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2 September 1993

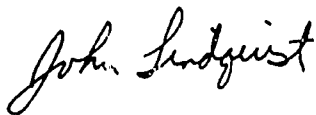
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Center for Development Information and Evaluation  
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Room 209  
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Agency for International Development  
Washington, DC 20523-1802

Dear Sir,

Contract number CCN-0005-C-00-3067-00

Please find enclosed the final report for the above study on food distribution in Russia.

Yours sincerely



John Lindquist  
Vice President and Partner

PN-ABC-380  
45646

**PRIVATIZATION AND RESTRUCTURING OF VEGETABLE WHOLESALERS**  
• Perm Pilot Project

**Final Report**

**Part I**

**2 September 1993**



**THE BOSTON CONSULTING GROUP**

# **PRIVATIZATION AND RESTRUCTURING OF VEGETABLE WHOLESALERS**

**Prepared for**

**Goskomimushestvo**

**and**

**The United States Agency for International Development**

**by**

**The Boston Consulting Group**

# PREFACE

**This slidebook summarizes the findings of the second (implementation) phase of a project designed to address the problems of vegetable distribution in Russia. The project was carried out for Goskomimushestvo and sponsored by The United States Agency for International Development.**

**The project focused on the privatization and restructuring of vegetable wholesalers in Perm and in particular on two “demonstration” enterprises, Permplodovoshprom and Kirovskaya .**

**This slidebook is complemented by a prose report submitted separately to Goskomimushestvo and USAID.**

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# INTRODUCTION

# OVERALL PROJECT OBJECTIVES

Identify bottlenecks in food distribution for  
2 products in each of 2 regions

Diagnose root causes of distribution failure

Propose policy measures at regional and federal level

Initiate pilot projects to address problems identified

Diagnose  
phase  
(completed\*)

Implementation  
phase

\* See diagnostic phase report

# **PRIVATIZATION AND RESTRUCTURING OF PERM VEGETABLE WHOLESALERS**

## **• Implementation Phase Objectives**

**Work with authorities to remove restrictions on privatization of vegetable wholesalers**

**Execute privatization of Permplodovoshprom**

**Devise and implement operational improvements to reduce losses in storage**

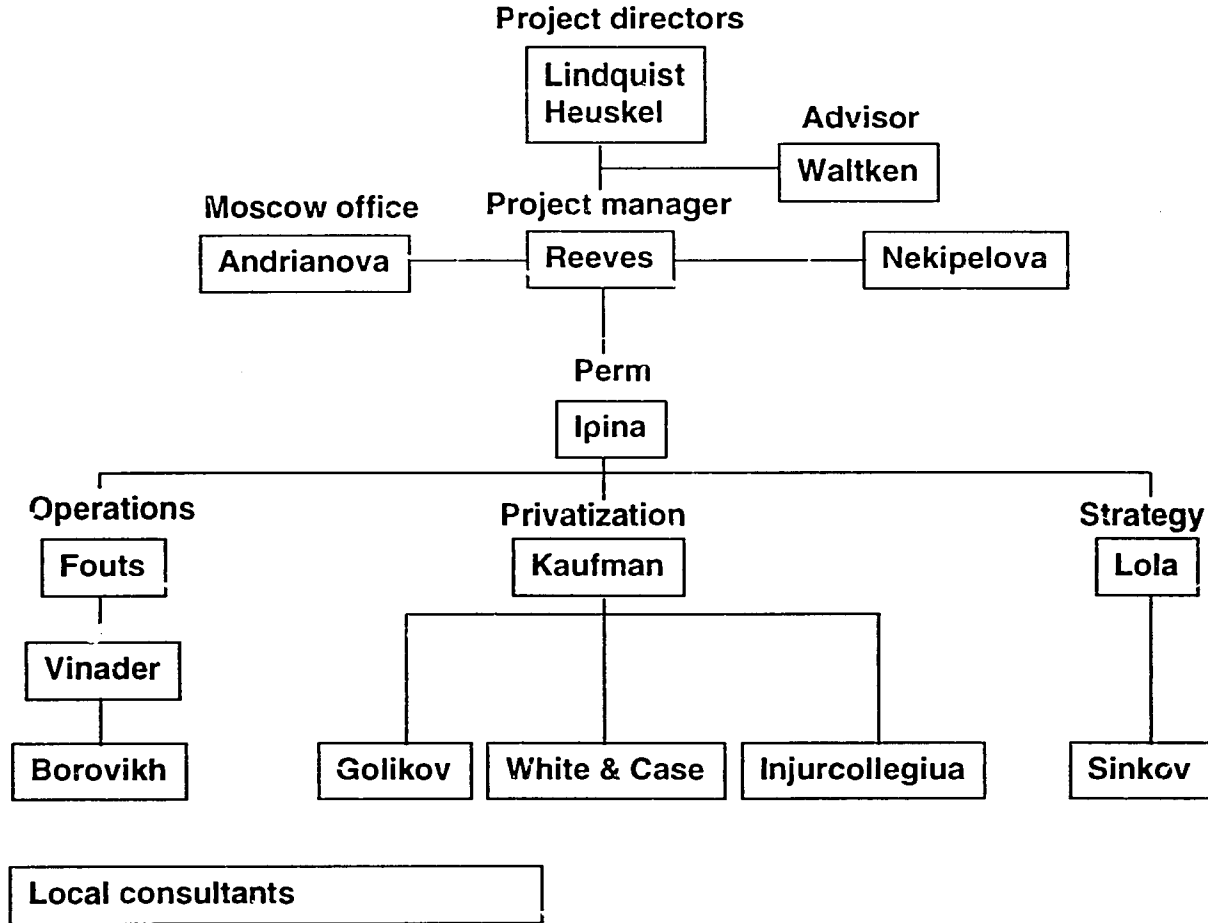
**Repeat for a second wholesaler. depending on progress**

