



## **CEI Training Manual No. 2**

for

**Senior Management**

**10 Case Studies**

Ukraine Enterprises in Transition  
from Soviet Era Production  
to U.S. Style Productivity Output

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# Ukraine Enterprises in Transition from Soviet Era Production to U.S. Style Productivity Output

## Introduction

CEI program objectives are to have U.S. study tour information disseminated as widely as possible throughout Ukraine. Towards that end, two representatives from each of the 26 Ukrainian oblasts (regions) were invited to hear directly from study tour participants what was learned in the U.S. and new technologies adopted. Nearly 50 people met on August 7, 2001 to hear case presentations from ten study tour participants: Alexander Radchenko, Kupiansk Canned Milk Plant (Dairy); Artem Bartyshev, Molochnaya Sloboda (Dairy); Olena Turchanova, Atet (Construction) Valeriy M. Lyubota, Director, Garant (Construction) Iryna Pesina, Frunze (Food Processing Equipment); Alexander. Sereda, TFK (Food Processing Equipment); Sergiy Tsymbalov, Roma (Bakery); Mykhaylo O. Ruban, Krasnograd Vegetable Factory (Fruit & Vegetable); and Iryna I. Karpenko, Kharkiv Vegetable Factory (Fruit & Vegetable). One Kharkiv Oblast Administration official, Vladimir Kalashnikov, presented a very positive case view of the results of the tours from the government's perspective.

Attendees were given copies of the technical reports written by each study tour group.

## Case 1

Frunze Plant, Kharkiv, Food Processing (Equipment study tour, 2000)

### Company profile

Established 1885, 155 employees, Kharkiv, Kharkiv Oblast

Founded by a Belgian industrialist, the factory manufactured perforated sieves used by food producers for different stages of grain processing: cleaning, crushing, sorting, de-husking, and drying. The enterprise served the agricultural sector after the revolution and nationalization, growing to become the largest producer of perforated materials in the USSR. Before 1992, it employed 350 people. In 1996 the enterprise was reorganized as a joint stock company.

Frunze is now the largest producer of perforated metal sheets in the CIS. Products include perforated metal sheets for grain processing machines, milling machines, and formula feed machines; brass sieves for centrifuges at sugar plants; trays for bread baking, pasta drying; and bread baking molds.

### Company progress since completion of study tour

- The firm concentrates on equipment for food processing firms that produce food for meeting the needs of people in the mid to low-income levels. In the last 10 years they have done a great deal of reconstruction work on food processing equipment.
- The tour had a profound impact on the company, especially in their marketing activities.
- They have almost doubled their number of product lines in the past year and sales are up 250%.
- Their sales materials have been completely revised and their new company sales brochure is of very high quality, is multi-language, and is very effective.
- They now have two new dealers and have received several orders from them.

## Irina Pesina presentation

Our study tour took place a year ago, last July. We visited about 25 U.S. companies that manufacture equipment for the food industry, and also some food processing companies and a farm.

I wish to talk about our study tour from the point of view of marketing and situational analysis. Any company that is developing can be successful only if it has a strategic plan. Situational analysis is the first stage of strategic planning. Before making any plans, you should find, metaphorically speaking, where you are today. What is the place of your company in the market? Do you have any competitors and customers? Who are your customers? How dangerous are your competitors? Where is our business technologically? What are our opportunities? Are we going out of business tomorrow? Will we be able to develop over many years and maybe centuries?

Because I manage the marketing and sales department at the Frunze Plant, I focused my attention, in the companies we toured, on how they promote their products, how they fight or cooperate with their competitors, and how they find new customers.

Somebody mentioned that it's a snap to manufacture products because distributors will buy everything. I am not going to start a discussion now, but manufacturers know that they can manufacture all kinds of products, fill up their warehouses and end up belly up. A lot of our former state-owned companies have gone through this.

Marketing in general is, if we use a short definition, manufacturing whatever will be bought, as opposed to selling whatever has been manufactured. Before starting production we should analyze all eventualities and analyze our product.

I am not going to get into theory. I am sure that everybody here is advanced marketing-wise or familiar with marketing basics from Kotler's book. I'd like to mention some outstanding examples gleaned from our study tour in America from the point of view of customer research. It is a component of the situational research I mentioned. Who are our customers? What do they want? Which of the products we make do they want to buy? Where are they prepared to buy our products, say, in supermarkets or at open market sites.

I was flabbergasted in my visit at the Borden Co. We saw their Innovation Center. This corporation has a lot of plants manufacturing food products. I was shocked by something I'd have never been able to see anywhere here in Ukraine. I think that many of you have never seen that either.

The food they make is nothing special: spaghetti, sauces, instant microwavable pasta, powdered soups, bouillon cubes, etc. But they are number one in this area in the U.S. The competition there is tremendous. Even in our stores we can see a lot of competition among different brands of bouillon cubes. And over there, it is just huge.

To survive, they invite their customers to the Innovation Center. They place them around a table and pay them \$40-50 - an hour! - for participating in a focus group. They offer their products for tasting. Everything is done in the presence of a psychologist, who stays behind a one-way mirror, like what they show in American thrillers. Everything is being videotaped, with the tasters' permission. They observe their customers tear the packaging. Suppose the company suggests that the packaging should be torn in the top right corner, and the customers start ripping it at the opposite end. Or maybe they will try to use their teeth because the package wouldn't yield. We all have been there. They also watch their customers pour out the contents of a container. There are special kitchens where they are asked to mix spaghetti with the sauces. They observe, for example homemakers and students. They specifically select representatives from the social strata

targeted for this particular product. And they videotape it all. Later specialists study all that “under a microscope.” They also conduct interviews. Customers are supposed not just to praise or criticize a product. The researchers study the words the testers are using while discussing the product. These words will be used in commercials or advertising slogans.

This experience seemed both interesting and acceptable to us. Moreover, after coming back, we held a similar focus group for our products. Our plant has been manufacturing screens and sieves from perforated metal sheets for 116 years for grain cleaning (husking) machines in the food processing industry. Now we have started making some decorative things for constructors, for example, perforated trash cans. We invited customers to discuss how good and convenient these trash cans are. Of course, we are not doing everything like Americans. I think that it is a matter of the future.

Other interesting examples.... Going back to the issue of sales methods.... The question “how to sell” is the most important for me, and for our marketing and sales department.

We used to debate with our company administration (by the way, I am on the board of directors) whether to use dealers or representatives. We saw in America that everything depends on the market, on what customers want and the type of product you have. There are companies that have representatives or distributors in every state or in every country they are interested in. It is usually true for companies with large equipment and production lines. To sell American machines in a European country they use a distributor who has gone through technical training, to look for orders, explain the customers’ needs, and to act as an intermediary between a customer and the manufacturer. After an assembly line gets installed they provide technical support and supply spare parts. In contrast, many large companies, such as giants of American business as Coca Cola, Pepsi Cola, Procter & Gamble, etc., more often than not use the services of intermediaries, as opposed to manufacturing companies.

Initially I was shocked when I learned that. Then I realized that they do it not because they have lots of money, but because the company that actually performs sales does not just get rid of their products and disappear, so to speak, submerge to the bottom. Instead, they perform maintenance and provide technical support. Later they might help, for example, Coca Cola modernize their original bottling line, which was manufactured and shipped from, say, Italy.

We are now trying to use this approach too. We are a machine-building company. We created a network of representatives. We set up a joint venture in Voronezh, Russia. For some reason, our governments, both Russian and Ukrainian, keep creating difficulties for us, such as VAT, additional taxes and custom dues when crossing borders, etc. We do not have another choice but to set up joint ventures like in Voronezh, since 50 percent of our products sell in the Russian market.

We also combine approaches. That is another American practice. Over there they use a combination of different promotion methods, such as a network of dealers. For example, it wouldn’t be profitable for us to ship our products to a bakery, or an animal food plant, or a sugar plant, in the Altai Province of Russia. That is why we look for dealers there, train them, and offer them advantageous sales arrangements. That is why our sales volume is constantly growing in these regions.

More on my American experience: I found interesting the practice of the U.S. company manufacturing cans. They sell their products in 20 countries of the world and on all the continents. The question arises: Should they be “hauling air,” flying empty cans

overseas? Obviously, that would be ridiculous and not profitable. This company found a very smart, wise solution. They sell a license to manufacture cans and coatings. The company itself is located in the U.S. But they do not just sell a license and say good-bye. They try to acquire some stock, say, 5 or 10 percent. In this way they are able to keep track of the other company's operations, its compliance with licensing rules, etc. Also in the future they would offer them additional technology, modernization, and other services.

We had another interesting experience in customer service. I work in the sales department. We have about 2,000 customers. We have customers that buy by rail car (for example, the Krasnoyarsk Combine Harvester Plant and the Rostov Agricultural Machinery Plant; and, on the other end, farmers who buy one screen. We used to apply the same approach to all customers. Today I implemented some of my observations in the U.S. on differential sales treatments and put them into practice at our corporate sales department.

We visited Hubert Co., which is involved in a type of business new for us, merchandising. This company has a warehouse to die for. What they do is provide equipment to different restaurants, stores, and cafes. They equip them with whatever their client desires. This is one of the most important marketing aspects we observed in the U.S. First of all, we have to discover the customer's needs. What do they need? Instead of offering what you think they might need, we should find out what they want and provide that, at the place the customer wants, at the price the customer is prepared to pay and with the smile the customer wants to see. Although here I might be exaggerating somewhat.

The Hubert Co. has a mind-boggling array of goods. They are the top player in this area in the U.S. Their goods come from all countries in the world: China, Asia, etc. A simple example: They offer lots of chandeliers, lots of light stars, different parquet patterns, whatever. Understandably our society needs to learn a lot and grow a lot to meet such supply needs. One company might need glasses of a certain shape, while another will choose something very different. Or another example: drapes, curtains, fans, chicken and meat mock-ups, fake bread, and other furnishings. Like, you know, in stores that display ham mock-ups that look very real. All these products are available at this company.

How do they manage to sell all that all over America? We saw their sales department. It was in a hall approximately the same size as this one. Thirty employees work there, separated by partitions. It is a very pressing issue for me. I don't know about you. I literally fell in love with this system. At a single time, these telephone operators can receive up to 1,400 calls. How can they do that? All the phone calls get recorded and arranged in order by a computer system. Those callers who did not get through at once are called back by the computer.

Once a year this company puts together a thick catalog. We all know wholesale, apparel and equipment catalogs. They have their own photo studio and make a very nice catalog with prices and specifications of every item. They do not only mail out those catalogs, but conduct presentations for potential distributors, and also for designers and decorators of restaurants and cafes. As a result, the company has achieved their present-day sales level. They supply all the U.S. from one warehouse. The ordered goods are delivered within 24 hours. It takes them 72 hours if the goods have to be shipped from Malaysia or Ukraine. Everything else is delivered within 24 hours. Their warehouse is completely automatic.

Of course, in Ukraine, we also have advanced Internet advertising. But over there they are several steps ahead. Companies promote themselves not only through catalogs and booklets or through Web sites. Some companies presented their CDs to us, sometimes of a regular, standard size, sometimes as small as a business card. After seeing that I persuaded our top management that we need at least one CD to promote our products in the construction market, which is new for us. We need another thematic CD to give away at agricultural shows. Today we discussed it and are now making arrangements with the Regional Business Assistance Center to make our CDs there for different trade shows.

What other ways do our American colleagues, equipment manufacturers, use to promote their products? Specialized trade shows. That was not new for us. But after getting a confirmation that this is the right track, we now invest the bulk of our marketing funds in trade shows. Last year we went to Hanover. It was our third time at that show. We found some potential buyers in Europe. This year we have sold to Portugal and Algeria and to Germany, where our product was bought by our competitors. We hope that these promotion strategies will help us.

And the other extremely important area is management. It has been mentioned, but it's never mentioned enough. In very simple words, management is a way to make your people work better; so they won't feel pressured but enjoy their work, to assist the company to increase its sales and modernize its equipment. We are working on this today. We have completed several restructuring stages and separated several of our business areas into separate entities. We have set up several branches outside Ukraine and in Ukraine. And job descriptions are necessary too. As well as computerization, not only of accounting and sales, but of other functions as well. Our customers in the nearest future will require that we serve them in a much more sophisticated way than today. We have to anticipate their desires, instead of waiting for them to run away to our competitors.

