



EUROPEAN  
REGIONAL  
DEVELOPMENT  
FUND

EUROPEAN UNION

---

**Baltic Sea Food**

# BALTIC SEA FOOD PILOTING REPORT

«The Community of Izborsk Masters».

Partner prepared the report: «Rusmarketconsulting» LLC

## Table of Contents

1	Background .....	1
2	Description of B2B model used for piloting.....	1
2.1	Customer segments and target groups.....	2
2.2	Customer value proposition.....	4
2.3	Channels to reach the customers .....	5
2.4	Customer relationships .....	6
2.5	Revenue streams.....	6
2.6	Key resources .....	8
2.7	Key activities.....	8
2.8	Key partnership .....	10
2.9	Cost structure .....	10
2.10	Organization and strategy .....	11
3	Changes in operational plan .....	12
4	Quantitative results .....	12
	<b>Actual B2B clients of Community of Izborsk Masters .....</b>	<b>12</b>
5	Qualitative results / Качественные результаты .....	15
6	Other local food distribution solutions developed in the region .....	16
7	Conclusions .....	16

## 1 Background

**The Community of Izborsk Masters** is an informal association of local natural food producers and artisans. It was established in 2018.

The community includes three families living on farms in the vicinity of Stary Izborsk.

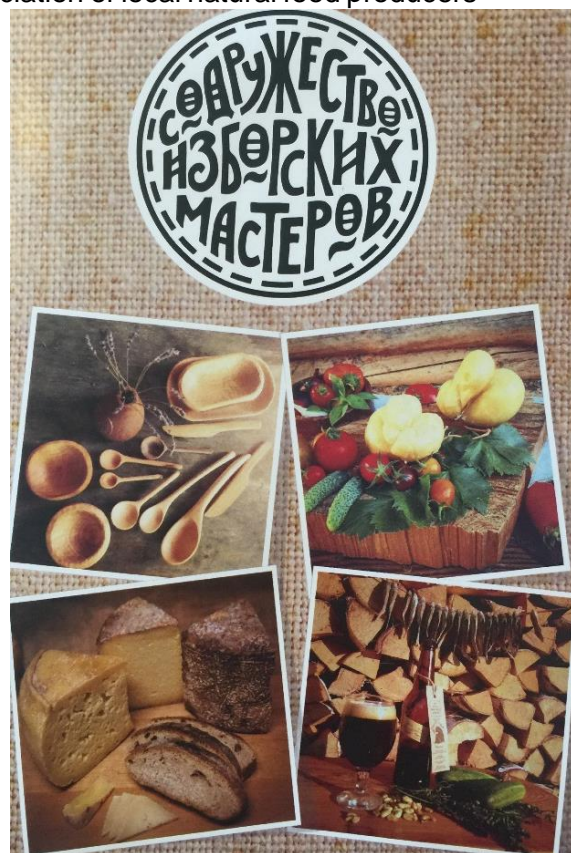
**Brewery “Krivé” and ceramic workshop “Mars”** – there are various kinds of beer, ale, kvass, cider, heather honey in the assortment of the farm. The workshop makes ceramic mugs and other products of local clay.

**Craft workshop "Dog and Cat"** - carpenters make hand-made wooden cookware, carved wooden toys, interior items and furniture. In the farm, they also bake bread, crush butter, make kvass and produce sun-dried tomatoes and apple cider vinegar.

**Farmhouse “SyraMat”** produces cheeses, cream, sour cream, cottage cheese made from milk from cows of a farm.

All products have local authenticity: they are made by hand, preserving the Pskov traditions, with natural, environmentally friendly products of high quality.

As an extra business, the community develops gastronomic or rural tourism - all kinds of masterclasses and tastings are held on farms.



## 2 Description of B2B model used for piloting

Business model of Community of Izborsk Masters is producing and sales of hand made food and non-food products. It is B2C mostly, the B2B model is just beginning to develop. They don't need certificates for their products for these corporate customers. These products

delivered to restaurants in Pskov, municipal customers in Pskov and to individual customers to St-Petesburg and Moscow.

## 2.1 Customer segments and target groups

The share of B2C clients in the total sales of the Community of Izborsk Masters is 20%, the share of the B2B sector is 75%.

