



Growing Inclusive Markets

Business Works for Development • Development Works for Business

CASE STUDY

Western CIS • Ukraine

Vitmark – High-Quality and Affordable Fruit Products from Local Producers

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Sector • Agriculture, Consumer Products

Enterprise Class • Large Domestic Company



Executive Summary

Local fruit and vegetable producers from the Odesa, Mykolayev, Vinnytsya and Cherkasy regions of Ukraine are the main suppliers for the beverages produced by Vitmark-Ukraine Holding. Vitmark purchases about 40,000 tons of fresh fruits and vegetables annually from small-scale farmers¹ (less than 2,500 employees) and 25 large domestic agricultural suppliers in these regions.² Vitmark includes the poor at various points in its value chain - not only on the supply side as suppliers of local produce or as employees, but also on the demand side, by adapting its products to the needs of low-income consumers.

Vitmark invests in removing constraints on market participation. Information on high quality cultivation processes and quality standards is generally lacking in Ukraine. Vitmark invests in building up these capabilities among farmers, providing informal training and face-to-face or phone consultations. At the beginning of each agricultural season (April–May), up to 50 farmers participate in a free four hour training hosted by the company and conducted by Vitmark's supply chain officers, lawyers and accountants. Farmers receive practical information about the appropriate quality and technical standards of the fruits and vegetables (appearance, ripeness, damage etc.) and their production methods. This enables the small-scale farmers, who are considered low-income producers, to become Vitmark's suppliers. The sourcing of local products increases farmers' incomes and employment in four regions of Ukraine. This is the first of three strategies that Vitmark employs for the inclusion of low-income people in its business model.

In addition to growing and supplying fresh fruits and vegetables to Vitmark, residents of Odessa and Vinnytsya are also employed by three of Vitmark's production plants. These are Odessa Baby Food Cannery (OBFC) in the city of Odessa, the Kuchurgani Cannery in the Odesa Region and the Rakhny-Lesoviye Cannery in the Vinnytsya Region. Vitmark leverages the capabilities of people from modest means. It employs about 1000 inhabitants of several villages of these regions, 75% of whom are from low-income families. Vitmark invested 88,635 USD in 2007 and 180,302 USD in 2008 in the improvement of working conditions, safety and training for employees. As a result, there were no work-related accidents in 2008 and during the first ten months of 2009. Vitmark's total training budget in 2008 was 74,273 USD and over 600 personnel underwent training in 2008.³ Evaluations of the trainings showed that 56% of the participants were completely satisfied with them.⁴ In general, Vitmark's salaries are around a third higher than equivalent jobs in the Odesa region.⁵ Vitmark paid an average monthly wage equivalent to 436.50 USD in 2008.

¹ Other necessary ingredients for tropical juices and nectars such as bananas, oranges etc, which don't grow in Ukraine, are purchased abroad - for example in China, Thailand, India or Georgia.

² Usually Vitmark purchases 25 000-30 000 tons of fresh fruits and vegetables per year from about 25 large agriculture suppliers and about 10 000-15 000 tons per year through direct contracts with about 100 small-scale farmers (with total number of more than 2500 employees) from four rural regions in Ukraine.

³ Vitmark's Human Resource department data by request, see Annex, points N 5

⁴ Vitmark's Employee 2008 survey on the results of training program of study of foreign language at <http://www.vitmark.com> accessed on 22.10.2009 in Russian

⁵ Source: see Annex, point N 1, Vitmark Human Resource Department Data, 2009 and Official medial annual rate of local currency name as hryvna (UAH) exchange by National Bank of Ukraine was 1



Another aspect of the inclusiveness of its business model is Vitmark's efforts to adapt its products to the needs of lower-income people. About 5-6 years ago, the consumption of juice was limited to well-off segments of society, but Vitmark has made it affordable for almost all population segments in Ukraine. An important factor in making juice affordable for low-income families was the creation of low-price juices by Vitmark-Ukraine in 2002. Its main production plant, Odesa Baby Food Cannery (OBFC), was the first one to offer an affordable juice in a one-liter "OBFC Juice" packaging. This has an "ascetic white package" design and is cheaper than the ones offered by competitors.⁶ Juices are made from domestic ingredients sourced from the southern parts of the country. In addition, the juice promotion campaign was designed to be cheap and effective. Due to Vitmark's success, several other companies entered the low-price juice market. However, as of April-May 2009, Vitmark accounted for 30% of sales in the lower priced segment of the juice market in Ukraine. An important step in its success was the re-branding of "OBFC Juice" to "Our Juice" in 2009.

USD=5.05 UAH in 2007, 1USD=5.26 in 2008, 1USD=7.70 April 2009, 1USD=7.80 Aug.2009
www.bank.gov.ua accessed on September 2009 in Ukrainian

⁶ The price of packaging 1 liter juice unit was of 2.80 UAH (0.53 USD), which was considerably cheaper on 1.5 UAH (0.28 USD) than the unit formerly used by the main competitors in 2002. Savings on packaging made about 7-8 %.



Introduction

Vitmark-Ukraine produces quality natural juices, nectars, baby food and fruit concentrates at its three production facilities located in the city of Odesa and the Odesa and Vinnytsya regions of Ukraine.⁷ Vitmark currently employs about 2600 people (810 women and 1790 men); about 1000 are from regions where most of the population is classified as poor by national income levels. Furthermore, the company sources its ingredients from over 100 small-scale farmers (as well as some large agricultural enterprises), providing them with market access and long-term income generating opportunities.

The holding company Vitmark-Ukraine was established in Ukraine in 1994. All its production plants have been renovated with modern processing, packaging (Tetra Pack, plastic package/PET-bottle, glass package) and quality control capabilities, including their own chemical laboratory. The company's main production plant is Odesa Baby Food Cannery (OBFC) located in Odesa city. According to Viktor Stanislavskyy, Vice-President and COO of Vitmark, "OBFC is a pilot and innovation center for all new Vitmark products."⁸ Currently Vitmark has brands in the higher-, middle-, and lower-priced segments of the JNSD (Juice, Nectars, Still Drinks) market in Ukraine. Vitmark's leading juice brand is "White Package OBFC", which is a low-priced juice brand that has been produced since 2002 in Odesa city and in the nearby village of Stepanovka.⁹

Two production plants owned by Vitmark-Ukraine are located in economically depressed rural areas - the Kuchurgani Cannery in Stepanovka in the Odesa Region; and the Rakhny-Lesoviye Cannery in the village of Rakhny-Lesoviye, in the Vinnytsya Region. The main local suppliers for Vitmark are concentrated in four regions of the country - Odesa, Mykolayev, Vinnytsya and Cherkasy.

Context

The Odesa and Mykolayev regions are located in southern Ukraine, and the Vinnytsya and Cherkasy regions are located in the central parts of Ukraine (Figure 1). Agriculture is the leading economic activity in the Mykolayev region, whereas the Odesa, Vinnytsya and Cherkasy regions have both industrial and agricultural activities. Apart from agriculture, the regions also specialize in grain production, cattle breeding, poultry farming, pig breeding and wine production.