Now I would like to give you my impressions of America in terms of competition. Of course, competition is supported by know-how and innovation processes. I already mentioned the Borden Co. They create innovation centers at all their major plants to study new products and new projects. If a competitor provides new services, they will also establish new services.

Today we have introduced this practice at our company. We created work groups for each new product and each new area of operations. Now we start every new area of operation with market analysis. Not like before, when a top manager could have said, "It might be profitable to produce X." So they would then dump lots of money into X. And later they discover that customers were not interested in this product because it should have looked or tasted different. Now we do market research first. We study the market and the market needs. Then we make a business plan, calculate all the financials, and determine what equipment is needed and the payback period. Only after that we start investing into this new business.

Recently after a comprehensive market study we decided to launch pretty much the same products as before, but of a higher quality. As a result we hope, within the free economic zone developing in Kharkiv today, to purchase new Italian and German perforation presses to satisfy the more demanding requests of our clients. That is something they taught us in the U.S.

## Case 2

Atet Co., Kharkiv, (Construction study tour in 2000)

### Company profile

Established 1993, 13 employees, Kharkiv, Kharkiv Oblast

The company manufactures and installs wood windows and doors of oak, pine, and larch.

Their market share is 5-8%.

### Company progress since completion of study tour

- The study tour participant decided that the company must work differently so they moved to a new location where a building is being renovated. She has changed the way they do millwork so that in 6 months she expects that half of all the millwork in Kharkiv will be coated by her firm. She also changed her approach to personnel and decided to upgrade those on her staff who were performing well. She changed her approach to her clients since she previously had been old fashioned in her treatment of them. She has recently brought out new sales brochures.
- Her company has changed 50% of their personnel, including the President and they have set new goals for the company. They have cleaned the employee workspaces to provide a more pleasant work environment and have revised the rental terms of their office.
- They have a new marketing plan for 2002 and have implemented a rigorous marketing campaign, which includes newspaper advertisements.
- They are beginning to take on custom work to provide the highest level of service to their clients. They will also have a showroom for doors and windows.
- The company now manufactures a new product, unique in Kharkiv, doors with beaded and stained glass inserts.

### Olena Turchanova's presentation

I represent a small company which has been in business since 1993. We make windows and doors from wood.

We were selected, along with 14 other companies in the construction industry, for a study tour in the U.S. And in the year 2000 we did visit America. Of course, visiting other countries now is not a problem. Some go as tourists, others to study, still others to visit relatives. A lot of people have moved to other countries. But we are here. And we had a unique opportunity to see a different America, from a different viewpoint, compared to most our compatriots who go there.

We saw what makes America the most powerful country in the world, a country with a developed economy and prosperity for its citizens. Everybody knows that.

I would like to quote John F. Kennedy, who liked and often used the following word: "Crisis". In Chinese it is designated by two hieroglyphs. Individually these hieroglyphs stand for "danger" and "opportunity." At the present time it is hard for Ukrainian entrepreneurs, and for small business owners like us who cannot count on anybody's assistance. We can only count on ourselves. But we also had an opportunity - to visit America.

There was another thing which made this trip wonderful. If we, business owners, had been invited to go to America to study for a certain fee, I would have thought twice. Maybe it would have been better to purchase new tooling dies instead. But we got this generous support from our American friends.

We visited more than 25 construction companies in five states: Ohio, Indiana, Kentucky, Minnesota and Illinois. These are typical American states with highly-developed economies.

While touring these companies, we met their leaders and saw that they are predominantly heirs to the founders of their businesses. Some companies have a 100-year-old history. Some businesses were founded at the turn of the century, others before World War I. Most have been in business for over 60 years. Artem Bartyshev was right when he said that we could see what our companies would look like, if they survive, to about 60 years, when our grandchildren own them. Well, we hope to see that time, too.

When transitioning to a market economy, we learned many new concepts: marketing, new technologies, management. But our knowledge had been theoretical. We had tried to grope our way through to bring these concepts into life. We relied on the trial and error method. In America we saw these concepts in action. We saw that these are not empty words, but a real opportunity to achieve success.

It was very important for us to observe the attitude of construction workers to their job at different construction sites. A shortcoming of our construction industry is that a lot of our people have become unaccustomed to working properly. When they see a whip above them, they kind of work. If you let them loose and allow “democracy,” they will be reluctant to work. It is not because everything is bad in our country, but because our people do not know how to work.

And here is what we saw over there. When a nice young woman, who owns a construction company, was telling us about pouring concrete and we were interviewing her and asking questions, a small team of neatly dressed workers poured concrete on a site, which had the same area as this conference hall. They poured the whole area in a short time! We were amazed. We saw that they did not take any smoke breaks. Everything was done very neatly. Everybody knew what needed to be done and knew their responsibilities. In our country, employees usually wait to be told what should be done. As we say, it takes two supervisors for each slave.

What else was interesting in America? For me personally, it was our visit to a unique company Marvin Windows in Minnesota, which is a wonderful state, just like our Karelia. The company was founded in 1894 by the great-grandfather of the present owner. He had some spare money and acquired a saw mill. And we saw what this saw mill had turned into. It is now an enormous plant which manufactures windows and doors from wood for at least a third of the U.S. Their manufacturing was very close to what we are doing. We are, of course, far behind them, but nevertheless.

Each company we visited was interesting. Our group was unique: There were architects, landscape designers, general contractors, heating and ventilation experts and people like me working in a component construction industry, for example, making windows and doors. It happened thanks to CEI who had selected competent tour people. So when we visited a company, it became kind of tough for the American hosts. We were shooting lots of questions from different sides. And our questions were most specific. They did not expect us to be that prepared.

For example, at the company which manufactures prefab houses, American Homes in Indiana, the general manager assigned a young woman to us to show around their plant. But our guys were asking such specific and detailed questions that the woman was taken aback and said, “Stop. Let me call somebody who is more senior because your questions are too specialized. I didn’t think you would be interested in that.”

But we were very interested in everything. Because we knew that when we came back, we would be asked lots and lots of questions, including the hiring methods of personnel for construction companies, their operations, work hours, how much they get paid, their goals and objectives, how they overcome their challenges. Their solutions are somewhat different, considering our own limited material resources.

Also, our group was unique in the fact that we had seven video cameras. Everybody had a camera. They gave us lots of sample materials at every company. At the end, when we started packing, we had to choose between what we could take along home and what we would have to part with, because it was just unrealistic to take home everything. That would have required another 40 -pound piece of luggage.

When we got back, we analyzed everything. We traded videotapes; we looked through tons of pictures. That was a titanic job. But at that time we had not yet digested all the information we had brought back. We could not see how important it would be for us in the future. We understood that it was important and thought, "Yes, we'll benefit from it."

Initially, in the following month, November, nothing changed, since we were still analyzing the situation. Only six months later, when during CEI's director Lee Cole's second visit, he asked us, "What has changed?" We said, "Yes, things are beginning to change." When he asked me about changes at my company, I told him that about 70% of employees had been fired. Actually, I told him it was 50%. Now it is 70%. I have just calculated who stayed and who left.

The thing is that after we got back and analyzed everything we had seen, we put the ducks in a row. Consciously and unconsciously, we began to change. I am talking about internal changes that occurred in us during the study tour and also about the resulting changes we made here.

I spoke so much about my trip to America and what I saw there, that one my colleagues, our director of operations, a young man of 28, told me "Elena Ivanovna, I am under the impression that not only you went to America, but our whole company did. It looks as if we had seen everything with our own eyes." And that was good because they all could visualize what we began to strive for.

We have changed the structure of our company. I noticed that in America all businesses, big and small, have a very well-defined organizational structure. At our company, things were rather chaotic. Everybody was trying to do as much as possible. As a result, we were stalling. So we developed very comprehensive job descriptions. We overhauled the system of reporting. We left minimum managerial staff. That allowed us to start working like a well-adjusted mechanism. Our leadership became one cohesive team. And now we are able to move in any direction.

As to personnel, when we told our employees about what we would be trying to achieve and about our new requirements, naturally more demanding, not everybody agreed with us. A lot of people said, "Why do you need this? We are working just fine, anyway. Let us continue working along the same lines, like many other companies do." But we said, "No. We cannot afford to work like that." We were not intimidated by the fact that I personally got two or three applications for resignation every day because some people chose to quit.

Nevertheless, now we have quite a different workforce at our company. I am very pleased about them. They range from 19 to 32 in age. It means that all these people practically never worked for government-owned businesses. They either did not have any job at all before coming to us, or worked previously under market conditions. They were

absorbing the ideas we were trying to explain to them just like sand absorbs water. They were taking in everything like a sponge. Every week they come to me with new ideas. Yes, we have a system for providing incentives for these ideas. We also have a system of fines. In our country one cannot proceed without that. Every employee knows when and for what reason he can be fined.

Nevertheless, our employees are trying hard. I know that they like working at our plant and believe in its future.

In America the manufacturers are not too concerned about selling their products. This is primarily the responsibility of distributors. The manufacturers send their products to distributors who sell them. Unfortunately, under our conditions we cannot do that. Of course, I would like to turn out our windows and doors without having a headache about selling them.

But we have to follow a different track. We started looking for cooperation possibilities. We found a company in Kharkiv, named Soli, which is located not far from us. I showed them the catalogs I had brought from America. I did that because I knew that they had a shop manufacturing beveled glass - glass with a beveled edge, for those who do not know what it is. This is very impressive glass, very attractive. I also showed them the stained glass we saw in America, in Ohio, at the Kolby and Kolby Co. They got fired up. Now I can tell you that we have signed a contract with them and have been installing their stained glass into our door frames. Nobody else in Kharkiv makes that!

We now realized that all our free resources should be channeled into technical re-equipment. We are trying to do everything possible for our company. Maybe we even deprive ourselves of something, but we bought new dies in Kiev and re-equipped our new shop.

Why the new shop? When I came back from America, I knew that we should get rid of unnecessary expenses. So we purchased a building instead of paying a lease. It was more advantageous for us. In the new building, we started working in a new way. Probably that was a sign of our new fate.

I think that now new horizons have opened for our company. Probably thanks to this study tour. You know, things do not happen just because. Now we are infected with this productivity virus. We saw what we should be striving for.

A year has passed. Our improvements are both a lot and too little. For manufacturers like us it is very little. We have not yet accomplished everything. We have only determined where and with whom we should be going, and have set up goals to reach our objective.

But I'd like to say that the information we had obtained fell onto fertile ground. I stay in touch with all the members from our group. Everybody has moved one step ahead. Everybody has achieved something. Some did that at their companies. Others realized that they could not change anything at their companies and started their own businesses to achieve more. Everybody is moving ahead. I am very happy for them and for myself.

Our American friends... I consider them our American friends, because we miss them when they do not come to Kharkiv for a while. We want to share with them our achievements. We are actually very pleased when they praise us, that they like the fact that we are not sitting idly.

I'd like to say that they provided to us all the information that could have been provided. Now everything depends on us.

You know, this morning I shared the following parable with my son. Now I want to share it with you. Once upon a time a wise man lived in an oriental city. He was very

wise. Lots of people sought his wisdom and assistance. There also lived another man, who was very ambitious and reluctant to share the knowledge he possessed. He was very jealous and angry that people were besieging the wise man. So he spent days and days thinking about a way to embarrass him. He saw a butterfly flying over his head. He caught it with his hand and rejoiced, "That's how I will embarrass the wise man." He held the butterfly in his fist thinking, "Now I am going to ask the wise man if the butterfly is alive or dead. If he says it's alive, I'll crush it and prove him wrong. If he says it's dead, I will open my fist, the butterfly will fly away, and everybody will see that this wise man does not know everything about life." So he came to the wise man's place and asked him, "Is this butterfly alive or dead?" And the answer was, "Everything is in your hands."

I would like to say that we understand that the information provided to us is priceless, but everything is still in our hands. I think that we will justify the hopes of those who organized this program.

### **Case 3**

Garant Co, Kupyansk, (Construction study tour, 2000)

#### Company profile

Established 1990, 105 employees, Kupyansk, Kharkiv Oblast

Products/services: Construction: Basement-laying, roofing, facing, painting, woodwork, plastering – 92.8%; Tombstones - 2.1%; Motor vehicle service - 5.1%,

Their market share in Kupyansk is 68% and they have little significant competition.