The main sales take place at outdoor events - fairs, festivals, etc.

The Community takes part in an average of 15 fairs a year.

The sector "fairs / festivals" is a rather specific sales channel, it can be defined as a combined B2B and B2C, since despite the fact that participation in events requires cooperation with the organizers, the direct sale of products is carried out by the manufacturer himself directly to the end customer.

Such a direction as gastronomic / rural tourism is also present in the Community of Izborsk Masters, but is not well developed.

It should be noted that the tourist flow in Pskov and the Pskov region is growing every year, according to the Information Tourist Center of the Pskov Region, in 2018 an average of 700,000 people watched the Kremlin, Izborsk - 400,000, Pushkin Reserve - 420,000, Porkhov Museum and Fortress - 21 000, Talab Islands - about 8 000 people. The flow of tourists has grown to 1.5 million visits. In 2018, it amounted to about 1 million.

There are no statistics on rural tourism in the Pskov region. But, given the significant flow of tourists, rural tourism is a promising direction for development, but tourists should be informed about the Community of Izborsk Masters who are ready to receive guests on their farms, in connection with which it is necessary to start cooperation with travel agencies in the region (preliminary work out tourist packages / programs ).

Also, the community cooperates with two restaurants and one specialized store ("Crafts Shop").

The structure of B2B clients of the community is presented in the Table:

**Table. Actual B2B clients of the Community of Izborsk Masters**

Target group of B2B clients name	Number of target group clients, pcs.	Characteristics of clients by size (small / medium / large)	Share in total sales	Notes
----------------------------------	--------------------------------------	---	----------------------	-------

			volume, %	
HoReCa	2	Medium	10%	2 restraunts: Pskov region – restraunt «Chernaya koshka», «Dvor Podznoeva», Leningrad region «Fitobar». Supplied goods -beverages, cheese.
<b>Fairs, culinary / rural tourism (*)</b>	15 per year in average	Medium	75%	Participation in fairs.
<b>Municipal and public organizations</b>	1	Large	10%	Reception of the Governor of the Pskov region. The supplied goods are gift sets for the holidays (gastro-souvenir).
Special stores	1	Medium	5%	«Craft shop»

As you can see from the table, there is not a single customer generating more than 5% of the revenue. On the one hand, diversification of the client base is not a bad thing, on the other hand, the disadvantage is the lack of a supporting, reliable client who provides regular purchases and guaranteed cash flow.

(\*) Trade fairs, festivals, culinary tourism are mainly B2C.

In fact, at the end of 2020, the number has changed

For the development of B2B sales, the following target groups of clients are offered:

- HoReCa;
- Specialized shops (farm products);
- Gastronomic / rural tourism;

Development in the sector "fairs / festivals" is unlikely, since the number of these events per year, in which the Community takes part, is already at its maximum.

Today the most profitable sales channel of the Community of Izborsk Masters is fairs and festivals (75% of B2B sales), due to the fact that the experience of working with other segments is minimal.

In the B2C sector, these are regular private customers from St. Petersburg / Moscow (direct sales through social networks).

The target group of clients most covered by the Community of Izborsk Masters is fairs / festivals.

In other segments, sales are not developed. There is a small number of clients in HoReCa - 2 restaurants, cooperation has been established with 1 craft shop and in the sector of public organizations there are irregular deliveries of gift baskets for the holidays.

**Table. Operation experience within target groups of clients.**

Name of target sales group	Operation experience
	Beginner/medium/advanced
HoReCa	средний
Fairs, festivals, culinary / rural tourism (*)	advanced (fairs)  beginner (tourism)
Municipal and public organizations	average
Special stores	average

## 2.2 Customer value proposition

The main value propositions for clients available from the Community of Izborsk Masters:

- Quality;
- Premium unique products (gift sets, black salt);
- Gastro souvenir;
- Traditional (historical) production, original recipes, exclusive local specialties;
- Rural tourism (master classes, tasting, participation in production);
- Related products to food - a combination of food and non-food products;

- Binding to a regional brand (indication of the place of origin of the Izborskie product).

The association has its own brand - "Community of Izborsk Masters", it is not officially registered.

This brand is quite recognizable in Pskov and the Pskov region.

