

# Fruit preserves of namangan ltd.

[Business](#), [Industries](#)



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An Uzbekistan fruit processing company seeks solutions to improve raw material supplies through industry cooperation (cooperative development) or through backward integration (agribusinesssystem management)

On 15 March, 2001, Ms. Gauhar Kubekova, owner of Fruit Preserves of Namangan Ltd. looked at the notes she had taken from two studies made about the fruit and vegetable industry in the Uzbekistan The problem she was trying to solve was guaranteeing the availability of raw material supplies for her marmalades, jellies and preserves business. This problem was two-fold:

1) obtaining the right quantity and quality of raw materials at the right time and

2) to keep labor and equipment center fully occupied in her processing center fully occupied. One of the studies she reviewed suggested cooperation among the different members of her industry. The second study suggested integrating backwards through the purchase of land and growing the raw materials, fruits and vegetables, independently.

Company background

Ms. Kubekova's business evolved from her hobby of making strawberry jams for her friend's 15 years ago. Ms. Kubekova converted this hobby into a business in 1999 by expanding into tree fruits and vegetable preserves (See Annex 1 for the company's objectives). Her initial marketing efforts were directed to the Uzbekistan market. In her promotional material, she

differentiated her products from others by claiming the following distinguishing features:

- honey flavor;
- homey touch in "putting up" (an old Uzbekistan farm-kitchen term);
- folk origin of her recipes and procedures not to be found in cookbooks.

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The Case has been written by professor Gerrit de Vos, Ph. D. of the Maastricht School of Management with the cooperation of Kimep's lecturer Ms. Dilbar Gimranova for the sole purpose of class discussion without judging the administrative practice of Fruit Preserves of Namagan, Ltd. Copyright: Tacis-Kimep 2001

Her conservatory, as Ms. Kubekova called her production centre, was a home-style kitchen covering a floor area of 60 sq, meters on the third floor of a high-rise building in Namangan. The company had total assets of Monats 3, 908, 030. After three years of operation, the company had remained a single proprietorship.

#### Products

Fruit Preserves of Namangan produced the following assortment of products:

Jams and Marmalades

Strawberry Marmalade

Cherry Marmalade Raspberry Marmalade Plum Marmalade Apricot Jam Peach  
Jam Apple Jam

Alycha Jam

Jellies

Red Currant Jelly

Cherry Jelly Raspberry Jelly Black Currant Jelly Apricot Jelly

Peach Jelly Grape Jelly

Preserves/Pickles

Strawberry Syrup Cherry Syrup Raspberry Syrup Red Currant Syrup Black  
Currant Syrup

Plum Syrup Grape Syrup

Alycha Chutney Peach Chutney Apricot Chutney

In developing formulae for the jams and jellies, care was taken to meet the standards of the EEC, the United States, Australia, Japan and other countries that had shown interest in Uzbekistan fruits.

Marketing

The December 1999 issue of Gourmet Magazine published in the United States and distributed worldwide, highlighted the gift market and the specific target market towards which the company wanted to direct its marketing efforts. The following is a quotation from that magazine:

" Though fashion changes, one gift that remains timeless is the gift of food. In an age of ever increasing commercialism, homemade edibles have become

all the more preciousness. Their personalized quality and the time invested in their preparation bespeak a graciousness and " special caring that are often submerged in today's mass-marketing world"

#### Quation #1

While developing this target market in the Uzbekistan and to a limited extend in Kazakhstan and Kyrgyzstan, the company also sought a more global clientele; so far, stores in Australia, Hong. Kong, Japan, the United States and Federal Republic of Germany had placed trial orders.

The motivation to enter into export marketing had come from the owner's perception that competing in international markets would enhance the company's market knowledge, extend the product line's life cycle, reduce risks through geographical diversification, and improve the company's overall return on investments. By selling directly and indirectly through importers, the firm had been able to increase its 2000 sales by 49 per cent in 2000 and expected to increase this figure by 20 per cent in 2002. The company used a cost-plus pricing strategy by adding a 40 per cent mark-up to its labor, materials and overhead costs. The company's sales performance is presented below:

Domestic Sales			Export Sales		
(value in \$US)			(value in \$US)		
1999	2000	2001	1999	2000	2001
Jams/Marmalades			101. 420	146, 800	176, 000
905	95, 703-	115, 100			64,

Jellies	81, 450	116, 850	136, 700	46, 880
70, 737	84, 900			
Preserves	49, 450	62, 950	75, 500	
Candied Fruit	5, 480	9, 020	10, 800	
Pickles/Chutney	51. 950	83J500	101. 000	27. 845
41. 610	50. 000			
Total sales	289, 730	419, 520	500, 000	139,
630	208, 050	250, 000		

### Packaging

The company's individual bottles (140 gms, 2. 70 gms, 400-460 gms, 530-580 gms), were cap-sealed to insure against tampering<sup>1</sup>, topped further with colored farria, and tied with abaca string. The product was packaged in a "gift-pack" made in various sizes and designs, and was often put into hand-woven baskets using split bamboo, rattan, coconut, and indigenous vines.

\_The company was trying to get the jairs " hand-blown" by a local glass blower. This would differentiate each package; each jar would carry a label describing the art of glass blowing.

### Production

To produce 2, 700 cases of bottled preserves (12 bottles per box at 450 grammes per bottle), a production lead-time of 90 days was needed. All of the tropical fruits were processed in small batches to ensure the most natural quality of the fruits. The preserves were hand-made from processing to packaging. They did not have artificial coloring or flavoring and no

preservatives were added. Because of their low sugar ratios to the fruits, they were considered health foods (see Annex II for the company's production process).