#### Company's progress since completion of study tour

- The firm concentrates on meeting the construction needs of customers in the mid to low-income levels. In the last 10 years they have done a great deal of reconstruction work.
- He especially was impressed with U.S. residential construction and furniture carpentry. As a result of the tour he will work in new ways. "Many things have changed and my world has turned up side down in the last 3 weeks." This includes new production methods, improved employee relations, and new technology that he never dreamed about previously. He saw easier ways to do finishing work and to do it attractively. In house construction the firm will try to use thinner walls with insulation and not just thicker brick walls.
- In Ukraine builders need to start making heating calculations for construction designs, not just using the old practices.

#### Valery Lyubota's presentation

I am well aware how difficult it was for you to get here from all regions of our Ukraine. I understand perfectly well the anxiety of those speakers who are getting ready to answer your questions later. I am excited myself. An opportunity to speak in front of such an audience does not present itself every day. Also, we manufacturers are people who are more used to proving what we can do with our work and actions, rather than talking about that.

I would like to express my gratitude to our American colleagues and friends for providing this opportunity to us.

I come from the town of Kupyansk in the Kharkiv Oblast. It is famous for its large milk company. But as a constructor, I represent the new generation of people who started our own businesses.

Lena mentioned that when we went to America, we learned that they have many family businesses there. Once we had a meeting with a large group of U.S. businesspeople. They know how to ask a question so as to observe their Ukrainian colleagues' response, although they know very little about Ukraine. They are more familiar with the former Soviet Union. When they asked me a question, "Is it hard for you to do business in Ukraine?" I said, "That depends", I then asked him, "which generation of business owners do you represent?" The American said, "The fourth." I told him, "Yes. I can tell. You are wearing a nice suit. You have a nice office and a good company. But how was it for your great-grandfather?" He replied, "Oh, it was very tough. Very difficult. He never took any days off. He did not have enough to eat and drink. He worked all the time." And then I said, "I too founded my company. I also hope that my sons and grandchildren will be happy because their father and grandfather created something."

I understand perfectly well that it is hard for us to work under market conditions. Why? Because we all came from a large socialist system. It had lots of strong points.

During the selection seminar I was asked, "What is your goal for visiting America?" I told them that it is better to see something once than to hear about it ten times.

What we saw in America was somewhat shocking. Why? Because of the simplest thing. People there have culture in everything. Here we are studying culture all the time. We thought that culture was the skill of dressing well, speaking well, sitting at a dinner table correctly and using fork and spoon right.

A funny incident happened to me once. We came to eat at a restaurant. There were lots of utensils in front of me. I looked and noticed that an American colleague was holding the fork with his left hand. I did the same. He watched that and in about 30 minutes asked me through an interpreter, "Valery, are you left-handed like me?"

What is culture? I made a discovery for myself that culture should be a part of manufacturing, even in the field of construction. The way you solve problems and work on your projects determines how your company will develop in the future.

This year has passed in intense and hard work. It took me a month to recover from this trip. Why? Because I realized I had to straighten my company. I saw that during my absence instead of multiplying the fruits, so to speak, they had tried to steal whatever they could. Probably wondering if their boss would come back from America or not.

When I came back, I started thinking. The American experience proves that many companies should be operated by families. However, you can imagine the conditions of our construction industry - hardly a family place. It was tough and hard, but I managed to recruit my wife to help. It was tough and hard, but, thank God, my children are graduating from the Kharkiv Construction Institute. I myself do not have a construction background, although I have been involved in private construction for 11 years.

I graduated from the Kharkiv Polytechnic Institute. You know that in the past our colleges trained students in all kinds of areas. In America I compared the narrow knowledge of their specialists with the wide knowledge of our people; it was like day and night. They tend to specialize. When we started asking that woman, she said, "No, it is not my area." We are better trained than that in Ukraine.

After our trip, time flew. A month later, I realized that something should be done. We should restructure our work. I had no idea where to begin. I came to the conclusion that I probably did not know how to manage people and how to manage operations. My company employs 100 people, has its own assets and resources. I realized that when I started demanding more from my employees, they did not seem to understand. I was obviously doing something wrong.

I gathered everybody in my firm and submitted my resignation. I told them that I was going to resign. I said “I cannot continue working like that. Something needs to be done. We need to restructure our operations. We should start somewhere.”

I was gone for two days. Not on a drinking binge, just on vacation. I went fishing. The weather was nice and frosty. I got chilled to the bone and thought a lot. Then I realized, “Why should I quit? I started it all. I founded my company 10 years ago as a coop.” OK, I decided to go back to see what my people had decided.

What I found was most unexpected. There were 25 applications for resignation on my desk. You can imagine the situation. I picked up these applications and read them through. They were from our chief engineer, our chief accountant, our director of operations, our foremen and supervisors. I summoned them all and asked, “How come?” They replied, “You know, we cannot change. We are what we are.” And that was the toughest situation I faced. I quickly let them go to their workplaces and told them that I would be back in two days.

Right at that time, different construction trade shows opened in Kiev. I quickly ordered tickets and made all the arrangements. I took all my key personnel - 25 individuals- to Kiev. We walked around the exhibition halls and looked at the new materials and technologies. I realized that I had done one thing wrong. I had been going places and seeing things all by myself. And I had tried to tell my people about things. That was a mistake. It doesn't matter how much you tell your people about things, they need to see for themselves. When we were walking around this trade show looking at how liquid wallpaper and poured-in-place floors are made, I saw a sparkle in their eyes although I personally was bored and kept yawning. I knew all that because I had seen it all.

You all understand what a collective train ride is. That is an extraordinary situation when nobody is a boss. We were now a team traveling together and beginning to mingle.

Look what the Americans are doing! They are great, they are so smart! They organized the tour for us, 14 constructors. Now they are trying to stimulate productivity for all of us here. In this situation you will see that we are quite different. Two or three persons on the study tour came from the same oblast or area. They might have never met before. Now they are establishing a relationship. It is nice if they are a man and a woman. It is also nice if this is an all-male group. That is good for bonding. They will network and then will do business together. That is one of the things that the Americans are teaching us.

So we started thinking about what we should do next. We came to the conclusion that specific responsibilities should be assigned to different employees, like in America. How could I do that? I went to my old Mezhkolkhozstroy company, which had closed, and asked the personnel manager to pull out the old job descriptions. I took them and locked myself up in the office for two days. I looked through them and realized that there was need to “discover America.” It was all written there. Life is full of paradoxes.

I got my staff together and tried to explain to them what they should be doing. I also realized that our wages at that time were lagging behind. We had concentrated on different projects and fell behind in wages. So it was time to introduce incentives. I started with our foremen.

Let's say a foreman wants a wage of 800 hryvnas. Now he is getting 400. I tell him, “OK. Your wage will be 800. But there will be conditions attached. Your base wage rate will be 400 hryvnas. 100 hryvnas more if you do not have any substandard production.”

We also had problems with accountability. We were late in submitting invoices or contracts, and did not get them signed by our customers in time. Then payday came and money wasn't transferred to our account. I told my staff if you submit all the time sheets, work orders, expenditure reports, Form M 29 in time, you'll get 100 hryvnas more.

At our company, if I saw a drunken employee during work hours, I would fire him immediately. Everybody was scared as hell of me. But why should I fire them? We have foremen, supervisors, site superintendents, who are responsible for that. If I come to work and see someone intoxicated, I should punish the foreman, not the worker. So if all the explanations and discipline reports are duly submitted and there are no violations, 100 hryvnas more.

And the fourth point. I thought about that and decided that the most important thing was work safety. If there are no violations, no injuries, they earn 100 hryvnas more. That will make your salary 800 a month.

So what do you think they did? They came, read all that, signed at the bottom of my order and said, "He wants to cut our salaries. And he promised to give us a raise. How in the world are we going to do that? It takes us a week to submit all the reports." And I told them, "Now you have only two days. That's it."

The first month was hard. My son came home after receiving his bachelor's degree, with which I was very pleased. So while we were driving to our company together, I said, "You know, yesterday was the deadline for submitting the reports. Three individuals did not make it. Maybe I'll forgive them." And he said, "Dad, are you right? You have written the instruction, haven't you? You have to be like steel, like with us. If you told us to stay home, we stayed home, right? Imagine what would have happened if we had known that you would not punish us or whatever?" So I punished those who had not come through. Some people were offended. But the most interesting thing is that nobody quit. People became angry, but also confident, and they just moved on.

Going back to our trip to America, I must say that we learned a lot and saw a lot. They do have culture there! Any business, any construction company, starts with the appearance of its premises. Landscaping, green trees, clean asphalt, everything is civilized and neat.

I was very pleased that I had had our national flag over my company for two years. And I have another flag standing in my office. Once the director of the Anti-Organized Crime Unit came to my office. I felt that he was going to ask me for a favor, being such a big boss. He looked around and asked me, "Why do you have a flag here?" I told him, "We all came from socialism. I was taught that our country is us all. We all make the country. Is there anything you want?" He replied "No, I was just wondering about your trip to America." And he left. I don't know what worked. Maybe the fact that I was calm and confident and did not stay in my armchair but walked out to meet him. Anyway, it worked.

We also have roses growing by the main office. There is also asphalt everywhere because everything starts right there, at the entrance. Imagine when a client comes to place an order and sees me sitting in a poor office. How can this happen? How can he trust us with his money and his order?

So we had been doing something right, we had been right on track because we have the most important thing - our character. You understand? We do not want to be the last. The U.S. helped us discover these qualities in ourselves and boosted our self-esteem.

We spoke about our tour at all kinds of discussions and clubs. Kupyansk is a small town of 78,000. Four of us from Kupyansk went to America. That includes Oleksandr Radchenko, from the milk cannery, somebody from the bakery plant, and I from the construction industry. We were sort of a circus. We felt like kids.

The most pleasant thing was when we were invited by our mayor. He said, "OK guys, tell me what you would like to see happening here." And during this open discussion I simply asked him, "Mikhail Ivanovich, do you want to remain mayor next year?" The next year was an election year. That conversation was last fall. And he said, "What do you mean?" I told him, "Let's start cleaning up our town." He continued, "In what way?" I said, "Let us start cleaning

streets. Let us start painting buildings. We have some old historic buildings. Just place orders and tell people that you will fund them. Because you know what happens? We do have money in the budget. The appropriations are made. And if the money is placed with our companies, where our Kupyansk residents work, they will get paid and will buy our Kupyansk-made products. It starts the whole chain. And you will get taxes, etc.”

As a true politician, he responded... “Do you remember that Schtiriz movie? Schtiriz shared his idea with Schulenburg, who pretended that he did not notice it.” Two months later the mayor said at a meeting, “Tomorrow we’ll start cleaning our town.” I did not care that he said it, not me. The most important thing is that we got our first contract. The second thing is that our town started to change. We are going to celebrate our Town Day on August 24, which coincides with our Independence Day. It feels nice now to drive through our town. They cleaned it up, put asphalt down, etc. Somehow we had gotten used to stepping over trash, seeing a pothole here and there.

After this trip I am amazed how many unoccupied spaces we have. Did you see how they seed grass over in the U.S.? In our presence, at a construction site, they smoothed the soil. Then a truck came, unloaded a roll of wire, they unrolled it and watered it. I did not understand a thing. I had to come up closer and touch. That’s what we all did - knocked on things, touched things. It turns out that there is a company that does the following: They use metal mesh, put in some sawdust, seed grass, water it, keep it under certain conditions and let the grass sprout. Then they roll it up, transport it to another site, unroll it, water it, and the grass takes root again. It is so simple!

Their small mechanization methods and tools are very impressive and diverse. Today it is hard for us, with just an ax and a plane, to do European-style remodeling. So we tried to catch up. We looked around to determine what was redundant at our company because over ten years we have accumulated a lot of equipment. We usually get into our three buses, load our “huts” and tools onto our trucks and drive to some place in Ukraine.

We have never traveled to other CIS countries because with all these borders, it became unprofitable for companies to go out to moonlight and pocket the money. The companies doing that very soon went belly up. A lot got burned doing that.

But we saw that we had a redundant gas tank truck and a redundant excavator. We sold them off quickly, sometimes even at a loss. But for the money obtained we purchased whatever is necessary for small mechanization: electric and power drills, etc. They are very expensive. But we were now able to offer all kinds of finishing jobs to our customers. You cannot do that without adequate tools.

The most difficult problem we face today is personnel. Why? You understand perfectly well that our construction industry has been idling for ten years. Qualified workers left to work elsewhere or moved to Moscow. It is a scourge for our Ukrainian society. Many moved to Belarus. Others have retired. In contrast we were muddling through, although we employ 100 people. We did not downsize, we did not send anyone on unpaid vacations. We practically never had salary backlogs. If delays in paying wages happened, they were a maximum of two or three days.