⁷ Juice is the name of the product consisting of 100% fruit juice. Nectar contains 25 - 99% of juice. Juice beverage contains up to 25% of juice. See: http://www.vitmark.com/eng/info/juice_production accessed August 2009

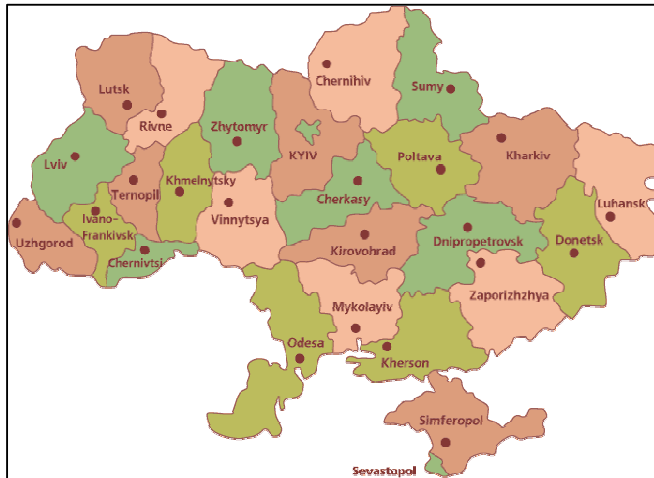
⁸ Source: *Personal interview* with Mr. Viktor Stanislavskyy, Vitmark Vice-President and COO conducted by Olena Lazorenko in September 9-11, 2009 in Odesa city (Odesa Baby Food Cannery (OBFC)).

⁹ "White package OBFC" and "OBFC Juice" are convertible terms for low-priced juice in 2002-2008. In 2009 Vitmark started to re-brand "OBFC Juice" to "Our Juice."



66.1% of the population of the Odesa region is urban, whereas the corresponding figures for the Mykolayev, Vinnytsya and Cherkasy regions are 67.1%, 47.7% and 54.9% respectively. The Vinnytsya Region is predominantly rural. According to 2004-05 data, the employment rate among the rural population was 60.5%. The unemployment rate for farmers¹⁰ was 27% higher than for other professions.¹¹

Figure1: Map of Ukraine.



Source: Ministry of Foreign Affairs of Ukraine¹²

AGRIBUSINESS IN UKRAINE

The agribusiness sector (including agriculture and the food industry) plays an important role in the national economy of Ukraine. The share of agribusiness in Ukraine's Gross Domestic Product (GDP) is 16%.¹³ This is equivalent to the cumulative input of several other sectors of the economy such as power, construction, metallurgy and machine building industries. Of a rural population of 14.7 million or 31.7 % of the total population as of January 2008, 3.5 million people were engaged in agriculture.¹⁴ The agricultural sector employs approximately 3.5 million people or about 22 % of the national labor force and over 70 % of the rural working population.

¹⁰ The "farmers" in this data include all people working in agricultural production; some of them are self-employed (individual farmers or small-scale farmers), others are working in agricultural cooperatives and large agricultural firms.

¹¹ Source: Ministry of Economy of Ukraine and State Statistic Committee. See: Ukrainian Center for Foreign Investment Promotion (2007)/ Macroeconomic indices of Ukraine Diagram 11. The employment rate at the age of 15-70 years in 2004- 2005 ; Diagram 13. The burden of unemployed population by workplace categories 2004- 2005

¹² Source: <http://www.mfa.gov.ua> accessed in August 2009.

¹³ Source: The Ministry of Agrarian Policy of Ukraine (2007) Panorama of Ukraine Agrarian Sector at <http://www.minagro.gov.ua> p.6,12 accessed in August 2009.

¹⁴ Ibid.



According to the Ministry of Agrarian Policy, over 14,900 agricultural enterprises of varying structures and legal forms (small scale farmers/private enterprises, production cooperatives, large scale agriculture partnerships, etc) were engaged in economic activities in Ukraine.

Table1: Structure of Agriculture Enterprises in Ukraine

Type of agricultural enterprise	Percent
Small scale farmers/private enterprises	28.4
Economic partnerships (medium and large enterprises)	49.8
Production cooperatives	8.5
Other agricultural enterprises	13.3

Source: Adapted by Olena Lazorenko from Panorama of Ukraine Agrarian Sector by the Ministry of Agrarian Policy of Ukraine (2007). Kyiv, p. 22 at <http://www.minagro.gov.ua>, accessed August 2009

Agricultural land covers 41.7 million hectares in Ukraine. The most common type of soil is called “black earth” soil or “chernozem” and it covers over 60% of the total area. Chernozem contains a very high percentage of humus — between 3% and 15%.¹⁵ It is very fertile and produces high quality fruits and vegetables.

In 2000, the Ukrainian Government undertook a radical reform of the agricultural sector. All collective and state farms (known in Soviet times as “kolhoz” and “sovhoz” respectively) were reorganized into privately owned enterprises. The Land Code, which was adopted in 2005, legalized the right to own, sell and buy land, as well as use it as collateral. During the course of land reform, 72.4% of agricultural land was transferred to private ownership. Land shares were acquired by 6.9 million people, of which 6.2 million people received land titles.¹⁶ However, there are still many serious issues to be addressed, for instance excessive government regulation of the industry and major commodities markets.

The agricultural sector also provides raw materials to other sectors of the economy, primarily food processing and light industry. The food industry employs over one million people who work for more than 22,000 enterprises. Several sectors and sub-sectors constitute the national food industry, including the milk, fish, meat, sugar, oil and fat, bakery, wine, alcoholic and non-alcoholic beverages industries.

This case study is focused on the non-alcoholic beverage industry sub-sector. This includes bottled water, bulk water, carbonated beverages, juices, nectars, still drinks, iced tea, iced

¹⁵ See: <http://en.wikipedia.org/wiki/Chernozem> accessed in November 2009

¹⁶Source: The Ministry of Agrarian Policy of Ukraine (2007) Panorama of Ukraine Agrarian Sector at http://www.minagro.gov.ua/files/00006351/Panorama08_new.pdf p.10 accessed in August 2009

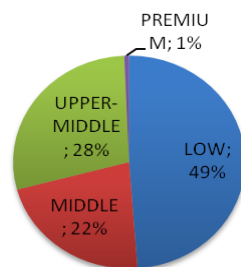


coffee, energy drinks, syrups, and fruit powders. The entire volume of consumption of JNSD (juice, nectars, still drinks) in Ukraine makes up 27% of the non-alcoholic beverages industry. According to “UkraineTradeInvest”, in 2004, the domestic market for all processed fruits and vegetables (of which juices is about 46%) was estimated to be around 1 billion USD, with an annual growth rate of 15-20%.¹⁷ In 2008, the total juices and nectars market was 1.14 billion USD, with juices accounting for 736 million USD and nectars for 404 million USD.¹⁸ However, due to the economic recession, the juice market in Ukraine shrank by about 19% in 2009.¹⁹

According to official statistics, there are more than seventy enterprises in the packaged juice and nectar sector. However, only seven companies are considered to be major market players - Vitmark-Ukraine, Sandora, Vinnifruit, Soloduhina Farm (TM Slavno), Gopak Ltd (TM Dary Laniv), and the leading producers of concentrated apple juice JSC Podillya-OBST and JSC Adams.

There are currently four price segments in the Ukrainian JNSD market. According to 2009 data from Vitmark, the low price segment is in the price range of 5.20 - 6.50 UAH (0.6 - 0.8 USD) per one liter of juice, the mid-priced segment is 6.51 - 7.50 UAH (0.8 - 0.95 USD), the upper-middle is 7.51 - 8.50 UAH (0.95 - 1.07 USD), and the premium category is for juices which cost more than 8.51UAH or 1.08 USD. The low price segment accounts for 49% of the market, with the middle price, upper-middle and premium categories accounting for 22%, 28% and 1% respectively (as of 2009).