### **Brand availability. B2B brand use by customers.**

B2B clients use the brand of the Community of Izborsk Masters (i.e. the end customer knows the brand of the purchased product) if it is souvenir products, drinks, products in packaging, where there is a label indicating the brand. If the product is food that is used for further processing (for example, in restaurants), then the brand is not conveyed to the end consumer.



### 2.3 Channels to reach the customers

The main sales take place at outdoor events - fairs, festivals, etc.

The Community takes part in an average of 15 fairs a year.

The sector "fairs / festivals" is a rather specific sales channel, it can be defined as a combined B2B and B2C, since despite the fact that participation in events requires cooperation with the organizers, the direct sale of products is carried out by the manufacturer himself directly to the end customer.

Such a direction as gastronomic / rural tourism is also present in the Community of Izborsk Masters, but is not well developed. The farmsteads accept small groups of tourists.

Sales of HoReCa are developing - these are two restaurants in the Pskov region and one in the Leningrad region.

The Community develops digital way of sales – using social networks vkontakte.com and Instagram.com accepting the orders and showing products at pictures.

## 2.4 Customer relationships

### **Ways of delivering information to clients.**

The Community of Izborsk Masters uses various methods of delivering information about their products to customers:

- Social networks;
- Booklets, business cards and other printed advertising materials;
- "Word of mouth".

Today, according to the information of the Community, "word of mouth" is the most effective way to disseminate information, that is, the majority of new clients appear thanks to it.

We recommended to work for improving the customer awareness.

In addition to resolving current business issues, there is also informal communication in the B2B sector to increase customer loyalty. This can be, for example, congratulations on the holidays of partners or meetings in an informal setting (restaurants, cafes) to resolve any issues or just to establish contacts. All this contributes to the strengthening of business relationships.

In addition to everyday work, there is no informal communication with clients in the Community of Izborsk Masters.

## 2.5 Revenue streams

The main food products sold by the Community of Izborsk Masters are presented below:

**Table. Assortment**

Name of product	Packing	Packing	Wholesale prices, rouble/kg	Sales volume per month	Sales volume, тыс.руб./мес. <sup>1</sup>	Share in total revenue %
Black salt	85 g	Glass jar	1250	65 packings	7	2%
Ale	0,5 l	Glass jar	340(l)	117 bottles	80	26%
Gift gastronomic set	0,7-2 kg	Wooden box	1000	-	18	6%
Raw-pressed butter (flax / hemp)	100ml/ 250 ml	Dark glass bottle	1400(l)/ 3600(l)	-	27	9%
Homemade cheese (caciotta, scamorza, halloumi, mozzarella, feta cheese)	200g/ 500g/ 1000g	No	1100	44 kg	48	16%

As Table above shows, core products account for 59% of total sales. The top positions ale and cheese together account for 42% of sales.

In addition to the key products listed above, the assortment includes various drinks (beer, kvass, cider), bread, sun-dried tomatoes, apple cider vinegar.

As mentioned above, the fellowship offers the buyer handicraft products that also generate income for the organization. The handicraft products produced are combined with food, in particular with drinks, and help in their implementation (for example, it is proposed to purchase a handmade mug for beer).

---

<sup>1</sup> Sales volume per month mentioned above – is an average value per year.

## 2.6 Key resources

The Community of Izborsk Masters has:

- Material resources in the form of production facilities;
- Human resources is a team of people who are interested, involved in the process, have extensive work experience and love their job;
- Intelligent - has its own brand. Intellectual property is not protected as the brand is not registered.

It can be noted that the community is experiencing difficulties with financial resources, and there is also a shortage of human resources and time.

The governance structure of the fellowship is simple. All management, organizational, marketing, and functions of the creative team are assigned to two members of the community, who, in addition to the above, are involved in the production process and transportation of goods.

In the future, to replenish the necessary resources, cooperation with the farmers of the region is possible.

Cooperation with other farmers / producers will allow the Community of Izborsk Masters to replenish all types of key resources, including helping to eliminate problematic issues, namely, replenishing human resources, revising management and organizational issues and, as a result, more efficient use of such a resource as time, expanding production capacity.

## 2.7 Key activities

The Community of Izborsk Masters includes 3 key families that carrying out production, advertising, sales and partly logistics activities.

