

Implementation of a best management strategy for a milk processing company in Albania

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Abstract

This study provides an overview of the implementation of a best management strategy of the Lufra company in milk processing, although it has marketed high-tech products and owns approximately 75% of the sales market in Albania. This study focused on assessing the current characteristics and conditions of the company and the information was taken from an interview with owner of Lufra. We used the SWOT analysis, which was carried out in the assessment of the characteristics and identified four strategies and the best strategy was chosen mini-max. Also we came to the conclusion that it would allow to increase revenues of the company and consumer safety and at the same time we gave some potential benefits and costs for the realization of this strategy.

Keywords: best management strategy, milk processing, SWOT analysis, increase revenues, consumer safety.

Introduction

LUFRA Ltd. is an Albanian Company, created about 26 years ago. She is today the largest dairy company in the country offering over 40 different products. The location of company is in kilometer 7 of the Lushnje-Fier highway in an area that has a tradition of producing milk. Its activity began in 1992 in a simple improvised workshop in one of the home-made household appliances with a limited capacity of up to 1000 liters of milk per day. The used technology was primitive and realized only one item: white cheese, at a temperature of 84 degrees. The second phase began after 5 years with the construction of several new facilities that met the requirements in 65% of the needs. Technology has undergone significant changes in equipment, ranging from steam boiler, double-walled kettle to various capacities, pasteurizer, skimmers, refrigeration equipment, milk and yogurt filling machine, refrigerator chambers and heaters and many other devices. Daily capacity went from 9,000 to 12,000 liters per day and production technology had significant improvements. The activity showed significant growth in the range of assortments produced to be competitive in the market. In this way, market launches with European-level items such as yogurt with packing of 500 ml and 1,000 ml, milk in plastic bottle with a single use of 1,000 ml and 1,500 ml, yogurt sauce with plastic box in 500 gr, 1,000 gr 5,000 gr, zaziq in plastic box 450gr, butter packed in 100 gr, 250 gr, 500 gr. Lufra had a powerful presentation on the market for the fact that he started to produce high-quality articles and gained market recognition in a wide territory ranging from Tirana-Durrës-Elbasan-Lushnja-Fieri-Vlora-Gjirokastra to Saranda. In terms of food safety for the consumer, conforming to the standards, Lufra has managed to gain

the ISO 22000: 2005 certificate in 2009. Additional investments have been made in cleaning the equipment with chip system (Automatic Washing System). It has also established the water filtration line (osmosis). For the successful realization of work, Lufra has given importance to the quality of the raw material (the milk coming from the farmer) and the quality of the products the factory produces. In the third stage, which began in 2010, Lufra realized a real evolution and today introduces one of the elite enterprises in the field of milk processing with a contemporary european technology, with the Plastics Factory for the production of dairy products packaging, through which quality products of complete nutritional value are realized according to the taste of the consumer. The second stage technology devices are out of order and in their place are now installed new devices with a capacity over 20,000 liters per day or 200 times more than in the early years of work. The production process is automatic and guarantees the production of assortments that the market demands, in standard according to the requirements of the law but also in function of ever-increasing customer requirements. Lufra in 2013 brings for the fourth time in the entire Balkan region the most hygienic packaging in the world for fresh products, the TetraTop packaging with ESL (Extended Shelf Life) system. The processing line is now completely automatic, from the receipt of raw material to the final product packaging. Also this year, Lufra launches the largest and most innovative investment, which sets the same order with the most quality companies around the world. Cooperation with two giant companies, "Priamo" of "Della Toffola" for processing and "TetraPak" for packaging, which was able to market in December 2013 two products 1-liter of UHT long-term milk with fat 1.5% and 3.5% in unique packaging technology Tetraprizmo.¹ Hopefully that in the future will be packing here. So we are happy that Lufra has managed to have comparative advantage the price as well as the packing Tetraprizmo. While in 2014, the company quadruples the production capacity and geographic range of products across Albania, making a big step ahead of its domestic competitors. Also in terms of control, has set up a modern laboratory, which performs complete and comprehensive analysis of the bacteriological and organoleptic indicators of raw materials and final products. On 27/01/2014 received a certificate in Madrid of Spain from the Global Trade Leaders Club, the international prize awarded to Lufra by the International Food And Beverage Quality Award. This award was the appreciation of a multi-year job. Estimated among 7500 entrepreneurs from more than 90 countries around the world. We are very proud that an Albanian company, the only one in milk processing, gets this award. Also this year, Lufra implements a new customer service project called HoReCa (coming from the merging of the first two letters of the name Hotel, Restaurant and Catering). Seeing the need for many

¹ <http://www.dtpacific.com> ; <http://www.tetrapak.com>; <http://www.priamosrl.com>.

