help develop a new facility for Devolli with cost-efficient, operations-optimized, state-of-the art production technology for making UHT (30-day shelf life) yogurt, high quality cheeses (white, Kashkaval and aged), fruit yogurts and puddings – all in attractive packaging that quickly builds consumer trial and loyalty.

Currently, Devolli expressed significant skepticism about the potential success of collaborating with the other lead dairy processing firms on joint quality and/or marketing initiatives. They are unlikely to support an Association program which requires contribution of x% of revenues to a pooled fund to support these activities. (Consultant's Note: perhaps if conditions change as outlined above, Devolli might reconsider this position.)

**February 12, 2009 – Mustafë Kastrati, General Manager of Lakto**

This processing company, fully-owned by Raiffeisen Bank in Austria, was established in 2007 to work with a farmer cooperative to pasteurize and sell fresh dairy products. The company currently produces 100% natural milk in 1-liter Tetra Pak containers that have a 7-day shelf life. The current General Manager was recently hired to improve operations, as the company has not been successful in achieving profitable revenues. One of the major expenses with which they need to contend is 20% spoilage.

It was noted that Kosovo provides little to no promotional support for domestically produced goods. In other EU countries such as Germany, there exist state agencies that provide this support by leveraging funds from private enterprise channeled through related trade associations. Lakto believes that the local dairy industry would greatly benefit from the establishment of a state agency that could fulfill the following for domestic processors:

- Advertising campaigns that build awareness that locally produced goods provide superior quality, and the value of drinking fresh milk made with no powder.
- Coordination between government agencies to implement policies that benefit local dairy businesses, including assistance securing contracts in hospitals and schools.
- Encouragement to local retailers to provide preferred shelf placement and in-store promotional signage to domestic processors, to further stimulate the local economy.
- Development of consumer education programs.

Assuming the company can achieve financial viability, Lakto hopes to invest more in marketing (i.e., TV ads and retailer flyers) to educate consumers about the benefits of fresh milk products (i.e., more vitamins and minerals), and to fund more in-store activities such as sampling in the major supermarkets. They also would like to participate in educating school age children (K-12) about how fresh milk contributes to good nutrition and overall good health. As part of this initiative, they hope to invite school groups to tour their facility. In addition, Lakto plans to introduce other new fresh products such as 1.6% milk fat milk, and fresh cheese which they envision co-packing at another domestic processor's facility through a partnership arrangement. They also recognize the importance of upgrading their packaging design to communicate their superior fresh product positioning.

**February 13, 2009 – Ruzhdi Kastrati, General Manager/Owner and Nehat Bixhaku, Financial Manager/Owner of Kabi in Gjilan**

Founded in 2000, this family owned and operated dairy is currently processing 6,000 – 7,000 liters of milk per day, well below their present capacity of 20,000 – 30,000 liters. They currently have the capability to pasteurize 7,000 liters per hour. Two months ago, they moved into a new 1,200 square meter modern facility which includes about 900 square meters of production space – of which only half is currently being utilized. The other half is reserved for the future addition of a UHT production line. The current operation is manual, including the staging and packing stations (see photos below).



Yogurt Production Facility

Available Space for Future UHT Line

Manual Yogurt Packing Station

Until recently, the company was purchasing and processing greater quantities; but due to competitive price pressures from imported items which they believe are being sold below cost, they have lost customers and experienced sales declines. For example, they had formerly supplied a local hotel with cheese which they sold at 2.4€ per kilogram (a small 12% margin on their cost of 2.15€ per kilo). This customer has replaced their cheese with an imported alternative which they are sourcing for just 2€ per kilo. The company has also lost retail business for cheese which they sold at 12€ for four kilos, which has been replaced by a similar sized Bulgarian Feta product wholesaling at just 10€. As a result of lost business like this, Kabi has not produced any cheese for the past two months. Historically, Kabi had contracts with local farmers to purchase all of their available milk at an average price of 0.33€ per liter. Given the current economic conditions, the company has not renewed its contracts for 2009, and expects that it will not purchase all of the available milk from their farmers unless the KDPA is successful in getting the government to reduce the mandated price for raw milk.

When asked about their business relationship with ethnic Serbian farmers, the company stated that previously 30-40% of their farmers were of Serbian decent. Since many of these farmers have only a few milk cows, these have been the ones that have suffered due to decreased demand. Currently, Serbian farmers represent only 20% of Kabi's milk supply. However, the company has maintained good working relationships with this community, without any issues. When asked, Kabi management stated that there were no processors owned by ethnic Serbs to their knowledge. Although they were aware of some attempts to invest in starting these businesses, they never took root.

Operationally, Kabi has three refrigerated trucks, each with a 2,000 liter capacity, which pick up milk from both milk collection centers and directly from farmers, after a simple acidity test is passed. The company has worked closely with local farmers who produce more than 100 liters of milk daily, to help them improve their quality. Kabi takes three samples of milk per month from these farmers to test for fat content and bacteria/somatic cell count at the KVFA. The company also assists farmers by analyzing milk in their local lab facility. Due to their efforts, Kabi has only experienced two incidents of antibiotic contaminated milk in the past ten years.

Kabi is focused on producing yogurt and Kos (similar to sour cream), which are their most profitable products, with margins above 20%. In the summer months, they process Kashkaval, which also provides a good margin at 20%. Due to competitive prices, they are only able to make a 10% margin on fresh white cheese. They offer a diversified line of dairy products because their retail partners are seeking greater variety from their suppliers.

Kabi shared their cost structure on their packaged yogurt. On average, they pay 0.33€ for one liter of milk, which yields five individual serving cups of yogurt. Milk represents about

60% of product costs, and production represents the remaining costs – for a total manufactured cost of 0.10€ per cup of yogurt. Sales and distribution costs per cup are an additional 0.01€. They sell this cup at 0.14€ before VAT for a margin greater than 25%.

The company utilizes two distributors in the Gjilan region and two distributors in Pristina. The drivers are responsible for sales and product rotation at retail, and get paid a bonus on top of their salary for exceeding sales goals. 90+% of Kabi's product is sold through the retail channel, and 10% is sold to hotels. Similar to other processors, they are sourcing their packaging materials mostly from Turkey, but also sourcing some from Serbia. The white tubs for packing fresh white cheese are sourced locally in Kosovo. (Note: we judged the labeling to have more color and appeal than most of the other domestic processors. They also had a well designed product brochure which was originally designed by a Swiss project. See photos below.)



## RETAILERS

### **February 9, 2009 – Store Visit to Interex Hypermarket in Pristina**

This Interex store had a warehouse feel, yet sold regular sized packages of goods with wide assortment per category. Dairy products were sold across five areas: (1) large L-shaped refrigerator case (running about 40 linear meters overall) which included oversized packs of fresh white cheese/feta, Sharri cheese, aged cheese, yogurts (drinkable, set and bio), sour cream, whipped cream and butter/margarine; (2) end-cap with imported, colorfully packaged bio-yogurts; (3) end-cap with close dated/overstock items; (4) fresh counter with block cheese and butter; and (5) UHT milk sold in 6/12-packs in stack displays. Typically, imported items had more colorful and innovative packaging, giving them the appearance of higher quality than domestically produced goods. Although there were a tremendous variety of brands per product category, the imported items seemed to dominate much of the space. In addition, imported items were the only ones that appeared to be targeting child preferences.

### **February 10, 2009 – Store Visit to ABI Center in Prizren**

The ABI Center is owned and managed by the same family that owns the ABI Dairy. They purchased this 500,500 square meter building (formerly a shoe factory) in 2006, and converted it into a hypermarket that sells food on the ground floor, soft goods on the second

floor and has a restaurant and child play area on the third floor. The family started this business in order to utilize more production capacity – they barter both dairy and fruit/vegetable products in exchange for merchandise that they sell in this store.

The food section at the ABI Center is organized similar to a supermarket in the USA, with typical shelf sets throughout the stores. The ABI cheese products are stocked in a refrigerated case in the first aisle, opposite a free-standing display of 12-pack 1 liter containers of UHT milk. There was also a free-standing display of their Sharri cheese at the entrance to this aisle. All competitor products are stocked with the other dairy items in a 35+ linear meter case along the same wall. Bulk cheeses and other dairy products are sold in the back of the store with meat and other items. We learned that consumers prefer to buy cheese in this section as they can sample it to ensure that it is fresh and to their taste preference. Below are representative photos of ABI shelf sets.



*ABI product set (No Competitive Product Stocked Here)*      *Bulk Cheese & Butter Section*

### **February 10, 2009 – Store Visit to Two Ben-af Hypermarkets in Prizren/Suharekë**

We visited the Ben-af original store in Prizren and a new hypermarket in Suharekë which is in a multi-level building. The first store was large, but the dairy section was mostly comprised of imported products. We later learned that Ben-af typically pays supplier invoices quite late; and for this reason, both ABI and Bylmeti dairies have stopped shipping products to this retailer. The more modern store in Suharekë had a much smaller food section on the ground level, with soft goods sold in a “department-like” environment upstairs. The dairy section in this store was dramatically smaller than in the first store visited. Photos of shelf sets in the Prizren Ben-af store are shown below.



*Bulk Cheese Deli Section (Dominated by Imports)*

*Yogurt & Pudding Shelf Set (Child Selecting Product)*

### February 11, 2009 – Store Visit to Elkos Hypermarket in Peja

This was a very large and modern facility that shelved dairy products along the entire back wall of the store (probably over 70 linear meters). UHT milk was stacked separately in a two sided shelf set located near one end of the dairy section. The entire dairy section was heavily dominated by imported products, with very little presence/facings dedicated to domestically made products except for Devolli milk (all three brands and multiple SKUs). On average, Vita milk was priced about 0.10€ per liter package below imported items. Magic Ice also had a sampling table set up with a parallel display of the white cheese being sampled. Notably, there was no bulk cheese being sold in this store.

We were informed that photographs of store sets were not allowed. We met shortly with Petrit Selmanaj, the new store manager – but he was reluctant to answer questions given that he did not have prior approval from senior management and had been in his position only three months. He suggested that we speak with Director Kelmendi in Pristina.

### February 12, 2009 – Ramë Idrizaj, Marketing & Sales Manager of Maxi HiperMarket and Luan Pula, Manager of Maxi's in-house agency Expo-M

This store is a smaller footprint than other hypermarkets in Kosovo, and looks a bit more dated in its overall ambience and display of merchandise. (Note: later we learned that this is the first hypermarket in Pristina.) Dairy is positioned in the back left corner of the store, similar to other hypermarkets, most likely to draw consumers through the entire store. The category has a smaller shelf presence than competitor stores with about 10 linear meters, organized by case: one case holding UHT milk, another displaying fresh white cheese and the third displaying all of the yogurt and other value-added dairy items. Overall, there is limited SKU variety, but a good percentage of domestically produced goods from ABI, Bylmeti, Rona, Magic Ice and Devolli (close to 50% of inventory). There was also a small case holding bulk cheese in an adjacent location. Pricing was about 5% higher than in competitive hypermarkets. See photos of the dairy section below.



*White Cheese Shelf Set, Dominated by Domestic*



*Yogurt & Specialty Dairy, Dominated by Imports*

Dairy, meat and bread are the most highly demanded product categories by customers who typically frequent Maxi stores about 2-3 times a week. Dairy margins are from 5-10% (lower on UHT milk and higher on yogurt, pudding and cheese), which is less than the daily operating costs given the stocking needs of this perishable category. In addition, Maxi will

accept zero profit on these items when suppliers purchase promotional programs in the store.

We were told that consumers prefer imported brands because they are perceived as being higher quality, strongly influenced by more appealing packaging design. In the UHT milk category, Swedmilk, Alpsko and Dukat sell at a much higher rate than Devolli's Vita brand. Products from Slovenia sell especially well as consumers have known these brands for years. Of note, the Marketing and Sales Manager strongly supports the sale of domestically produced dairy products, as he knows this helps build his local economy – but, ultimately, they need to stock those items that their customers request. When asked about product gaps from domestic dairies, this manager listed good aged cheeses, fruit yogurt (both set and drinkable), butter and cream cheese. He also took note to mention Lakto, fresh milk with a 7-day shelf life processed and sold by a small company near Prizren.

Maxi offers several marketing opportunities to their suppliers which they support through their in-house agency Expo-M. Distributors of imported dairy items take advantage of these opportunities, but domestic processors do not because they cannot afford the marketing expenditure. During the month of November, however, the Kosovo Alliance for Business does promote domestically produced goods across all categories including dairy, one week in each major city across the country. The marketing activities that Maxi offer are as follows:

- For 90€ per store, a supplier can purchase one horizontal meter (all vertical shelves) of premium shelf position for one month. Maxi estimated that their competitors offer similar programs at greater expense (150€ in Interex and 120€ in ETC).
- Twice a month, Maxi develops a 4-page, 4-color flyer which they distribute by hired labor across Pristina to residences and parked cars. The Manager noted that only ABI Center and Interex also do flyers on a regular basis. Suppliers can purchase a feature ad which includes a second position in the store (i.e., floor display) and in-store promotional signage. Maxi will also drop the retail price foregoing their entire margin to support the promotion. The cost is 300€ for a full page feature, 150€ for a ½ page, 80€ for a ¼ page, 50€ for a 1/8 page and 30€ for a 1/16 page. Frequent advertisers are given cover position at no extra charge as seen in the photo below.



*Sweepstakes promotion, bi-monthly flyer featuring Swedmilk and brochure on Maxi's new Web shopping service*

- Suppliers have the opportunity to participate in a plastic bag advertising program, in which Maxi will print a full-size logo on one side of the checkout bags (the Maxi logo is on the other side) at a cost of 3,000€ for a one-month supply of 200,000 bags. To date,

they have only sold this program four times – to a local bank and insurance company, and to two imported brands.

- In their Maxi 2 inner-city store, the retailer has created a parking lot billboard and shopping cart corral with five advertising panels. This opportunity is offered at 200€ for all five panels for a period of one month.
- Suppliers are encouraged to sample their products in-store at no charge. Of note, domestic dairy processors do not take advantage of these opportunities, but imported dairy brands sample on average 2-6 times per year.
- Maxi also does not charge any fee for new products.

In addition to the marketing programs highlighted above, Maxi is testing e-mail campaigns, but has had implementation problems issuing promotional announcements to their very small database of only 200 households. They have also recently launched a Web-based home shopping service called “e-shop” – a 29€ minimum order is required, and a 2.5€ fee is charged for delivery except on orders exceeding 100€. In addition, the store runs TV advertising to promote their store and on occasion they will promote brands, such as when they run a sweepstakes promotion. Maxi also runs newspaper features twice a month, on alternating weeks to their distributed promotional flyers, which they fund themselves.

#### **February 12, 2009 – Miftar Sherifi, Chief of Fresh Department, Interex (Pristina)**

Similar to what we heard at Maxi, Interex noted that the dairy and meat sectors are very important to retailers as a reason for consumers to frequent their stores. Given this retailer's strategy to offer the lowest prices in the market, Interex makes very low margins on dairy (estimated by these STTAs to be 3-8%). The company will consider stocking all new products. Their process is to evaluate these products for quality and price reasonableness; and if accepted, then they monitor sales for the first two months to make sure the product meets their minimum movement requirements. Interex stated that they prefer to sell domestically made dairy brands, but imports are critical to their mix as consumers request them and the offerings of domestic purveyors are very limited. Bylmeti and ABI were mentioned as lead domestic brands – Alpsko (Slovenia), Meggle (Bosnia), Swedmilk (Macedonia, backed by a Swedish company), Dukat (Croatia) and Zot brands (Kosmonte products from Germany) were the primary imported brands highlighted.