The key activities of the Community include:

- Production

- Sales
- Tourism

### **Cooperation to expand / improve activities.**

Cooperating with other farmers / producers, the Community of Izborsk Masters can organize more efficient and less costly logistics, expand production and sales, increase a client base, and create a joint marketing strategy.

### **Supporting activities.**

The auxiliary activities of the Community of Izborsk Masters include:

- Marketing;
- Communication with clients;
- Logistics;
- Storage.

All of the above activities are carried out by the Community independently, with the exception of logistics - a third-party company is partially involved in the provision of logistics services.

There are about 15 fairs per year for B2C sales.

Incoming orders are received through WhatsApp and Instagram, orders are delivered 2-3 times per week, for holidays and several times per year for municipality and 1-2 time per month for individual customers from St-Petersburg and Moscow.

## 2.8 Key partnership

Partnerships with a number of organizations can help improve value propositions:

- Government organizations;
- Unified trading platform for the sale of farm products;
- Logistics companies;
- Farmers / producers of the region to unite in order to expand the range of goods / services, reduce the costs of logistics, marketing;
- Information agencies of Pskov (groups in social networks, information sites, mass media, print media, advertising agencies) to promote products and services.

## 2.9 Cost structure

As the main and most significant factors in pricing policy, demand, costs and competitors are the basis for three most common pricing models. Accordingly, when setting the price, the manufacturer can be guided by:

- on demand (demand-oriented pricing);
- competitors (competitive pricing);
- costs (costly, or cost-oriented pricing).

The main pricing models of the Community of Izborsk Masters are customer-oriented (how much they are willing to pay), focused on competitors' prices for similar products. The Community also analyzes costs.

For a clearer orientation in pricing on costs, it is necessary to understand the cost of products, for which it is necessary to organize a clear accounting of costs.

The main pricing model of the described pilot organization is focused on high quality of natural products. They sell unique expensive high quality handmade product produced in small parties. Price is formed of cost price and in accordance with demand.

The cost price is influenced by costs per packing, transportation, electricity and there is an influence of average market value. Margin value is 0-25%.

### **Differences in pricing model (by target customer groups).**

When working with different segments of clients, the pricing model of the Community of Izborsk Masters does not change, the margin included in the product price differs, depending on the type of client and types of products.

#### **2.10 Organization and strategy**

The plans of the Community of Izborsk Masters for the next three years are to double the volume of production and sales.

This is feasible taking into account a number of activities:

- Informal association with other farmers / producers in the region to increase production volumes and reduce costs;
- Creation and official registration of an agricultural cooperative to conduct common activities, it is possible to create a single brand, receive government support;
- Certification of products to expand the circle of customers;
- Analytics and planning;
- Revision of the key customer segments;
- Raising customer awareness;
- Obtaining support from government authorities.

It is recommended to increase sales by expanding the flow of incoming tourists, instead of sales at visiting fairs.

Based on the information and examples provided in the business model developed under the Baltic Sea Food program, the following strategic plan can be drawn up.

### 3 Changes in operational plan

This organization turned out to be the most affected by the pandemic because it was dependent on exhibitions / fairs and they were canceled.

We gained sales from government customers, on electronic platforms to receive government orders.

Increased sales from when visiting individual tourists

A small organization is sensitive to force majeure. For personal reasons, the person employed in the cheese production did not work, and the volumes decreased. Also, during the piloting period, there was a fire on one of the farms, which immediately reduced sales.

There were no fairs in 2020, due to the pandemic there were small groups, only from individual tourists / mini-groups of tourists. As a result, overall sales decreased across all distribution channels.

Positive changes - registered on state sites, which gave a sales growth of 50-60%. Previously, there were one-time orders from the administration, there were 3 orders, so their number increased. In 2019 it was 10% of the total turnover, now under 60% of the total turnover.

### 4 Quantitative results

#### Actual B2B clients of Community of Izborsk Masters

Name of target group of B2B clients	B2B target clients number in 2019, pcs	B2B target clients number in 2020, pcs	Characteristics of clients by size (small/medium/large)	Share in total sales volume, %
HoReCa	2	4	Average	20%

Fairs, culinary / rural tourism	15 pcs per year in average	1 pcs per year	Average	10%
Municipal and public organizations	1	2 (*)	Large	60%
Special stores	1	1	Average	10%

Positive changes - registered on state internet sales sites, which gave a sales growth of 50-60%. Previously, there were one-time orders from the municipal organization, there were 3 orders, so their number increased. While the sales growth in 2019 amounted to 30% of the total turnover, today the sales growth is about 60% of the total turnover.