We got used to working in groups of five, 10 or 15. But recently we got a large job. It so happened that our tax inspection building burned down. Funds were allocated for a new building. We took part in the bidding, which was very competitive. Here the American experience helped us. We asked them how they bid. They told us, “There is no need to offer kickbacks or anything at all. Do not give anything, just do a good job. “When they see that your company has been afloat for 10 years, when they see it has a name. It’s OK if it doesn’t have a logo, but it has the name - GARANT!” I got this idea 11 years ago. It meant that we guarantee quality, etc. Also, the

fact that our workers' children are employed at our company results in boosting our corporate image.

When we started working on big jobs, we faced another problem. That was the most difficult. We were unaccustomed to working at such large scale. We had got used to working in small groups. So we gathered our engineering and technical personnel and began to study, to recall what the project documentation was all about. For remodeling a small apartment this step was not required. One designer could do that. But for a large project things were different. We got ourselves organized quite nicely. We have been working for three months now and have received 450,000 hryvnas from the contract. Everything is fine.

Another positive result from this trip is that we do not isolate ourselves any more like some firms who keep to themselves. We started choosing companies in our area to use as subcontractors. Subcontracting is the most difficult thing, because today if you entrust a certain project to a subcontractor, as a general contractor you are fully responsible for everything, including meeting deadlines, quality, etc. Over a period of time we selected some organizations that would not fail us. We do have deadlines. I tell them, "15 days for this project. In 14 days we will come with the final inspection."

It frequently is difficult. Often general contractors exerted pressure on their subcontractors. They would underpay them or delay payments to muddle through themselves and hold back wages of their employees. We did the opposite. We based our work on the principle that the subcontractors are the first to be paid, no matter how difficult it is for us. Then we could be interdependent. They trust us. They are working hard. They also need to re-equip themselves. And in this case we have good results.

There is sense in working and working hard. Why? Because we do not want to be the worst. I can tell you that honestly.

We have smart people, we have good people, but our past mentality needs to be overcome. The main hope is on the young people today. Every year we hire ten graduates from a vocational school. Not because they are free to us. Today vocational schools are prepared to send their students anywhere where they could get employment. But the most interesting thing is that out of these 10, four - sometimes three, sometimes five - stay at our company. So we get this continuity. Many of our older men, our mastodons are still with us; they are our main force, our backbone. Fifty percent of our personnel have been working at our company for 10 to 11 years. We have stability here. Today about 20% of our employees are our employees' children. Who will be a better teacher for his son if not his own father? Who can smack him good or who will not allow him to drink that glass, because "you'll have to get up early to go to work?"

And your attitude to personnel also matters. We should remember one thing: If you are going to treat them - not like buddies, one has to be demanding and a strict taskmaster - but you have to be their god. Why? You help them at tough moments, you solve their problems.

When you come to your plant and ask them, "How are you?" I was amazed at how the Americans do it. In the same manner exactly: "Hi, how are you?" They talk, they exchange news. And a worker feels that he is part of the process, and this process cannot happen without him. Then of course he will work better. The U.S. managers play a great role, at all levels.

#### **Case 4**

Kharkiv Vegetable Plant, Kharkiv (Fruit & Vegetable study tour in 2000)

### Company profile

Established 1966, 1,248 employees, Kharkiv, Kharkiv Oblast

During the period 1966 to 2000 the amount of land utilized increased from 870 to 4,050 hectares. For the same period vegetable yields increased from 3 to 12 thousand tons, fruit yields from 990 to 3,500 tons.

The production of canned vegetables in 1966 was 1600 jars; in 1981 it was 4800 thousand jars; in 1999, 2000 jars of vegetable produce were produced. The plan for the year 2000 is 3113 jars.

The canning facility produces the following products and packages them in 1 and 3 liter glass jars: garnish carrots, pickled beets, canned cucumbers, pickled cucumbers, pickled vegetable marrow, canned vegetable marrow, vegetable marrow paste, tomato juice, apple juice, tomato-paste, apple jam, pumpkin jam, snack salad, canned sorrel, Georgian sauce, Krasnodar sauce, sauerkraut, and apple sauce.

The company has a collective form of ownership. The market share of the company is 70% and the canning plant's market share is 60 %.

### Company progress since completion of study tour

- The company now is interested in growing mushrooms. They have received approval from the government to do so and have started a small operation.
- They also have started making jam and ketchup as a result of what they saw and learned on the tour. The jars will have European (screw top) lids.
- They will produce potato chips as they saw in a company in Cincinnati. They are working on the packaging for the chips.

### Irina Karpenko presentation

I represent the Kharkiv Vegetable Factory. I am deputy general manager there. Last year, in September, we visited America. We had spoken a lot about America at the preliminary marketing seminars. But I had an opportunity to see the free market with my own eyes only in America. It was really necessary to see visually how free-market relations develop. We hear a lot about these things, but we would have never understood them until we saw them ourselves.

Today's free-market conditions are impossible without new technologies, very large product lines and quality products. A free market can only exist because of these factors, which should be developed in our country.

We visited a great number of companies, up to 30. We visited large and small businesses. Of course, America reveals a robust and strong capitalism, with a developed industry and economy. Those of you who have been to Europe know that America is very different. I think that the future of our country and our nation should be patterned after the American model.

I came back from America a year ago a changed person. Olena Turchanova said she could not take the status quo any more after coming back from the U.S. For myself, I was not able to speak for a week. I became so withdrawn. When people asked me questions, I remained silent. I resumed talking only a week later. I was so depressed.

But after this terrible period was over, I was completely changed. I developed dignity and confidence in myself and my future. Somebody said that we want to live better; that is why we need American experience. I want to say that I want to be wealthy, and I want my children and grandchildren to be wealthy. I want to be wealthy myself, I want my friends to be wealthy, and I

want my Kharkiv to be wealthy and all Ukrainian people to be wealthy. With my new confidence after this trip, I think it is all possible. Now I can hope for a better life.

It was more difficult for me than for most of you, general managers. I am just a deputy. So to be able to share and introduce my American experience, I had to see our general manager and talk to him diplomatically, knowing that two months later he would present my ideas as his own. That would get things going. But to achieve that I had to convince him diplomatically. You know the attitude to women of our male top management and male bosses. It is not like in America, where they are scared of being accused of discriminating against women. Our country is different. Our men are not forgiving, especially when they are bosses. They are never forgiving, trust my experience. That is why you have to be very diplomatic. You have to come to their offices and report to them. Two months later they will present their decision on how we should proceed further.

I would like to tell you what happened during our trip in America. That was certainly not a vacation. My colleagues and friends who are considering such a study tour in the future should be aware that it was hard work. We started at 6 a.m. and got back at 8 or 9 p.m. We visited two or three companies a day. That was a big work load. I worked on my notes till 2 or 3 a.m. If I put it off till the following day, I lost 50% of the information. I was afraid to lose it. I was absorbing everything like a sponge because I was not only learning for myself. I was there not for my own pleasure or to satisfy my learning craving. I felt very responsible for sharing with my colleagues, friends and acquaintances, with as many people as possible. That was one of my goals for this trip.

We saw large and small businesses. They have very large processing companies. Hirzel, for example, is a large and strong company, processing a great volume of tomatoes. Actually, all the technological operations are the same as here, from the beginning to the end of processing. The processing stages are the same: washing, slicing, packaging, treatment, adding preservatives, etc. The only differences are caused by national preferences. For examples, we eat whole pickled green tomatoes and Americans prefer sliced or diced ripe tomatoes canned in juice. They also produce and sell, like we do, a variety of concentrates for making ketchup and sauces, made from raw tomatoes.

These strong and powerful companies possess large markets. The small companies do not. For example, the company that processes lots of tomatoes survives because of a very diverse product line. About 10 years ago there was a problem in America because of tomato overproduction. That forced small companies out of business. This large company managed to survive because of its diverse product line. Not only do they process tomatoes, but they also make a variety of tomato-based products for sauces, ketchup, and pizza.

Both the market and customers change rapidly. About 10 years ago they made tomato-based products for home cooking use. That was about 30% of their total production. Now, American women do very little cooking at home. That is why the share of tomato-based products in their retail sales now is only 3%. Mainly they make tomato paste for further use in cooking and a tomato concentrate. As time goes by, the market and customers change. Everything changes in life. They are researching and keeping track of all that. Based on these changes, they plan their production, output and product lineups. They consider it necessary.

What we are now trying to use here in Ukraine - Tetrapak packaging, is a matter of the past for them. I think that we and our colleagues should not be using Tetrapak. That's passé. What are needed now are tin and glass containers. That is our future. Tetrapak packaging is gone in America. Of course, the Hirzel company is spending a lot on tin containers. To make their operation profitable, they have to produce themselves 1.5 million cans for their products. Otherwise the expense would be prohibitive. They make cans with attractive labels because the

market is very demanding and the competition is tough. That makes it necessary to have nice packaging. Thirty percent of their expenses go to containers (cans). Another 30% pays for raw materials. Only 8% is spent on payroll. The main cost items are raw materials and containers. Notice how much they spend on packaging to capture their markets.

Supermarkets try to work with these large companies. It is easier for them to buy a number of products from one company than to deal with several suppliers. That is one reason why small companies go out of business. There are fewer supermarket chains now and fewer of their suppliers. The competition among large companies is brutal.

Another large company I want to mention is Castellini. This is a distribution company, very large scale, and strong with a market covering 48 U.S. states. It buys products not only in the U.S., but also in Central America. This company does not have any equal in the U.S. They are not only buyers, they also do direct wholesaling. They also process, weigh, package and ripen. The ripening method was unfamiliar to me. It is an ethylene gas system, a purely American method.

The Hirzel company I mentioned earlier processes tomatoes from the field. That is the only company that handles such tomatoes. Other companies deal with tomatoes that are immature. They pick tomatoes in the fields, when they are not green, but have not yet achieved milky ripeness. They find a moment when tomatoes approach milky ripeness and pick them at that point. Then the tomatoes are ripened in a ripening chamber under set conditions. That is why the whole American canning and processing industry is geared toward such tomatoes. The tomatoes are firm and not as flavorful as ours, picked straight from the field. But U.S. spoilage during storage is only 1.5 percent. In our country it is about 70 percent, given our warehouses and coolers. So they gain a lot from that. They do not lose product and make money as a result.

The ripening process takes place in a ripening room, under controlled conditions and temperature. The tomatoes are treated with ethylene. A perfume is added to this gas to make employees aware of its presence in the chamber. Tomatoes are kept under these conditions for about three or four or more days. They are ripened to different maturity stages. That is what customers request. Customers may request, for example, red or green ripening tomatoes, or very red, or slightly brownish. All this is done for customers.

In the same manner they also ripen bananas, which are shipped from Central America. There are also several ripening stages. Most popular are bananas of the 4th and 5th maturity stage. If they are more mature than that, they can spoil quickly. At the most mature point they are delivered free to stores for distribution to the underprivileged and to other underprivileged institutions.

Americans use these new technologies, such as ripening, and also methods reflecting their national preferences, like slicing and dicing their tomatoes, while we prefer them whole. Another thing: they skin tomatoes. We process all tomatoes with skins. They separate skins in special solutions. Then tomatoes are washed in tanks with chlorine, 18 ppm [concentration], if I remember correctly. After the skin is separated, tomatoes are fed to a production line.

In the companies we visited, big and small, all operations are done automatically, except sorting vegetables such as cabbages, onions or tomatoes. Rotten tomatoes are picked out manually. Everything else is done by machines. I did not see any manual labor. All slicing, weighing and packaging is done by machines.

They allowed us to photograph and videotape everything. The only thing I was not allowed to take pictures of was a Dutch machine. It costs half a million dollars. This was a unique machine, completely computerized. It sorts tomatoes based on 21 ripening colors. It proves the fact that their customers are very demanding and sophisticated. They require tomatoes of specific color. Not only should tomatoes be of excellent quality and the same size (none of

that rotten stuff, obviously), but they also should come in 21 colors. A program is entered into the computer which is part of that machine. Specifications are entered as to the color and weight. Packaging is also done according to size, weight and color. That was the only machine I was not allowed to take a picture of. Americans allowed us to photograph everything else. What if I had photographed this machine? The only thing I could have done with the picture was to show it to my colleagues. Naturally, we would not have been able to purchase it or work on it (because we cannot afford it).