Interex packages a number of promotional tactics into one marketing opportunity for suppliers. They negotiate the fee for this opportunity with each supplier on a one-off basis, and the promotional window is two weeks long. Elements of the promotional package are as follows:

- Placement in a 1 or 2 page, 4-color brochure which is distributed by hired staff once per month to residences and parked cars in Pristina, featuring the product at a special price.
- A secondary stocking location (i.e., floor or shelf display) in-store with an adjacent yellow sign announcing the special price (see examples of this signage in the photos below). (Note: regular prices are highlighted in-store on white cards.)



*Yogurt Shelf, with Yellow Promotion Signage*



*Fresh White Cheese Shelf Set, with Yellow Promotion Signs*

In addition, Interex offers suppliers the opportunity to have their product/brand featured in the company's TV ads which they run in flights aired every 2-4 weeks, and also in their newspaper ads which they run two times per month, in exchange for the supplier offering them a 5% invoice discount for the promotional period allowing Interex to drop the retail price. Interex views promotions as a mutual investment by both themselves and suppliers.

#### **February 12, 2009 – Liridon Bekaj, Deputy Manager of ETC (Elkos) Store in Pristina**

ETC is the largest store footprint we've seen in Kosovo, with enormous SKU variety in every category including dairy with over 70 linear meters of refrigerated shelving. There was a good presence of both domestically produced goods and imports. Also, there were several secondary promotional floor displays of products made in Kosovo due to a week long cross-category promotion of local suppliers. Magic Ice had a staffed sampling booth, and both ABI and Bylmeti fresh white cheese products were stacked up with promotional pricing (see photos below).



*Magic Ice, Sampling & Promotional Floor Display*



*ABI and Bylmeti White Cheese Floor Displays*

From the Deputy Store Manager, we learned that Elkos does very little marketing activity – rather, they depend upon their suppliers to do in-store promotions which the store will support with display space. Typical promotional activities include product sampling, flyers and free give-aways. Dairy is deemed to be an important category for bringing customers into the store. Given the perishable nature of dairy products, and competitive pricing constraints, the retailer makes very little margin on this category (estimated by the STTAs to be in the range of 3-8% across SKUs). The store supports both promotional activity and

product variety as it ultimately results in greater sales volume. ETC is very supportive of domestically-made goods, despite the fact that the parent company is a large import distributor. However, the Deputy Store Manager noted that consumers tend to prefer imported brands as they perceive them as being better quality (much of it driven by stronger packaging appeal). On rare occasions (i.e., holidays and when they need to move large inventories of close-coded product), Elkos will run radio ads and distribute leaflets.

### **February 12, 2009 – Burim Kuci, Store Manager, Ben-af, Pristina**

This store was heavily skewed to imported dairy products across all categories – fluid milk, yogurt and cheese. There is a noted difference in the quality of fresh white cheese packaging, with imports generally being firm and tight, whereas domestic product is often loose exposing product to potential contamination.

While in store, we were able to visit briefly with the store manager, Bucim Kugi. When asked what triggers his purchase decision in the area of fluid milk products, he responded that he prefers to sell domestic products such as Devolli's Vita, but more consumers ask for Alpsko, imported from Slovenia. When we probed why Alpsko is preferred, he suggested that consumers' purchase loyalty is established – they have bought this brand for many years, before Vita and other brands were available, and they have remained loyal to the brand that has consistently met their needs. Asked if Alpsko, the volume leader, also provides the highest per unit margin, he said no, Vita, actually provided a higher per unit margin.

Lastly, Mr. Kugi informed us that the Pristina market is the best market within the Ben-af chain for the lower fat milk products.

### **February 15, 2009 – Store Visit to Central City Maxi Hipermarket**

This store was quite modern, yet limited in size. We made two interesting observations in the dairy section: (1) Bylmeti's pepper in cream product was stocked with the label facing towards the back of the case, so customers could not tell what brand of product this was, plus the Bylmeti brand on this label was so small compared to the product name, that it was almost impossible to detect the brand even if the label was facing outwardly; and (2) UHT milk was stocked outside of the refrigerated case, unlike in the other Maxi store, and there was no Vita milk in stock, only imported brands.

## GOVERNMENT AGENCIES

### **February 12, 2009 – Xhemajl Dervishi – Director of the Veterinary and Food Laboratory which is part of the Kosovo Veterinary and Food Agency (KVFA) and Ministry of Agriculture, Forestry and Rural Development (MADR)**

Mr. Dervishi heads up the lab that collects and analyzes dairy samples, and also has the final say on published results. The lab has been in existence since 2007.

There are 19 licensed dairies in Kosovo. 20,000 dairy samples are collected each year, with most samples being sent in from the milk collection centers (MCCs) and some from processors. Most of the lab equipment comes from Denmark. They test for total bacteria, as well as other qualitative factors, including: fat, protein, lactose, density, acidity, total solids, freezing point, added water and somatic cell count. Bottles for sample collection get to the dairies on Friday afternoon – samples are collected at the MCC on Monday and

delivered to the lab for analysis the same day. Usually, this process involves the farmer bringing milk to the MCC, where the dairy collects samples, and later takes them to the lab. However, sample testing is free of charge, so any farmer can bring a sample in for testing. A schedule is provided to farmers to notify when they can do testing. Tests are conducted twice each month on samples collected for specified dates.

Dervishi's department meets regularly with KAMP, and formerly with KCBS. He agrees that education and quality performance standards need to improve at the farmer and MCC levels. His department's role is to determine results and communicate those results to the processing dairies, who then communicate to the farmers. In communicating results to farmers, the dairies will establish a pay price to each farmer based on the quality of the farmer's milk. It is not uncommon for farmers to suspect that test results have somehow been tampered with. Annual Kosovo daily dairy production is estimated to be 90,000 – 110,000 liters. Farmers deliver milk either directly to the processing dairy or to municipally owned MCCs. Two-way communication and education is critical across the dairy value chain from farmer to MCC to Processor. This process needs to include veterinarians, as well.

KCBS was instrumental in supporting and developing the milk quality and testing program, including sampling and participation schemes. The KVFA lab conducts 2,000-3,000 analyses per month, primarily from 14 licensed dairies. The remaining 5 licensed dairies do not get tested as they are smaller and primarily produce yogurt. In developing the current testing system, the Kosovo Center for Livestock Breeding, part of the now completed European Commission Project, tested 12 dairy farmers involving 600 dairy cows. To continue this process, the lab will field test 15 different farms this year.

In Mr. Dervishi's opinion, MCCs should not work with farmers producing less than 40 liters per day. He feels that overall milk quality in Kosovo would improve if there were fewer farmers and an increase in average head counts of dairy herds. He states that there are now about 75,000 farmers, of which 35,000 have only one cow, with another 18,000 owning only two cows. (Note: These numbers might be skewed somewhat in that they may include cows intended for beef, not dairy.) There are only 200 veterinarians to service this large and scattered number of farms. There are about 100 MCCs.

To continue to improve quality, Mr. Dervishi recommends targeting the MCCs with education and awareness initiatives. He further agrees with our suggestion that MCCs should collect milk 7 days/week, rather than the current 6 days/week, since the dairy cows do not take days off, and holding milk for even one day risks contamination and bacteria growth.

**February 12, 2009 – Flamur Kadriu, Chief of Veterinary Public Health Sector, which is part of the Kosovo Veterinary and Food Agency (KVFA) and Ministry of Agriculture, Forestry and Rural Development (MADR)**

KVFA was approached to learn more about the government's role in establishing, monitoring and administering dairy quality and safety standards. Mr. Kadriu explained that the role of KVFA is to ensure public safety; it has no role in determining pricing policies. That role is governed by the Ministry of Trade and Industry (MTI).

In providing an overview, he referenced the assistance over the last year from KCBS in developing raw milk quality control standards, since adopted into law by Parliament. Kadriu explained that Parliament adopts the law, and a second level "sub-law" provides "administrative instruction". In the case of dairy, this "sub-law", generally referred to as the "Raw Milk Decree", was drafted by the Livestock Department to be adopted into law. The Raw Milk Decree provides instruction that all Kosovo dairy farmers must meet certain minimum standards by 2010. (Recently, it was decided to delay the 2009 requirements for

one year, extending the requirement level changes by one year. See Annex I for the official Kosovo Raw Milk Decree document.)

We asked Mr. Kadriu to describe today's milk collection, sampling and testing system. He stated that sample collection is their biggest issue, as the logistics of getting so many samples (due to the large number of very small farmers) represents a burden. The testing lab is in Pristina. Larger dairies bring in samples two times per month, free of charge. Farmers complain regularly that the sampling is not going well. They feel that the process is neither fair, nor equitable. They get paid less for lower quality, and are suspect of the legitimacy of the determination. We posed the question as to why a third party testing process would not be established to ensure fairness, and were told that the complaining farmers will not hire such a third party.

KVFA has no manpower to implement improvements in the process, even though they acknowledge that improvements could be made. They have only one lab to conduct the sampling. Dairy processors determine whether to pay a premium or discount to farmers. The single lab makes it very difficult to get samples in on time and in good order. Often, farmers hold samples too long, and due to poor hygiene, many samples are contaminated.

We asked Mr. Kadriu to express his opinion regarding consumer attitudes motivating domestic dairy consumption, and also his opinion about a dairy communications campaign coordinated to and through schools. He liked the school idea, stating that KVFA could help with basic food safety knowledge, food handling education and understanding of terminologies such as expiry codes and HACCP labeling.

Interestingly, he noted that consumer distrust is a major roadblock to growing the domestic dairy business. He believes that Kosovars question the safety and quality of domestically produced brands because of a history of inconsistent, if not poor, product quality. He also believes that consumers are wary about whether or not the government is sufficiently controlling product quality and safety in the dairy sector.

#### **Thursday, 2/12/09 – Nazmi Caka, Head of Upper Secondary Schools, Ministry of Education**

Mr. Caka was approached with the idea of developing and fielding a public school curriculum program as a component of a marketing strategy targeted at increasing consumption of domestically produced dairy products. We emphasized that the concept is only at the "idea" phase, and that we were seeking feedback regarding potential benefits and the rationale for implementing a program of this nature. Rationale discussed included:

- Children tend to be less set in their ways and more open to new concepts than their parents, who already have established ideas and buying preferences.
- Today's children are Kosovo's future industry leaders and paying consumers.
- All can benefit from health education in the areas of safe food handling, understanding of food labeling, expiry codes, and food ingredients.
- Dairy products are a core contributor to child nutrition and welfare.

Mr. Caka believed that the idea was sound, and immediately started asking questions about logistics. How many schools? What grade levels? What timetable? How would it be implemented? We suggested that age 10-12 might be optimal, and that the program should be tested and refined on a limited local level before expansion system-wide. We further suggested a tie-in with current health curriculums taught in school, and were told that currently this type of instruction does not exist.

Mr. Caka asked to be kept involved with any development of such a program, indicating his desire to institute the program at the start of school in autumn 2009. We cautioned that many steps need to be taken before an actual program is ready for implementation, and that the 2010/2011 school year might be more realistic. He understood, yet remained optimistic about the idea and reiterated his desire for additional follow-up.

**February 13, 2009 – Kurtesh Sherifi, Advisor to the MAFRD; Former Executive Director of KAMP; Professor at the University of Agriculture**

Mr. Kurtesh Sherifi holds a Ph.D. (earned in Germany) and is a licensed Veterinarian. In his role as Advisor to the MAFRD, he addresses issues pertaining to livestock, food safety and veterinary issues.

Mr. Sherifi cited three priority areas within MAFRD aimed at growing the domestic commercial dairy sector:

- Grow the economic sector – imported farmer inputs (such as equipment, technology, feeds, seeds, fertilizers, etc.) are not taxed, but the local processors are required to pay a full VAT on finished goods. This puts them at a disadvantage relative to imported goods.
- Ensure that the “Raw Milk Decree” is being properly executed with regard to quality and payments to farmers.
- Ensure adequate lab facilities for testing/analyzing milk – analysis is subsidized by the government and provided free of charge for any Kosovo dairy farmer.

Sherifi highlighted that recently there are problems with the amount of low-cost dairy products being imported into Kosovo from neighboring countries that have high inventories due to the economic downturn. In accordance with the Central European Free Trade Agreement (CEFTA), Kosovo hopes to implement an “anti-dumping law” within the next three months. He noted that Sole, a Hungarian brand, is being promoted in stores as UHT milk, despite testing low in protein and falling short of full milk standards. Cheese is especially an issue, as a lot of excess inventory is being dumped into Kosovo hindering sales by domestic processors.

A joint committee of representatives from six areas with interest in the dairy sector has been established to advocate favorable dairy policies to the government. Under the supervision of MAFRD-Livestock, this Committee will have representatives, yet to be appointed from the MAFRD-Livestock, Ministry of Trade & Industry (MTI), KVFA, KAMP, KDPA and the University of Agriculture. In addition, three working sub-committees are being formed to formulate recommendations to the committee. These sub-groups will focus on:

- Increasing milk quality.
- Dairy marketing and promotion.
- Dairy fiscal policy recommendations to Customs, the Ministry of Economy and Finance and other relevant parties.

Mr. Sherifi also clarified that Value-Added Taxes are applied to both domestic and imported dairy products. All 11 CEFTA members are required to pay the 16% VAT. Countries that are not part of CEFTA, such as Slovenia and Bulgaria, are required to pay additional trade tariffs so their total tax liability could be as high as 26.5%. Asked if a tiered tax system

should be considered, with a lower rate on essential items such as food and clothing, and a higher rate on discretionary/luxury items, he said that he would be open to the idea. The issue, in his opinion, would be whether or not they have the capability to administer a tiered approach.

Mr. Sherifi summarized by noting that the dairy sector has “good potential, but lots of problems.” The Kosovo dairy sector needs optimal policies, and possibly subsidies, in order to be successful longer term.

### **February 18, 2009 – Nezih Ismaili, Chief of Sector for Compliance, Kosovo Customs**

Dairy products imported into Kosovo from non-CEFTA countries are charged a fixed rate 10% customs tax. This tax is applied to both receipt value and transfer costs. The receipt value is the exporter's paid receipt for product from the manufacturing dairy. Thus, if a dairy sells product to a trader (exporting distributor) at 75% of value as distressed merchandise, that discounted value would be the receipt value. Imported goods are then required to pay the same 16% VAT as domestic goods. However, since receipt value is used for this calculation rather than original manufactured value, the imported goods actually have a reduced VAT liability.

We asked Ms. Ismaili if there is a floor price mechanism in place to protect domestic producers. There is none, but they do have a team that evaluates legitimacy of prices when they appear to be too low. Presently, they are evaluating price activities of some dairy brands that have entered Kosovo, but she emphasized more than once that they feel the leading UHT milk brand, Alpsko, is totally legitimate.

We also asked if there is any differentiation in how customs clearance and taxation is applied to products (i.e., agricultural versus non-agricultural, dairy foods versus other foods). There is no difference – all are applied equally, though they do try to process incoming dairy goods faster due to their limited shelf life.

(STTA Note: dairy products sold into Kosovo at significantly discounted prices below original cost hurt the Kosovo economy, and the local dairy sector, in two ways:

1. Customs tax is applied to a lesser value, resulting in reduced revenue generation.
2. Domestic dairy producers, who already operate with a higher cost structure, are forced to compete on price instead of value – a game they cannot win).