As you can see from the table above, a reference client has appeared, generating more than 5% of revenue. On the one hand, diversification of the client base is not a bad thing, on the other hand, the disadvantage is the lack of a supporting, reliable client who provides regular purchases and guaranteed cash flow.

There were no fairs in 2020, due to the pandemic there were small groups, and only from individual tourists / mini-groups of tourists. Overall sales were therefore reduced across all sales channels by 30% compared to 2019.

Recommended to prepare for the next year to receive large groups. Working with organized groups requires a change in infrastructure - for example, the construction of sheds, the installation of tables, bathrooms, benches.

(\*) There are more contracts among municipal clients.

4.1.Number of months of the piloting (pcs):	We ask you to put it yourself because you have more correct information about changes of project time.
4.2.Number of B2B clients (pcs):	2019 – 3 target B2B clients 2020 – 6 target B2B clients
4.3.Number of producers involved to the piloting (pcs):	3 producers – Brewery “Krivé” and ceramic workshop “Mars”, Kraft workshop “Dog and cat», Farm house “Syra Mat”

4.4.Number of transactions in total and per months (B2B, and if relevant then separately also B2C, pcs):	No information, because it differs for different customers in different months,
4.5.Approximately how many different products were on sale (pcs):	5 - Black salt, Ale, Gift gastronomic set, Raw-pressed butter (flax / hemp), Homemade cheese (caciotta, scamorza, halloumi, mozzarella, feta cheese)
4.6.Variety of assortment- which product groups (10 categories, yes or no):	Meat - not  Fish and shellfish - no  Fruit -yes  Vegetables - yes  Flour and baking -no  Dairy and eggs - yes  Beverages - yes  Sweets - no  Delicacies - yes  Others – yes
4.7.B2B turnover in total and per months (EUR, if relevant then separately also B2C)	Total:  In accordance with seasons differences we can give total average amount of profit per year:  2019 – 300 thousand roubles  2020 –700 thousand roubles

## 5 Qualitative results / Качественные результаты

### 5.1. Obtaining a quality certificate for products.

Certification for some of the products manufactured is not required (bread, salt).

Certification is required for some of the products, but today this is a big cost, the organization temporarily refused until the volume increased.

### 5.2. Creation of a cooperative.

From December 2019 to March 2020, 3 working meetings were held, during which the composition of the participants, the chairman and the draft charter were determined. At the stage of registration of the cooperative, a self-isolation regime took place - while the work on cooperation has been postponed.

### 5.3. Expansion of partners in B2B

Community of Izborsk Masters became familiar with the state procurement platform Sberbank-AST. An electronic signature is connected. 2 contracts were carried out with the administration of the Pskov region, in the process of implementation - 1 more. In total, 3 state contracts were concluded for 2020.

### 5.4. Study of tourist groups

In the process of receiving small groups of tourists at the farm "Dog and Cat". A small shop is under construction, where it is planned to receive tourists and carry out master classes in baking, ceramics, carpentry, as well as have a common showcase with artisan products.

#### 5.6. Access to HoReCa

Additionally, in the course of the project, cooperation was established with the hotel complex "Podznoeva's Dvor", "Restoration Izborsk".

## 6 Other local food distribution solutions developed in the region

It is recommended to distribute your goods through friendly distribution channels, selling your products to other organizations for assortment, for example, selling black salt and buying willow-tea "Kiprey" instead.

## 7 Conclusions

The range of products has changed, attracting more customers, for example, sun-dried tomatoes have appeared. Due to the increase in volumes, it is recommended to attract external labor.

There was a positive growth in HoReCa - new clients - restaurants and hotels. Significant increase in sales (up to 60%) in the direction of government contracts.

Due to the pandemic, there was a lack of fairs in the region, which led to a decrease in sales.

Some areas were not affected by the pandemic. During the spring-summer period, the flow of tourists has always been low, the main flow of customers resumed in the fall, when the restrictions on tourism were lifted.