Figure 2: Share of juice price segment in Ukrainian JNSD market in 2009



Source: Vitmark Marketing department, 2009

¹⁷ UKRAINETRADEINVEST is a development of the USAID/BIZPRO project in cooperation with the Ukrainian NGO, Business Technologies Development Center. <http://www.ukrainetradeinvest.com> accessed in August 2009

¹⁸ Data provided by Mr. Vladimir Ivanov, Chief Editor of Ukrainian Soft Drinks Market Portal Country Consultant, Canadian, Ltd in telephone and personal Interviews conducted by Olena Lazorenko on 22.08.2009 and 24.09.2009

¹⁹ Source: Vitmark's marketing department data as of August 2009 based of the evaluation of State Statistic Committee of Ukraine information, 2009



In 2009, “White package OBFC” accounted for 30% of the sales in the low price segment of the JNSD market, and 16% of the sales in the entire JNSD market in 2008.²⁰ Its share in the lower priced juice segment is expected to keep increasing as the segment expands due to consumer preferences for cheaper alternatives during these turbulent times.

POVERTY IN UKRAINE – A CHALLENGE FOR HEALTHY NUTRITION

As with other countries in Eastern Europe that are undergoing radical political and economic transformation, poverty is a social problem in Ukraine. The national poverty level is based on living wages for low-income households. Traditionally, living wages have been a key source for determining social distribution in Ukraine.²¹ Official statistics show that the proportion of the country’s population whose monthly per-capita household income was less than the official living wage was 83.3% in 2002, and dropped to 18.1% in 2008.²² The national poverty level was calculated as 342 UAH per month (\$64.2 USD) in 2002 and increased to 626 UAH (\$119 USD) in 2008.²³ Table 2 below provides information on the poverty levels and proportion of the population living below the minimum living wage in local currency and USD for the period 2002-2008.

²⁰ Source: Annex 1. Table 4 Brand share in juice market in the period 2002-2008 in Ukraine.

²¹ The living wage is a term used to describe the minimum hourly wage necessary to cover accommodation (housing and incidentals such as clothing and other basic needs) and nutrition for an individual, usually for the period of one month. Officially, living wages are calculated on the basis of domestic prices for 270 items such as food, goods and services known as “consumer basket.” “Consumer basket’s list”. Cabinet of Ministry of Ukraine. Resolution № 656 from 14.04.2000 See: <http://zakon.rada.gov.ua> accessed on 1 August 2009 (in Ukrainian).

²² An official measure for monitoring of living conditions is not recognized since 2000. The “consumer basket’s list” is subjected to criticism in Ukraine mass-media on basis of its weak correspondence with the normal human consumption habits.

²³ Source: The State Statistics Committee <http://www.ukrstat.gov.ua/> accessed on 18.08.2009, (in Ukrainian only)



Table 2: Official monthly minimum living wage in Ukraine

Year	Number of people whose per capita monthly household income was less than the official subsistence level (millions)	Proportion of population for which the per capita monthly household income was less than the official subsistence level	Level of official subsistence level per capita per month (UAH)	Level of official subsistence level per capita per month (USD)
2002	39,8	83,3	342,0	64.2
2003	35,2	76,2	342,0	64.4
2004	30,3	65,6	362,23	68.2
2005	25,3	55,3	423,0	82.6
2006	23,1	50,9	472,0	93.4
2007	13,2	29,3	532,0	105.3
2008	8,1	18,1	626,0	119

Source: Adapted and translated from the Ukrainian by Olena Lazorenko from the State Statistics Committee <http://www.ukrstat.gov.ua/> accessed on 18.08.2009

Many factors contribute to inadequate food and beverage consumption for poor families in Ukraine. For example, the domestic “consumer basket” does not include juices, fruits and other important products for adults and children; regular consumption of fruits and vegetables (e.g. in form of affordable juices) hasn’t become a standard norm of the national lifestyle yet - whereas the World Health Organization (WHO) recommends that a healthy diet should include 400 grams of fruits and vegetables daily.

In 2008, per-capita consumption of juice and nectars was 10.8 liters and 7.4 liters respectively, and consumption of other juice drink products was 1.2 liters per annum. Juice consumption by all segments of the population (including low-income households) increased from 199.4 million liters in 2002 to 706.5 million liters in 2008.²⁴ Because of the economic crisis, the total volume of juice sales, which was initially forecasted to decline 5%, dropped by 19% in 2009. Despite the crisis, Vitmark-Ukraine has continued to produce affordable juices for all segments of the population.

²⁴ Source: <http://uadrinks.info> Ukrainian Soft Drinks Market Portal, 2009 accessed in August 2009 and telephone Interview with Mr. Vladimir Ivanov, Editor-in-Chief of Ukrainian Soft Drinks Market Portal on 22.08.2009 by Olena Lazorenko; Interview with Mr. Vladimir Onoprienko published at http://uadrinks.info/drinks_market/?id=1879 on 16 June 2009 accessed in August 2009



According to local market research, consumers can be categorized in the following four income groups:²⁵

- Consumers with a low monthly household income per person between UAH 601 - UAH 1000 (75.12 USD - 125 USD in 2009)²⁶
- Consumers of a middle income level between UAH 1001 - UAH 1500 (125.1 USD - 187.5 USD in 2009)
- Consumers of an upper-middle income level between UAH 1501 - UAH 3000 (187.6 USD - 375 USD in 2009)
- Consumers of an upper income level of more than UAH 3001 (>375 USD in 2009)

As illustrated in Table 3, most consumers are from low- (14%) and middle- (66.4%) income levels, accounting for about 80% of all Ukrainian customers.²⁷

Table3: Income levels of Ukrainian Consumers

Income per capita per month	Percent
UAH 601- UAH 1000	14.0
UAH 1001- UAH 1500	66.4
UAH 1501- UAH 3000	18.0
More than UAH 3001	1.6

Source: Vitmark Marketing department, 2009

Vitmark's Inclusive Business Model: Benefitting Consumers, Employees and Suppliers

Vitmark's innovative business model and marketing have helped it to respond to the demand for quality and affordable juices for low- and middle-income families. Vitmark adapted its processes to create a low-priced quality product that addresses the demand of this particular market segment by reducing marketing, product design and packaging costs, as well as by sourcing its inputs locally. Ukrainian consumers have thus been able to avail of quality and lower-priced juice that had not been available in the country before.

But the company does not only benefit low-income consumers. Out of its 2,600 employees, about 30% come from a low-income background. In addition, Vitmark's business model involves local farmers and provides access and long-term income opportunities to about 2,500 small-scale and 25 large suppliers from four regions. Both employees and farmers regularly receive training to enhance the knowledge and skills required to provide quality products.