The U.S. market is very demanding. High quality is not all that is required. Vegetables are to be sorted by color. The finished products, sauces and mayonnaise, are packaged into containers of different weight. They provide the product weight and size the customers require. It is the customer, not the manufacturer, who has the first word.

These are strong and vibrant companies. However, we visited a small company, DNO in Columbus. The president Tony DiNovo managed the business by himself. He has small coolers. He buys produce – cabbage, onions, and tomatoes – from small farms. He does packaging and repackaging. He also makes some packaged salads. He has his own market and somehow stays afloat. Of course, we cannot compare his company to the large ones. But still he stays afloat and makes quality products.

People there value their time so much! The DNO company also peels potatoes and delivers them to supermarkets because some women do not want to spend time on peeling potatoes. Peeled potatoes are packaged. Bisulfate is added for appearance [to prevent potatoes from darkening]. This product is sold in supermarkets and other stores. This is a small company. Still it is functioning within its own market, has its own customers and a product line.

That was the range of processing companies we saw, big and small, in America.

We also visited a company making sauerkraut, Fremont. They produce Bavarian and Polish sauerkraut, adding caraway and salt. How different is their technology? Fermentation is the same, except that in our country fermentation is done in the open air. They do it in a tank under a layer of plastic with water on top. That prevents oxygen from getting in when the fermentation starts. Their sauerkraut therefore has an extended shelf life. They rinse it before weighing. Then it is packed into jars and brine is added. We do not produce that. However, if anybody requests sauerkraut of that type, we'll make it.

Manufacturers produce whatever their customers demand. Everybody is working to satisfy their customers. That is the backbone of the U.S. processing industry.

After coming back, I talked about the companies we visited, including the large ones processing cabbage, onions and tomatoes.

Now I would like to talk about salads. We know that our salads are prepared with spices, oil, sugar and vinegar. Their salads are different. At one company I saw a shop where salads are made. I saw them slicing lettuce, cabbage, onions and carrots and packaging them into trays with shrink wrap. I asked them, "Where is the salad?" They told me that what I saw was salad. They do not add spices to their salads and use only natural produce. If it is cabbage salad, they use cabbage. For carrot salad, they use just carrots. For tomato salad, they use just tomatoes. If a customer wants tomato-and-cabbage salad, they will mix tomatoes with cabbage. Every customer gets what he or she wants.

These are my general impressions about the American processing industry.

I mentioned that after coming back I was not able to talk for a long time. Then I recovered and everything went back on track. Everything got going. I became more self-confident. I hope that I will be more successful in the future after seeing the American lifestyle and production.

After coming back, I spoke to many people. We had an employee meeting at our corporate assembly hall. My colleagues and friends, about 300 individuals, were in attendance. I keep in touch with my fellow tour members all the time. I speak to them all the time.

People are constantly asking me, "How was it there? What is it like? Why do they live well and we don't?" I answer, "It is very simple. We first think about manufacturing a product and then about selling it. They think about what their customers want. Based on that, they build their product lines and production facilities. They are very quick to change their production. They research their market and market requirements. That is something we do not do."

Of course, they have large investments there. The variety of products available in their stores is tremendous. Their labels are very pretty. Their packaging is very nice. Not only do they have a large variety of products, but the same product is packaged differently weight wise. They use disposable and reusable containers. The abundance is amazing. They go out of their way to invent new things. I think that even when it appears impossible to come up with something new, they keep thinking and inventing.

Now, after a year, we installed a marketing position in our company. This person is and will be responsible for marketing. The first question we ask each other every morning is, "What are we going to produce today?" I say, "We are going to produce what our customers will want to buy tomorrow."

We have to operate within boundaries and approved standards set by our government. All manufacturers know that. But if we make our products following the government standards, then our customers' requirements as to taste are not taken into account. You know what kind of pickled cucumbers and tomatoes we produce - too sour and too salty. Our customers do not want that any more. They want different products. We can only produce these products if we have approved formulations from the government.

That's why we have to start with introducing new products and developing documentation for them. That costs money. We have to conduct surveys first, develop a product, calculate a feasible retail price of that product, develop appropriate documentation and only after that start production. There is no other way.

I'd like to say that in America this route is easy to follow. If I want to produce something today, I can make it today and put it on the counter to sell tomorrow. Why? Because over there they have clear regulations. For example, the government states that there are several substances that must not be used in food products. If you do not use any of the prohibited substances, you can go ahead and produce. Here we have too many supervisory agencies. Over there they have only two: one at the federal level and another at the state level. It is much simpler there. If they want to make something today, they can make it happen by tomorrow. I need at least six months to develop a new formulation, to get it approved, and to shake funds out of our top management. This is a very complicated system. And I would like to see it simplified.

Now we will be focusing on developing new products. I am working with a new director in another company. I told him, "What do we start with? We start with profit. If we do not make profit tomorrow, I will not work with you. What brings profit? Whatever our customers want to buy, at a certain price, with a certain taste. If I can make it, I will work. If I cannot make it happen, I won't."

Because if we are going to use the old system, start with production and then wonder what to do with our product, we won't be able to sell anything and not make even one kopeck's worth of profit. We cannot operate like that if we want to be wealthy.

We should start with surveying our customers and analyzing our own possibilities for making a certain product. We should not get stuck with old documentation and old equipment.

We need to increase our capacity, build a strong manufacturing base and develop a large product line. That is the only way that will ensure our survival.

## **Case 5**

Roma Company, Pervomiask (Bakery study tour, 2000)

### Company Profile

Established 1992, 135 employees, Pervomiask, Kharkiv Oblast

The bakery was built in 1995 with equipment supplied by the Turkish firm Khyurmak. In 1996 a flour mill was built equipped by Orkimsen.

In 1997 a trade network subsidiary was created to expand distribution. They presently own 5 company stores and a trade outlet equipped with modern equipment. In 1997 a second flour milling line was started. In 1998-1999 the production facility of the bakery was expanded and additional equipment installed.

The company has its own lab for quality control of raw material and products, 4 trucks, 2 special cars for bread delivery, 2 buses, and 2 cars.

Company products include 10 varieties of bread and 15 varieties of buns and rolls using first and second grade flour and bran. Bakery products include bread made from premium quality flour of first and the second grade; diet bread with bran added; rye bread; and different rolls and buns such as boublik with poppy seeds, rolls with raisins, triangle with jam, twist, puffers, etc.

In 1999 the production volume of bread and bakery products totaled 370 tons, premium flour-3484 tons, first grade flour-1956 tons, second grade flour-50 tons, bran-1610 tons. In 1999 a macaroni facility was started and production volume amounted to 48 tons.

### Excerpt progress since completion of the study tour

- Roma has completely re-planned their operation as a result of the study tour and is now going into vertical and horizontal integration. They have improved their technical process of flour milling. In addition, they are discontinuing their Turkish bread baking operation and are going to install two ovens obtained from Russia. Both are to make traditional Ukrainian rye breads, brick and flat types. One is a circular oven and the other a tunnel oven. Roma is now the largest bakery in the area.
- The tour was a tremendous benefit to Sergiy. It taught him to expand in a planned way and not to go into macaroni production as previously intended. He decided to produce a better quality flour, to go into confectionaries and to start producing the two types of rye bread.
- Roma also has plans to increase the firm's marketing operations. They currently operate shops in town under the name "Karavay" and want to expand into the surrounding towns. This also means expanding the distribution system.

### Sergiy Tsymbalov presentation

When you see America, you see it with different eyes, because the information we are getting here from our mass media is perhaps not quite objective.

When you visit the U.S., you do see it with new eyes. First of all, we had a chance to see very different companies, starting with mini-bakeries and ending with very large plants which manufacture about 400 tons of products a day and supply product to practically all the U.S. We

also had a chance to see entirely new technologies which are non-existent here. For example, we saw cheesecake, which Americans enjoy eating. We do not know anything at all about that.

We visited a very large company making mixes for small bakeries. We do not use such mixes at all because our bakeries bake from scratch, using natural raw materials: yeast, flour, sugar, etc. The mixes remind me of the pancake flour we used to have. These mixes made from raw materials allow small bakeries to exist. Such small bakeries are mushrooming in Ukraine now. These mixes would allow them to avoid having a large production space, hiring highly qualified specialists and incurring expenses required by the complete technological baking cycle. Small bakeries can prepare this mix very quickly and put it in the oven. As a result, you get very tasty products. If we could use that method today, small businesses would develop much faster. However, to launch a new company in this industry - and we have been in this business since 1995 - our colleagues starting businesses now have to incur much larger expenses.

The U.S. marketing strategy is considerably different. This marketing word is still somewhat strange for us selling baked goods. Earlier, our company did not pay any attention to that. We operated according to the principle: Customers come to us and buy our products. We did not work on creating our own retail network. We did not work on market penetration. In America, on the contrary, they really emphasize it. Why; because the entire developed world can manufacture things. Selling them is different. We did not attach much significance to sales. They consider sales more important than manufacturing.

Now I am going to speak a little about our industry. We have representatives of large plants here who can speak about themselves. What did our company learn? First of all, we started setting up our own retail network. We are selling our products directly to our customers at our own retail stores now. We are expanding this network of stores. In the rural area where I live, we sell what we can locally, in our town of 40,000. Now we are trying to expand further in our district and in adjacent districts with our retail stores. That allows us to increase our sales.

Now we are also paying more attention to packaging. We did not package our products before. What does packaging do? It allows us to preserve bread when it is hot. Secondly, it allows us to make it more presentable. We have designed our own logo to promote our different breads and all that is placed on the package. Now we are creating our own brand.

What else can I say? The most important thing is that we went to the U.S. to see how they develop their operations and compare that to what we are trying to do. We started with making bread. Then we set up a good-sized grain-milling operation to make flour. Later we set up a small furniture manufacturing business and also a retail store selling construction materials. What conclusion did I arrive at after visiting America? I realized that we were spreading ourselves too thin. Instead of concentrating on our core business, we dispersed our resources onto other projects. We should have integrated our business vertically. That would allow us to achieve better results by having a narrow specialization. As a Russian proverb goes, if you chase two rabbits, you will catch none.

Before my trip to the U.S., we were also planning to start manufacturing pasta. After the trip, we concentrated all our efforts on developing our bread-making business.

After the U.S. trip, we launched another shop to make rye bread. Kharkivites here know that the Kharkiv Bakery Plant # 3 used to have a monopoly in this area. But there are examples that others can make rye bread too. One case is the Alekseyevsky Bakery Plant. They chose that direction, which dramatically changed the status quo.

Now the Kharkiv Bakery Plant # 3 makes only 30 tons of bread. They used to make 120 tons. The Alekseyevsky Plant now makes three times more than it used to. They use marketing strategies. You might have noticed that all Alekseyevsky bread is packaged and carries their logo. The most important conclusion I made for myself is that we should integrate our company

vertically. The higher the integration level, the bigger the sales and the lower the costs. That allowed us to increase profits and choose the right marketing strategy.

What else? The mixes I mentioned earlier: Today we have undertaken plans and allocated resources to manufacture them. We have made a small business plan to develop and manufacture such mixes. We have the main ingredient, flour, which we make ourselves. We can use the same ingredients that we use in our bakery to start making these mixes, without additional expenses.

I can tell you what raw materials cost us. Production costs, as you understand, fluctuate a lot, depending, say, on energy costs. We value our specialists, the key people in our company. We started with primitive technologies. Now we have to attract specialists and reward them fairly with wages and incentives. There are all kinds of reasons which do not allow me to say what our production costs are today. The cost of raw materials stays the same during a year.

One thing we learned from this trip is that we should take a fundamental approach to any business. Every business we start should have substance to it.

## **Case 6**

Kupiansk Milk Plant, Kupiansk, Meat & Dairy study tour 1998

### Company profile

Established 1957, 570 employees, Kupiansk, Kharkiv Oblast

The company is one of the largest manufacturers of milk products in Ukraine. At present its capacity is 700 tons of milk per day and it produces a wide range of milk products including canned condensed milk, “Krestianskoe” butter, pasteurized packed milk, baked packed milk, packed milk with a long storage-life, chocolate milk, kefir, cream, “Krestiansky” cottage cheese, sour cream, “Adygeisky” cheese, whey, dry whey, “Molochny” margarine, casein, etc.

The annual output in 1999 was: whole-milk products – 10,612 tons, canned milk products – 8,670 tons, butter – 788 tons, dry fatless milk – 953 tons.