**Expedite privatization transactions for other wholesalers**

**Recommend local and national policies to facilitate wholesaler privatization and restructuring**

**Develop nationwide model and programme for privatization of vegetable wholesalers**

# PROJECT TEAM STRUCTURE



# PRIVATIZATION MECHANISM FOR VEGETABLE WHOLESALERS

# PRIVATIZATION MECHANISM FOR VEGETABLE WHOLSALERS

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## **Obstacles to privatization**

**Subdivision**

**Privatization route choice**

**Privatization conditions**

**Privatization of wholesalers in financial crisis**

**Privatization process**

**Privatization results**



# THE SPECIFIC NATURE OF THE VEGETABLE WHOLESALING BUSINESS INITIALLY OBSTRUCTED PRIVATIZATION

- Perm example

Vegetable supply is politically and socially sensitive  
Current supply system is clearly inadequate  
Local authorities were initially reluctant to privatise

## Anti-privatization actions taken

Prohibition to privatize wholesalers

Delaying the process

Especially concerned about  
wholesalers who supply social  
institutions

Warning that subsidies will not be  
available for privatized companies

## Arguments against privatization

Vegetable supply will collapse

Prices will rise dramatically

Farms will not have access to retail  
market

# DURING THE COURSE OF THE PROJECT VARIOUS OBJECTIONS AND CONCERNS WERE RAISED REGARDING PRIVATIZATION (1)

## Concerns about effect of privatisation

### Change of profile

- Wholesaler will increase sales of other products at the expense of vegetables

Winter & spring supply to the city will be reduced

Wholesalers will not survive without help from the state

- Subsidised loans

## Answer to concerns

- Vegetables become profitable as losses (up to 40% now) are reduced
- Privatization condition can be imposed
  - maintain sales of agreed volume of basic vegetables

- Improved purchasing will increase trade with other regions
- Profit orientation will motivate wholesaler to store
  - prices rise in spring (30%-100%)
- Reduction in losses makes storage profitable
  - losses can be reduced by 15-60%
- Privatisation condition can be imposed
  - maintain sales of agreed volume in winter and spring

- Increase in cash flow from operational and financial improvements will reduce dependence on subsidised loans
  - profit improvement can be >10% of sales

# DURING THE COURSE OF THE PROJECT VARIOUS OBJECTIONS AND CONCERNS WERE RAISED REGARDING PRIVATIZATION (2)

## Concerns about effect of privatisation

Privatisation per se will not make any difference / is not necessary for operational improvement

Farms will stop shipments to wholesalers

- Risk of non-payment due to change of ownership of wholesaler

Wholesalers will be purchased by outsiders / non-experts will run the company

## Answer to concerns

- Privatisation addresses major problem: lack of motivation and incentives
  - most solutions are known but there was no incentive to fix problems
  - eg. storing incompatible products together , low utilization of warehouses, etc