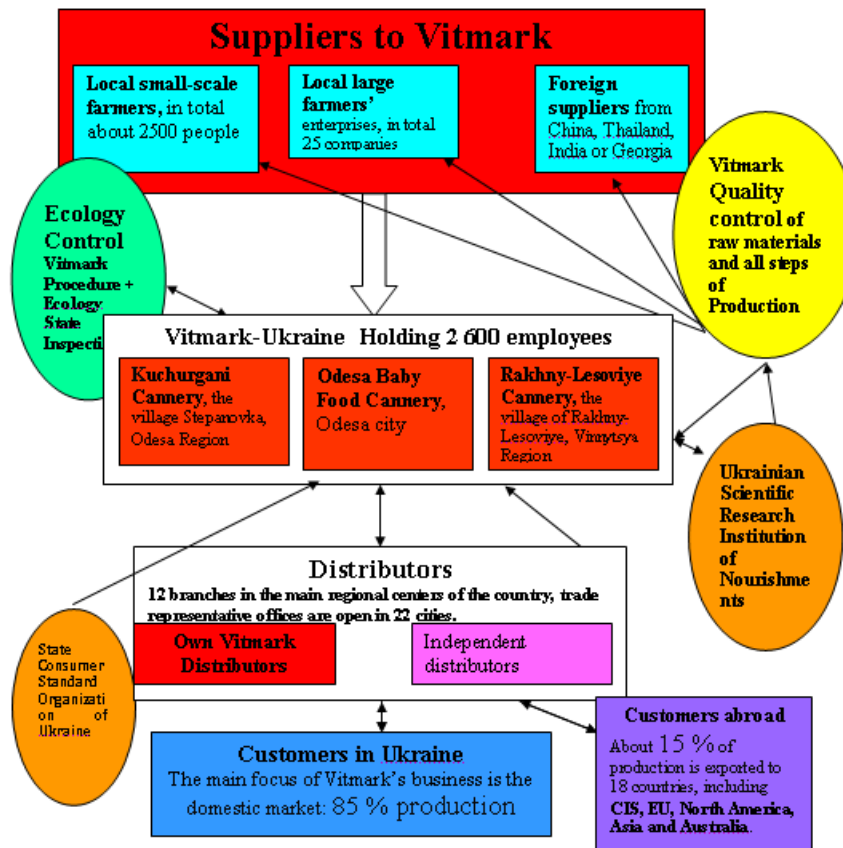
²⁵ For example, UMG and Vitmark corporate research of the marketing department

²⁶ The exchange rate of local currency (Hrivna) to USD was changed in 2009. Source: National Bank of Ukraine rate was 1 USD=5.26 in 2008 and 1USD=7.99 September 2009, 1 USD=8.00 October2009 www.bank.gov.ua accessed on November 2009 in Ukrainian.

²⁷ For GIM purposes, a person makes part of the low-income segment if he or she earns less than 4.3 USD per day (or, roughly, 130 USD per month). This includes all consumers from the low income and some consumers from middle income brackets.



Figure 3: Vitmark Inclusive Business Model



Source: Author

CONTRIBUTING TO A HEALTHY DIET: AFFORDABLE QUALITY JUICES FOR THE MIDDLE- AND LOWER-INCOME SECTORS

Vitmark was the first company in Ukraine to offer affordable juice in 0.2 liter, 1 liter, 1.5 liter and 2 liter packaging. The target market for these juices was the largest group of consumers in Ukraine - the low- and middle-income segments. This target group has traditionally been unable to afford juice consumption. Consequently, Vitmark adapted its production processes as well as the product itself to tailor it to the needs of its target group. This decision was backed up by Vitmark's corporate market research,²⁸ which indicated that people desired OBFC Juice due to its affordability.²⁹

²⁸ The consumers research was based on focus groups consisting of lower-income and middle-class customers.

²⁹ Source: From Focus Group for Low-Income & Middle Class Customers Report, conducted in 2008-2009 Vitmark marketing department, dated August 2009 (in Russian only).



Table 4: Brand characteristics of OBFC Juice selected by focus groups of low- and middle-income consumers

Brand characteristics	Frequency selection by customers
Cheaper / affordable for people with low income	17
National/Ukrainian product	16,2
Reliable/can be trusted	9,6
Brand with history	9,2
Efficiency for children	8,9
Juice for every day	8,8
Made to care about my loved one(s)	7,1
Quality - price ratio	7,1
This brand juice is of high quality	6,8
The juice of this brand is tasty	6,6
Recommended by the Ministry of Health of Ukraine	6,5
Targeted for the whole family	6
Is enjoyable	5

Source: Vitmark Marketing Department, 2008-2009

The product line includes apples, grapes, peaches, carrots, plums, strawberries, cherries and tomatoes and some fruit and/or vegetable mixes. OBFC Juice is a 100% natural product, which aims to provide healthy nutrition. Its nutritional value is confirmed through annual monitoring and certification provided by GosPotrebStandart, the Ukrainian State Consumer Standard Organization.³⁰ Vitmark's juices contain fruits and vegetables that are specially grown for OBFC in the southern part of the country. Huge aseptic containers located in the Kuchurgan branch make it possible to preserve fresh juice without the help of preservatives throughout the year.

The affordable price of 2.80 UAH (0.53 USD in 2002) per unit of White Package OBFC is achieved through its simple packaging - it has an ascetic design that is more cost-efficient than its competitors.³¹ Local customers like OBFC Juice and to them, its simple packaging implies that the producer focuses on the quality of the juice rather than a multi-colored package. Vitmark cuts down about 7-8 % of its overall expenses through its simpler packaging.³²

In addition, Vitmark was able to drastically reduce its promotion costs and reach its target group in a cost effective way. According to Andrey Kren, Head of Vitmark's PR department, "*OBFC Juice was a promotion by itself with an affordable price for a quality fruit and vegetable product and a distinct packaging.*" Marketing costs also were reduced by directly

³⁰ Source: See copy of the certificate in the Annex and its unofficial translation in the part of the "Business and its relations". In addition, original and natural prescriptions are approved by Ukrainian Scientific Research Institution of Nourishments at the Ministry of Health of Ukraine.

³¹ In 2002 the price of competitors for juice per unit (1 litre) was 4.30 Hrivna or more. Vitmark's price per unit (1 litre) was 2.80 Hrivna.

³² Source: Vitmark marketing department representative interviewed in Odesa, September 9-11.09.2009.



communicating with distributors and customers. Vitmark promoted its products through promotional activities in supermarkets, focus groups, sponsorship, charitable activities etc., and stayed away from expensive television advertising.

Vitmark distributes “OBFC Juice” through a combination of traditional and non-traditional distribution channels. It has 12 distribution office branches in the main regional centers of the country and its trade representative offices are located in 22 cities.³³ Vitmark employs about 1500 trade personnel.³⁴

BUILDING CAPACITIES AND PROVIDING NEW INCOME OPPORTUNITIES

Towards the end of 1990, Vitmark-Ukraine wanted to grow its share in the juice market in Ukraine and produce new juices made from domestically grown fruits. Local farmers played an important role in implementing this new business strategy. This coincided with the beginning of the transformation of the agricultural sector in Ukraine. Agricultural land was transferred to private ownership, which gave farmers the right to own, and, in 2010, the right to sell land. Farmers in Ukraine still face many challenges - low levels of technological development and poor infrastructure continue to make the industry highly exposed to risks.

An important problem for farmers is a lack of financial resources for the cultivation of high quality organic products. During 1998-2002 in the Odesa Region and during 2002-2004 in the Vinnytsya Region, Vitmark conducted a special program for local farmers, which aimed to support farmers by covering the expenses for organic fertilizers needed for the cultivation of high quality organic products. Vitmark`s program focused on small-scale farmers, who had problems in obtaining bank loans and had limited financial resources of their own. They also lacked the knowledge and skills to produce organic fruits and vegetables on an industrial scale. The farmers received organic fertilizers at the beginning of the agricultural season. The cost of fertilizers was included in the contract between Vitmark and the farmers for the latter to supply fruits and/or vegetables at the end of agricultural season. This was a special form of contract tailored and adapted for the specific business and local market conditions of these regions for the period 1998 - 2004. Vitmark selected farmers to participate in this program according to several criteria:

- Self-ownership of land
- Experience in supplying products to Vitmark
- Possession of legal permits for agriculture entrepreneurship activities in Ukraine

The program helped farmers in growing their production of quality organic products and gaining income, while Vitmark was guaranteed a steady supply of organic produce.