Sold through retailers: 85 % of whole-milk products, 90 % of canned products, 45 % of butter;  
Sold through wholesalers: 15 % of whole-milk products, 10 % of canned products, 15 % of butter;  
Sold direct by the enterprise: 100 % of non-canned condensed milk, 40 % of butter.

### Company progress since completion of the study tour

- Their business is good and growing. They are now using soya milk for calf feeding and as a result have more whole milk for sale.
- Farmers are seeing the increased efficiency of feeding their hogs and cattle with soya milk.
- By using soya in their condensed milk they have been able to keep their prices constant.
- The company has now stopped using cheap labels and packaging.
- Each day the company produces 60 tons of whole milk and 10 tons of milk that is either condensed and/or powdered.
- They are now making chocolate soya milk that contains 50:50 soya and whole milk.
- Each month the sales and production departments agree on a schedule for the month that is presented to the President and then approved. It is a real team effort.

### Oleksandr Radchenko presentation

Our study tour program for a group of Kharkiv entrepreneurs, focusing on meat, milk and edible oils processing, was sponsored by USAID and took place in 1998. Over 28 days we

visited a lot of U.S. companies. The impression it all left on us was indelible. We discovered some surprises.

Regarding the results of our tour, I would like to emphasize one significant point, which is of paramount importance for Ukraine at present. It will probably be interesting primarily for those in the milk industry.

While touring different companies in the U.S., we visited ADM, a major multinational corporation, which we were informed controls 80% of the world's soy production and processing. The United States is the world leader in growing, processing and promoting a variety of soy-based products and technologies. At present Ukraine only has a rather theoretical or hearsay based concept of this technology.

What we saw there surpassed all our expectations. It was easier for me to relate to all this information because since 1995 our plant had been using ADM technology as a soy replacement for whole milk to develop different flavors of canned condensed milk. This was the first technology of that kind in the Commonwealth of Independent States. Over four years we had been successfully selling our condensed milk not only in Ukraine, but all over the CIS.

When I saw in the United States how soy is grown and processed and how initial production costs are reduced, we made an independent decision to involve growers and launch manufacturing of soy milk and different soy-based products, primarily in the milk group.

We saw another productivity leverage factor that conditions in Ukraine were dictating. You all know that from 1992-1993 up to the current year, Ukrainian agriculture, especially dairy husbandry, was down and out. Our present technology for raising calves requires feeding them with cow's milk. Using this technology, farmers historically feed whole milk to calves over a period of four months. At the same time, we badly lack this milk for our processing needs - for human consumption. This is not standard practice in the West. They all use soy-based milk replacement as a rule.

These two factors, namely expanding our product line and substituting skim or whole milk for feeding calves became a pivotal argument for investing in soy milk production.

Some experience in that area was available in Ukraine, specifically at the Stary Kovray farm in Cherkasy Oblast. They were one of the first to purchase equipment manufactured by the Spektr plant, formerly a part of the defense industry, in Zhytomyr Oblast. The Spektr plant started manufacturing equipment for making soy milk. Submitting our design, this plant custom made a production line for us meeting world standards. Today it is the most productive line in Ukraine and is installed at our plant. Last year we launched ongoing production of soy milk.

What benefits does that provide? Firstly, we make canned condensed milk based on soy milk, which we sell in Ukraine and also export. Secondly, with some fine tuning later, we were able to produce not only soy milk, but a soy replacement for whole milk. Since we had manufactured milk replacers in Soviet times, we knew which additives were required in the formulas for such milk replacers. In this case the replacer was based not on skim milk, but on soy milk. And that is what we started making.

This year, in conjunction with several farms, we selected groups of calves to test substituting for cow's milk a milk replacer starting in the second month of a calf's life. I must tell you that the de facto results surpassed all our expectations. We got larger, not smaller, weight gains, compared to a similar control group fed with whole milk.

Now our plant, utilizing new equipment, faces the new task of manufacturing dry milk replacer. This product is extremely important for agriculture, especially for raising young stock. Using a dry milk replacer allows us to prevent a lot of diseases, to reduce transportation costs, and to formulate adequate qualitative and quantitative feed rations daily.

I am also chairman of the board at Ukrkonservmoloko, the Ukrainian National Association of Canned Milk Manufacturers. I provided them with information about our study tour and report, the results of our work to the board of directors, composed of general managers of the largest milk canneries in Ukraine, formerly part of the Soviet system. Today five out of seven milk canneries manufacture soy-based milk replacer. By doing this, they increase the marketability of their products by replacing whole milk with soy milk replacer.

I'd like to say a couple of words about ADM, a unique multinational corporation. We visited two plants in the small town where the corporation is headquartered. What impressed me most of all is that they have a monument to Ronald Reagan on their premises. They also have a large plaque on display, which is an award for ADM's environmental efforts in the U.S. By a specific act of Congress, ADM is tax exempt. When we asked them how a company with \$21 billion in sales can possibly be tax exempt, they told us that it was done because of their method of powering the plant: What does their boiler plant work on? We saw it. Those of you who have been to Mariupol know that when you approach the city, the Azovstal plant is on one side and the Ilyich plant is on the other. Black smog lingers. In contrast ADM has two identical plants next to each other, processing soy. The slight smoke coming out is white. For fuel, they use old tires collected from all over the U.S. There is no use of expensive raw materials like natural gas or coal – only old tires.

Finally, the soy program could be an important addition to operations of meat processing plants. Soy additives are used today to make sausages, ham, etc. They have significant achievements in these technologies in the U.S. This is another subject, though.

## **Case 7**

Molochnaya Sloboda, Kharkiv (Meat & Dairy study tour in 2000)

### Company profile

Established 1999, 200 employees, Kharkiv, Kharkiv Oblast

The enterprise does not have its own production facilities but rents from Kharkiv Dairy No. 1 for its milk products, butter and casein shops. The main activity of the enterprise is butter production (98% of output). The enterprise sells its products to wholesalers. The company produces "Gospodynya" butter and sour cream in various size packages.

### Description of the company's progress since completion of the study tour

- The principles of labor management learned in the U.S. were found to be most important. It influenced their management to change so that they could concentrate on overall strategic decisions, not every day minutia.
- The planning process is expanded and the professional training of the staff improved.
- They formerly produced 18 products, which have now been reduced to 8 and all have been unified under a single brand image and logo.
- They are very responsive to the customer and adjust prices every 10 days. At the beginning of the year they sold 80% of their products in bulk and 20% retail. This is now reversed. They produce 4.5 tons of sour cream (smetana) per day and 500 kg of butter. Butter is less profitable due to the costly high fat content.
- The company produces one ton of high quality casein per day, which is bagged and exported.
- The plastic product packaging is now designed for middle class customers and has a removable top.

### Artem Bartyshev presentation

I would like to touch briefly on our customer history. Last year we participated in a U.S. study tour. As a general manager of a company that is a recent start-up in the milk market, I was most interested in two issues: corporate management and marketing. As you know, management theory is now available in our country. One can buy many management textbooks. But the perspective to see how all that is used in real life, including information that is considered confidential, tempted me. I liked this idea and decided to take part in this program.

Like many other participants agreed, I think that this Study tour program was very interesting marketing-wise because a wide range of companies were visited, starting with those under \$1 million in sales and ending with a company with \$21 billion in sales. Obviously, they have vastly different numbers of employees, ranging from one in a sole proprietorship to many in a major multinational corporation.

Also of interest is a second point. Understandably, all their companies are different from ours. They differ in their history. As a rule, all the companies have established brands and are well known. It was interesting to look into the future and imagine myself and my company in 20 or 30 years, to visualize my company in the future.

It is quite obvious that American companies use a variety of marketing strategies. But they share the same goal. Many of us noticed that the goal was expanding their market share. It is more common for medium and large companies. For smaller companies the goal was maintaining the unique character of their product, the uniqueness of their brand. What is interesting is that both groups, while manufacturing practically the same product, stay in business and are developing rather dynamically.

All the companies we visited stated their product was their main competitive advantage. That is quite understandable because we visited the companies that proved to be successful in the process of natural selection and having well-known products.

The main method of marketing at primarily small companies is manufacturing unique products, possessing unique value and different from their mass-produced counterparts. Sales are conducted accordingly. As a rule, they use direct marketing, direct sales and have a regular customer base. Some Cincinnatians are prepared to drive long distances to purchase a certain product, such as cheese or meat, at places which offer unique products. These companies are small, with a limited product line, but are very flexible, with daily planned production.

The large companies we visited are distinguished by a very complicated marketing system. At some companies marketing departments employ more than 100 people. The foundation for operations of companies of both types is a business plan, which is realistic and used for marketing by the whole company. It envisages specific actions from each employee. The marketing department is involved in conducting research. There is a group of analysts, a new product development group, and a sales group. All these functions are subordinate to the corporate marketing strategy, based on the marketing plan, which is an inalienable part of corporate strategy.

This strategy very obviously ties together the financial objectives, personnel objectives, the company's general mission and specific operational plans for one year, one quarter, etc.

I'd like to point out that our program was conceived in such a way as to provide an opportunity for us at the end of each appointment to meet the top managers: presidents, owners, directors, have discussions with them and ask any questions. Those people, as rule, tried to provide as complete answers as possible. It was very interesting to compare our strategies with those of these people. We were able to obtain specific data about corporate operations, their plans, and production operations.

Another important issue, which is very interesting and, in my opinion, essential for everybody, is creating a strong association with your brand among customers and boosting the

recognition rate for your products. That is not practiced often in our country. Our companies are not trying to compete and prefer not to spread their capital too thin by investing in many products. Over there, they position themselves into a certain niche and choose a specific product. They try to make consumers think that they should use a certain product and preference should be given to a specific brand.

They use several methods to promote their products, namely, direct contact with customers through advertising, which in the U.S. is of two types: product advertising and image advertising. All companies are trying as a first step to use image advertising, which is directed at maintaining their brands and increasing their recognition rate. Product advertising is launched during certain seasons and for certain products. It is aimed at boosting sales of specific products.

Another issue of interest for us in Ukraine is the correlation between marketing and pricing. You understand that price is the decisive factor at the market. It is quite interesting that, in the U.S., small companies manage to charge higher prices compared to mass producers and still have successful sales. Their marketing efforts try to convey to the final consumer the unique characteristics of their product. As a rule, there are additional benefits for consumers, be that packaging or image, including consumer image. That is very common. For example, an image is created for a certain product of being consumed by a specific social group, possessing such and such characteristics. That justifies a higher price.

Also, we learned consumers should be informed about distinctive qualitative features of a product. U.S. firms have very exacting requirements as far as quality is concerned. If we take milk as an example, quality starts at the very beginning of milk production, and goes from the farmer to the final product. They use total quality management. Unique packaging and total quality management give companies a chance to present their products as unique. That, understandably, requires additional expenses. Consumers realize that if a product is more expensive, it means that a bigger investment was made into it, that there is a 100% guarantee that this milk is antibiotic-free, etc. This approach is typical for many companies.

Now, about what we have learned from them: It is hard to describe everything given such short time. The very first thing we decided to implement at my company was to discontinue promoting the company name and to start advertising our brand. Before we had had a number of generic product names. We have gotten our brand registered. We want to achieve a certain recognition level for our brand without tying it specifically to certain products.

We wanted to demonstrate that the image of our company is the high quality of our products, that our company manufactures products using no preservatives, fillers, etc. That is why our products have a short shelf life. We did not get involved with preservatives and stabilizers; we remained all natural and found our customer base. That is what we did.

Another point which is important: This study tour pinpointed our problems. We did a SWOP analysis to analyze our current situation and problems. We found out which steps should be taken and established guidelines for personnel training, because, at the personnel level, we faced serious challenges marketing wise. After that analysis, we sent many of our employees to participate in different training programs and seminars.

We paid serious attention to brand management, promoting our brand, and to launching new products. We are going to complete our new-product strategy in the nearest future. We are still working on it, have been for about a year.

Now about packaging. I did not comment on that enough. In the United States, they attach great importance to packaging. Extensive research is conducted to gain a clear understanding of where the product goes and what kind of packaging is required. They do not start doing anything without studying the consumers and their needs. This research is done in several stages: preliminary testing, surveys, sample product batches, soliciting feedback, etc. All

big companies do their own research. The smallest companies rely on the personal opinion of the entrepreneur. Based on that, they form their product line and create new packaging. It is a very substantial industry in the United States. We even had a whole lecture on the benefits of specific packaging solutions and their differences. I would like to point out that, in spite of the general preponderance of plastic, some companies still sell their milk in glass bottles. They tie it in with traditional, “good old days” quality. One firm’s milk bottles get delivered to customers’ homes by an old style milk man. This company charges the highest price for this milk.