### The fruit processing industry

The Uzbekistan fruit processing industry had traditionally perceived itself as a separate entity from the farmers and the distributors. Raw materials were often bought in the open market when the fruits were in season to be followed with a concentrated effort to process the fruits into pulp and store and freeze the pulp for future use. The increasing dependence of the industry on export business put into focus the problems associated with inadequate quality and quantity of raw materials for export needs. The short season for various fruits, such as strawberry, raspberry, red current resulted in unreliability of supply and high prices during the off-season, and inconsistent quality and discoloration after processing (see Annex III for the seasonality of fruit supplies in Uzbekistan).

In order to improve poor supplies, two different strategies had evolved within the industry:

1. To increase cooperation within the industry (cooperative development of producers) and
2. To increase vertical backward integration (agribusiness through ownership or long term leasing of land).

Both strategies recognized that horticultural/agricultural production and processing could not be separated. This interdependency was highlighted by the short life span of fresh fruit and resulting high losses within the production

channel if cooperation was not achieved. Either one approach required an agri-business management philosophy.

### Strategy development and policy making

Ms. Kubekova was left with the feeling of indecision about what strategy to implement. The Cooperative stressed the need for cooperation and leadership of perhaps 20 or more individual growers. She wondered about whom would do the leading and at what terms. The problem was that all members in the cooperative were small; either the producers or processors had demonstrated no significant leadership. The farmers' interest in forming a cooperative could lead to their channel leadership; this was a step in the right direction. But this also meant increased market leverage for the coop members, which would lead to higher prices. Her past experience with contract farming had worked when a bumper crop had occurred putting pressure on prices in the open market. However, breaking the contract by delivering less quantity at renegotiated prices or refusing to deliver at all during times of shortages, had made her worried about based on growers cooperation. The last thing she wanted was to negate a foreign order through unavailability of local supply of raw materials. However, she reasoned that a growers cooperative would have more central command, and she might be better off with signing contracts with central management and let them deal with the individual growers to delivering the contracted produce or not!

If she went her own way and became an agribusiness manager by integrating backwards, would this strategy solve her supply problems? She was not an expert in horticulture production. She might have to hire an

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agronomist. What about the lead-time before harvesting? She also realized that most of her raw materials had a one-year seed-to-harvest crop cycle. Would she experiencediscriminationif her crops would fail and had to buy outside her own production system.? What about the additional financial drain i. e. capital investment into land.? Low interest government loans were available but her fixed costs would increase. Should she consider leasing or a joint venture, which would mean less risk, but would also involve the sharing of potential profits?

Questions:

- 1) What are the risks and opportunities involved in using an ‘ cooperative development’ to solve supply problems of Ms. Kubekova?
- 2) What are the risks and opportunities involved in using a agribusiness management (i. e. through land ownership or long term leasing) to solve the supply problems of Ms. Kubekova?
- 3) What other suggestion do you have to solve Ms. Kubekova’s supply problems
- 4) What are the global trends in international agriculture  
: a) Cooperative Development or  
b) Agribusiness Management through integrating agriculture with processing
- 4) What are the prospects of applying agribusiness management to Kazakhstan’s agriculture.

ANNEX I

NAMANGAN FRUIT PRESERVES LTD.

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## Objectives

1. To engage in research and development to study the physical and chemical characteristics of the fruit available in Uzbekistan throughout the year and to evaluate their processing potential.
2. To develop formulae for high quality preserves and upgrade the existing commercial formulae specifically for jams jellies chutneys, and non-traditional pickles.
3. Given the above, to develop a marketing strategy for import substitution and maintain prices at competitive levels.
4. To encourage more horticultural production, greater utilization of farm products, improved employment opportunities for processing.
5. To serve as a pilot project for the possible transfer of technologies to the areas where raw materials are in abundance.
6. To determine economies of scale for the viable food processing facility given the following constraints:
  - (a) seasonal nature of fruits/vegetables,
  - (b) varied physical characteristics of fruits/vegetables handled,
  - (c) no fruit and vegetables orchards developed,
  - (d) unreliable availability and erratic amount of raw materials,
  - (e) inadequate distribution infrastructure,
  - (f) inadequate quality control of raw materials and packaging materials.

7. To assist in the Uzbekistan's economic development program as an agro business enterprise, independently or in concert with others, and to explore further utilization of fruits/vegetables processing.
8. To develop appropriate technology utilizing local raw materials, local manpower, and locally available energy sources.
9. It is the aim of the company that there be no distinction between what is for local consumption and for export.
10. To introduce the company's products to exports markets.

## ANNEX II

### PRODUCTION PROCESS

Sorting of fruits

Jellies

Chutney

Jams/Marmalades Candied Fruits

Juice extraction

Adding of sugar

Cooking

Bottling

Peeling and Seed Removal

Fermentation

Preparation of

Pickling

Solutions/ingredient

Cooking

Bottling

Peeling and Seed removal

Cutting/Slicing

Adding of sugar

Cooking

Bottling

ANNEX III

### SEASONALITY OF FRUITS

MONTS	IN	FRUITS	SEASON
JAN			
FEB			
MAR			
APR			
MAY			
JUNE			
JULY			
AUG			
SEPT			

OCT

NOV

DEC

Strawberry

X

X

Cherry

X

X

Raspberry

X

X

Plum

X

X

X

Apricot

X

X

X

Peach

X

X

Red Currant

X

Black Currant

X

X

Apple

X

X

X

X

Grape

X

X

X

X

X

Alycha

X

X

X