- Wholesalers buy most (90%-100%) supplies using pre-payment
- Privatized wholesalers will improve financial performance and payment ability

- If new owner is not a specialist, it is in his best interests to let a manager-specialist run the company.
  - ownership can be separated from management

# DURING THE COURSE OF THE PROJECT VARIOUS OBJECTIONS AND CONCERNS WERE RAISED REGARDING PRIVATIZATION (3)

## Concerns about effect of privatisation

Farms will not be able to find buyers for their products

Wholesalers will go bankrupt if privatised without own shops

Prices to consumers will increase

Privatised wholesalers will lay people off

## Answer to concerns

- Profile conditions will make wholesalers buy from farms
- Farms now are increasingly selling directly to consumers and retail shops

- Wholesaling can be profitable without own retail shops (15-40% mark up) if restructuring implemented

- Prices are already set by market mechanism (no regulation since Dec 92)
- Higher price wholesalers will lose customers to other wholesalers (13 in Perm)
- Efficiency increase will reduce costs and prices

- Inefficient municipal companies will lose their business to private sector, and will have to lay people off
- Privatised wholesalers will survive and grow

## **VEGETABLES WHOLESALERS MUST BE PRIVATISED**

- **Perm Small Council decision 56 is illegal**

Perm's Decision No. 56 (23.03.1993) states that "the MKI is not to include in the program of privatization for 1993 certain enterprises engaged in trade, societal nutrition, and everyday service..."

According to State Privatization Program of 1992 the following categories of enterprises are subject to mandatory privatization however

- wholesale trade
- retail trade
- societal nutrition
- everyday service

Additionally, Presidential Decree No. 640 (May 8, 1993) specifies that all trade enterprises must be privatized by August 1, 1993

- including vegetable wholesalers

**Decision 56 of Perm Small Council contradicts federal law**

# PRIVATIZATION OF THE WHOLESALE SECTOR SHOULD BEGIN WITHOUT DELAY

- Decision 96 of the Perm Small Council is illegal

Decision 96 states that 60% of the retail shops supplied by a wholesaler must be privatized before the wholesale enterprise itself can be privatized

Decision 96 misinterprets GKI letter OK-16/18 stating that wholesaler privatization should follow privatization of 60% of its retail customers only if:

- the wholesaler has > 50% of storage space of a city

and

- cannot be divided for technical reasons

GKI letter does not apply in Perm since:

- no wholesaler has > 50% capacity
- most retailers have now been privatized

# **WHOLESALEERS SERVING SOCIAL INSTITUTIONS ARE NOT EXEMPT FROM PRIVATIZATION**

- **Attempts to block or impose extra conditions are illegal**

**Local authorities fear that privatized vegetable wholesalers will not supply social institutions**

- **Hospitals, schools and kindergartens**

**Local authorities therefore attempt to block privatization or impose extra product profile conditions, enforcing supply**

- **Both of these measures are illegal\***

**Fundamental assumption that privatized wholesalers will not find social institutions attractive clients is wrong however**

- **Long term contracts**
- **Large and stable purchases**
- **High margins**
- **Already pay market prices**

\* Not listed in law on Privatization  
Source: White and Case

## **A SUPPLY TENDER FOR SOCIAL INSTITUTIONS WOULD ALLAY ADMINISTRATION FEARS**

- **Alternative to illegal privatization conditions**

**City enterprises fear that privatized wholesalers would not supply social institutions**

**In fact, social institutions will be attractive clients to privatized wholesalers**

- **Long term contracts**
- **High and stable volumes**
- **High margins**

**To allay local administration fears, social institutions could issue tender for supply**

- **Lowest price at specific quality level wins tender**

**Would also reduce financial risk for vegetable wholesalers**



# PRIVATIZED COMPANIES CANNOT BE DISCRIMINATED AGAINST BY FEDERAL OR LOCAL AUTHORITIES

## Subsidies and credits:

- “Any form of discrimination against a privatized enterprise in the distribution of subsidies from the budget of the RF is prohibited”
  - Presidential Decree 1486
- “All subjects of entrepreneurial activity have equal access to financial resources regardless of ownership status”
  - Law on Enterprises (25/12/90)

## Taxation:

- All state organs, at all levels, “are forbidden to take actions that discriminate or create preferential conditions for any enterprise ... including differing levels of taxation”
  - Anti-Monopoly Law (23/9/91)