Vitmark has also provided information and training to local small-scale farmers since the end of the 1990s. Information on high-quality cultivation processes and applying quality standards

³³ The branches are located in Kyiv, Odesa, Lviv, Simferopol, Kharkov, Donetsk, Dnepropetrovsk, Lugansk, Rovno, Zaporozhe, Khmelnytsky and Mykolayev.

³⁴ Vitmark`s HR department data in August 2009.



is regularly provided through print materials and face-to-face or telephone communication. Free trainings are provided and hosted by the company at the beginning of every agricultural season (April–May). Every year, up to 50 farmers participate in a four-hour training conducted by Vitmark’s supply chain officers, lawyers and accountants.

The main subjects of the trainings and consultations are the high technical condition standards for fresh fruits and vegetables, organic quality in the cultivation processes, quality standards and Ukrainian rules for legal contracting and accounting.³⁵ The trainings end with a Q&A session held on an individual basis between farmers and the company’s representatives.

PROVIDING FAIR JOB OPPORTUNITIES TO THE RURAL POPULATION

Vitmark Holding employs about 1000 people from several villages in the Odessa and Vinnytsya regions. About 75% of these employees are from a low-income background per the national poverty level.

Employees often lack the skills and knowledge required for the production of quality juices and nectars. Vitmark invests in leveraging the strengths of its employees by providing training and capacity building. Vitmark’s total training budget in 2008 was equivalent to 74,273 USD. Over 600 personnel received training in 2008. As illustrated in Table 5, Vitmark conducted 227 days of on-the-job and off-the-job training programs for production workers and office personnel. Evaluations of the trainings showed that 56% of the participants were fully satisfied with their training.³⁶

Table 5: Annual Training Data for Vitmark in 2008

Training	Number of trainees	Days
Public training for office personnel	55	77
Language training program for office personnel	25	12
Corporate events	28	7
In-house corporate training	348	66
Professional training for production workers	145	65
Total	601	227

Source: Vitmark HR data

³⁵ For example, local standard adopted in 1976 and named as “GOST 21920-76,” etc.

³⁶Source: Employee 2008 survey about results of training program of study of foreign language. www.vitmark.com/ accessed on 22.09.2009



Photo: Vitmark.

Vitmark has a modern human resources policy and labor rules, which are in compliance with Ukrainian national laws. It employs 875 workers, 19 supervisors, 260 specialists and 1,446 trade staff who have been provided with extensive compensation packages. The components of its human resource policies are salary and benefits policies, working conditions, and training and development of personnel.

In general, the average monthly salary level in the region was 2,296 UAH (436.5 USD) in 2008. On average, Vitmark paid its employees 727 UAH (\$138 USD per month) more than other jobs in 2008.³⁷ Apart from salary, Vitmark provides a compensation package, which includes vacation time as stipulated by the Ukrainian Labor Code. The company also provides sick leave, allocates additional financial support in emergency situations and offers discount “tour vouchers” for vacations to employees and their families.³⁸ In addition, Vitmark invested 447,605.8 UAH (88,634.8 USD) in 2007 and 948,389 UAH (180,302 USD) in 2008 in safe working conditions and trainings for employees. As a result, there were no work-related accidents in 2008 and during the first ten months of 2009.³⁹

Vitmark strives to manage diversity.⁴⁰ In the middle management level (production line managers, heads of departments) there are a large number of young people, both male and female, who are recent graduates of Ukrainian agrarian, economic, and polytechnic institutions. Both male and female professionals of middle and senior ages are represented in the top managerial positions of this organizational structure.

Business Partners

AGRICULTURAL FARMING HOUSEHOLDS: ODESA, MYKOLAYEV, VINNITSA AND CHERKASY REGIONS

The agricultural households of Odesa, Mykolayev, Vinnitsa and Cherkasy regions are the most important actors in the business model. Usually, Vitmark purchases 25,000-30,000 tons of

³⁷ Official average annual rate of local currency exchange (UAH) by National Bank of Ukraine was 1 USD=5.05 UAH in 2007, 1USD=5.26 in 2008, 1USD=7.70 April 2009, 1USD=7.80 Aug.2009 www.bank.gov.ua accessed in October 2009 in Ukrainian

³⁸ For example, there were 17 discount “tour vouchers” in 2007, 20 tour vouchers (including 8 for the families with children), 11 tour vouchers (including 4 for the families with children) during seven months of 2009. These “tour vouchers” (called “putevka” in Ukraine) for cover the price of a sanatorium (or health center) treatment during vacation time. The discount is from 10% to 70% off the regular price for a tour.

³⁹ Training of full-time personnel: Total training budget in 2008 was 390 677 UAH (77 362 USD). Number of staffs who received training in 2008 was 601 with 227 people/training days, including 55 office staffs for public training; 145 workers with 65 people/training days took part in training on quality of production procedures, working conditions safety & health management and other professional subjects.

⁴⁰ Source: Observation, site visits and site interviews conducted by Olena Lazorenko at the Odesa Baby Food Cannery (Odesa city) and the Kuchurgani Cannery (Stepanovka village, Odesa Region).



fresh fruits and vegetables per year from approximately 25 large agricultural suppliers, and about 10,000-15,000 tons per year through direct contracts with 100 small-scale farmers from four rural regions in Ukraine.

Large suppliers are represented by agricultural economic partnership companies including Komsomolets, Progress, Sadok, Mayak.⁴¹ According to Viktor Stanislavsky, Vitmark Vice-President and COO, *“Not all agricultural production meets our requirements. We are looking for agriculture providers who can maintain stable high quality of their fruits and vegetables using advanced, progressive technologies of growing and collecting the harvest. In Vitmark production we are using only natural, primarily local organic raw materials.”*

Usually, the suppliers’ contracts with local farmers are for one season since some farmers change the type of product they cultivate every season. Vitmark purchases industrial values of the raw materials to meet its requirements.⁴² It is important that Vitmark’s facilities are located in rural areas, as this lowers logistical expenses for farmers and for Vitmark. Also, quality standards for juice production require that the transportation distances for some fruits and vegetables by truck (for example, tomatoes or peaches) should not exceed 150 kilometers. Farmers are interested in cooperation with Vitmark because it provides them with a stable channel for selling their fruits and vegetables.

UKRAINIAN SCIENTIFIC RESEARCH INSTITUTE OF NOURISHMENT AT THE MINISTRY OF HEALTH UKRAINE

The Odesa branch of the Ukrainian Scientific Research Institution of Nourishment at the Ministry of Health of Ukraine approves the organic and natural recipes for Vitmark’s juices and nectars and ensures that they are in line with national nutrition standards. Nutritional information is provided on every Vitmark juice package. The research institute contributes their experience in adults’ and children’s nutrition, appropriate preparation of juices’ recipes and local taste preferences.

UKRAINIAN STATE ORGANISATION FOR CONSUMER STANDARDS, GOSPOTREBSTANDART

GosPotrebStandart is the official state organization in charge of regular monitoring and laboratory testing for quality standards of juice production. Monitoring is conducted every year and participating companies receive official certificates for one year. These certificates attest that juices are in conformity with all official quality requirements with regards to their organic and natural contents, and fully meet the recipe standards. The producers have to pay a fee to the local state administration for this monitoring and testing

⁴¹ Source: http://www.vitmark.com/rus/press/news/5_contracts

⁴² Usually small scale farmers supply about 2-5 tons each. Middle and large agriculture enterprise can supply around 100 tons per year.



In addition to monitoring producers, GosPotrebStandart organizes an annual national contest for the “100 Best Products of Ukraine”, which are tested and nominated by consumers. In 2008, out of 384 participating companies, OBFC juices were chosen for this honor. Products were evaluated according to several criteria including product quality, price and comparison with similar products, as well as raw material quality.