### **February 18, 2009 – Arsim Memaj, Chief of Breeding Production and Marketing Selection, Ministry of Agriculture, Forestry and Rural Development**

We met with Mr. Memaj to discuss his attitudes toward the dairy sector and its relative importance as a food category. He considers the dairy sector to be one of the best for Kosovo in terms of opportunity, but feels that it is not consolidated enough to be efficient and effective.

As a department, they are willing to collaborate with other governmental agencies, dairy associations and lead firms to address the sector's many needs; first and foremost, quality improvement and subsequent marketing efforts. Asked to comment on our idea of a nutrition and food safety education program in the schools, he said he is very skeptical. He feels it is a good idea, and that kids are a strong influence on consumption. Yet, he feels that they must have good quality in place first. As he puts it, they must be cautious as to what we expose kids to so that the program works for domestic producers, not against them.

Mr. Memaj stated that MAFRD's role is primarily legislation and monitoring. In the case of the dairy sector, they manage the testing lab through KVFA, and interact with other agencies as follows:

- MAFRD sets product standards, with input from the Standardizations Agency, dairy associations, processors and farmers. Having just discussed consumer behaviors, he noted that they probably should include some consumer involvement in the future. Dairy product standards, such as recently established standards for Sharri cheese, are very specific about both production process (how the product is made) and product make-up (component percentage content for fat, moisture, etc.)
- The newly established Standardizations Agency (within the Ministry of Trade and Industry (MTI) monitors and enforces the standards for the dairy sector, and applies penalties for non-compliance. This organization structure ensures that MTI has the last word on compliance, both product quality and labeling.

**February 18, 2009 – Agim Nuha, Chief of Poultry, Feed, Fish and Bees, Ministry of Agriculture, Forestry and Rural Development**

Mr. Nuha stated that there is not enough domestic concentrated feed produced in Kosovo to support the livestock industry, including dairy cows. Most concentrated feeds, other than summer grazing, are imported. He feels that the government needs to provide more support to agriculture in order to build feedstock supplies as a core input to the dairy sector and other sectors, to lower operational costs to allow for more competitive end-products.

**February 18, 2009 – Mustafë Hasani, Chief Executive Officer, Investment Promotion Agency of Kosovo, Ministry of Trade and Industry**

Mr. Hasani's office has two main focuses, Investment Promotion and Export Promotion. They do not currently have policies in place to promote dairy and other products made in Kosovo to other countries. He does believe that the dairy sector is a good area for job creation and should receive investment. He expressed concerns that dairy farmers will give up and quit if the government does not help them have a chance to make money. He feels it is the government's role and duty to provide incentives to make this possible. To this end, he suggests implementing a study to fully understand costs, benefits and what makes sense in the way of dairy sector investment. This will potentially lead to a new investment policy for the sector.

He is very willing to have his agency collaborate with dairy sector leaders, and suggests that SME (Small and Medium Business Enterprises, and part of MTI) would be a good resource to add to the discussion. Mr. Hasani notes that most projects are generated through donors, and tend not to lead to action.

Changing subjects, we spoke to Mr. Hasani about Kosovo taxes, as he used to be a Director in the area of tax administration. He explained that recent changes in the tax law have included establishment of a 10% maximum income tax rate, reduction of corporate rates from 20% to 10%, and an increase in the VAT from 15% to 16% (to offset the other reductions). (STTA Note: these changes effectively shift the burden of tax to the population that does not have the means to handle it, thereby having a negative impact on consumption.)

When asked his opinion of a tiered system, he says that would not be achievable this year, due to its complexity, but that it might be possible next year. He feels that a 5% rate would be a fair tax on necessities.

**February 18, 2009 - Nashide Bajrami, Director, and Lindita Toçi, Senior Analyst, Economic and Fiscal Policy Department, Ministry of Economy and Finance**

The current tax policy is to have a single 16% Value-Added Tax (VAT) rate across all goods, because it does not favor any one sector over another, and because it is simple to administer. Since imported products are subject to the same VAT rate as domestic products, a change in the tax base offers no competitive advantage for domestic companies. Commercial dairies pay this rate on their sale price to retailers, but are able to get reimbursement of the milk portion of their VAT tax on a monthly basis, against business expenses that have a VAT charge associated with them (i.e., packaging materials, cleaning supplies, capital equipment, milk from registered farmers, etc.).

A tiered rate (providing a lower tax rate on essential necessities versus non-essentials) might help lower costs for domestic dairy producers, helping them to show a profit, but it would not impact their ability to compete with imports. Presently, there is a minimum earnings threshold of 50,000€ to be subject to taxation with the VAT. (STTA note: for the smaller dairy farmer, this threshold could be seen as a disincentive to add to herd size if that addition means taxation that offsets new revenues.)

In closing our meeting, we asked both individuals for their opinions as consumers. Both stated that they prefer Alpsko as a UHT fluid milk brand, with Ms. Bajrami noting she usually buys Vita because the price is a little lower. Both emphatically supported the idea of a school health/nutrition/food safety program with dairy products as a core focus, but strongly cautioned that milk quality needed to be improved first.

**February 20, 2009 – Drita Zogaj, Assistant Director, Department of Human Ecology, National Institute of Public Health of Kosovo**

Our purpose for meeting with Ms. Zogaj was to better understand inter-governmental relationships in the areas of food safety and health/nutrition education. Specifically, we wanted to determine their relationship to the dairy sector and to KVFA, the agency responsible for raw milk testing.

We learned that Public Health is heavily involved in testing, but their focus is more on finished products, rather than raw milk. In fact, KVFA sometimes submits products to Public Health for analysis. The Public Health office has relationships with 7-8 dairies to conduct testing for them. The office submits reports monthly to the Ministry of Health.

Institute of Public Health has a contract with Devolli to conduct regular testing for them – milk from the Milk Collection Centers, quality of the water supply and bacterial analysis to assure that production lines are clean. These tests are conducted at a minimum twice per month. When asked to comment on the cause of the Vita brand's early quality problems that have negatively impacted consumer perceptions, Ms. Zogaj noted that the poor product resulted from technical and operational issues, not poor milk quality or poor sanitation. Additionally, she noted that Devolli has its own chemical and micro-biological lab. (STTA Note: Highlighting these thorough testing practices for inputs, processes, and finished products should be a major component of the implemented dairy education initiative.)

Regarding the concept of a health, nutrition, and food safety curriculum program in schools built around dairy products, Ms. Zogaj is quite supportive. Her Masters degree is in dairy sciences, and she already has a working relationship with the Kosovo dairy industry. She believes that a first step would be to set up a roundtable discussion with all parties to outline suggestions for how to move forward. These suggestions would include areas such as curriculum, timetables and party responsibilities. However, Ms. Zogaj urges that we do not forget the importance of marketing the dairy industry – she feels that while there are

certainly quality issues needing attention, there is an abundance of good Kosovo dairy products that suffer from negative perceptions that need to be overcome.

## ASSOCIATIONS

### **February 10, 2009 – Ramadan Memaj, President of Ajka Dairy and KDPA (Lutogllavë)**

The Kosovo Dairy Processors Association has 15 member dairies that pay nominal annual fees based on production capacity: small processors with < 5,000 liters/day pay 100€, medium processors with 5,000 – 10,000 liters/day pay 200€, and large processors with >10,000 liters/day pay 300€. During the discussion, it was noted that changing this structure so that it would be directly linked to production volume would be a more equitable model, with potential for dramatically increasing association funds that could be utilized to improve industry quality and promote domestically made products.

The KDPA is focused on understanding the industry problems relative to government trade laws and production excise taxes, and lobbying with the Ministries of Agriculture and Trade to encourage more favorable legislation for its members. The Central European Free Trade Agreement (CEFTA) established in 2007 allows free trade by 11 neighboring countries in Kosovo, yet Kosovo companies cannot trade freely with them as it is not recognized as an independent state. This makes it very difficult for local processors to compete effectively with imported products on quality and price, especially since the imports receive financial subsidies from their states and have already established brand recognition/loyalty in Kosovo.

It was noted that total annual consumer demand for dairy products in Kosovo is 210,000 tons. The 19 licensed dairies in Kosovo produce 35,000 tons, whereas imports account for 85,000 tons of consumption. The remaining 90,000 -100,000 tons are consumed as fluid milk. Overall, 250 Million € are spent on dairy products annually. The KDPA hopes to take actions to dramatically increase the percentage of total consumption met by local processors.

In the future, the KDPA hopes to participate in accomplishing the following:

- The enactment of more favorable trade laws which remove the need for processors to pay double the VAT to cover both farmers (who are not registered) and processor activities, and increase the tariffs on imported goods.
- The elimination of excise taxes that domestic processors currently pay on imported packaging materials, making them less price competitive in the local market.
- The acquisition of contracts with schools, hospitals and other government institutions to use domestic dairy products versus imports.
- The heightening of industry-wide product quality and marketing support behind domestically produced products, including a “Made in Kosovo” campaign. Longer term, the KDPA supports a Seal of Quality program which they envision co-administering with the KVFA. (It was noted that the Swiss recommended a Quality Seal program about four years ago, but it was deemed as too costly and not feasible, so an Award program for processors was implemented instead. This program has not been very successful.)
- An increase in overall domestic processing capacity and quality raw milk supplies with lower bacteria counts.

The KDPA envisions a phased approach moving forward, while they continue to work with the government to change the trade laws to benefit domestic processors. First, the industry must improve the quality of raw milk through farmers, to bacteria counts < 100,000 parts per milliliter. They see processors playing a major role in this by providing incentives to farmers in the form of subsidized new equipment and higher prices (+20%) for premium quality. Second, the dairies must produce better quality products by implementing recognized quality protocols and improved packaging. The association envisions engaging a packaging designer to assist its members in this effort. Third, after quality can be audited and delivered on a consistent basis, a Seal of Quality program can be implemented, followed by an industry-wide PR and marketing campaign to build consumer awareness of this.

Ramadan noted that Ajka, which is a small dairy, would need to invest 100,000€ to address current operational issues in order to comply with the above program. Clearly, these will be expensive initiatives requiring financial assistance from both participating processing firms and outside organizations such as USAID.

### **February 12, 2009 – Agim Rexhepi, Executive Director of KAMP (Pristina)**

The Swiss first organized a single trade organization for dairy in 2001; but recognizing that producers had different (and sometimes conflicting) interests versus processors, the Kosovo Association for Milk Producers (KAMP) was formed as a separate entity in 2005. KAMP originally received financial support from KCBS for specific strategic plans – 100% of requested funds in 2005 (amounting to 20,000€), 60% in 2006, 40% in 2007 and 20% in 2008. Today, they function on the limited funds they can raise from activities and membership fees (they raise 2,000 – 4,000€ annually from members by charging 2€ per milking cow). The association is currently evaluating a new fee schedule based on 0.0x€ per liter of milk sold, in exchange for services to help analyze the health of each member's livestock. KAMP is also exploring the formation of a federation with other farmer associations to work as a block on consensus goals across food categories, in order to increase operational efficiencies and lobbying effectiveness.

During the past year, KAMP has focused on improving milk quality and production effectiveness, and on lobbying the government for price increases – they did succeed in getting the price increased in 2008 from 0.07€ per liter of milk with 1% fat to 0.09€ per liter (before quality premiums/discounts are applied). Now, the association is more focused on lobbying for trade protection against imports that are eroding domestic product sales. The producers are very concerned that current economic conditions will result in excess milk supply as processors respond to declining product sales by refusing to purchase all available milk.

KAMP expressed that farmers currently distrust dairy processors, stating that the latter are not sharing the real KVFA lab analysis results with them; and as a result farmers are being paid less than they should be according to the guidelines set by the Ministry of Agriculture, Forestry and Rural Development. In 2009, cow's milk should be graded and compensated as follows:

Categorization	Microorganism	Somatic Cells	Price Premium/Penalty
Extra Class	< 80,000 per ml	< 300,000 per ml	+15%
Class I	< 100,000 per ml	< 400,000 per ml	+/- 0
Class II	< 200,000 per ml	< 500,000 per ml	-5%
Class III	< 500,000 per ml	< 600,000 per ml	- 20%

KAMP noted that dairy farmers in Kosovo are finding it very difficult to make a living. They estimate that 70% of current farmers (mostly those with < 5 cows, representing about half of the country's production) would prefer to quit the business and find other work if possible. In 3-4 cases, farmers with larger herds of milk cows (200+) are attempting to process their own milk for sale as fresh pasteurized milk in order to improve their economics. In another situation, farmers have organized as a collective, and sell their milk to Lakto which is pasteurizing the raw milk and creating a 7-day shelf life product – but to date, this company has not been very successful. Additional steps that KAMP believes would improve the economics for farmers are 3+ month purchase contracts with processors, and a lower dairy product VAT tied to controls which ensure real volume reporting by processors. As an aside, it was noted that processors are able to get VAT rebates for equipment investment in the same year.

KAMP believes that it could best improve milk quality through training by veterinarians. Leveraging the Executive Director who is a certified vet, and other vets, the association is working 1:1 with farmers to improve livestock nutrition, hygiene, hoof trimming and reproduction practices. The association is seeking subsidies to reinforce this training/communication channel with brochures and DVDs on farm management best practices.

### CONSUMERS / PURCHASE DECISION INFLUENCERS

**February 18, 2009 – Consumer Focus Group (10 KPEP Employees, 5 males with children, 3 females with children and 1 each male and female with no children) – Moderator's Guide is available as Annex II**

This was a mixed group, most without exposure to the dairy industry in a professional way. Due to the size of the group and time constraints, some of the questions in the Moderator's Guide were not able to be covered or fully discussed. Below are the key findings.

#### Brands They Use Across the Entire Dairy Category

Alpsko (5 people)	Sole (1 person)	Imlek (1 person)
Vita (5 people)	Kabi (1 person)	Swedmilk (1 person)
Bylmeti (3 people)	Lakto (1 person)	Magic Ice (1 person)
ABI (3 people)	Hopla (1 person)	Sharri (1 person)
Other Imported (3 people)	Schmuad (1 person)	Imported Cheese (1 person)

Some of the reasons provided for strong brand preference are as follows:

- Taste is most important – “I buy different brands for different types of dairy products”
- Children’s preference (i.e., what they will eat) – will not buy brands they reject
- Wanted to buy Vita because it is made in Kosovo, but had a bad experience with smell
- Tradition – it is what we have used (or my mother used) for years, and I like it
- Best quality and value for the price
- When used to make products at home, this brand results in better tasting cheese/yogurt

#### Results of Blind Milk Test – Sole, Vita & Alpsko (based on appearance, smell and taste)

Interestingly, 4 participants chose Alpsko, 4 chose Sole and 2 chose Vita as their first choice. The primary sensory determinants of preference were smell and taste. Although most choose a brand of milk that they believe tastes the best, they will reject a milk brand if they do not like the smell. With regards to smell, several participants noted that they associate a certain smell as reminiscent of what they remember from childhood as being associated with fresh milk from the farm.

#### Other Products They Would Like to Get

This group of participants noted the following product categories as areas where they would like to see more choice/choice of domestically produced goods: fresh pasteurized milk (which exists, but the interesting finding here is that this individual did not think of bagged milk as fresh, and was unaware of Lakto), powder milk for longer shelf life storage, fruit yogurt made in Kosovo and fat free fresh white cheese.

#### Factors That Influence Dairy Product Purchase Decision

As is evident from the chart below, there is a diverse range of factors that influence the purchase of dairy products. However, past experience with a product/brand heritage, the presence of clear expiry coding and product/package safety are the top influencers of purchase decision. Factors such as the product being on promotion and price appear to be less important. This is consistent with the findings of the Prism Research survey. Surprisingly, packaging appeal was not rated as one of the top influencers.