(Caswell and Zilberman, 1985; Shields et al., 1993; Ghosh et al., 1994; Davis and Gillespie, 2000; Moser and Barrett, 2002). Some pointed out the need for appropriate econometric tools to account for the interrelationships among adoption decisions (Feder et al., 1985; Zepeda, 1994; Dorfman, 1996; El-Osta and Morehart, 1999). Studies on the adoption of environmentally-sound technologies explored the role of factors such as awareness producers of soil erosion, quality of information, land tenure, and economic incentives on the voluntary adoption of management practices (Gould et al., 1989; Barbier, 1990; Govindasamy and Cochran, 1995; Westra and Olson, 1997; Cardona, 1999; Soule et al., 2000; Ipe et al., 2001; Cooper, 2001).

hotels, restaurants / bars and dairy companies for dairy products, Lufra opened this new department in function of a better service for its young clients only in Tirana district. In respect to Lufra nature, in 2015 there is a plant cleaning water and waste plant and ecological boiler with biomass, which reduces soil and air pollution to a minimum extent. Through cooperation with TetraPak, it has replaced a part of plastic packaging with cardboard packaging, which is produced from renewable sources. In 2016, Lufra comes with a brand new cheese called "Çobani", which once again returns to the focus product with which it has started its journey, cheese! All the different types of cheeses that the company will produce and market in the future will have the name "Çobani" on. Along with the brand has also changed the production technology of this product, while maintaining the traditional methods for its original taste. "Çobani" cheese is produced with selected milk, which meets the highest standards of production. Milk from the Leskovik pastures is selected for the cheese of the sheeps, while milk for cheese is selected from milk of Myzeqe. Although the company has launched products manufactured with high technology and high quality, its products have a lower price than competition. This study would be focused on assessing the current characteristics and conditions of the Lufra company using the SWOT analysis and identified four strategies to implement the best management strategy.

Literature Review

In a study, Issar et al., (2003) pointed out that milk processors in response to changing market expectations are getting proactive in their relationship with retailers across all aspects of business, innovating to generate sufficient returns from proprietary brands and strategically orienting themselves to develop a mixed customer portfolio and appropriate management structures to service that portfolio. Noro And Jeffrey, (2003), reviewed the current adoption of the Best Management Practices (BMPs) by the Louisiana dairy producers. The overall findings suggest the need to address the lack of knowledge among dairy producers about BMPs, reflected by the large number of producers unaware of legislation and efforts to control nonpoint sources of water pollution, as well as the high rates of respondents answering "need more information" and "have not heard about it" as reasons for not adopting a BMP. One of the earliest studies on technology adoption was Griliches' exploration in 1957 of the economics of technological change, specifically the wide differences in the rate of use of hybrid seed corn. Since the publication of his work, the economics of technology adoption has captured researchers interests, yielding hundreds of publications. Researchers have investigated the different aspects of adoption decision producers and examined the likely determinant factors influencing increased technology adoption

Methodology

The purpose is to highlight the importance of implementing a best management strategy of Lufra Company in Albania, which will be realized through the company environmental assessment of Strengths, Weaknesses, Opportunities and Threats and on this basis will be conducted the SWOT analysis and it needs to be chosen the best

strategy. And for its realization it would be used the data from the interview with the company manager Antoneta Ndreka, who is also its owner, which first showed about the producing process of dairy products with high quality up to distribution in homes of the customer:

Farms - The plant is supplied with milk as a raw material from healthy farms that produce high mechanical hygiene without the presence of antibiotics. This was achieved through the close cooperation of Lufra staff with farmers as well as veterinarians operating in the area.

Technology - Products are manufactured with state-of-the-art technology. Lufra works with modern technology of Italian production certified according to ISO 22000: 2005.

Staff - The whole technological process is guided by technologists and specialists who know the best of the dairy technology, which is increasingly on the rise and produce quality products with full nutritional value and according to the taste of the consumer.

Social Responsibility - Lufra operates by trying to assess needs in general and contribute to the development of the community where it operates. Good relationships have been established with farmers by influencing them to increase their economic, social and civic level.

Values Accomplished - The most important focus of Lufra is on achieving the highest standard by being committed to maintaining the principle of business ethics, honesty and absolute respect for the food law, regulating the relationship between the state and the consumer and thus realizing the philosophy of Lufra "Everything qualitative for the consumer, the taste and the ever-increasing demands of it."