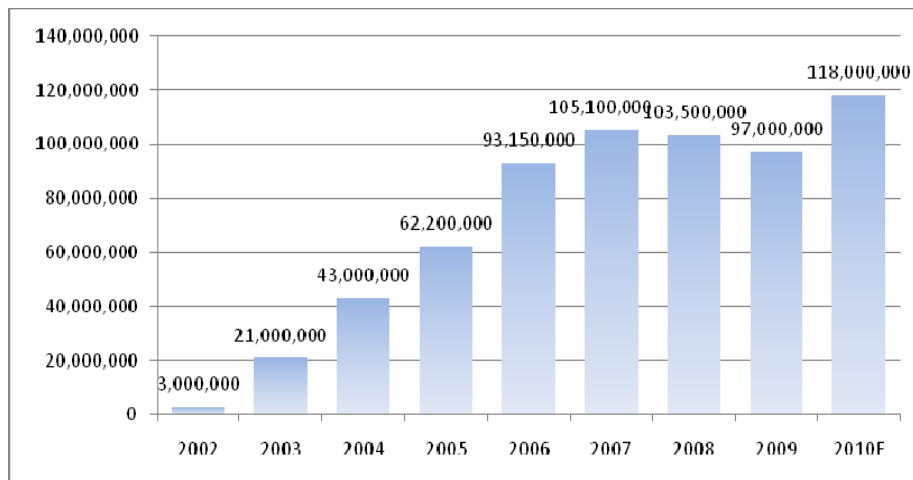
Results

ECONOMIC RESULTS

Vitmark’s market share in the JNSD market increased from 7% in 1999 to over 22% in 2008. Vitmark-Ukraine’s turnover in 2008 was approximately UAH 800 million (€78.5 million).⁴³ In spite of the economic crisis, the company’s target for 2009 is UAH 1 billion (€8 million). While Vitmark’s primary focus is the Ukrainian domestic market, about 15% of its production is exported to 18 countries in the CIS, the EU, North America, Asia and Australia.

The economic result of its engagement in the low-income market with the introduction of the Vitmark White package product shows that the decision to enter this formerly untapped market segment was a smart move, as is illustrated by Figure 4 and Table 6. Starting with 3 million liters in 2002, the sales volume increased to 103.5 million liters in 2008. By including the poor into their business model, the company managed to guarantee quality supply of fruits and vegetables for reasonable prices from small-scale farmers, who were trained by the company.

Figure 4: The sales volume (in Lt) of Vitmark White package, 2002-2010 in Ukraine



Source: Vitmark marketing department, 2010

⁴³ Vitali Vinitski’s Interview. Providing healthier options. Beverage Innovation. Issue 63, February 2009.



Also, between 2002 and 2008, the market share for Vitmark White Package increased from 1% to 16% as shown in Table 6. Numerous awards in Ukraine and abroad attest to the quality standards of Vitmark’s products.⁴⁴

Table 6: Market share for Vitmark White package, 2002-2010HY

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010
Market share for White Package OBFC	1%	7%	10%	12%	14%	15%	16%	18%	22%

Source: Vitmark marketing department, 2010

SOCIAL RESULTS



Photo: Andrey Kren

The activities of Vitmark have a positive social effect. After the fall of the USSR in 1990, the Odesa Baby Food Cannery, the Kuchurgani Cannery and the Rakhny-Lesoviye Cannery stopped operating and employees did not receive salaries for a long time. At that time, modern facilities for saving and packaging were absent. Vitmark-Ukraine Holdings acquired these plants after privatization towards the end of 1990. Currently the plants are equipped with Italian, Finnish, Swedish and German machinery. For

example, in the Odesa Baby Food Cannery there are sixteen modern Tetra Pack packaging lines for juices and nectars, and two lines for PET-bottle and two lines for glass packaging. Vitmark had around 2,600 full-time employees in 2009. The company provides official regular monthly payments to social funds (including fees to state pension insurance). Natalia Rulyova, Vitmark HR Director said: “*Employment at Vitmark is a guarantee that the personnel will receive pension payments at retirement age*” (at the age of 55 years for women and 60 years for men). This is especially important for employees from rural areas where few are able to receive state pensions for a variety of reasons, from high unemployment to working in the informal economy.

Andrey Skakunov, Head of Department at Kuchurgani Cannery, says, “*people from rural areas hail the logistic support provided to them by Vitmark. Every day, the company provides a shuttle bus taking Kuchurgani Cannery employees to the Cannery and back to the neighboring villages where they live. There is no local public transportation there. By providing its corporate buses Vitmark creates a possibility for the workers to get to work and come back home without any logistical problems.*”

⁴⁴ Vitmark’s awards include the “GOLD STAR OF QUALITY,” and “NATIONAL TRADE MARK OF THE YEAR,” “For the Production of Juice Products with the Notable High Organoleptic Characteristics,” arranged by the International Fair “World Food,” International Exhibitions, Contest of Drinks for Retail Trade in Russia, Moscow; Azerbaijan, Baku; Ukraine, Kyiv; Moldova, Chisinau in the period 2000 – 2009. Recently Vitmark’s was awarded two gold medals at ALCO-SOFT 2009, an international exhibition specializing in beverage industry of Ukraine and CIS (June 2009).



In addition to Vitmark's employees, small-scale farmers from four regions of Ukraine included in its supply chain also benefit from income generation, trainings provided by the company and gains in productivity and quality. The long-term commitment by Vitmark creates stable incomes for small-scale farmers.

Low-income consumers have gained access to affordable and healthy juices, which help them in maintaining a healthy diet by providing essential vitamins and microelements. Before Vitmark entered this segment, juices and nectars were considered to be unaffordable luxury products by low-income customers. Through innovative packaging and promotion of juices and decreasing costs, Vitmark was able to increase the demand for juices from 199.4 million liters in 2002 to 706.5 liters in 2008.⁴⁵

ENVIRONMENTAL RESULTS

Vitmark, as a responsible business, extracts resources and manufactures products in a way that minimizes the impact on the environment. In addition to quality controls for the supply of raw materials, monitoring of the environmental performance of the production processes has been conducted both by the company itself and by the Ukrainian state organizations, including the regional branch of the State Ecological Inspection in Odesa. The company's environmental policy includes the use of recycled materials in the production process as well as the creation of a system of water and waste management.⁴⁶ Vitmark purifies water used in the production of all undesirable substances through the reverse osmosis method. In 2008, its total water consumption was 28,8363 cubic meters. However, through facility upgrades, it managed to decrease its water consumption by 54% in 2009.⁴⁷ Vitmark uses Tetra-Paks and PET bottles for packaging, which can be recycled. Vitmark reuses 30% of its generated waste and sells 70% to recycling companies. In 2008 Vitmark produced 98 tons of paper waste, 10 tons of polymer waste, 2 tons of glass waste, and 2 tons of other types of waste.

Besides implementing water and waste management in its production processes, the company is actively involved in post-consumer recycling and waste collection across the country in accordance with national legislation.⁴⁸ Vitmark is one of the companies that support

⁴⁵ Source: <http://uadrinks.info> Ukrainian Soft Drinks Market Portal, 2009 accessed in August 2009 and telephone Interview with Mr. Vladimir Ivanov, Editor-in-Chief of Ukrainian Soft Drinks Market Portal on 22.08.2009 by Olena Lazorenko; Interview with Mr. Vladimir Onoprienko published at <http://uadrinks.info> on 16 June 2009 accessed in August 2009

⁴⁶ In 2009 Vitmark created a corporate operation document "Procedure of waste management" (dated March 5, 2009). It regulates certain aspects of the company's policies in production, utilization, destruction and realization of waste. Vitmark's officers and departments involved in this procedure are the CEO, director of production, head of the quality control department, financial director, head of security department, chief of accountant, financial controller, deputy head of energy department, head of legal department, head and senior managers of logistics department, head of primary processing departments, head of packaging departments, head of department of baby food production, specialists on environment issues, head of sanitation utilities team.