# of people who ranked factor most to least important

<b><u>Purchase Decision Factor</u></b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>	<b>4<sup>th</sup></b>	<b>5<sup>th</sup></b>	<b>6<sup>th</sup></b>	<b>7<sup>th</sup></b>	<b>8<sup>th</sup></b>	<b>9<sup>th</sup></b>	<b>10<sup>th</sup></b>
Product availability in my store		1	2	1		1	2	1	1	1
Packaging appeal		1		1	2	1	1		3	1
Brand/past experience with product	4		2	1			1	1	1	
Price relative to other brands		1			3	3	2			1
Domestically produced vs. imported	1		1	1	1	1	1	2	1	1
Product/packaging safety	1	4	3	1	1					
Product appearance		1		1	2	2		1	1	2
Product/brand my children request	1	1	1	1	1	2		3		
On promotion in store				1		1	1		3	4
Presence of expiry coding	4	1	2		1		1		1	

Note: In addition, two participants highly rated (as 3<sup>rd</sup> preference) the ingredient labeling.

### Domestic vs. Import Preferences

This group of consumers stated a strong desire to buy products made in Kosovo in order to help the local economy, and help build up local private enterprise. It should be noted that this group might be skewed by the fact that they all work for KPEP, an organization whose stated mission is exactly this. That said, all participants agreed that they seek domestic products if available, assuming that the quality is comparable to available imported goods. Many of these participants also noted that the availability of domestic brands in many dairy categories is limited, which forces them to purchase imported goods.

### Influence of Children

The key insight with regard to children as influencers of dairy purchase decisions is that if the item is perceived as a treat (i.e., ice cream or pudding), then parents are apt to purchase whatever brand the child requests. For products in which nutrition/health are important (i.e., fluid milk, yogurt, cheese), parents are more apt to be the primary decision maker. However, if children reject a specific brand, then the parents will seek another brand that is acceptable to them.

### Opinion About Dairy School Program

At the end of the group, the moderator described an idea about developing a school program centered around the dairy industry, nutrition, health, product safety and other related areas in order to build better understanding and loyalty to domestically produced dairy goods. All participants stated that they believed this was an excellent idea. Two participants noted that their children already get this type of instruction in a private school.

As a final comment, one participant noted that a mass market publicity program promoting dairy consumption was very successful in Japan – entitled “3-A-Day”, referring to the number of times that people should consume dairy products for a healthy diet.

## OTHER

### **February 5, 2009 – Telephone Discussion with Al Wanous, Former Member of the Land O’Lakes Board of Directors**

Mr. Wanous has been spearheading dairy development projects in the Balkans since around 1990, starting in Poland where he lived most of that decade. Most recently, he had been in Kosovo for two and a half years working with KCBS. We contacted him to gain comparative perspective (versus other markets) of today’s Kosovo dairy sector in terms of raw milk production practices and quality. He indicated that improving the current raw milk situation in Kosovo will require immediate actions in three priority areas:

- Reduced bacteria counts
- Product segregation
- Product rotation at retail

To this end, Mr. Wanous worked with Kosovo’s dairy industry leaders to develop a “raw milk quality decree” spelling out standards and protocols intended to drive milk quality improvements across the dairy value chain from farmer to retailer. He noted working with various departments within the MAFRD (KVFA specifically) and other industry professionals to achieve this much needed step in the quality process. Wanous said we could get a copy of the “decree” from Arben Musliu, now with USAID/KPEP, who was part of the KCBS project.

Kosovo’s domestically produced dairy sector products are made up of mostly short shelf life, quick return products. There is a seasonality issue with supply, with about 60% more milk available in the spring/summer months compared to the winter/fall. This, of course, is due to the cows’ ability, or inability, to graze. Winter feed is primarily hay, though there are instances of alternative feeds such as corn silage and by-product brans from flour mills and breweries. Wanous says there are instances of farmers allowing their cows to dry out in the winter, which certainly affects supply predictability.

Quality is a challenge, and most problems are created by co-mingling of product either before the milk collection center, or at the milk collection center. He strongly urges pursuing more stringent measures to segregate milk at collection points to assure that sub-standard milk does not co-mingle with acceptable milk. Non-UHT milk in the market regularly presents off-flavors and off-odors within three days. Milk collected from larger dairies is generally good enough. The major problems are most often present with smaller farmers.

Presently, there is an excess capacity in Kosovo as the dairy sector is not yet sophisticated enough to satisfy retailer/consumer needs and keep out imports. Most production is concentrated in fluid milk, yogurt and other quick short shelf-life products that require limited inventory carrying costs. He believes that sour cream and cream cheese are two items that would fit with existing operations and consumer eating habits.

In discussing the major dairy processors in Kosovo, Wanous noted that KCBS helped Bylmeti to obtain HACCP certification. He also says that they make a decent cream cheese, as well as a stuffed pepper item that they believe offers expansion potential. The business is managed by Ymer Berisha, who is a good businessman. Berisha is decent to work with,

but wants money. A brother, Afrim, is their finance manager and speaks English. In Wanous' opinion, Bylmeti is the best plant in Kosovo, by far.

ABI Dairy is a "pretty aggressive group", per Wanous. In addition to their dairy operations, they own and operate a fruit and vegetable processing facility, as well as a hypermarket that sells dry goods, clothing, etc., in addition to dairy products. Fruit yogurts and cream cheese may be opportunities with ABI.

### **February 9, 2009 – Discussion with Fidan Ismajli at the Odessea Coffee Bar**

This coffee bar uses Sole UHT product for their served drinks. Although Fidan indicated a desire to use domestically produced product to help the local economy, they have experienced inconsistent quality and customer complaints by using local product in the past. This provided another data point supporting the fact that quality is a significant issue, both real and perceived.

### **February 11, 2009 – Sejdi Baleci, General Manager of the Milk Collection Center in Grabanica, Klina**

This milk collection center (MCC) is located in a very small building, owned by the municipality of Klina. Due to low milk prices, many of the local farmers have ceased their operations, so the contributing number of farmers to this MCC has dropped from 74 to 39 in recent years. Whereas they used to collect about 4,000 liters per day, they currently collect 2,000 – 2,500 liters per day on average (although today they only received 1,800 liters). The facility has two refrigerated holding tanks (at 3.7 °C) and a small desk for quick chemical and fat content analysis. One larger holding tank is reserved for higher quality milk which is sold to Devolli, and the other smaller tank is reserved for milk sold to ABI. Milk is typically picked up by the processing firms around 9 am, 5-6 days a week (not on Sundays).

This MCC conducts a quick alcohol test to get a read on potential high bacteria count. If the milk passes this test based on Devolli's set standards, it is directed into the Devolli tank. If not, then an acidity test is conducted based on ABI's standards. Milk that passes this test is directed to the ABI tank – milk that fails is not accepted at the MCC. After chemical testing, all milk is also evaluated for fat content. Average fat content is higher in the winter (3.5%) versus the summer (3.2%). Fat content is the basis used for determining the base payment rate per liter to the farmer. In the case of Devolli, final pricing inclusive of price/liter deductions or bonuses is determined after receiving results of the KVFA bacteria count test.

The manager of this MCC stated a desire to add pasteurization equipment to allow for longer storage of milk during the summer months when supply can outstrip demand by processors. He cannot afford to pay for this equipment, so is seeking outside investment. The current financial arrangement is that the manager of the MCC receives 8% of the monies received by farmers, paid by the processing dairies. Out of this compensation, he must fund his chemicals, electricity, cleaning materials, repairs and transportation surcharges (i.e., the private truck that picks up milk for ABI charges 5€ per load). (STTA Note: this compensation scheme does not incent the MCC manager for executing quality initiatives – actually, a MCC manager would save money if he skipped doing some chemical tests and did not have to buy as many chemicals.)

**February 11, 2009 – Paul Christ, Retired Vice President of Economics and Risk Management, Land O'Lakes, Inc., Arden Hills, Minnesota, USA**

Mr. Christ was contacted as another dairy industry “experienced veteran” and asked to comment on existing raw milk testing procedures in Kosovo. Knowing that he has done some dairy development work in the international community since retirement, we wanted his views on whether there are realistically achievable testing methods that are more reliable than those now used at Kosovo’s Milk Collection Centers.

He replied via e-mail: “First, I am not an expert on laboratory analysis. However, the tests you mentioned are commonly used in an underdeveloped environment. Acidity and density can be used to screen for high bacteria and added water, respectively. These tests are used as criteria for accepting or rejecting milk at the first buyer level. They are ineffective unless the standards for rejection are rigidly applied. What I think often happens is that if the buyer can readily pass bad milk off to someone else, he will accept it and resell it, possibly as co-mingled milk. The other thing that often happens is that milk is rejected, and then sold by the producers directly to households or to less particular buyers.

There are better tests for quality than acidity and density. However, they must be done in a sophisticated laboratory. Such laboratories are available in the Kosovo region, in particular, in Macedonia, in Albania, and in Montenegro, and maybe also in Bulgaria. To use such laboratories, you would have to develop a sample collection, preservation and transportation system. That is possible to do.

Bad quality milk, no matter how the quality is determined, should be excluded from all markets. My suggestion for doing that is to denature the milk with a food dye. Not many buyers would accept red or green milk.

If you want to get a more expert opinion about testing try to contact Bill Coleman at [wcolemanpjensen@aol.com](mailto:wcolemanpjensen@aol.com) or 701-866-7562.

The second way to deal with milk quality is, as you suggest, through incentives. I addressed the issue of incentives in the attached report on milk quality in Rwanda. I believe that some of the findings and some of the recommendations would apply to Kosovo as well as to Rwanda.”

**February 12, 2009 – Bill Coleman (+1-701-866-7562), American Dairy Consultant for Milk Quality, Safety, Laws and Regulation**

Bill Coleman resides in St. Paul, Minnesota, USA, and served as a consultant developing the Seal of Quality program in neighboring Macedonia, among other international assignments. Given his influential experiences there and elsewhere, we conferred with him to better understand the challenges of significantly improving overall milk quality, especially in the context of what is realistically achievable and marketable. His opinions support the need for absolute quality assurance before making marketing claims, and he feels that the program in Macedonia is a good model for achieving the milk quality essential to any successful marketing strategy.

Asked to comment on the testing procedures witnessed at Milk Collection Centers (MCCs) in Kosovo, Bill offered the following comments:

Regarding sample testing at MCCs: Alcohol is a somewhat useless test. It only tells you whether raw milk has a bacteria count of under approximately 5,000,000 cells per ml. In Kosovo, the criteria for “good” milk should be <1,000,000. Other tests, such as Resazurin

and Methylene Blue, are more accurate but take more time for results (up to 8 hours). These tests are good to use for payment, as it keeps farmers from prepping for their scheduled tests (by using good habits on testing day), then reverting to bad habits on other days.

Given its proximity to Kosovo and development similarities, it was suggested that the Skopje, Macedonia lab is a good model to follow:

- Each dairy pays a certain amount for each sample.
- Certain compliance criteria must be met to obtain/retain Seal of Quality.
- Dairy Association now administers the program. Land O'Lakes/USAID paid for the lab development, and administered it previously.
- Component payment (fat, solids, etc.) discourages added water that is likely to result if paid on volume.

Bill agreed with a suggested marketing strategy of targeting children and their parents with a school based program, using quality and safety education as a component of influencing purchase decisions.

Regarding Bacteria and its impacts: UHT Milk has no bacteria, so it is safe. However, UHT milk processed from raw milk with high bacteria count will undergo a chemical, not bacterial, reaction causing the milk to get lumpy. This usually occurs after about 60 days and is a by-product of the original bacteria in the raw milk. Additionally, it is suggested that UHT dairies run a "clarifier" to clean production lines of bacteria.

Understanding Bacteria cell counts: An ideal total bacteria cell count will be <200,000 parts per milliliter. For UHT, it should still be <1,000,000. The lower the count, the longer the shelf life. In the U.S., milk received into plants will be <10,000 cell count. In the store, after pasteurization, the counts will only be 1 or 2 cells per ml, stored at 35°F (2-3°C), and will have a full three weeks shelf life.

Understanding effects of Bacteria: Somatic cell count does not have as dramatic effect on shelf life as total bacteria cell count, with a count less than 1,000,000 still being the target. More than this number will tend to result in a product clumping issue. For cheese, a high total count of >1,000,000 will not be as noticeable as with fluid milk. However, the added bacteria breaks down the protein, affecting the cheese's ability to develop body and avoid off-flavor transfer. In this regard, the Balkan regional cheese Kashkaval stretches the curd, helping to offset the bacteria effects. Pasteurization, which is short term heat application at 70°C - 75°C (165°-175°F), does not totally kill bacteria. Thermidoric bacteria survive the first pasteurization in the form of spores. After a few days, the spores open and release more bacteria.

Understanding causes of Bacteria: Packaging is a big problem. Bacteria build-up in packaging equipment and containers re-contaminate the milk after it has been pasteurized. Milk packaged into bags, in particular, seems to be a regular culprit. Yogurt is not as much of a problem because the lactic culture grows faster than the e-coli, thereby controlling the pathogens and the spoilage bacteria.

Recommended realistic solutions: Coleman believes that the major cause, and major solution, is on the farm – educating and training simple techniques that result in good quality milk being delivered to the MCC. When asked if it is possible for the very small farmer (1-4 cows) to produce at the higher quality levels associated primarily (in the region) with larger farmers, he emphatically said, "Yes, it is possible." While in Macedonia, they conducted a test to answer this very question. They sought out a single farmer with historically bad total

bacteria counts of 5 million to 10 million, then applied training in the areas of clean-up and handling. In one day, the bacteria count was reduced to only 500,000.

In short, he feels that the farmers, not the collection centers, are the problem. Educating and training farmers is the solution. Action will require two key components: Qualified Trainers and Incentive to Participate.

### **February 13, 2009 – Arben Musliu, KPEP Agribusiness Specialist**

Arben Musliu has a Masters Degree in Agricultural Economics and a Bachelors Degree in Livestock Management. As part of the KCBS team, he was instrumental in developing Kosovo's "raw milk quality decree" in conjunction with MAFRD. This decree establishes specific dairy production standards and guidelines, including micro-biological objectives, product component objectives, and payment grid guidelines. The decree was adopted and implemented in April 2008, with expectations for dairies to achieve targeted goals by 2010. (Note: in a subsequent e-mail, Mr. Musliu noted that the targeted goals have been delayed by one year, so the 2008 goals will apply to 2009.)

Musliu expressed his opinion that the dairy sector needs to both improve milk quality and improve milk marketing efforts simultaneously; that the process is not sequential. Plans are in place to engage ten veterinary students from the University of Agriculture to work at the five top producing dairy processing plants. There, they will observe and evaluate KVFA results of milk samples, identify problem farms/MCCs and implement corrective actions and protocols. This process will start March 1, 2009 and repeat every six months.

In commenting on the state of the dairy business, Musliu noted that Europe is re-instituting dairy subsidies that will likely lead to product dumping in Kosovo and elsewhere. He feels that Kosovars distrust local product, so additional imports could have a significant negative impact on domestically produced product sales.

He pointed out four keys to advancing dairy in Kosovo:

- Improving existing processes – production, collection, distribution, etc.
- Improving quality of raw milk – product, handling practices, etc.
- Expanding education, both substance and reach.
- Providing incentives at each level of the value chain.

Mr. Musliu also highlighted that seasonality affects the taste and smell of milk. He stated that imported items use additives to maintain consistent taste profiles, but domestic processors do not use these additives so their products suffer taste fluctuations throughout the year. He recommended consumer education regarding the nature of natural products and the impact of seasonality because of livestock feeding.