## Property rights:

- “Establishment of privilege or restriction on the exercise of the right of property based upon the status of property as state, municipal, or private is not permitted”
  - Law on Property (24/12/90)

## **Obstacles to privatization**

### **Subdivision**

**Privatization route choice**

**Privatization conditions**

**Privatization of wholesalers in financial crisis**

**Privatization process**

**Privatization results**

## SOME ENTERPRISES NEED TO BE SUBDIVIDED

- Subdivision decision is exclusive right of privatization commission

Necessary criteria	Examples / explanation
<p>1. "Wholesale trade enterprises consisting of several warehouse complexes, territorially separate, are subject to division"*</p> <p>2. Check if entity is composed of independent unrelated businesses</p> <p>3. Check if these businesses are easily separated physically</p> <p>4. Check if subdivision is legal</p>	<p>1. Former "Gorplodovoshtorg" subdivided</p> <p>2. • Wholesaler with pig farms • Wholesaler with building brigade • Wholesaler with cafe • Wholesaler with school cafeterias • Wholesaler with pickling / packing facilities</p> <p>3. • Separate access routes • Electricity, water, gas, etc. can be monitored separately</p> <p>4. • Enterprises sold through tender have the right to buy out any property (after 1 year) held under lease or continue lease for at least 15 years** • Assets to be separated must be put into separate balance sheet • Separated pieces must be privatized also</p>

\* Instructional letter No OK 16/18 from GKI 16/4/1992

\*\* Plan of Privatization 1992

# **PRIVATIZATIONS OF WHOLESALERS TOGETHER WITH THEIR RETAIL NETWORKS CAN BE LEGALLY REVERSED**

**In some cases, torgs were not broken up sufficiently before privatization**

- **Eg. Samara, where largest wholesaler was privatized with 31 retail shops**

**Privatization can be reversed in such cases based on**

- **Non-compliance with Presidential Decree 232**
- **Violation of regulation on holding companies**
- **Violation of anti-monopoly law, if evidence of monopolistic behaviour**

**Reversal of privatization can be initiated by GKI, Anti-Monopoly Committee or the Procurator**

**In practice, this would be a lengthy and difficult process**

- **Beyond timeframe of roll out project**

# **PRIVATIZATION OF WHOLESALERS THAT ARE MULTIPLE SITE ENTERPRISES CAN ONLY BE RE-ENGINEERED IF THERE IS A VIOLATION OF ANTI-MONOPOLY STATUTES**

The GKI letter which called for the break up of warehouse / wholesale organizations by independent site was only an “instructional letter”

- This does not have the rule of law
- Cannot be enforced after privatization

However, if an enterprise is in violation of Anti-Monopoly statutes (greater than 35% market share) the anti-monopoly committee can bring arbitration against the enterprise and seek a break up

# LOCAL AUTHORITIES ATTEMPTED TO RETAIN CERTAIN PARTS OF WHOLESALEERS DURING PRIVATIZATION

## • Examples

Enterprise	Target property	Local authority arguments
Permplodovoshprom	<ul style="list-style-type: none"><li>• Office space located off site in city center</li></ul>	<ul style="list-style-type: none"><li>• Fund for social defense needs building</li></ul>
Kirovskaya	<ul style="list-style-type: none"><li>• Warehouses on main site</li><li>• Unfinished building</li></ul>	<ul style="list-style-type: none"><li>• District administration needed warehouse space</li><li>• Construction used budget subsidies</li></ul>

# **ALL PARTS OF ENTERPRISES MUST BE PRIVATIZED**

- **Forced separation of leased facilities is illegal**

**Authorities wrong to retain parts of enterprises in municipal ownership**

- **It is illegal for the municipal government to not privatize parts of a company going through privatization**
- **If there is subdivision, all pieces must be privatized**

**Forced separation of currently leased facilities from a company undergoing privatization is illegal\***

- **“Owners after privatization have the right to conclude a lease in similar conditions, of not less than 15 years”**
- **“Any changes of the new or current lease agreement can only be made by agreement of both parties”**
- **“New owners have the right to acquire these facilities after one year”**