⁴⁷ Source: Data concern OBFC only. Interview with Nana Abramova, Specialist on Environment issues, Vitmark, September 2009

⁴⁸ In Ukraine the process of forming legislation on packaging recycling has been initiated. For example, Resolution of the Cabinet of Ministry of Ukraine from 26 July 2001 № 915 (See: Official Visnik Ukraine-2001, N 31.- p. 1412; - 2002, N 31, p. 1478; - 2003, N 48,p. 2526. Resolution of the Cabinet of Ministry of Ukraine from 20 May 2009 p. N 508 and 8 September 2009 N 718/2009 ect See:



sustainable packing in Ukraine. Every year Vitmark partners with a specialized company for the separate collection of recycled resources and beverage cartons.⁴⁹

Recently, post-consumer recycling has become a focus of the operational management of Ukrainian and multinational businesses. For example, 900 tons of post-consumer cartons were collected and recycled in 2007 as a result of the separate implementation of waste collection and packaging recycling. In Ukraine, 1500 tons of post-consumer packaging was collected and recycled, which amounted to approximately 4,500,000 cartons in 2008.⁵⁰

Growth Strategy and Future Outlook

In view of the economic recession, it is very important for Ukraine and the broader Eastern European region to develop economic enterprises that can be internationally competitive. The sectors of the Ukrainian economy that have great potential are agribusiness and the service industries. Unfortunately, the Ukrainian economy as a whole and the juice market in particular will need time to recover from the economic crisis. For the first six months of 2008, overall economic production output in Ukraine fell by 27.5%⁵¹ and the juice market output fell by 19%.⁵²

In the summer of 2009, Vitmark started re-branding its OBFC Juice as Our Juice. Together with the re-branding of popular domestic flavors, Vitmark also added lower-priced tropical fruit juices to the White Package OBFC family juice selection. In times when prices tend to rise in the beverage industry, Our Juice has remained affordable for local customers - the 2008 price was maintained in the local currency in 2009. As a result of the new marketing strategy, the brand share of Our Juice in the Ukrainian JNSD market grew by 17% in 2009. Vitmark continues its corporate policy of adapting its products to the needs of all customers and maintains its leadership in producing affordable juices of high quality.

<http://zakon.rada.gov.ua> assessed on December 4, 2009 only in Ukrainian. These resolutions focus on the creation and development of a process of the post-consumer recycling and waste collection across Ukraine.

⁴⁹ Source: On-line mails with Nana Abramova, Specialist on Environment issues, Vitmark, dated 4 December 2009

⁵⁰ Source: www.tetrapak.com and Press- realize "Tetra Pak initiated collection and recycling of post-consumer cartons in Ukraine", on-line mails with Anna Tarantsova, Environmental Manager of Tetra Pak Ukraine dated December 2, 2009

⁵¹ Source: Victor Suslov, Head of the State Financial Services Markets Regulatory Interview to Weekly.UA 11-17.09.2009 p.49

⁵² Source: Vitmark's marketing department data in August 2009 based on the evaluation of State Statistic Committee of Ukraine information, 2009



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Annex

ANNEX 1. TABLES, DATA, OTHER RELEVANT INFORMATION

Table 1: Vitmark medial salary level per month in UAH

Medial salary level per months in Vitmark	Years		
	2007	2008	2009
Vitmark total	1836	2296	2399
Workers	924	1035	1274
Odesa Region	1077	1569	1633

Table 2

Personnel Data		2007	2008	2009
Total Employees		3727	2732	2600
Gender breakdown	male	2292	1784	1790
	female	1435	948	810
Employees under 34 years old		2294	1667	1673
Employee characteristics:				
Production workers		1258	1063	875
Supervisors (including office clerical)		19	19	19
Professional technical specialists		302	296	260
Trade personnel		2148	1354	1446

Source: HR Department Vitmark, September 2009



ANNEX 2. SUMMARY OF SELECTED INTERVIEW PROTOCOLS

Telephone and face-to-face interviews conducted by Olena Lazorenko with Mr. Vladimir Ivanov, Editor-at-Large of Ukrainian Soft Drinks Market Portal http://uadrinks.info/drinks_market/ (22.08.2009 and 24.09.2009)

Dates: 22.08.2009; 24.09.2009

Place: Kyiv

1. Juice market segmentation and juice market prices in Ukraine

Consumption of juice in Ukraine is growing. Five-six years ago juice was considered an attribute of wealthy life, but it is now consumed by almost all segments of the population. Apple remains the most popular flavor with 18% of the market, followed by tomato (15%); fruit mixes (13%) and apple mix (11%); mixes continue to be popular in Ukraine. Consumers accept novelty flavors with great interest, but the popularity of traditional flavors remains stable.

In the first half of 2008, the share of discount products was expected to decrease, and producers started to invest more in premium segment development. By the fourth quarter, however, sales of premium products were down and the share of discount products started to grow again. In 2009 price stability will depend on a number of factors including the situation of the economy, currency exchange rates, harvest forecasts, inflation rates and energy prices.

2. What has been the volume of the juice market in Ukraine between 2002 and 2009 in millions of liters?

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010F
180	230	280	410	540	650	780	744	555	566

A 25% decline is for 2009, with decreased consumer purchasing power among the main factors as consumers turn to less expensive alternatives.

The entire volume of consumption of JNSD (juice, nectars, still drinks) in Ukraine is 27% of non-alcoholic beverages. Ukrainian non-alcoholic beverages including: packaged water, bulk/HOD water, carbonated beverages, juices, nectars, still drinks, iced/RTD tea, iced/RTD coffee, energy drinks, syrups, fruit powders. In 2008 the overall volume of juices and nectars market was \$1.139 billion USD, with juices at \$735.56 million USD and nectars at \$404.06 million USD.

3. What company created a low-price segment for high-quality juice in modern useful packaging in Ukraine? When?

It was Vitmark, the 'white -pack' discount segment which was created in 2002-2003. Later Sandora (Nikolaev juice plant), Vinnifruit and Fruit Master Group (Nidan+) has joined the group.



4. Several questions concerning Vitmark-Ukraine.

4.1. How did you originally learn or hear about the business of Vitmark?

I learned about Vitmark at first as consumer, purchasing their products. Then – as market consultant.

4.2. What are your overall impressions of the business?

Well developed, with goals set right, professional and well-planned.

4.3. Do you have personal interaction with the business of Vitmark?

I have interviewed representatives of the company many times.

4.4. If yes, when did you first interact with the business and for what reason?

There were in the forms of market research, information dissemination.

4.5. What you think of quality of different Vitmark juice brands as a customer or as an expert? First of all about “Our Juice of Odessa Baby Food Cannery” and “Jaffa.”

4.6. In your mind, does the business generate positive social and environmental results? If so, what are they?

Definitely yes, price is still the main factor for most of consumers in Ukraine and Vitmark offers one of the best products for poorer segment of population.