### **February 14, 2009 – Visit to Pristina Green Market**

Among the dairy products sold in this Green Market were fresh white cheese, raw milk (typically packaged in used 2 liter carbonated beverage bottles), cream and xhiza (ricotta cheese). Formerly, all dairy products were required to be sold from an indoor location, but now cheeses are distributed by hand cart to vendors throughout the market. Cheeses ranged from 2 -5 € per kilogram, depending upon the type, quality and percentage of milk fat.



## **DISCOVERY ANALYSIS / RECOMMENDATIONS**

### KEY FINDINGS SUMMARY

The meetings with key stakeholders revealed a tremendous amount of insights and detailed information regarding the domestic dairy sector value chain, as indicated in the detailed notes above. Based on our market observations and discussions, we would summarize our key findings as follows:

#### The dairy sector is at a precarious stage – now is time to take action

- Production costs are high, and farmers need to focus upon management instead of production. Economies of scale favour larger farms.
- Devolli, the largest processor representing 35+% of processed milk, currently is experiencing a large surplus of inventory, declining sales and zero margins. As a result, they are currently evaluating whether they should cease dairy operations. If they were to do this, there would be a significant surplus in milk supply with no available market.
- Importers are garnering the majority of value-added product sales (over 70% market share). This has the impact of decreasing the available market for domestic goods. Of note:
  - Importers have a long-standing brand heritage in Kosovo, which has resulted in established consumer loyalty and confidence.
  - There is a belief that importers are “dumping” excess inventory, due to the current economic recession, in Kosovo at below market prices.
  - Importers are more aggressively marketing their products, and have better product packaging and product consistency.
- The current Kosovo fiscal policy applies the same VAT rate (16%) to essential food as to non-essential items.
- CEFTA creates inequities in that it allows free trade in, but restricts trade out, because Kosovo lack negotiation capacity.
- Associations are focused more on lobbying than on building the sector. Both associations have limited experience and financial resources due to poor membership dues structures, which are small and not based on volume.
- The current economic downturn makes it difficult for processors to invest in more capacity, plant technology, quality improvements, better packaging, product development, etc.
- Restaurant, hospitality, and institutional feeders favor imported products. Many are moving in this direction because of the availability of less expensive imported products, especially cheese.

Confidence and trust is a key issue across all stakeholder groups

- Consumers are skeptical about domestic brands. They believe that domestic dairy goods are lower in quality than imported brands (i.e., Alpsko, Dukat, Meggle and Swedmilk).
  - Many consumers talk about bad past experiences with off-tastes/smells associated with domestic products (Vita milk, Bylmeti yogurt); and, these consumers have long memories. Often, a brand has only one chance to make a first impression.
  - Kosovars have a long heritage of good experience with imported brands, especially those from Slovenia and Croatia.
  - Imported brands have superior packaging (both graphics and structure) which creates the perception of better quality; and perceptions = reality.
- Farmers distrust the processors, and believe that they are not being treated fairly.
  - Many farmers don't believe that processors share the real KVFA sample test results with them. More transparency is required in the testing system.
  - Many farmers think processors are unfairly compensating them for their raw milk, based on the guidelines established in the government's "Raw Milk Decree".
- Businesses don't believe that the government's fiscal and trade policies protect their interests, or support dairy as an important developing sector for the national economy.

Consistency in the market is lacking

- Consumers dislike domestic product variances in flavor, appearance, texture and aroma.
  - In both the Prism research report and interviews, there are comments of off-tastes and smells.
  - Consumers say that products taste different at different times of the year.
- There do not seem to be enforced product standards of identity. There is a wide variation in fresh white cheese, Kashkaval and other products in the market, causing consumer confusion about what to expect.
- Seasonality impacts both milk and product supply. Raw milk supplies increase by 50% in the summer. To utilize this increase in available milk, many processors make Kashkaval, but this product is not available in the winter. Similarly, Bylmeti makes a peppers-in-cream product only in the winter, and stops production when their pepper supply diminishes in March.
- Milk quality is also affected by a human element. For example, processors feel compelled to accept milk from farmers who lost refrigeration because of power outages. Also, pasteurized milk sits outside (unrefrigerated) at Green Market, against regulations; but, no one enforces this, so consumers might buy spoiled milk.
- There is an inconsistency in the visibility of expiry coding on products, even though this is a very important factor affecting consumers' buying decision. Also, retail product rotation and product handling/storage vary from store to store, situation to situation.
- The skill levels of management vary greatly across processors, both in terms of expertise and sophistication. These managers would benefit from training in best practices across a number of areas, from dairy processing technology to sales and marketing.

Optimistically, many opportunities exist to improve domestic product sales/marketing

- Nationalistic pride is real and can be leveraged; however, product quality must meet expectations or consumers will turn to non-domestic alternatives.
- Consistent product availability will enhance brand loyalty.
- Improved operational efficiency will reduce excess costs, and make domestic products more price competitive.
- Opportunities prevail with regard to new product introductions in high margin dairy categories (i.e., fruit yogurt, puddings, aged cheeses, cream cheese, etc.). This is

especially true of products that better meet the wants of children, who are key purchase influencers. With regard to “treat” items, parents buy the brand their children request. With regard to more nutrition-based dairy items, parents make the choice, but if their children reject a brand, then they will buy an alternate brand in the future.

- Packaging can be enhanced tremendously, to increase brand messaging, product appeal and package integrity (which ensures consumer confidence in product safety).
- Additional capacity exists to allow for more raw milk to be processed into quality products. Devolli has current capacity to increase production by 300-500%, depending upon the season.
- Most domestic processors do not currently participate in available marketing vehicles (i.e., advertising, in-store promotions, etc.) to build longer-term brand loyalty.
- Government, associations and processors all favor consumer education. Most believe that a school program which increases knowledge of the local dairy industry, good nutrition practices and food safety, among the next generation, is a good initiative.

### RECOMMENDED MARKETING STRATEGIES

Based on these findings, we recommend the following five marketing strategies to increase sales and consumer loyalty relative to domestically made dairy products. It is important to note that a strong product/marketplace foundation must be built shorter term, before a longer term campaign to increase consumption of locally produced dairy products can be effectively implemented.

#### 1. Increase the quality across the entire dairy value chain

- Utilize veterinarians (through the Vet Chamber of Commerce) and University of Agriculture students as interns at dairy processors to improve field quality by:
  - Reviewing raw milk sample results from KVFA and identifying significant farmer/MCC issues that can be rectified with their guidance.
  - Providing current vets and interns with skills for 1:1 training with farmers/MCCs.
  - Utilizing this program as a two-way communication channel to better understand needs and incentives required for better quality.
  - Conducting annual roundtable forums with Vets, led by KAMP, to share/act on issues.
- Support processors’ initiatives to modernize their production facilities.
  - Support processor investment in automated equipment in order for them to achieve improved efficiency and quality. This will result in both higher margins and more competitively priced products.
  - Assist processors with the implementation of HACCP, ISO 9000/1 and GMP practices.
  - Leverage this opportunity for facility expansion, to enhance local architectural/construction expertise, in support of KPEP’s broader mission.
- Field market research to assess consumer preferences (product hedonics and packaging).
  - Compare domestically produced products versus imported products.
  - Regularly repeat this research over time to acquire trend data, which can serve as an early indicator of problems and help processors improve product delivery; ultimately resulting in increased consumer satisfaction and loyalty.
- Improve the packaging of domestically produced dairy products.
  - Leverage branding best practices to increase packaging appeal and retail presence.
  - Improve packaging structure for better distribution integrity and product safety.

- Strengthen the role that KAMP plays in identifying raw milk quality best practices.
2. Advocate for government policies/support in favor of the domestic dairy sector
- Lower the VAT tax (currently 16%) on dairy/agricultural consumer goods.
    - Recognize the importance of dairy products to overall Kosovar nutrition; and that dairy and other food products are a necessity, not a luxury.
    - Enforce processor compliance with regard to reporting real production volumes.
    - Evaluate the tariff structure on imported inputs to the dairy value chain (such as packaging materials). Decrease the VAT on inputs will lower costs, allowing domestically made products to be more price competitive.
  - Institute “anti-dumping” laws in accordance with CEFTA.
    - Closely monitor state subsidies being provided by neighboring countries importing products into Kosovo.
    - Also, monitor import quantities, and pricing (domestic vs. imported) across product types in all five regions of Kosovo, to identify potential offenders.
  - Increase public investment to ensure dairy product quality and safety.
    - Heighten KVFA staffing to ensure sufficient resources to monitor quality issues.
    - Assess benefit of partitioning KVFA into two agencies: one to monitor the quality of farmer inputs, and one to monitor the quality of processor finished products.
    - Ensure that product standards of identity are articulated, monitored and enforced.
  - Ensure that the tender process for school/hospital/institutional feeding is fairly executed.
    - Ensure transparency, and enforce the legislated process regarding the awarding of tenders.
    - Revise regulations to favor tenders being awarded to domestic producers who can meet requirements consistently in a high quality fashion.
3. Launch initiatives to improve lead domestic processor capabilities to enable them to compete more effectively. Focus first on the larger processors (Devolli, ABI, Bylmeti) and then on the others
- Provide training and financial support to address key marketing issues.
    - Leverage food technologists to train processors how to maintain consistent product taste/quality delivery. Initially, utilize international experts. Longer term, develop a food technology/nutrition curriculum at University of Pristina (Agriculture, Veterinary Science, Medicine) to develop a trained domestic workforce.
    - Support facility expansion to allow for innovation and product diversity, which is required to fully compete with imported brands. This is especially true for high value-added dairy categories such as fruit yogurts, pudding and fresh white/aged cheeses.
    - Help finance modernized packaging equipment to support competitive product presentation.
    - Introduce premium brands across dairy categories, leveraging the highest quality raw milk, processes and packaging. Ultimately, this will result in better margins for processors and increased consumer loyalty.
  - Provide training to improve core business management best practices.
    - First, focus on required marketing and sales practices (inclusive of distribution and optimal shelf management).

- Second, focus on manufacturing and product development practices.
  - Third, focus on financial/accounting practices and optimizing relationships with farmers/MCCs.
  - Take actions to strengthen KDPA's effectiveness and role in developing the dairy sector.
    - Add professional analysts/economists who can gather industry data on a regular basis, inclusive of import quantities, retail category sales and total consumer consumption of dairy products.
    - Assist the association in taking a leadership role to facilitate processor collaboration for mutual benefit (i.e., short-term, quality improvement initiatives – long-term, facilitating the implementation of a Seal of Quality program and related consumer awareness/loyalty building campaign).
4. Develop a domestic packaging company to support the production of local dairy/food products – this provides a potential secondary benefit of increasing exports/domestic GDP, consistent with KPEP's mission to grow private enterprise – thereby helping the Kosovo economy transition from an agrarian to an industrial society
- Complete a feasibility study to fully understand optimal packaging/printing technologies, state-of-the-art equipment suppliers, associated costs and implementation requirements.
    - Leverage local resources (i.e., Riinvest, MDA) to execute the study and develop a business plan.
    - Assess how government could support/promote the development of a new industry.
    - Identify both dairy and non-dairy production needs and applications in Kosovo.
    - Consider fielding a graphic design competition among local companies to assess local capabilities, as part of this initial phase.
  - Explore potential public/private partnerships to finance a new packaging company.
    - Approach Devolli to assess their interest in diversifying their manufacturing capabilities into packaging – first to support an expanding domestic dairy industry, and later to pursue other profitable opportunities.
    - Dialogue with international packaging leaders to determine their interest in making an investment in Kosovo.
    - Attract investment from Diaspora angel networks (National Albanian/American Council).
5. Improve consumer perception of locally produced dairy products
- Short term, develop and field a primary school-based education program to improve health, nutrition & food safety practices, and knowledge about the Kosovo dairy industry – either as core curriculum or as an extracurricular activity.
    - Focus on children in their formative years (age 10-12).
    - Develop the curriculum and include visits to domestic farms and dairies.
    - Leverage the program to influence parents' understanding, perceptions and loyalty with regard to domestically produced dairy products.
  - Long term, develop a "Seal of Quality" program to highlight domestic dairy products that employ quality standards across the value chain from farm to consumer.
    - Complete a study of programs executed in Macedonia and other countries to articulate best practices.
    - Develop standards for farm, processor and distribution practices.

- Establish a governance board comprised of dairy associations, KVFA and others (to be determined) to enforce compliance.
- Design a seal for use on-package.
- Launch the initiative with a broad awareness/confidence-building consumer campaign (PR, industry ads, retail promotion support, etc.). Fund the program from private enterprise, leveraging a new equitable dairy association membership dues structures based on producer/production volume.

### DESIRED OUTCOMES

The recommended marketing strategies outlined above highlight a roadmap to achieving the goal of a strong domestic dairy sector. If successful, we envision that the following characteristics will exist in Kosovo within the next four to five years:

- All raw milk delivered to processors will be Extra/Class 1 by 2012.
- A strong relationship of trust will exist between farmers, processors, associations and the government.
- Processors will be highly efficient, competitive and marketing savvy, and “own” the market.
- Hypermarket retailers will see the benefit of promoting domestic products to enhance their revenues.
- Good industry information regarding sales, market shares and consumption will be available.
- Domestic products will have equal to, or better packaging graphics/structure as imported products.
- A new packaging industry will be established to serve local needs (dairy and other product sectors), and would also be enhancing Kosovo’s GDP and trade balance.
- Monitoring of food safety by the KVFA will be dramatically improved, resulting in a high level of consumer confidence in domestically produced products.
- KAMP/KDPA will be functioning as strong associations, playing a significant role in building and promoting a modernized dairy sector.
- Trade/fiscal policies will strongly support the growth of Kosovo’s dairy sector.
- A primary school program on the local dairy industry, health, nutrition and food safety will have succeeded in pilot test, and have been rolled out to all schools in Kosovo.
- A “Seal of Quality” program will have been developed and implemented, backed by a broad awareness/confidence building marketing campaign.
- Consumer perceptions and purchase of Kosovo produced products will be greatly enhanced.

### IMPLEMENTATION MILESTONES

We recommend the following action steps be initiated over the next year as a starting point for implementing the marketing strategies outlined above:

- Launch a Vet/University of Agriculture Intern farmer/MCC pilot initiative – provide the vets/interns with training to ensure that they have the proper skills to teach farmers new practices, and support their internship with a small stipend.
- Create a curriculum and classroom materials, and implement a pilot school program on nutrition/health/food safety centered on the domestic dairy industry.
- Develop and field market research on consumer hedonic preferences and packaging preferences relative to a range of dairy products – domestically produced versus imported brands.

- Commission a research and analysis study to build a case for beneficial trade/fiscal policy changes (anti-dumping laws, VAT changes, institutional feeding tender process), and present findings to a roundtable of all interested government Ministries.
- Award and complete a feasibility study for building a domestic packaging industry.
- Provide training to lead dairy processors to increase their skills/knowledge regarding marketing, packaging and sales management. Support the lead processors with a professional food technology resource, to help them take steps to enhance product consistency. Develop a core curriculum on food technology at University of Pristina to create a trained Kosovar workforce for the future.
- Provide training to help the dairy associations build their expertise to better fulfill a future industry leadership role.