Customer - Lufra offers products to 25,000 families every year. Every year 3.3 million bottles of Lufra milk are consumed. It also offers HoReCa service since 2014, distributing its dairy products to Hotels, Restaurants, and Catering services.

She also stated that our company has:

Mission is a venture in the service of its consumers welfare mainly in the Albanian Coastal Lowland (From Tirana to Saranda) and the ultimate goal is to create positive values from its staff in respect of business ethics, social function contributing thus growing professional to transmit elements of economic and civil progress in the community we operate.

Philosophy is to have healthy products and to fit customer requirements. High quality products are based on new technology processes and innovative ideas.

Vision is to maintain the company existence and independence based on its well-being, so always be the leading company in the quality of products it produces and trades, wherever it will operate.

Referring to the concrete situation of Lufra, we highlight *some key difficulties*, their causes, potential solutions, who are the actors that can solve them, what are the best solutions:

- *Uncertainty for the raw material*. There is no system and general rules for monitoring the quality of milk.
- *Cooling chain* does not always work in small shops (for customers), affecting the quality of the product. This brings the image ruin of the company.
- *Lack of contracts* and the difficulty of its implementation.

- *Additional costs* due to transaction costs such as cost of research, cost of information, cost of monitoring (lab tests for raw material quality), transaction costs (negotiation, agreement).
- *Regarding the policies*, the company must build a stable relationship with the department to negotiate in talks to realize fiscal facilities and lift the customs tariff for technological equipment.
- The company should seek to apply for *IPARD funds* of European Union (EU) to be allocated for investments in the agro-industry sector.
- Since the above problems are the same with other dairy companies in Albania, there is a need for *Cluster Formation*, where the cooperation between our companies and related institutions will help to find common solutions for the benefit of all. So it will promote fair competition and promotion.

1.1 Assessment of the characteristics of Lufra Company Ltd

Table 1 presents some of the main characteristics of the Lufra Company, which will be assessed in more detail in Strengths, Weaknesses, Opportunities and Threats (SWOT).

Table 1. Assessment of company characteristics in SWOT

| No. | Characteristics | Strengths | Weaknesses | Opportunities | Threats |
|-----|-----------------------------|-----------|------------|---------------|---------|
| 1 | Location | x | | | |
| 2 | Characteristics of Product | x | | x | |
| 3 | Effective Direction | x | | | |
| 4 | Organization and Management | x | | | |
| 5 | Image | x | | | |
| 6 | Consumer Income | | | x | |
| 7 | Technical Assistance | | | x | |
| 8 | Technology Level | x | | | |
| 9 | Raw Materials | | x | | |
| 10 | Packaging | | | x | |
| 11 | State Policy | | | | x |
| 12 | Demand for Product | | | x | |
| 13 | Distribution System | | | x | |
| 14 | Production Capacity | | | x | |
| 15 | Foreign Competition | | | | x |
| 16 | Contraband | | | | x |
| 17 | Legal Framework | | | x | |

More detailed assessment of the above characteristics:

1. **Location** - (S) The Company location is in km 7 of the Lushnje-Fier highway, in an area that has a tradition in milk production. The location is an advantage in distributing the product by being near the main road axes.
2. **Characteristics of Product** - (S-O) S. The company is competitive in the market by producing a number of assortments. O. The ability to diversify assortments of processed products.
3. **Effective Direction** - (S) Since its inception in 1992, the company has significantly improved the management, occupying an important place in the market of livestock products.
4. **Organization and Management** - (S) With a qualified staff the company is organized in the milk collection sectors, in the quality control laboratory of processed products, management, marketing and distribution of products with refrigerating appliances.
5. **Image** - (S) The image is considered an important element in the company activity. However, this image is being improved through the advertising of products in the media it has done and will do, the participation in fairs, the promotion and tasting campaigns of the products produced by the company as well as the forms of surveying with the consumers, for the values and the taste of its products.
6. **Consumer Income** - (O) Despite the positive balance of the company in realization of incomes; rising incomes above the average is a key objective of the company through increasing the number of customers who prefer Lufra products.
7. **Technical Assistance** - (O) Ability to benefit from foreign technical assistance. Exchange of experience with technologists operating in foreign companies for processing livestock products.
8. **Technology Level** - (S) The company has a contemporary Italian technology level throughout the process of milk processing (raw material). The company is certified according to ISO 22000: 2005.
9. **Raw Materials** - (W) The milk quality does not replenish EU standards. This indicator is closely related to the level of breeding technologies and the feeding of dairy cows by farmers.
10. **Packaging** - (O) The possibility of introducing milk packaging technology into cardboard boxes after treatment with UHT technology at a temperature of 135 to 140 degrees in a few seconds, provides a safer milk and can be stored for 3-6 months at room temperature (TETRAPRIZMO PACKING).
11. **State Policy** - (T) Inadequate support to subsidies and support policies for the dairy sector.
12. **Demand for Product** - (O) Through increasing customer contacts, the aim is to increase interest on Lufra products.
13. **Distribution System** - (O) Although the product distribution system is well-organized, it is likely to expand even in other districts of the country.
14. **Production Capacity** - (O) Possibility to increase production capacity through increasing the amount of milk collection.
15. **Foreign Competition** - (T) Competition of livestock products from foreign