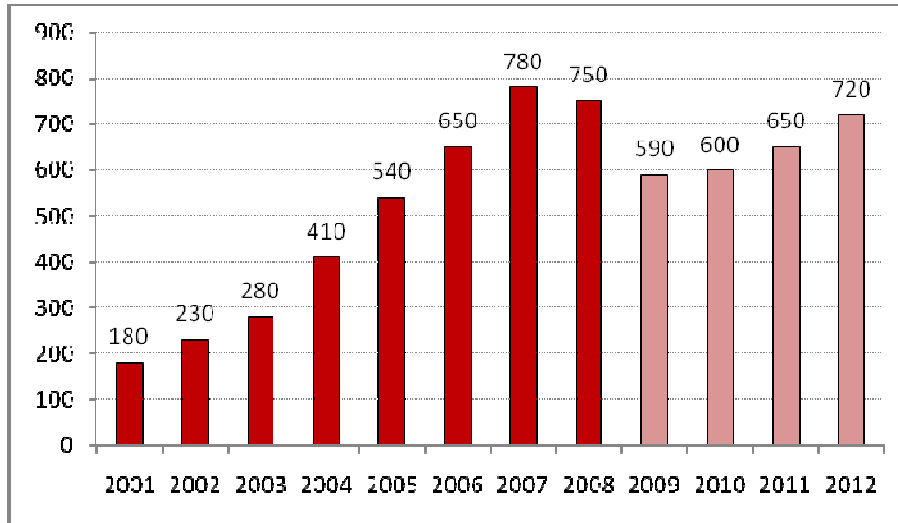
Telephone, face-to-face interviews conducted in Russian by Olena Lazorenko and on-line mails with Ms.Valeria Svyazina, specialist of marketing department, Vitmark (25-26.08.2009; 9-11.09.2009)

Date: 9/09/2009

Place: Odesa

1. What is volume of Juice market in Ukraine in 2002 and 2009? Please provide data from Vitmark marketing department.

Figure: Values of Ukraine JNSD market in millions of liters:



2. What is Vitmark key brand share (White package OBFC) in the Ukrainian juice market?

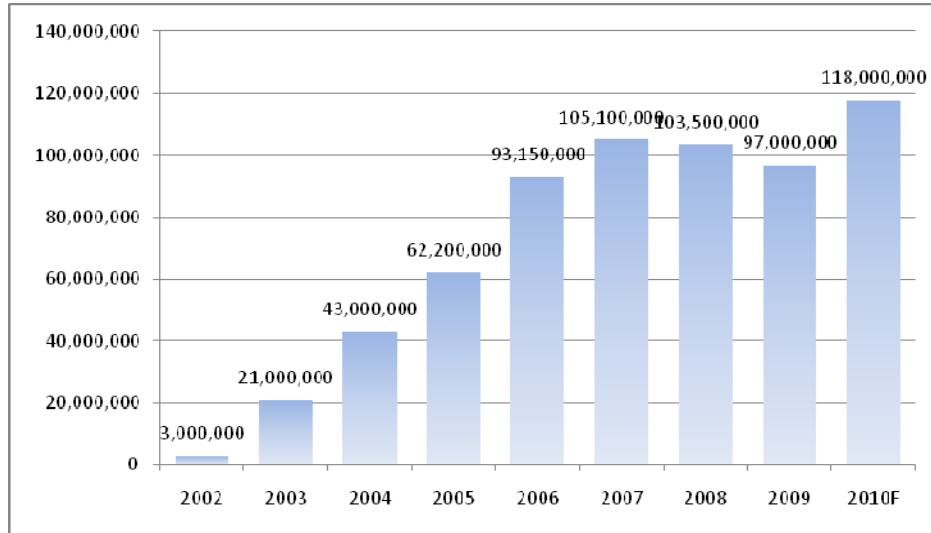
Table: Brand share in the juice market during the period 2002-2008 in Ukraine

Years	2002	2003	2004	2005	2006	2007	2008	2009	2010HY
Brand share of White package OBFC	1%	7%	10%	12%	14%	15%	16%	18%	22%
Brand share of Sadochok		6%	15%	20%	23%	25%	27%	29%	29%

In 2009 White package OBFC covered 17% of the overall juice market

3. Please, describe a Vitmark economic result

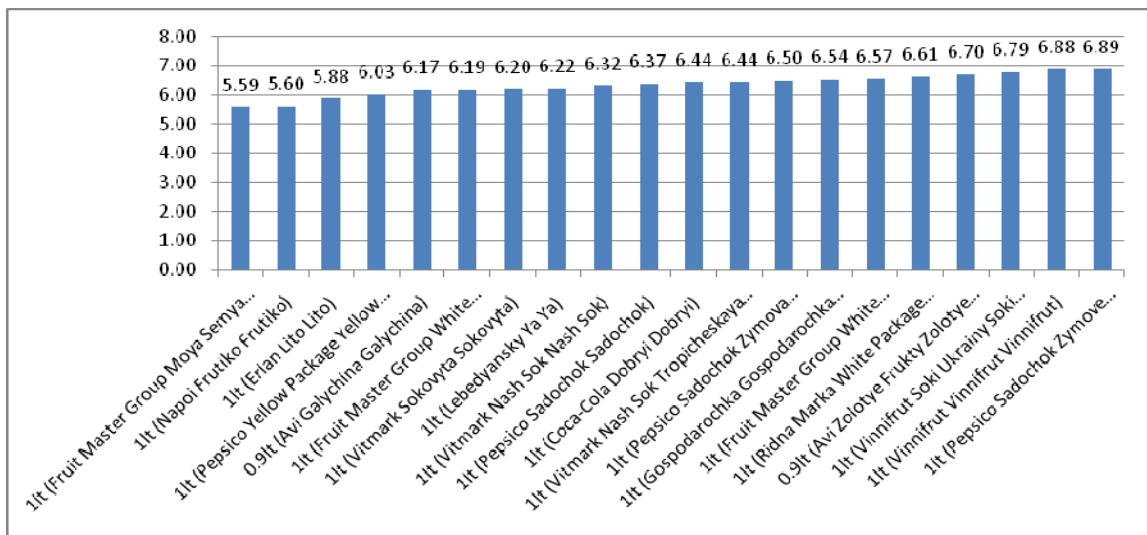
Figure: The trade level (in Lt) of Vitmark White package in Ukraine



4. Table Levels of income of Ukraine market customers, UMG

Income per person per month in UAH	Percentage
UAH 601- UAH 1000	14,0%
UAH 1001- UAH 1500	66,4%
UAH 1501- UAH 3000	18,0%
More than UAH 3000	1,6%

5. Figure: medial juice price in the low price segment per 1 lt., May 2010, Ukraine





6. Certifications to Vitmark: Ukrainian State Consumer Standard Organization named “GosPotrebStandart”

Scanned Vitmark’s Certificate # 242229 for period from 16.01.2009 to 02.10.2009 certified that juices of trade mark ‘Our Juice’ from OBFC (10 different types) met all official quality requirements related to: organic, natural, according to the norms of the recipes, etc.



7. Vitmark T&D department. Annual Training Data at Vitmark, on December 15, 2008

The telephone interview was conducted: 22.08.2009

Table: Annual Training Data at Vitmark, on December 15, 2008

subject	people	days
Public training for office personnel	55	77
Language training program for office personnel	25	12
Corporate events	28	7
In house corporate training	348	66
Professional training for production workers	145	65
Total	601	227

Source: Ms. Anna Shavlak, Head of Training and Development Department of Vitmark, Odesa



ANNEX 3. MAP OF UKRAINE



Source: CIA – The World Factbook⁵³

⁵³ <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html>. Retrieved on 26th November, 2010.



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The information presented in this case study has been made available to the company in subject to ensure its accuracy and is accurate to the best of the author's knowledge. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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