\* During tender sale, Privatization Program 1992

Source: White & Case

**Obstacles to privatization**

**Subdivision**

**Privatization route choice**

**Privatization conditions**

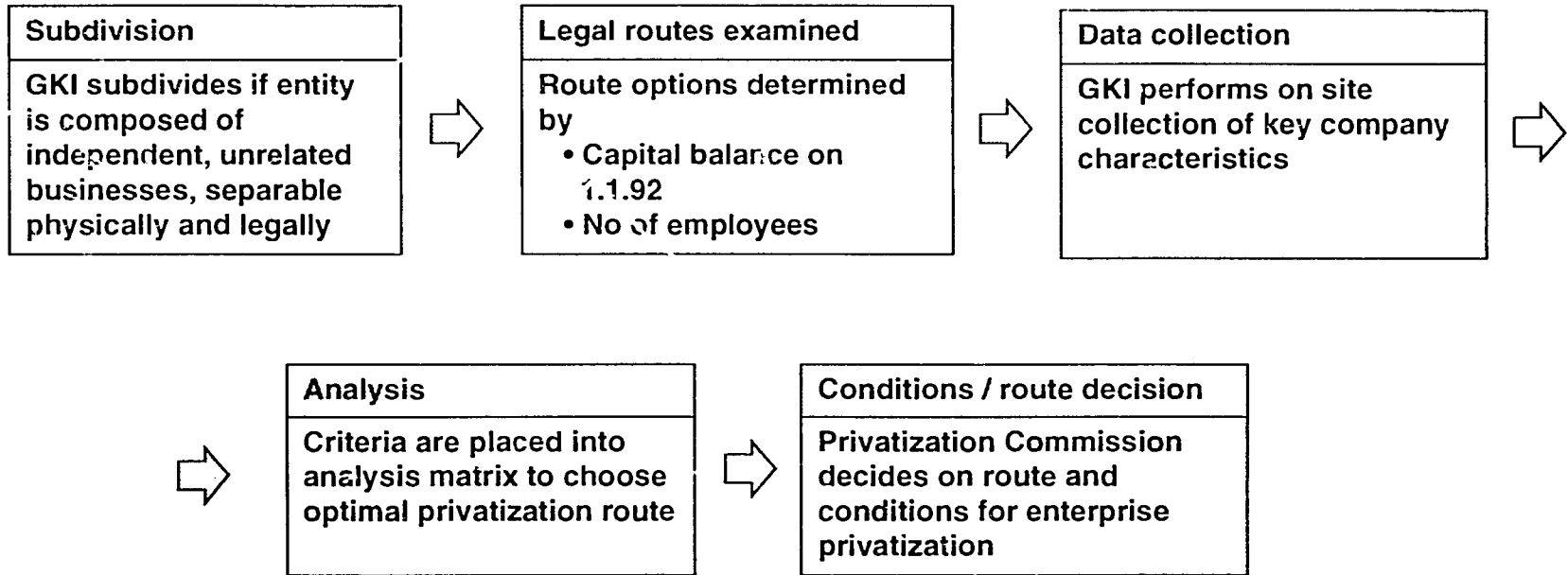
**Privatization of wholesalers in financial crisis**