A proposed timetable for longer term implementation is provided below:

Y	E	A	R	
1	2	3	4	
<b>QUALITY</b>				
				Utilize University of Agriculture Students as Interns
				Support Processor Initiatives to Modernize
				Field Market Research - Product/Hedonics Preference
				Improve Domestic Packaging
				Strengthen Role of KAMP - Raw Milk Quality
<b>ADVOCACY</b>				
				Lower VAT on Dairy Products
				Institute "Anti-Dumping" Laws
				Invest in Dairy Product Quality/Safety
				Ensure Transparency / Enforce Process - Institutional Bids
<b>LEAD PROCESSOR CAPABILITIES</b>				
				Training/Financial Support against Marketing Issues
				Training of Best Management Practices
				Strengthen KDPA's effectiveness as Leader
<b>DEVELOP DOMESTIC PACKAGING COMPANY</b>				
				Conduct Feasibility Study - Determine Best Fit
				Explore Public/Private Partnership to Launch
<b>IMPROVE CONSUMER PERCEPTION OF DOMESTIC DAIRY</b>				
				Short Term - Primary School Education Program
				Long Term - Kosovo "Seal of Quality" Program

**IMPLEMENTATION RESOURCE REQUIREMENTS**

To facilitate execution of the recommended marketing strategies, local support resources will need to be engaged in the following areas:

- Packaging design/structure
  - To ensure consumer appeal and product safety from production through distribution, retail sale and use in the home.
- Public relations
  - To build awareness of industry messages and build both retailer support and consumer loyalty for dairy products made in Kosovo.
- Market research
  - To identify emerging consumer wants and trends, and to assess consumer brand loyalty and hedonic product preferences between domestic and imported products.

- Advertising and promotions
  - To build specific brand loyalty and product sales for dairy products from local processors.
- Education curriculum development experts
  - To assist in the development of a school program to enhance knowledge of the local dairy industry, nutrition, food safety and other issues relating to dairy product consumption.
- Policy formulation and economics expertise
  - To complete the necessary research and analysis to build a case for advocating policy changes beneficial to the dairy industry related to trade and tax issues.

## LOCAL RESOURCE ASSESSMENT

### RECOMMENDED SUPPORT RESOURCES

There are numerous support resources in Kosovo that claim a broad competency to do almost anything from strategic consultation and market research execution/analysis to PR and creative campaign/packaging development. In most cases, these companies rely on the same freelance experts in areas of market analysis, graphic design, communications strategy and implementation – and are casting a broad net to capture opportunities for revenue. It is our strong recommendation that future KPEP initiatives award work based on the core competencies of each firm.

Given time restraints, we were unable to cover the landscape and interview the broad array of support resources emerging in the Kosovo market. Based on our limited number of meetings, we would recommend that the following firms be part of the consideration set for involvement in the execution of strategic marketing initiatives:

<b>Support Resource Firm</b>	<b>Core Competency Area</b>
▪ Riinvest	▪ Economic policy research, private enterprise feasibility studies, opinion polling and business plan formulation
▪ MDA	▪ Feasibility studies, research and project management
▪ GAP	▪ Economic impact research and policy analysis
▪ Kosovo Education Center	▪ Primary/secondary school teacher training and education management; curriculum development/management
▪ D-Line Group	▪ Creative advertising/promotion development, production and field implementation of marketing initiatives
▪ Ubo Consulting	▪ Marketing research (ability to execute consumer hedonic research needs to be further assessed)

Details on all support resource firms interviewed are outlined in the section below.

## DISCOVERY DETAILS

### **February 16, 2009 – Fisnik Vejsa, Owner/Event Manager of Kaon**

Company was founded in January 2008. Fisnik is a professional veterinary surgeon who has 6+ years of experience in TV production and advertising (one year at Zero Pozitive). His partner has a degree and experience in film production. They highlighted media production and placement as their core competency area. Fisnik has also fulfilled the role of host on local TV shows. In addition, Kaon has produced a TV talk show and cooking show, and a TV documentary for a school delinquency project. Kaon has a limited staff – they operate on a model that relies on freelance resources for graphic design, research, copywriting and creative communications development.

Kaon's clients include Devolli (name/logo development, packaging graphics development, focus groups to verify positioning and TV/Print/Outdoor ad campaign for Po, a new juice product), Fruitti (Juice), Floren (meat industry) and Union (a Slovenian beer company).

### **February 16, 2009 – Uliks Osmani, President of Ubo Consulting**

Company was founded in 2001, and currently has a staff of eight. Their primary focus is primary and secondary market research and analysis (both qualitative and quantitative) linked to feasibility studies, strategic business/investment plans and economic development. Uliks Osmani (one of two founders – the other is Berat Abdiu, Chief of Operations) has a BA degree from CUNY in the USA and a MBA in Strategic Planning from a school in London.

They highlighted a large 10,000 sample survey they just completed for the UN Development Program and the USAID, to understand Kosovar perceptions of government services, as an example of a project they just completed. In 2003, they were involved in completing dairy studies, working with a Swiss organization. In addition, UBO Consulting has completed strategic business plans and feasibility studies for the private sector. About 40% of their work is with private enterprise, and 60% is for NGOs and the Government.

When asked about his personal perceptions of the Kosovo dairy sector, Uliks stated that he believed the critical issues were: (1) insufficient farmer capacity to produce raw milk, (2) issues with the MCCs and (3) processor inexperience relative to developing thoughtful business plans to optimally meet the needs of a specified target consumer group, and expertise regarding leveraging marketing to accomplish their goals. The intent of this question was to assess their understanding of the dairy sector and the fundamental issues that need to be addressed. (Note: after the meeting, feedback from Fatmir Selimi and John MacKillop, KPEP Chief of Party, is that in the past, some questions have been raised regarding the data integrity in Ubo Consulting studies.)

### **February 16, 2009 – Driton Dalipi and Luan Dalipi, Owners and General Managers of Management Development Associates (MDA)**

Founded in 2001 as a NGO, this company was privatized by three owners (all educated in the USA, with MBAs) in 2004. They have 18 full time employees, 60 associated consultants and a database of 3,000 experts in other areas that they call on for their engaged projects. MDA highlighted the following three areas as “pillars” of their business: (1) 60% of their revenue is from international development working with NGOs, (2) 30% from private sector development (i.e., due diligence, business plans, marketing recommendations), and (3) 10% from soft skill training to both the public and private sectors.

First and foremost, MDA has an expertise in project management. Their value added is in framing a project, recruiting the most appropriate experts to execute, and cost-effectively

delivering the promised results. In the past, MDA has studied privatization issues for the European Commission, public finance issues for the Ministry of Economy and Finance, and decentralization governance issues for the Ministry of Local Government. They have also completed customer satisfaction surveys and managed a packaging competition across five food product categories for KCBS, and consulted with private companies to assist them in earning ISO 9000/1 certification. When they get involved with marketing issues, they have partnered with a variety of creative agencies such as Intermedia (campaign development and media placement for Luko potato chips), Pristina Film (for the development of an election campaign) and Studio D-Line (for a European Commission PR project).

**February 16, 2009 – Fioret Pruthi, Owner & General Manager of Marketing Solutions Group (MSG)**

Founded in 2008, this company is focused on providing strategy, market research support and analysis, and creative marketing support to private enterprise. The company is comprised of the two owners and four other associates (including one graphic designer with limited video production experience). Fioret Pruthi (with advanced education degrees in computer science and marketing from schools in Austria and Greece) has experience working as the marketing manager at Pro Credit Bank – so, the company has focused primarily on sourcing work from the banking and telecom industries.

In the past year, MSG has completed a pricing analysis and marketing campaign/packaging overhaul for a fruit and vegetable client; and also has fielded a major PR event for Pro Credit Bank timed to coincide with the opening of their new headquarters to enhance their image. Mr. Pruthi also noted that his partner is the owner of many outdoor billboards in the seven major urban areas of Kosovo, and that they have close ties with all media channels. Finally, the company claims to have experience in e-mail marketing/online advertising, based on work Mr. Pruthi did in Austria.

**February 16, 2009 – Agim Orllati, Account Director at Zero Pozitive Publicis**

Founded in 1999 as City Group, the current agency split off in 2004, when it was restructured as a full service marketing agency targeting large companies with substantial marketing budgets. Originally, Zero Pozitive collaborated with TBWA for work in the Kosovo/Albania market; but in 2006, they secured the franchise rights to this area from Publicis. This partnership provided the agency with access to all of the resources and associate training opportunities of Publicis' global marketing services network.

With 25 full time employees (down from 40 due to the recent economic downturn), the agency focuses on international companies seeking to market their products in Kosovo and Albania. Currently, 70% of revenue is derived from multi-nationals including Nestle, Lorel, Argeta, TEP bank and IPKO telecommunications. 30% of the company's revenue is derived from domestic marketers. From 2004 to 2007, Zero Pozitive represented Devolli for UHT milk and coffee. They parted ways with Devolli in 2008 by "mutual agreement", but they are beginning to work together again this year.

Until recently, the agency charged clients only for media placement (at a 3% rate) and promotional/event execution (at a 12% rate). Now, they charge fees for services, including creative development. Mr. Orllati highlighted that 85% of Kosovars get their primary information from TV, so this is the primary medium they concentrate on for advertising. However, radio, newspapers and outdoor are also part of every major campaign. When asked, they noted that Public Service Announcements are accepted by Kosovo TV stations, but human interest stories on the news are hard to secure. The agency has fielded campaigns leveraging new media, and cited a Facebook application they created which had strong results and was rated by Facebook as one of their Top 10 most successful marketing

initiatives. Finally, Mr. Orllati noted that a direct comparison to competitors in TV advertising is not done, as Kosovars tend to be offended by this type of advertising.

**February 18, 2009 – Lirijon Kadriu, CEO/Owner/Creative Director of Advertising Studio D-Line and VM3 (production group)**

Originally founded in 2001 as a creative boutique, the D-Line group (which includes Advertising, Production (VM3) and Video (Pixels)) was formed in 2006. Currently the company has 4-5 employees in Advertising, 8 employees in Production and a few managers in Pixels (which highly leverages freelancers for video projects). The Advertising agency does creative development, media planning and placement, strategy recommendations (through a partnership with MDA), account management, campaign management and graphic design). VM3 does print/banner/promotional stand production and placement, and also acquisition of marketing premiums for giveaways. The agency has won several awards for their creative, including international competitions.

D-Line's creative clients include PDK (political campaign), the government's 1<sup>st</sup> Independence Day celebration, Posta (telecom) and donor agency campaigns (UNICEF, UNDP and WHO (AIDS and Lead Poisoning campaigns)). VM3's printing/production clients include Magic Ice (Lirijon's cousin), Raiffeisen Bank and TEB Bank. Lirijon would rank his company among the Top 5 established creative/design agencies. Some of the others he mentions are Zero Pozitive, Olgivy Kosova and Rrota (which focuses on interactive/web design). Lirijon mentioned that there are over 60 agencies in Kosovo – new ones all the time.

**February 18, 2009 – Shpend Ahmeti, Executive Director of GAP (Policy Analysis Group)**

Founded in 2007, the organization currently has 10 full time associates and a network of 20 other local consultants with whom they regularly collaborate. Mr. Ahmeti did his undergraduate study in Economics at the American University in Bulgaria, and his Masters in Public Policy at the Kennedy School/Harvard University. His work experience includes the US Embassy, European Bank for Reconstruction and Development and the World Bank. The company focuses on providing objective, independent policy research and analysis, and also acts as a think tank to help develop local resources.

GAP's has three main programs:

- Economic development to support public interest.
- Center for political development – works with Parliament committees to help them to optimally fulfill their objectives, by providing primary research data to support initiatives.
- Program for social development – focused on the areas of education, health and social assistance.

GAP's funding comes from three sources: (1) core financing from private philanthropies (i.e., Rockefeller Foundation, Motts Foundation, Soros Foundation), (2) project grants from foreign government agencies like DFID (the British equivalent of USAID), and (3) consulting revenues from private enterprise. One of the projects they have completed is an analysis to support advocating for better relations between Kosovo and other CEFTA nations.

When asked about reducing the VAT on agricultural products in Kosovo, Mr. Ahmeti expressed that a proper analysis outlining what the government will lose and how they can make it up, is required in order to move things forward. This is the type of analysis and data collection that GAP provides. Mr. Ahmeti explained that the issue gets further complicated by involvement of the IMF. He highlighted that the first step is proper analysis, and the

second step is to build a coalition of donors to put pressure on the IMF and other impediments to change.

Lastly, we asked him about other local organizations that offer similar services to GAP. He mentioned the American Chamber of Commerce and the Kosovo Chamber of Commerce (both membership based) which advocate for policies that benefit local private enterprise. He also mentioned Riinvest which does research and analysis on economic issues. As closing comments, Mr. Ahmeti mentioned that he is a professor of social policy at the American University in Pristina, and that he oftentimes uses students to gather data. He mentioned that a household budget survey is done annually by the government. Finally, he noted that the data from customs (2008 raw data available next week) have improved in quality, and are helpful in gaining a better perspective on issues relevant to the dairy sector.

**February 20, 2009 – Sejdi Osmani, Executive Director of Riinvest; Alban Zogaj, Research Director of Riinvest; and Skender Kaciu, Agricultural Consultant to Riinvest and Professor at University of Pristina**

Founded in 1995, this business/economic “think tank” has 20 full-time employees, 7 part time associates (who also are professors at University of Pristina), and a network of 50 external collaborators (both Kosovar and international) that they call upon for project engagements. The company focuses on economic policy research (which they distribute in the form of training and publications), opinion polling, strategy development, business plan formulation and feasibility studies related to sector development.

Riinvest had partnered with USAID and CIPE (the Center for International Private Enterprise) on an economic development plan after the war which included research on 12 “models” (fiscal/tax policy, trade policy, labor marketing analysis, education, agriculture, etc.), participation in an international roundtable forum and recommendations to policy makers in the Kosovo government. They have also worked with KCBS on a wood processing strategy, and have developed the Kosovo National Development Plan – which covered 22 sectors including agriculture. (Note: a later discussion with Fatmir Selimi highlighted that this study was not well received, nor has it been implemented to date.) In the private sector, they have developed business plans for Rugova Water and a domestic beer company.

Currently, Riinvest has a contract with Booz Allen Hamilton to implement a multi-year survey of 550 small and medium enterprises. This study covers areas such as costs, employee count/turnover, sector imports/exports, future plans and investment – across 12 sectors including agriculture/dairy, construction, tourism, ICT (Information and Communications Technology) and business services. They have just completed the data collection for the baseline year, and are preparing their first report for this project.

At the end of the meeting, we discussed how Riinvest would approach the execution of a feasibility study for a new domestic packaging industry. They outlined a viable approach, noting that they would include a cost/benefit analysis and review of competitive practices in the Balkan region.

**February 20, 2009 – Dukagjin Pupovci, Director, Kosovo Education Center (KEC)**

The Kosovo Education Center is a non-government, donor funded enterprise whose core focus is training primary and secondary school teachers. Additionally, they operate a private school that helps generate income to support their non-profit activities.

Mr. Pupovci is very willing to collaborate, and even lead, the implementation of a food nutrition/food safety school education program. He appears to have the qualifications

required to carry the initiative forward. He cautions us to understand the history and structure of the Kosovo Public School System, and shared his insights. He noted that about 25 years ago, Household Education (which had a health component) was taught in the schools. That curriculum was replaced by Civic Education. In both instances, the attitude within the educational community is that these are subject areas that people “already know”, therefore current curriculum focus and delivery is very academic and traditional.

As a private school, KEC is able to be much more flexible, integrating experiential learning techniques with traditional techniques. They can very easily serve as a pilot project for virtually any subject matter that adds benefit. While willing to do that, he notes that private schools represent only 1% of Kosovo’s education system. Thus, he can serve as a testing ground, but cannot meet the underlying objective of impacting learning and attitudes on a national scale.