The companies we visited are, on average, 100 years old. They have traditions, which can be considered ancient, at least by American standards.

Based on what we have learned, we have introduced new packaging solutions and developed a packaging program which is tied to our product line.

Another consideration, which is of concern to many individuals I have spoken to, is competition with larger companies. One should have a clear understanding that each company should have its own strategy. In real life, companies of different size can co-exist. It is essential to differentiate your products and their consumer qualities. It was fascinating to observe all that in practice, to see how it works in the U.S.

That last thing I would like to mention about marketing and management is that U.S. companies have interesting corporate management systems. Understandably, those systems are determined by market requirements. They do not have this burden of an inflated workforce. Everything is tightly connected with marketing goals. In the most competitive environment, especially among larger companies, the issue of cost control acquires a great significance. Prices for raw materials are more or less determined by mercantile exchanges and are the same for all. Cost control becomes very important for the final product price. That factor defines management strategy and strategies for choosing technologies and equipment. Nothing gets purchased “just because.” They use pragmatic approaches. America has succeeded a lot in this area, being the world leader in manufacturing technologies. It was also very interesting to observe how all that was tied to marketing.

I would like to invite everybody who is interested to take part in future study-tour programs. That would be interesting for all regions.

## **Case 8**

Krasnograd Vegetable Factory, Kharkiv Oblast (Fruit and Vegetable study tour, 2000)

### Company profile

Established 1981, 150 employees, Krasnograd, Kharkiv Oblast

The factory was founded in 1981 as a state farm and later became a collective agricultural enterprise. The company has 1,050 hectares of arable lands and specializes in growing and processing vegetables. It has 510 hectares of lands that can be irrigated and 4 hectares of greenhouses where tomatoes and cucumbers are grown throughout the year. The company grows its own seedlings of various vegetables that are later planted. At present 2 more hectares of greenhouses are being prepared.

The company grows tomatoes, cucumbers, carrots, potatoes, eggplant, peppers, marrow vegetables, pumpkin, beet root, and watermelon. In addition, 100-200 hectares of sunflower seeds and 140 hectares of barley and millet are grown.

Thirty percent of the fresh vegetables are sold in Kharkiv, Poltava, and Dnepropetrovsk and 70 % are canned, stored and sold throughout the year. The enterprise has its own processing plant with the capability of 3 million conventional jars.

Currently the canning facility produces the following products in 1 and 3 liter glass containers: garnish carrots, pickled beet, canned cucumbers, pickled cucumbers, pickled vegetable marrow, canned vegetable marrow, vegetable marrow paste, tomato juice, pickled tomatoes, apple juice, tomato-paste, apple jam, pumpkin jam, snack salad, canned sorrel, Georgian sauce, Krasnodar sauce, sauerkraut, and pickled watermelon.

It also plants potatoes using Dutch seeds and techniques which are sold fresh. There are not enough fruit and vegetables to use the plant's capabilities year round. Thus, the plant also makes meat products including stewed meat, and beef and pork in buckwheat porridge.

#### Description of the company's progress since completion of the study tour

- There are several things he will do when he returns to Ukraine. First he will move the cooling units to the ceiling. He will go to smaller packages for jams and jellies and will shrink wrap for larger loads. He currently packages in 250 g jars with traditional lids. Jars are now a problem since the manufacturers have debt problems and the supply is low.
- His products are: wheat, barley, cereals, sunflower seeds, fruits and vegetables from greenhouses. His major focus will be to grow and process the year round.

#### Mykhaylo Ruban presentation

I manage the Krasnograd Vegetable Factory. It is a private company. We grow vegetables both in greenhouses in winter and spring and later in open fields. We further process them at our facilities. We also grow grain and industrial crops.

As a manager in the vegetable industry, I was fortunate to take part in a Marshall Plan-type study tour in the U.S. Our group visited about 25 companies specializing in designing and manufacturing equipment for processing vegetables and other foodstuffs, large corporations growing vegetables, processing tomatoes, sauerkraut and fruit, and making a variety of juices. We saw all that.

I believe that every company, a small farm or a large corporation, has the right to exist and earn profit from its business.

I would also like to say that growing vegetables and fruit, especially vegetables, is very labor intensive and energy consuming. Farmers' margins are lower than those of corporations. Large businesses have better chances for survival.

What was memorable for me as a business manager with considerable experience is that all U.S. companies, big and small, operate with good efficiency and good knowledge of their business. They make quality products and have diverse product lines. Quality is required by customers. Their products are sold over a large part of the U.S., which proves the success of their work. All that does not happen by itself for these business people and corporate managers. The issues of quality production, sales, relations with supermarkets and food service mean more work, which includes finding their own customer base. The managers of these companies are constantly working on penetrating other markets and winning more customers. That is a prerequisite for the successful functioning of each company.

We visited very large companies. I would like to comment on a company that specializes in processing tomatoes, Hirzel Canning Co. On average, they process 65,000 tons of tomatoes a year. It is a strong company that does not operate only on its own but is in close contact with

farmers over a large area, about 4,000 square miles, within a 500-mile radius of the company. They work very closely with farmers, on a contractual basis. Tomatoes are delivered to the plant en masse, according to an hourly schedule, to be processed.

I'd like to point out that some time ago we used to have a similar partnership called Plodovoshchprom. The Hirzel company reminds me of that. The managers of this large firm provide comprehensive assistance to farmers, for example, in providing tomato seedlings. In addition to the tomato processing plant, this company owns greenhouses growing seedlings for transplant and delivers them to farmers. The waste from processing gets trucked to the fields to improve soil fertility. Farmers' success and the plant's success are interdependent. If the plant is successful, it means that several dozen farms succeed as well. That is one example.

Another example that caught my eye was the Freemont company that supplies sauerkraut all over America. It also works very closely with farmers, providing them with seeds and seedlings. They also work on improving the fertility of farmers' land. It proves that nobody works in isolation in America. They enter into partnerships, create complexes and work together.

I'd like to talk about our system now. You know that in the past we had the Plodovoshchprom partnership. It was a powerful system that united a number of processors and vegetable and fruit growers. It also included areas for preparing produce for sale, long-term storage warehouses and a network of retail stores. But now when market relations are changing, all that, unfortunately, crumbled. We are all working under new conditions. Our company is working directly with our customers, who are primarily individuals. Therefore we have to provide cheaper and better products. We are working also with retailers and with closed-type institutions funded by the government such as jails, etc. to provide them with our canned products.

About my company: when I visited America I saw a number of production methods of interest to me. I can say that we have also maintained our niche in the market. We maintain our market position by producing quality products. We have not had any complaints so far. But we produce rather small volumes.

In America the volumes are much bigger. Their product quality is good. Their packaging is very diverse: packages, single-use containers, large containers, metal cans for institutional food service. Their package integrity under varied conditions is much higher than here. But a similar market is emerging in our country, too. We are working on this market and manage to stay afloat so far.

What attracted my attention as a manager while visiting American companies is the fact that canning and processing industries there are powered by steam. They have large scale boiler rooms. I got very interested in that equipment because I also have a large boiler room for growing greenhouse vegetables. Our greenhouses are powered by a large boiler room with steam boilers. At some point the designers, not us, overbuilt the capacity by installing excessively large electric motors to power fans or pumps. The boilers were also designed with a triple safety margin. They therefore consume a lot of natural gas.

I asked about boilers while visiting large U.S. companies. They use Dutch-type boilers in greenhouses. They usually set up one large boiler that operates around the clock. They do not stop it because turning it on again requires triple expenditure of natural gas. They also have some safety measures. They usually have three boilers. Boiler number two provides backup to the main boiler in case of repairs or an emergency stoppage. They ensure the continuous operation of a closed cycle conveyor. In case the backup boiler stops, a small emergency boiler kicks in. That is one of the safety measures. The efficiency of these boilers is very high compared to ours. They consume much less energy.

We are in a very different situation. We have excessively large boilers. Technologically, we do not need that much steam. But our boilers will not work at more than 40 percent efficiency. They use a lot of natural gas and electricity. The fuel is wasted. All of you are managers and specialists and know that prices for fuel, including natural gas and electricity, are very high now. They have risen a lot. That affects our production and costs. And production costs are the main indicator of profitability and survivability under present circumstances. So we have to manipulate the settings in our boiler room. We have to use natural heat for the greenhouses. Everybody tries to survive to the best of their abilities.

I mentioned earlier that with the old Plodovoshchprom system we used to have long-term storage warehouses and coolers. Now we don't have that. While visiting farms and large companies, I noticed that characteristically all of them have coolers. They are well-designed and operate well. On small farms, they have small coolers. In large warehouses used for storing considerable amounts of vegetables, they have large coolers. Everything is thought out very well, down to minute details.

Now to discuss air circulation in America. As a manager I noticed and liked the fact that blowers with coolants are located near the ceiling. We know that cold air goes down. They also use ceiling fans which mix uniformly cooled and moist air. The temperature, as a result, stays the same all over the cooler. As a result, all the products are stored under the same conditions. The same temperature in the cooler is maintained in refrigerated trucks. The produce goes from the cooler directly to the customers (food service or supermarkets) in refrigerated trucks. The temperature is always kept the same.

We visited a small company, Cooper's Mill in Bucyrus Ohio, making jams from tomatoes, rhubarb, and citrus fruits. The owner makes jams and jellies from almost all fruits and some vegetables. But he also has a special aspect to his business and makes good use of it. He uses copper kettles for making jam. The kettles are heated by firewood, primarily from cherry and other fruit trees. What effect does that have? His jam comes out with a distinctive smell and taste. This is the owner's special interest, but he makes good money on this specialty. He advertises his copper kettles and his operation. He takes part in festivals. His business is successful.

Everywhere we visited, on farms and at large companies, I noticed that they work with supermarkets and institutions including food service, restaurants, schools, jails, etc. Some also own their retail stores. Customers drive dozens and maybe hundreds of kilometers to purchase the type of products they fancy. That is unique and that is what we are now trying to establish in our business.

What can I say about my company as to what I liked in the U.S. and what we are implementing? Not everything can be done quickly and smoothly. The main obstacle is current working capital. Construction is not easy today. Outside funds are not available at present for capital construction. We have to rely on our own available funds.

In one or two months, we are planning to put into operation a fourth hectare of glazed winter greenhouses. We are at the end of assembling and glazing these greenhouses. We are also planning to start using drip irrigation and the system of evaporative cooling in our greenhouses. That is very new for us, but in the United States they use this method all over.

Now we are searching for domestic equipment, which is much cheaper. It is available on the market. The only problem is money. Film-making plants manufacture very good greenhouse equipment, in Kharkiv and elsewhere. The only thing you need is money, hundreds of thousands of dollars. All that can be installed, but it is hard to part with money because everything is very expensive.

In America, I was amazed by the Coopers Mill company making jams. We also started making pumpkin beverage, very nutritious, pretty and tasty, as well as pumpkin jam, which is also very wholesome, and pumpkin paste. These are examples of new products, which are in demand among our customers and consumers. They sell well.

We also work on new technologies for growing vegetables and potatoes. For potatoes we use a Dutch technology, the so-called comb method, using Zinkor and Apfelsidozinkor and other backup herbicides. That is something we saw in the U.S. and now use in our operations.

I mentioned their economic usage of energy in coolers. We invested, and are now responsible for, the building of a former vegetable warehouse. It is to be repaired. We are preparing the necessary documentation to make sure that in winter the coolers that are not used are remodeled. We plan to move up the radiators with coolants higher to the ceiling, install ceiling fans and work on door spaces. That will be effective.

I also mentioned that we are planning to launch a fourth hectare of glazed greenhouses. We are trying to rebuild two of our four large steam boilers by converting them into water-cooled systems. That will save us 30% on electricity and natural gas. That can be counted as another source of survivability. It will increase our efficiency and make our work more productive. Now everything depends on each manager and each individual. If you save on fuel, you'll survive. I mentioned that growing fruits and vegetables requires a lot of energy.

Profitability here, as well as in the United States, ranges from 2 to 10 percent. We have the same margin: from 3-4-5% to 10-12%. This margin allows us to survive under present conditions.