**Privatization process**

**Privatization results**



# A SIMPLE DECISION PROCESS CAN BE USED TO DETERMINE THE OPTIMAL PRIVATIZATION MECHANISM



# THE ROUTE CHOICE DECISION CAN BE MADE AT FOUR LEVELS

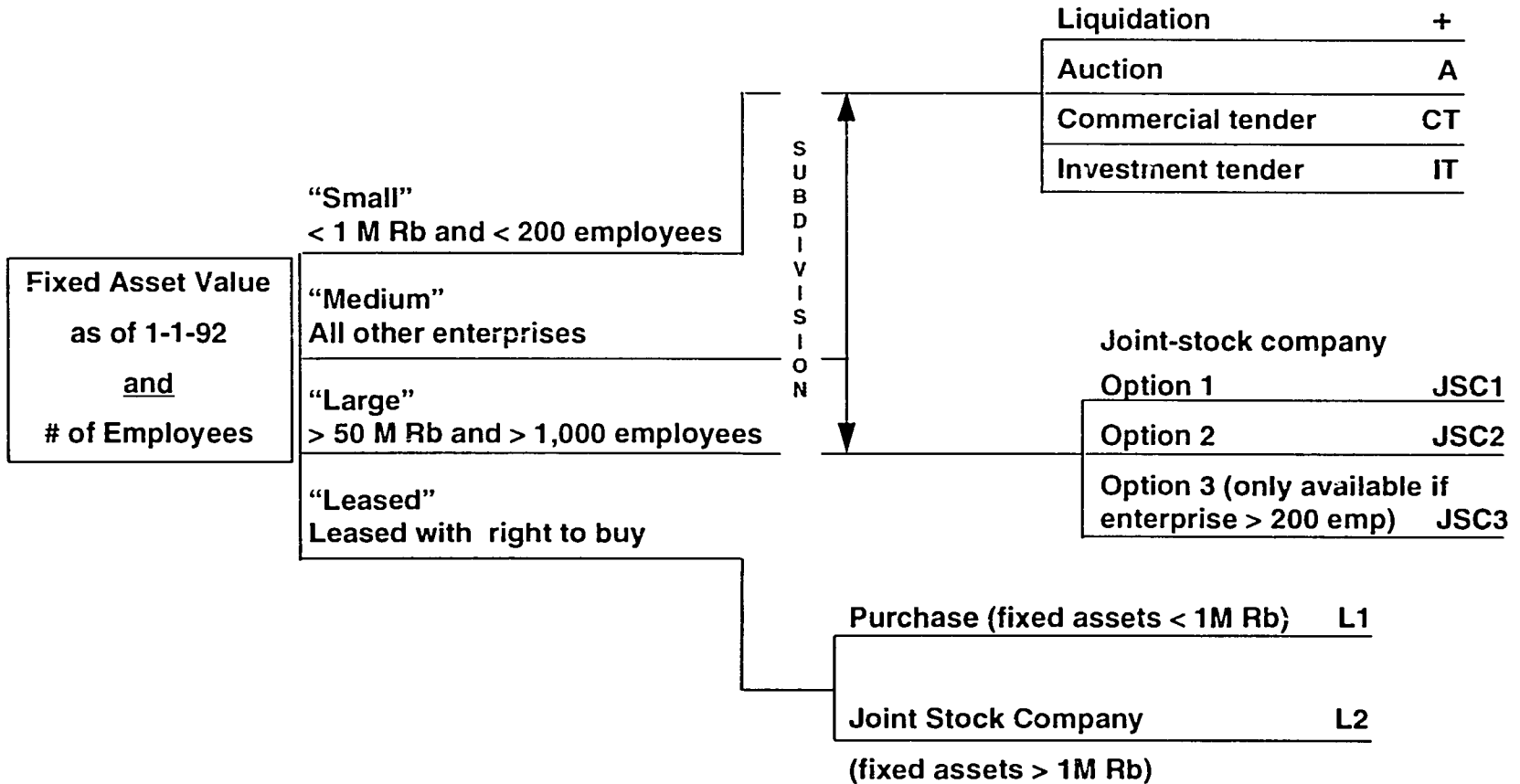
1. Use commercial tender as the preferred route in most cases
2. Route choice determined from summary of typical scenarios
  - Eg. management incompetent
  - Eg. high investment required
3. Route choice determined after qualitative consideration of factors characterising investment need, management competence and local environment
4. Route choice determined after quantitative assesment of factors characterising investment need, competence and local environment



**Detail,  
complexity**

**Appropriate level will depend on specific local circumstances**

# SIZE AND LEGAL STATUS DETERMINE WHICH ROUTES ARE LEGALLY AVAILABLE



## **A COMMERCIAL TENDER IS THE BEST OPTION FOR VEGETABLE WHOLESALER PRIVATIZATION**

**Fast and simple**

- **Ease of replication**

**Transparent and without subjective interpretation required for investment tender**

**Profile condition can be imposed**

**Delivers majority control immediately to new owner**

- **Strong management needed for difficult restructuring decisions**

**Proceeds are maximized from sale**

**A commercial tender delivers control to the owner with maximum speed**

# ECONOMIC VIABILITY OF THE ENTERPRISE IS THE MAIN PRIORITY IN CHOOSING PRIVATIZATION ROUTE

Vegetable wholesalers must radically improve:

- Facility management
- Product handling
- Marketing
- Supply management
- Organizational structure

Therefore strong management is essential for clear, rapid decision making

**Joint Stock options are therefore undesirable**

## **OPTION THREE JSC HAS NOT BEEN UTILIZED VERY OFTEN**

- **Only one example in Perm City**

### **Managers have no interest**

- **Only acquire 20% stock guaranteed**
- **Must put up 200 monthly salaries**
- **No guarantee of gaining full control of enterprise**