Mr. Pupovci expressed his opinion that a new curriculum would be a hard sell, as it is unlikely that there would be room for adding a new curriculum module. A better option, he suggested, might be to establish a competition (among schools/students) leading to a set of awards that would motivate activity among students, teachers and parents. They have done events like this, and they have proven to be very successful. The extra-curricular educational campaign might be a challenge to students to answer the question, “How would Kosovo’s development be impacted if it produced and consumed more local products?” The project could be followed by Kosovo’s national TV, RTK, providing regular updates to all Kosovars.

He further suggests that the awards ceremony be linked to a business fair, perhaps sponsored by Kosovo’s dairy businesses. For these events to take place, funding will be needed (he thinks that UNICEF might support this since it involves life skills), as well as technical skills training. On this last note, it is his opinion that an international specialist will be needed – an educator who has experience with marketing, merchandising and promoting health/nutrition programs. He does not believe that a person with this experience exists in Kosovo.

## MEETING SCHEDULE

### STEVE CARPLES' FIELD ACTIVITIES

<u>Date of Meeting</u>	<u>Name and Position Title Organization</u>	<u>Purpose</u>
09-02-2009	<ul style="list-style-type: none"> <li>▪ Fatmir Selimi, Ag Consultant</li> <li>▪ Ymer Berisha, Director of Bylmeti Dairy</li> <li>▪ Visit Interex store in Pristina</li> </ul>	<ul style="list-style-type: none"> <li>▪ Background review/engagement action plan</li> <li>▪ Understand needs/goals/operation capabilities/etc. of lead processor firms</li> <li>▪ Understand lead hypermarket merchandising</li> </ul>
10-02-2009	<ul style="list-style-type: none"> <li>▪ Visit ABI Center</li> <li>▪ Alajdin Fusha, Director of ABI Center (ABI Dairy)</li> <li>▪ Ramadan Memaj, President of Ajka Dairy and KDPA</li> <li>▪ Visit 2 Banaf stores (Prizren)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand retail practices/merchandising</li> <li>▪ Understand needs/goals/operation capabilities/etc. of lead processor firms</li> <li>▪ Understand current activities, future goals of &amp; potential new roles that KDPA could fulfill</li> <li>▪ Understand lead hypermarket merchandising</li> </ul>

11-02-2009	<ul style="list-style-type: none"> <li>▪ Sejdi Baleci, General Mgr. of the Milk Collection Center in Grabanica, Klina</li> <li>▪ Ismet Bojku, General Mgr. of Devolli Company</li> <li>▪ Petrit Selmanaj, General Manager of Peja Elkos Store</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand the operations and milk analysis testing that occurs at milk collection centers</li> <li>▪ Understand needs/goals/operation capabilities/etc. of lead processor firms</li> <li>▪ Understand hypermarket practices (i.e., purchasing, merchandising, marketing)</li> </ul>
12-12-2009	<ul style="list-style-type: none"> <li>▪ Ramë Idrizaj, Marketing &amp; Sales Manager for Maxi – Luan Pula, Manager of Maxi's in-house agency Expo-M</li> <li>▪ Miftar Sherifi, Chief of Fresh Department (Dairy &amp; Meat) at Interex Store in Pristina</li> <li>▪ Agim Rexhepi, Executive Director of KAMP, the Kosovo Association of Milk Producers</li> <li>▪ Mustafë Kastrati, General Manager of Lakto Cooperative Dairy</li> <li>▪ Liridon Bekaj, Deputy Mgr. of the ETC (Elkos Trading Center) store in Pristina</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand hypermarket practices (i.e., purchasing, merchandising, marketing)</li> <li>▪ Understand hypermarket practices (i.e., purchasing, merchandising, marketing)</li> <li>▪ Understand current activities, future goals of &amp; potential new roles that KAMP could fulfill</li> <li>▪ Explore the unique challenges of this dairy cooperative that is attempting to market fresh milk products</li> <li>▪ Understand hypermarket practices (i.e., purchasing, merchandising, marketing)</li> </ul>
13-02-2009	<ul style="list-style-type: none"> <li>▪ Ruzhdi Kastrati, General Mgr. and Nehat Bixhaku, Financial Mgr. of Kabi Dairy</li> <li>▪ Kurtesh Shefifi, Advisor to the Minister of Agriculture</li> <li>▪ Arben Musliu, BAH/KPEP Agribusiness Specialist</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand needs/goals/operation capabilities/etc. of lead processor firms, and issues pertaining to Serbian population</li> <li>▪ Better understand priorities and policies being advocated to the Agriculture Ministry</li> <li>▪ Gather insights regarding his perspective on dairy industry issues and actions being taken</li> </ul>
14-02-2009	<ul style="list-style-type: none"> <li>▪ Visit Green Market</li> <li>▪ Fatmir Selimi, Ag Consultant</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand the Green Market channel</li> <li>▪ Review of findings over the week, and brainstorm potential marketing strategies</li> </ul>
15-02-2009	<ul style="list-style-type: none"> <li>▪ Visit central city Maxi Hipermarket</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evaluate dairy merchandising/presence in a more modern Maxi store</li> </ul>
16-02-2009	<ul style="list-style-type: none"> <li>▪ Fisnik Vejsa, Owner of Kaon marketing services group</li> <li>▪ Uliks Osmani, President of Ubo Consulting</li> <li>▪ Driton Dalipi and Luan Dalipi, Owners &amp; General Managers of MDA</li> <li>▪ Fioret Pruthi, Owner &amp; General Manager of MSG</li> <li>▪ Agim Orllati, Account Director at Zero Pozitive Publicis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review their past experience, work and core competency areas</li> <li>▪ Review their past experience, work and core competency areas</li> <li>▪ Review their past experience, work and core competency areas</li> <li>▪ Review their past experience, work and core competency areas</li> <li>▪ Review their past experience, work and core competency areas</li> <li>▪ Review their past experience, work and core competency areas</li> </ul>
17-02-2009	<ul style="list-style-type: none"> <li>▪ Due to Independence Day holiday, no outside meetings</li> </ul>	<ul style="list-style-type: none"> <li>▪ This day was utilized to brainstorm marketing strategies and prepare USAID presentation</li> </ul>
18-02-2009	<ul style="list-style-type: none"> <li>▪ Lirijon Kadriu, CEO/Owner/ Creative Director of Advertising Studio D-Line</li> <li>▪ Shpend Ahmeti, Executive Director of GAP</li> <li>▪ Focus group with 10 KPEP employees</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review their past experience, work and core competency areas</li> <li>▪ Review their past experience, work and core competency areas</li> <li>▪ Learn more about consumers dairy preferences and purchase behavior</li> </ul>

19-02-2009	<ul style="list-style-type: none"> <li>▪ Internal team meeting and presentation to USAID, KPEP team and industry/ government leaders</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review and discussion of key findings and marketing strategy recommendations</li> </ul>
20-02-2009	<ul style="list-style-type: none"> <li>▪ Sejdi Osmani, Executive Director of Riinvest; Alban Zogaj, Research Director of Riinvest; and Skender Kaciu, Agricultural Consultant to Riinvest and Professor at University of Pristina</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review their past experience, work and core competency areas</li> </ul>
21-02-2009	<ul style="list-style-type: none"> <li>▪ Internal team meeting</li> </ul>	<ul style="list-style-type: none"> <li>▪ Brainstorming final observations and team recap</li> </ul>

MIKE CLARY'S FIELD ACTIVITIES

<u>Date of Meeting</u>	<u>Name and Position Title Organization</u>	<u>Purpose</u>
05-02-2009	<ul style="list-style-type: none"> <li>▪ Al Wanous, Former member of the Land O'Lakes Board of Directors, Dairy Consultant</li> </ul>	<ul style="list-style-type: none"> <li>▪ Gain his perspective on dairy production, collection, and quality management practices in Kosovo and surrounding Balkan markets</li> </ul>
09-02-2009	<ul style="list-style-type: none"> <li>▪ Fatmir Selimi, Ag Consultant</li> <li>▪ Ymer Berisha, Director of Bylmeti Dairy</li> <li>▪ Visit Interex store in Pristina</li> </ul>	<ul style="list-style-type: none"> <li>▪ Background review/engagement action plan</li> <li>▪ Understand needs/goals/operation capabilities/etc. of lead processor firms</li> <li>▪ Understand lead hypermarket merchandising</li> </ul>
10-02-2009	<ul style="list-style-type: none"> <li>▪ Visit ABI Center</li> <li>▪ Alajdin Fusha, Director of ABI Center (ABI Dairy)</li> <li>▪ Ramadan Memaj, President of Ajka Dairy and KDPA</li> <li>▪ Visit 2 Banaf stores (Prizren)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand retail practices/merchandising</li> <li>▪ Understand needs/goals/operation capabilities/etc. of lead processor firms</li> <li>▪ Understand current activities, future goals of &amp; potential new roles that KDPA could fulfill</li> <li>▪ Understand lead hypermarket merchandising</li> </ul>
11-02-2009	<ul style="list-style-type: none"> <li>▪ Sejdi Baleci, General Mgr. of the Milk Collection Center in Grabanica, Klina</li> <li>▪ Ismet Bojku, General Mgr. of Devolli Company</li> <li>▪ Petrit Selmanaj, General Manager of Peja Elkos Store</li> <li>▪ Paul Christ, retired Vice President, Economics and Risk Management, Land O'Lakes, Inc., Arden Hills, Minnesota, USA</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand the operations and milk analysis testing that occurs at milk collection centers</li> <li>▪ Understand needs/goals/operation capabilities/etc. of lead processor firms</li> <li>▪ Understand hypermarket practices (i.e., purchasing, merchandising, marketing)</li> <li>▪ Gather recommendations to improve dairy quality assurance procedures in developing markets</li> </ul>

12-02-2009	<ul style="list-style-type: none"> <li>▪ Flamur Kadriu – Chief of Veterinary Public Health Sector, KVFA, MAFRD</li> <li>▪ Xhemajl Dervishi – Director of Veterinary and Food Laboratory, KVFA, MAFRD</li> <li>▪ Nazmi Caka – Head of Upper Secondary Schools, Ministry of Education</li> <li>▪ Burim Kuci, Store Manager, Ben-af, Pristina</li> <li>▪ Bill Coleman, American Dairy Consultant for Milk Quality, Safety, Laws and Regulation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand government initiatives to improve and manage raw milk quality and safety; explore opportunities to educate.</li> <li>▪ Understand raw milk quality testing procedures and opportunities for improvement.</li> <li>▪ Determine interest and support of a dairy education campaign communicated through public schools.</li> <li>▪ Determine preferred fluid milk margin brand for retailer and preferred fluid milk purchase brand of consumer.</li> <li>▪ Gather recommendations to improve raw milk quality and alternatives for testing milk at the MCC</li> </ul>
13-02-2009	<ul style="list-style-type: none"> <li>▪ Ruzhdi Kastrati, General Mgr. and Nehat Bixhaku, Financial Mgr. of Kabi Dairy</li> <li>▪ Kurtesh Shefifi, Advisor to the Minister of Agriculture</li> <li>▪ Arben Musliu, BAH/KPEP Agribusiness Specialist</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand needs/goals/operation capabilities/etc. of lead processor firms, and issues pertaining to Serbian population</li> <li>▪ Better understand priorities and policies being advocated to the Agriculture Ministry</li> <li>▪ Gather insights regarding his perspective on dairy industry issues and actions being taken</li> </ul>
14-02-2009	<ul style="list-style-type: none"> <li>▪ Visit Green Market</li> <li>▪ Fatmir Selimi, Ag Consultant</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand the Green Market channel</li> <li>▪ Review of findings over the week, and brainstorm potential marketing strategies</li> </ul>
15-02-2009	<ul style="list-style-type: none"> <li>▪ Visit central city Maxi Hipermarket</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evaluate dairy merchandising/presence in a more modern Maxi store</li> </ul>
16-02-2009	<ul style="list-style-type: none"> <li>▪ No outside meetings</li> </ul>	<ul style="list-style-type: none"> <li>▪ Preparing USAID presentation</li> </ul>
17-02-2009	<ul style="list-style-type: none"> <li>▪ Due to Independence Day holiday, no outside meetings</li> </ul>	<ul style="list-style-type: none"> <li>▪ This day was utilized to brainstorm marketing strategies and prepare USAID presentation</li> </ul>
18-02-2009	<ul style="list-style-type: none"> <li>▪ Neziha Ismaili, Chief of Sector for Compliance, Kosovo Customs</li> <li>▪ Arsim Memaj, Chief of Breeding Production and Marketing Selection, MAFRD</li> <li>▪ Agim Nuha, Chief of Poultry, Feed, Fish and Bees, MAFRD</li> <li>▪ Mustafë Hasani, Chief Executive Officer, Investment Promotion Agency of Kosovo, Ministry of Trade and Industry</li> <li>▪ Nashide Bajrami, Director, and Lindita Toçi, Senior Analyst, Economic and Fiscal Policy Department, Ministry of Economy and Finance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand current customs practices and available data on imported dairy products</li> <li>▪ Gather this stakeholder's perspective on the dairy industry, and potential for growth</li> <li>▪ Gather this stakeholder's perspective on the dairy industry, and potential for growth</li> <li>▪ Understand the current trade policies as they pertain to the dairy sector</li> <li>▪ Understand current tax/fiscal policies as they pertain to the dairy sector</li> </ul>
19-02-2009	<ul style="list-style-type: none"> <li>▪ Internal team meeting and presentation to USAID, KPEP team and industry/ government leaders</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review and discussion of key findings and marketing strategy recommendations</li> </ul>

20-02-2009	<ul style="list-style-type: none"> <li>▪ Drita Zogaj, Asst. Director, Department of Human Ecology, National Institute of Public Health of Kosovo</li> <li>▪ February 20, 2009 – Dukagjin Pupovci, Director, Kosovo Education Center (KEC)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand current public health initiatives and policies – gather perspective on recommended education program</li> <li>▪ Review their past experience, work and core competency areas with regard to curriculum development</li> </ul>
21-02-2009	<ul style="list-style-type: none"> <li>▪ Internal team meeting</li> </ul>	<ul style="list-style-type: none"> <li>▪ Brainstorming final observations and team recap</li> </ul>

## FINAL OBSERVATIONS

The agricultural sector, especially dairy, is a very significant contributor to the current Kosovo economy. Our observations and discussions with various stakeholders across the dairy sector value chain have led us to conclude that steps need to be taken with a sense of urgency to ensure the future viability of this sector. Before a consumer communications campaign is fielded to increase Kosovar consumption of domestically produced dairy goods, a strong foundation that allows domestic processors to compete effectively with imported value-added dairy products must be established as quickly as possible.

We highlight the following specific areas of focus for USAID:

- Quality is a critical success factor for the dairy sector. The quality of processed products is directly affected by raw milk quality, so initiatives need to be implemented to incent a consistent high quality supply of milk from farmer to processor. In addition, domestic processors need to leverage best practices to improve efficiencies, decrease costs and ensure finished goods quality (i.e., more modernized/automated facilities, HACCP/ISO 9001/GMP) – and become more sophisticated with regard to marketing, selling and distributing products to ensure optimized quality all the way to Kosovar consumption.
- Product packaging is another critical foundation element that needs to be optimized – both in terms of structure to ensure distribution integrity and product safety, and graphics to increase consumer appeal and brand loyalty. We observed open packages in retail stores that make products highly susceptible to contamination. This needs to be rectified in order to ensure consumer confidence that these products are safe to eat. Branding best practices should be applied to label graphics to ensure an optimized hierarchy of communication in store: brand first, product type second, flavor third. Graphic design should also be upgraded to differentiate brands; and in the case of certain dairy product categories (i.e., puddings, fruit yogurts, flavored milk, etc.), to increase appeal to children, key influencers of the purchase decision with regard to these products.
- Marketing is a multi-faceted discipline. An optimized strategy must include an articulation of brand positioning, product design and range, pricing, distribution/availability and awareness-generating advertising and promotion. Products that are promoted to consumers must meet their expectations. Otherwise, consumers will reject these products/brands in the future – resulting in long-lasting negative perceptions and wasted marketing expenditures. Domestic dairy processors need to make products that meet standards of identity for each category, provide products that deliver a consistently high hedonic profile (based on targeted consumers' preferences), offer product variety across dairy categories, differentiate their brand with packaging graphics and promote

their products both in-store and through high impact media channels – to build strong consumer franchises that will be loyal to their products versus imported alternatives.