companies is a threatening element in the company activity.

16. **Contraband - (T)** Despite control measures at border customs posts, contraband and tax evasion pose a threat to fair competition in the livestock market.

17. **Legal Framework - (O)** Need to improve the legal framework for supporting the dairy sector through dialogue of stakeholders, such as the milk producers association and the processing companies, the consumers association, and the department technical directories.

1.2 Development of SWOT analysis

Based on the above estimation, we develop the SWOT analysis, according to the following matrix (Table 2.) and in this context identify four possible strategies.

Tabela 2. SWOT Matrix

| Internal Factors External Factors | Strengths (S) | Weaknesses (W) |
|--------------------------------------|---|--|
| Opportunities (O) | Max-Max Strategie F - Characteristics of Product, Technology Level M - Demand for Product, Consumer Income, Legal Framework | Min-Max Strategie D - Raw Materials M - Production Capacity, Packaging, Distribution System, Characteristics of Product, Technical Assistance |
| Threats (T) | Max-Min Strategie F - Effective Direction, Organization and Management, Image K - Contraband, Foreign Competition | Min-Max Strategie D - Raw Materials K - State Policy |

2. Analysis of Results

Among four possible strategies, we will refer to the Min-Max strategy (Minimizing Weaknesses and Maximizing Opportunities), a strategy that fits Lufra company. Through this strategy, we aim at achieving a greater market penetration of the company products. This will be accomplished through (Minimizing Weakness) such as *milk quality* (does not replenish EU standards), that there is no retention of regular company contacts with collectors and farmers in the regions where the company operates. Certainly our goal is to increase these contacts, which will bring the quality of raw material (milk) for processing, quality requirements and raw material standards, and (Max. Opportunities) the gained experience and investments in milk processing technology, packaging of processed milk in cardboard boxes according to TETRAPAK technology. Under the argument that PLASTIK packaging negatively affects the environment we live in and expires faster than TETRAPAK.

(Tetrapak and its role in the environment: To produce packaging materials, TETRAPAK uses cardboard (73%), plastic composition (22%). Raw materials have the greatest impact on the environment at all stages of the life cycle inside the package. The cardboard is made of wood - a renewable source.).²

2.1 Possible Potential Benefits and Costs

About the implementation of this chosen strategy, the company should be informed for some possible potential benefits and costs that it would implement in the future.

Tabela 3. Some of possible potential benefits and costs

| Possible Potential Benefits | Possible Potential Costs |
|--|--|
| <ul style="list-style-type: none">- Increase in the product sold quantity and the produced assortments (typical cheeses of the Albania regions such as Gjirokastra - "feta" cheese and "kaçkavall" cheese) and their marketing in the market will increase the company profitability.- (Better Marketing) Opportunity to provide the safe sales markets.- Recognizing and strengthening of connects with customers.- Effective control over all production lines. | <ul style="list-style-type: none">- Investments in dairy processing technology, in product marketing and packaging will make it possible to reduce production costs at the plant.- Additional costs for milk production.- Increase of expenses for internal control of activity.- Additional cost due to excess capacity (this is eliminated through the production diversification process.) |

Conclusions

Thus, referring to the specific strategy outlined above, so extending to other areas and regions of the country, we will have an increase in revenues through increased sales of products and the purchase price of raw material (milk according to the quality and the protein content, which will affect the cost reduction of processed products). Through investments in new lines for the yogurt production with different fruits, "feta" and "kaçkavall" cheeses as typical products of various regions in Albania, the specialized staff of technologists of the company who possess contemporary knowledge in dairy technology is a real potential for the realization of quality products with full nutritional value and according to the taste of the Albanian consumer, but also that enhances its safety.

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