## **Case 9**

TFK Engineering Group, Food Processing (Equipment study tour, 2001)

### Company profile

Established 1993, 24 employees, Kharkiv, Kharkiv Oblast

Its market share is 50% of the Ukrainian and Russian market for biscuit forming rotors, and 50% for pasta dies. TFK rotors and dies also have been sold in Turkey and Poland.

The firm produces equipment for pasta production: pasta presses, vibrating driers, and drying towers; dies for pasta and biscuit production; forming rotors for biscuit production; and non-standard complex fittings and spare parts for food manufacturing equipment.

### Company progress since completion of the study tour

- They have decided to introduce Information Technology, a new direction for them. They have also replaced the old processors and printed circuit boards they used in their hydraulic drive systems.
- They have also installed a new heating system for their premises as seen in the U.S.

### Oleksandr Sereda presentation

First of all, I would like to express my pleasure at the fact that this group has been convened from all regions and areas of Ukraine at the same place at the same time. I am very glad to see you all in Slobodian Ukraine.

It is even more pleasant because the products developed by my company - although you might not have heard about it - are used in all regions of Ukraine. Our engineering projects have been installed in the largest plants everybody is familiar with, and also in small family-owned companies. Among our clients are the Svitoch Company in Western Ukraine, the Kiev Pasta

Factory, the Khmelnytsk Pasta Factory, the Kharkiv Biscuit Plant, AVK, and other companies turning out products you eat or confections you enjoy with your tea practically every day.

During our tour, we observed very large capital investment at all U.S. companies we visited. The flow of funds there is mind boggling. Some projects, like setting up warehouses and warehouse infrastructure, involve tens of millions of dollars. Funds of that magnitude in our country have been appropriated for military or space programs only.

American firms have very interesting packaging solutions. The level of inter-company cooperation at the plants we visited is very high. It allows them to achieve better results in the area they are working in.

We, on the other hand, here on Ukrainian soil, have to do everything ourselves, starting at the very beginning of a production cycle, from casting components, and ending with manufacturing microprocessor and control systems and precise mechanical systems.

I'd like to say several words about our company. It is eight years old. It employs 150 workers and engineers. About 30 percent of all our employees are engineering and technical personnel. We have our own plant, with lots of technical equipment, which we constantly update by our own research into microprocessor and control systems and by introducing new technologies and materials we purchase from other countries.

Let me describe some examples of how our projects have been carried out in Ukraine and Russia. One of the projects inspired by this U.S. study tour was in Volyn Oblast. I am referring to the Bonita Plant, a Swiss company. This year, with our help, they have modernized their spaghetti packaging line. They used to have an old Swiss line, built in the early 1970s. It was practically out of operation and past its service life. Our company installed a control system, using our own base controller, as well as brand-new modern motor drives. As a result, the packaging machine, which was to be scrapped, started to work. They were able to save lots of money because similar new equipment would have cost hundreds of thousands of dollars.

Another interesting project is at Svitoch, which also was inspired by this study tour to the U.S. Their owner is the Nestle company. Before we started working with them, we had had long negotiations on the contract. Finally, with an agreement, we did the work. We contributed to the process for manufacturing their products, which are available in stores now. That was our objective!

They had a production line for making crackers and cookies from long and semi-long dough. Demand is rather high. Their production, given the old equipment, was limited. We found a way out of that situation. They installed additional sections in their ovens. We installed a system for shaping cookies that ensured both coming off and uniform cutting-out at high speeds. In a couple of words, that's how it worked. At low speeds, they were able to use our rotor to make the pattern and cut out. At high speeds, their systems did not work because they get sealed. We separated the rotors. Now one rotor applies the pattern on the dough ribbon, while the second rotor cuts out pieces. We got them synchronized and got an approval from the company for installation of the equipment. They were happy. And now I can see their cookies available in Kharkiv.

We are working on a similar project in Russia. It involves spaghetti packaging. You might think that spaghetti is easy to make. When you take a package, it looks like cut sticks. But in reality it is a most difficult product. It puts a lot of wear and tear on equipment. For cutting spaghetti, diamond saws are used. Then it gets stacked, weighed and poured for packaging. It is a tough product. We know a lot about this product and work with a lot of plants to provide consulting.

About six months ago another company purchased a used packaging line for spaghetti. This company is in Smolensk. They paid \$110,000 for it. After two months of operation, it broke

down. We replaced several units and mechanisms. We came to the conclusion that it did not make any sense to make further partial replacements; the whole thing should be modernized.

Projects like that are possible in any area of industry.

We provide lots of consulting services. For our regular customers, consulting is free. We travel with them to other countries to choose technical equipment in different areas, starting with manufacturing bottle corks and ending with packaging and used assembly lines to make cookies and spaghetti.

Also, I would like to add some comments about this U.S. study tour. First of all, it was very interesting. People in America are very friendly and responsive. That was unexpected. The biggest impression we received, was that in spite of your skin color or your accent, if you are a specialist, you are the best, you are number one. Everything else doesn't matter; everything else is secondary.

I also would like to mention the most important factor affecting modernization. We can make everything, but it is impossible to set up a manufacturing operation without restructuring our taxation policy and changing current laws. It is impossible to move large resources and launch giant projects without modernizing our taxes and laws. I hope that along with our growth, I mean the growth of companies that are trying to do something here in Ukraine, something will be done to bring our taxes and laws into some logical shape.

## **Case 10**

Kharkiv Oblast Administration (Fruit and Vegetable Processing study tour, 2000)

Mr. Kalashnikov is the Head of the Department for Processing Industry, Trade Development and Consumer Services of the Kharkiv Oblast Administration.

### Volodymyr Kalashnikov presentation

We took notes every day on the study tour. Naturally, this tour trip provided us with lots of information to apply in Ukraine here and a chance to see how America lives.

Some words about the U.S. food industry. Americans are professionals. Our study tour was organized professionally. All the logistical issues were dealt with exceptionally well. What is particularly important is that every day we visited two or more companies. The companies hosted us very well and answered all our questions, on economics and on technology. We were able to visit a number of varied businesses and to see what is really going on there.

My observations as to the status of the U.S. food industries: Over seven months of this year, the food industry in the Kharkiv Oblast has been doing well. Its growth rate is 130%. Last year it was 140%. In America the growth rate is, naturally, stable. All their markets have been divided. Some people say that they operate on a small margin. We saw for ourselves that profitability of U.S. food industry companies is 3-4-5-6-7%. American companies live on that, develop and work well. In contrast, performance of our Ukrainian food industry is not stable. As a department director, I know that some Ukraine businesses operate with a 1-2% margin. If we talk about edible oils, that industry operates today with a 60% margin. The biscuit companies have a 25-35% margin. And so on. These firms are doing pretty well but continue complaining nevertheless.

My personal observations on the American companies we have visited are that all employees there, starting with rank-and-file workers and up to managers and executives, are well-versed in economics. They understand that viability of their company and their own viability depends on economics.

In addition to general American patriotism, I noticed that they have corporate patriotism. They look up to their employer, like, say, McDonald's. The McDonald's Corporation has its own charter. Even a small company can have its own charter. The employees respect their employers because the latter ensure their viability.

Why does that happen? You know that everybody in America drives. They drive to work. Even before entering a company office, by the look of the cars on the parking lot which employees drive, you can guess their income level and, indirectly, the success of this company.

As a representative of the Oblast Administration, I was interested in the leverage the U.S. government has over business. Government interference is minimal. The number of inspections is minimal. Only a health board can close down a business if there is an emergency, of environmental or epidemic nature. Once a year, the State government evaluates a particular business, say a cannery or a salad-making company, using a 1,000-point scale. They have a questionnaire which is used by a department of that state. If a company gets 940 or 960 points, they consider that this company can keep operating because its technological level and the qualification of its personnel, as well as their packaging and labor safety, are adequate. They get evaluated once a year and can keep working.

You know that in Ukraine government agencies can be inspecting companies forever and keep picking on different issues. So sometimes our business people, instead of developing their business, are trying to satisfy the ambitions of a fire inspector or somebody like that. They never know when another inspector will show up. Over there, those issues were solved long ago.

Another thing my colleagues in the group and I noticed is that U.S. firms do not have unnecessary employees. Everybody is at his or her work place. Nobody is hanging around doing nothing. If somebody goes out to smoke, this person takes a short smoke break and goes back to his or her work place. Since they do not have unnecessary employees, they do not have laxity in their business activity. Nor do they have what I might call despotism, when somebody watches somebody's back. They have a peaceful and routine work atmosphere. Employees feel comfortable and perform what is expected.

As to wages, they differ. Some get paid \$7 or \$8 an hour, others \$12, still others \$18. That depends on the technology level of a particular company and what this company produces.

Not only U.S. capital, but also capital from Germany, China, and other countries is invested in America. Not only Americans own companies there.

The Alekseyevsky Bakery Plant is in our Kharkiv Oblast. Mr. Panarin also took part in a study tour. According to his words, his company is the Oblast leader in baking bread. Those of you who live in Kharkiv and Kharkiv Oblast know that. This happened because of many reasons. When he came back from America, he drew many conclusions. He saw how people work there. He applied the overseas experience. Now today practically all their bread products are packaged. The Alekseyevsky Bakery Plant puts its logo on practically every item they sell. All their products are sold in fine retail stores.

I think that supermarkets, like the ones that emerged in Kharkiv last year, offer sliced bread. It reflects what Lee Cole said once that he would applaud when Kharkiv had sliced bread available, like the rest of Europe. Today, if we compare the Alekseyevsky Bakery Plant with American bakeries, I do not see any difference product wise.

Americans attach great importance to what I metaphorically call "clothing" for their products: packaging and advertising. Our products lack that today. Over there they treasure the image of their brands. They pay a lot of attention to color schemes. They select memorable colors for their products, as well as understandable and catchy slogans. Their advertising is not too pushy, like ours was at some point.

What also caught my eye is that there is a place under the sun for large companies and for small companies. They all coexist and are friendly.

We visited an orchard, Arrowhead Orchards situated in a village, if I can call it a village. It was called Paris. You know that in America they have several Odessas, Parises and Berlins, depending on from where the first settlers came from. So we came to this fine orchard and asked the owner, "Where do you get these excellent apples from? How come you have such a wonderful harvest?" He said that they had sprayed 10 times. They are constantly taking care of their orchard. During the same period, our Kharkiv apple production was down. That is why we were so interested. They invest a lot of labor to ensure the quality of their product.

I have a few other observations. A commodity market is only emerging in our country. And we face a dilemma about buying grain. Last year we had a 140,000-ton shortage of food grain in the Kharkiv Oblast. This year we do not have this problem.

To solve a difficult issue in the U.S., when purchasing seasonal crops, such as wheat, it is more profitable for the producer or for the processor, to place a purchasing order (a contract) at the planting stage. As a rule, processing companies contract 30-50% of their needs for a current year. It inspires farmers with confidence that their products will be bought at a given price, so they can work. It also inspires processors with confidence that they will have something to process, at least for some time. They buy the remaining 50% (roughly) "from the open market" when it becomes clear what kind of harvest is available and what the prices are.

If the harvest is good, prices are lower. If not, prices are higher. If prices are high, farmers are happy. If the harvest is good, processors find themselves in a more advantageous situation. This strategy works every year in America. Here we do not always have a common interest between those working in agriculture and those in food industry.

There were many amazing things we saw in America. Here we eat tomato-and-cucumber salad every day in summer. We fix this salad at home. In America we visited a great number of companies that prepare and package salads by dicing tomatoes and cucumbers (although I cannot state that few people do their own cooking). Fresh tomato-and-cucumber salads get chilled down to 3 or 4 degrees Centigrade, about 37-38 degrees Fahrenheit and are packaged and served in cafes and restaurants, or sold to go, so that people won't waste their precious time on cooking.

Food prices are not high. I have mentioned before that most companies operate on a slim margin. If you are employed in the U.S., you can afford to eat out without worrying too much about prices.

In general I'd like to say that in America they explained to us that the Marshall Plan was developed for post-war Europe. The idea then was that "if we only give money to those countries, they would eat it away, and nothing good would come out of it. It is better also to provide funds for training. It is better to see something once than to hear about it 100 times. People would adapt American technologies and knowledge in their operations." This experience in Europe was successful.

I think that Ukraine needs study tours like that. It is good that managers of our Kharkiv companies have visited the U.S. I think that nobody came back indifferent.

There is a need for such programs because everybody starts thinking in a different way after participating. Tangible results of such tours are evident. I think that such study tours should be expanded so that more people will be able to take part in them.