- There are many areas of existing strength that can be leveraged with directional guidance to stabilize and grow the domestic dairy sector. First and foremost, Kosovars have a strong nationalistic spirit and desire to grow their local economy. If high quality domestically made product alternatives are available, Kosovars will choose these brands, and hypermarket retailers will support them. Second, domestic processors are producing some good quality products – the issue is that quality is inconsistent, resulting in bad experiences that lead consumers to choose imported brands. Once better consistency is achieved, premium products can leverage marketing best practices to build loyal consumer franchises. Third, Devolli, the largest dairy which processes more than a third of the local milk supply, is a very professionally run operation with highly automated facilities and proven business experience with regard to attracting foreign capital investment. This can be leveraged to further build the dairy sector. Finally, there are strong local support resources that can be leveraged to implement the strategies we have recommended in this report.
- Training should not be conducted as a “one-off” exercise. Expertise must be entrenched within the local economy, and domestic private enterprise must take ownership of the knowledge. Training initiatives should be designed leveraging a “train the trainer” model, to ensure that employee/consultant turnover does not result in a loss of the learning regarding best practices. Also, with Kosovar unemployment being so high, the local economy will greatly benefit from programs that further develop the local workforce in business support areas required for private enterprise development and growth. In the case of the dairy sector, this would include food technology, sales and marketing, packaging technology, nutrition and quality management best practices.

We also want to stress the importance of taking steps shorter term to begin implementing the recommended marketing strategies. It is our observation that many studies have been completed on the dairy industry, highlighting similar issues to those called out in this report. Although resource constraints may limit the ability to take action on all recommendations, short term steps must be taken to address the quality, packaging and marketing issues highlighted in this report.

In conclusion, we would like to thank USAID, Booz Allen Hamilton/KPEP and the Kosovar people for the opportunity to participate in this marketing strategy initiative. We strongly support the end goal of establishing a viable, competitive domestic dairy industry, and look forward to future opportunities in which we might contribute towards the achievement of this objective.

# **ANNEX I**

## **Kosovo MAFRD Raw Milk Decree**



UNMIK



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### **PROVISIONAL INSTITUTION OF SELF GOVERNMENT INSTITUCIONET E PËRKOHSHME TË VETQEVERISË PRIVREMENE INSTITUCIJE SAMOUPRAVLJANJA**

### **GOVERNMENT OF KOSOVO/QEVERIA E KOSOVËS/VLADA KOSOVA**

### **MINISTRY OF AGRICULTURE, FORESTRY AND RURAL DEVELOPMENT MINISTRIA E BUJQËSISË, PYLLTARISË DHE ZHVILLIMIT RURAL MINISTARSTVO POLJOPRIVREDE, SUMARSTVA I RURALNOG RAZVOJA**

Minister of the Ministry for Agriculture Forestry and Rural Development taking into account the UNMIK Regulation No.2001/19, 13 September 2001 on the Executive Branch of Constitutional Framework for Provisional Institutions of Self – Government in Kosovo, Article 1.3 point (d) article from the paragraph 1.3, point (d) and the article 20 paragraph 20.1 point (a) of the Kosovo Livestock Law No. 2004/33, 08 September 2004,

Approves the following:

### **ADMINISTRATIVE INSTRUCTION MA – No. 20/2006**

### **QUALITY STANDARDS AND GRADE OF FRESH MILK**

#### **Article 1**

##### **Purpose**

With this Administrative Instructions is defined the parameters of quality fresh milk, quality verification way, grading of fresh milk under the quality and taking of samples for the analyses.

#### **Article 2**

Fresh milk under this Administrative Instruction is a natural secretion of milk glandule taken by one or more regular milking and without stopped of milking health animal, well - fed 30 days prior the procreation and 8 days after the procreation to who nothing is taken and concentrated.

#### **Article 3**

Fresh milk is graded under type of the milking animal in the following:

- a) cow fresh milk
- b) sheep fresh milk and
- c) goat fresh milk.

**Article 4**

14. Fresh milk is also graded under the quality in four categories:

- a) E - Extra Class,
- b) I Class
- c) II Class
- d) III Class

4.2 Under categories qualities parameters of milk are regulated with a special decision by ministry.

**Article 5**

Price of fresh milk is defined based on the agreement of producers and processors under the modification of the correction factor defined with a Decision which will be issued by Ministry.

**Article 6**

Fresh milk must have a view, color, taste and specific aroma under the type of milking animal.

**Article 7**

It is collected a milk to who is certified the content under the analytic methods.

**Article 8**

After milking, fresh milk must be cold in temperature of 4°C.

**Article 9**

The evidence of the assessment to freshness and quality will be issued only by the authorized laboratories.

**Article 10**

Fresh milk which is put in the circulation must meet the following conditions:

**I Cow milk:**

1. Taken by the cows 30 days prior the procreation and at least 8 days after the procreation
2. Being with the similar color from the white to the pale yellow,
3. Having the aroma and specified taste of milk,
4. Having the specified weight in the temperature of 15°C not lower than 1.028 g/cm<sup>3</sup> and not bigger than 1.032g /cm<sup>3</sup>,
5. Point of the freezing must be lower than -0.517°C,
6. Contain at least 3.2% milk fat,
7. Contain at least 3.0 % protein,
8. Contain at least 8.5 dry matter without milk fat,
9. Acidity level to be from 6.5 – 7.8 determined rate under the method of the Soksklet – Henkel (°SH).
10. The value of the pH is to be 6.5 – 6.7.

**II. Sheep milk:**

1. Being with the same color from the white color to the white and yellow one,
2. Having the aroma and specific taste of milk,
3. Having a specific weight in the temperature of 15°C not lower than 1.034 g/cm<sup>3</sup> and not bigger than 1.040 g/cm<sup>3</sup>,
4. Point of the freezing must be lower than -0.56°C,
5. Contenting not less than 4% fat milk,
6. Contenting not less than 3.8% protein milk,
7. Contenting at least 9.5% Solids Not Fat(SNF)
8. Rate of the acidity not to be higher than 12 determined rate under the Soksklet – Henkel's method (° SH).
9. The value of the pH is to be 6.5 – 6.7.

**III Goat milk:**

1. Being with the same color from the white color to the white into yellow one,
2. Having the aroma and specific taste of milk,
3. Having a specific weight in the temperature of 15°C not lower than 1.024g/cm<sup>3</sup> and not bigger than 1.040g/cm<sup>3</sup>,
4. Point of the freezing must be lower than -0.54°C
5. Contenting at least 2.8 % milk fat,
6. Contenting at least 2.5% milk protein,
7. Contenting at least 7.5% Solids Not Fat(SNF)
8. Rate of the acidity not to be higher than 8 determined rate under the Soksklet – Henkel's method (° SH).
9. The value of the pH is to be 6.5 – 6.7.

**Article 11**

Fresh milk with the destination of processing industry mustn't keep mechanical residues or their traces.

**Article 12**

Fresh milk mustn't contain the added water.

**Article 13****Taken of samples of the fresh milk for the analyzes**

13.1 Taken of samples for commercial purposes to assess the milk fresh quality for bacteria and somatic cell count is done by milk processors twice (2) a month, based on the lowest level of bacteria and somatic cell, milk fat, protein, grading in milk, which result in the average of two analyses.

13.2 Taken of samples for official analyses will be done by the officers of Kosovo Veterinary and Food Agency (in the following text KVFA) under the legislation in power.

#### **Article 14**

Taken of samples will be done under pre selection of the case and even that one for any analyses from two samples for the determination of:

1. The milk fat;
2. Milk protein;
3. Total bacteria colony count /ml
4. Somatic cells in the milk;
5. Point of the freezing and
6. Antibiotic and other residues.

#### **Article 15**

15.1 Taken of samples from the official person will be done with minutes of meeting in which ought to be evidenced: the owner, accurate time and date of taken sample, type of the analyze, quantity of the milk from which is taken the sample and quantity of sample,

15.2 Dishes for taking of sample must be cleaned and from the material that do not affect in the organoleptic, physical, chemical and microbiologic quality of the sample,

15.3 Sample must be closed and sealed,

15.4 Transport of the sample will be done with the adequate equipment that guarantees the storage of the characteristics of the sample.

#### **Article 16**

In the case of an identification of the residues and antibiotic the official accredited person for taken of samples may take the samples from the all equipments with regard to the store and cooling of milk in the point of collection milk to the identification of the polluted resource.

#### **Article 17**

##### **Milk Qualities Analyzes**

17.1 The referent methods for controlling of fresh milk quality are methods that will be used by the authorized laboratories.

17.2 The laboratory must present in written the technical instructions regarding the way of the realization of analyzing and use of equipments that will be used for the realization of the lab analyses.

17.3 These methods will be accredited by the ministry.

#### **Article 18**

Quality control of fresh milk should be done in the licensed labs equipped with measures equipments to whom is proofed the certificate for the metering accuracy.

**Article 19**

The authorized laboratory is obliged at latest on 14<sup>th</sup> day of the following month to introduce in written the ministry, producer and processor for data with regard to the average of quality of fresh milk.

**Article 20**

The accredited laboratory is obliged to notify KVFA, milk producer and processor on all analyses results within three (3) days of receiving the sample

**Article 21**

The authorized lab is obliged to keep the evidence of taken of samples, conservation, methods and date of the realization of analyzes as well as results of analyses. Results' data must be stored till 2 years, with the request of the party in contest may be taken decision to be stored longer.

**Article 22**

Decision on license of the authorized laboratory will be announce in the Kosovo Official Gazette.

**Article 23**

Collaboration relations of milk producers and processors are regulated with bilateral contract.

**Article 24**

This Administrative Instruction will be come effective by the day of its approval.

Prishtina ----- 2006

**Deputy Minister of  
Ministry of Agriculture, Forestry  
and Rural Development  
Tomë Hajdaraj**

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UNMIK



IPVQ

**PROVISIONAL INSTITUTION OF SELF GOVERNMENT  
INSTITUCIONET E PËRKOHSHME TË VETQEVERISË  
PRIVREMENE INSTITUCIJE SAMOUPRAVLJANJA**

**GOVERNMENT OF KOSOVO/QEVERIA E KOSOVËS/VLADA KOSOVA**

**MINISTRY OF AGRICULTURE, FORESTRY AND RURAL DEVELOPMENT  
MINISTRIA E BUJQËSISË, PYLLTARISË DHE ZHVILLIMIT RURAL  
MINISTARSTVO POLJOPRIVREDE, SUMARSTVA I RURALNOG RAZVOJA**

Based on the Article 4 point 2 of this Administrative Instruction MA – NO.20/2006 on Quality Standards and Grading of Fresh Milk, Ministry of Agriculture Forestry and Rural Development

Approves the following:

**DECISION**

On grading of fresh milk of the cow, sheep and goats for the calendar year 2006 and 2007 under the number of micro - organisms and somatic cells:

Type of the milk	Grading	Microorganism	Somatic cells	Correction
<b>Cow milk</b>	Extra class	< 100.000	< 400.000	1.15
	Class I	< 200.000	< 500.000	1.00
	Class II	< 500.000	< 600.000	0.95
	Class III	> 500.000	> 600.000	0.80
<b>Sheep and Goat milk</b>	Extra class	< 1.500.000		1.15
	Class I	< 2.000.000		1.00
	Class II	< 3.000.000		0.95
	Class III	> 3.000.000		0.80

**On grading of fresh milk of the cow, sheep and goats for the calendar year 2008 under the number of micro - organisms and somatic cells:**

Type of the milk	Grading	Microorganism	Somatic cells	Correction
<b>Cow milk</b>	Extra class	< 80.000	< 300.000	1.15
	Class I	< 100.000	< 400.000	1.00
	Class II	< 200.000	< 500.000	0.95
	Class III	< 500.000	< 600.000	0.80
<b>Sheep and Goat milk</b>	Extra class	< 1.300.000		1.15
	Class I	< 1.500.000		1.00
	Class II	< 2.000.000		0.95
	Class III	> 2.000.000		0.80

**For the grading of fresh milk of the cow, sheep and goats for the calendar year 2009 under the number of micro - organisms and somatic cells:**

Type of the milk	Categorization	Microorganism	Somatic cells	Correction
<b>Cow milk</b>	Extra	< 50.000	< 200.000	1.15
	Class I	< 80.000	< 300.000	1.00
	Class II	< 100.000	< 400.000	0.95
<b>Sheep and Goat milk</b>	Extra class	< 500.000		1.15
	Class I	< 1.000.000		1.00
	Class II	< 1.500.000		0.95

Prishtina ----- 2006

Deputy Minister of  
Ministry of Agriculture, Forestry  
and Rural Development  
Tomë Hajdaraj

## ANNEX II

### **Consumer Focus Group Moderator's Guide – February 16, 2009**

- Please write down on a piece of paper, the top 3-5 brands of dairy products you purchase and consume in your home. Please consider all dairy categories including fluid milk, cream, yogurt, kos, cheese, sour cream and others.
- If you buy milk in a Tetra Pak package, what brand do you purchase?
- Please reveal the brands you wrote down, and speak to why you use these brands.
  - What do you like about these brands?
  - Have you had any bad experiences with these or other brands in the past? If so, please tell me about those experiences.
  - What would you like to see changed or improved relative to these brands?
  - What new products would you like to see these companies offer?
- Please rank how the following factors affect your purchase decision with regard to dairy products. Rank them from most important (1) to least important (10).
  - Brand/ Past Experience with the Product
  - Price Relative to Other Similar Products
  - Product/Packaging Safety
  - Product Appearance
  - Domestically Produced versus Imported
  - Product/Brand that my Children Request
  - Packaging Appeal
  - On Promotion in my Store
  - Presence of Expiry Coding
  - Product Availability in my Store
- Please share your rankings:
  - Why did you rank \_\_\_\_\_ as most important?
  - Why did you rank \_\_\_\_\_ as secondary in importance?
  - Why don't you consider \_\_\_\_\_ as being as important a factor?
- Which do you prefer to buy, domestically produced dairy products or imported?
  - Is there a difference based on which type of product you are buying? If so, why?
  - Do you have any concerns about buying dairy products made in Kosovo?
- How important are your children's preferences in determining what dairy products you buy?
  - Do your children request certain specific products, and if so, what?
  - Do they request specific brands, and if so, why?
- We are thinking about developing a school curriculum program for 10-12 year olds that would teach them about the local dairy industry, the importance of dairy to good nutrition, product safety and other related things. What do you think about this program?

*Thank you for your time and thoughts. Please pass in your worksheets and brand sheets.*

## ANNEX III

### Retail Dairy Merchandising in the USA



*Aged cheese section*



*Deli cheese*



*Prepacked shredded/sliced cheese*



*Yogurt section*



*Fresh fluid milk section*



*Prepared foods-to-go (use dairy ingredients)*