### **Workers also have little incentive**

- **Only get 20 % of stock free (compared to 25% in JSC option 1)**
- **Full collective gives up control to smaller group**

**Option 3 is in any case only available to enterprises with > 200 employees, making most vegetable wholesalers ineligible**

# **LOCAL AUTHORITIES WILL INSIST UPON SOME CONDITIONS ON PRIVATIZATION TO ENSURE VEGETABLE SUPPLY**

**Historic and current vegetable supply inefficient and erratic**

- **High losses, poor quality, high prices, poor availability**

**Alternative channels of distribution not yet developed**

**Today, before restructuring, vegetable wholesaling is an unprofitable business**

**Fear that vegetable supply will be undermined by wholesalers switching to alternative products**

**This concern can be addressed by a minimal profile condition**



**Therefore an auction, by definition without conditions, is inappropriate**

# THE OPTIMAL PRIVATIZATION ROUTE IS DEPENDENT UPON THE CHARACTERISTICS OF EACH WHOLESALE ENTERPRISE

- Commercial tender preferred in most cases

Situation	Optimal Priv. Route	2nd order Priv.Route	Undesireable Priv. Route	Conditions
Equipment in very poor condition, uneconomic to repair/invest.	A	-	All others	• Conditions illegal for auction
Investment needed and essential for enterprise survival	IT	CT	JSC 1, 2, 3	• Specify investment condition to address needs of enterprise • Minimal profile condition
Investment needed but not essential	CT	IT	JSC 1, 2, 3	• Possible investment cond. • Minimal profile condition
Minimal investment needed	CT	-	JSC 1, 2, 3	• Minimal profile condition
Management incompetence extreme	CT	IT	JSC 1, 2, 3	• Minimal profile condition
Possible problem with management competence	CT	IT	JSC 1, 2, 3	• Minimal profile condition
Collusion possible between local wholesalers	CT	All others*	-	• Minimal profile condition
Local government "conservative"	CT	All others	-	• Minimal profile condition • Minimal amount of others if their omission will halt privatization

Key	
A	- Auction
CT	- Commercial Tender
IT	- Investment Tender
JSC1	- Joint Stock Var.1
JSC2	- Joint Stock Var.2
JSC3	- Joint Stock Var.3

**Need for speed, transparency and strong management dictate route choice**

\* Alternating routes a possible means to make collusion difficult



## A SIMPLE SET OF COMPANY CHARACTERISTICS DETERMINE THE OPTIMAL ROUTE FOR VEGETABLE WHOLESALER PRIVATIZATION

### Company characteristics

#### Investment needed

- Refrigeration
  - capacity available
  - condition of equipment
- Type of ventilation system
- Insulation level / type
- Extra equipment needed



Investment needed determines what condition on investment may be necessary for enterprise growth and survival

#### Management competence

- Losses of product in storage
- Level of imports from other oblast / regions
- Utilization of warehouse space
  - in comparison to past years
  - in general
- Management reputation
  - city administration
  - GKI



Management competence determines whether desirable that current management should continue. Options which ensure strong/ motivated management gain control are preferred

#### Local environment

- Local government interference / support
- Possibility of collusion with other wholesalers



Local political climate limits which routes are possible and advisable

### Implication

## A WIDE RANGE OF FACTORS CAN BE USED TO DETERMINE INVESTMENT NEEDS

Factors determining investment need
Amount of refrigerated capacity
Condition of refrigeration equipment
Type of ventilation system
Type of insulation
Level of insulation
Equipment needs <ul style="list-style-type: none"><li>• Conveyors, unloaders, etc.</li></ul>
Infrastructure condition <ul style="list-style-type: none"><li>• Roofs, roads, crates</li></ul>

# A WIDE RANGE OF FACTORS CAN BE USED TO DETERMINE MANAGERIAL COMPETENCE

## Factors reflecting management competence

Losses during storage

Imports as % of total sales (from outside oblast)

Warehouse capacity utilization

Reputation / impression

Financial situation

- Debt level
- Profits/losses
- Accounts payable & receivable

General tidyness of facilities

New clients acquired

Level of site activity (are people working?)

Interest in privatization

## **A WIDE RANGE OF FACTORS CAN BE USED TO DETERMINE LOCAL ENVIRONMENT**

### **Factors determining local privatization environment**

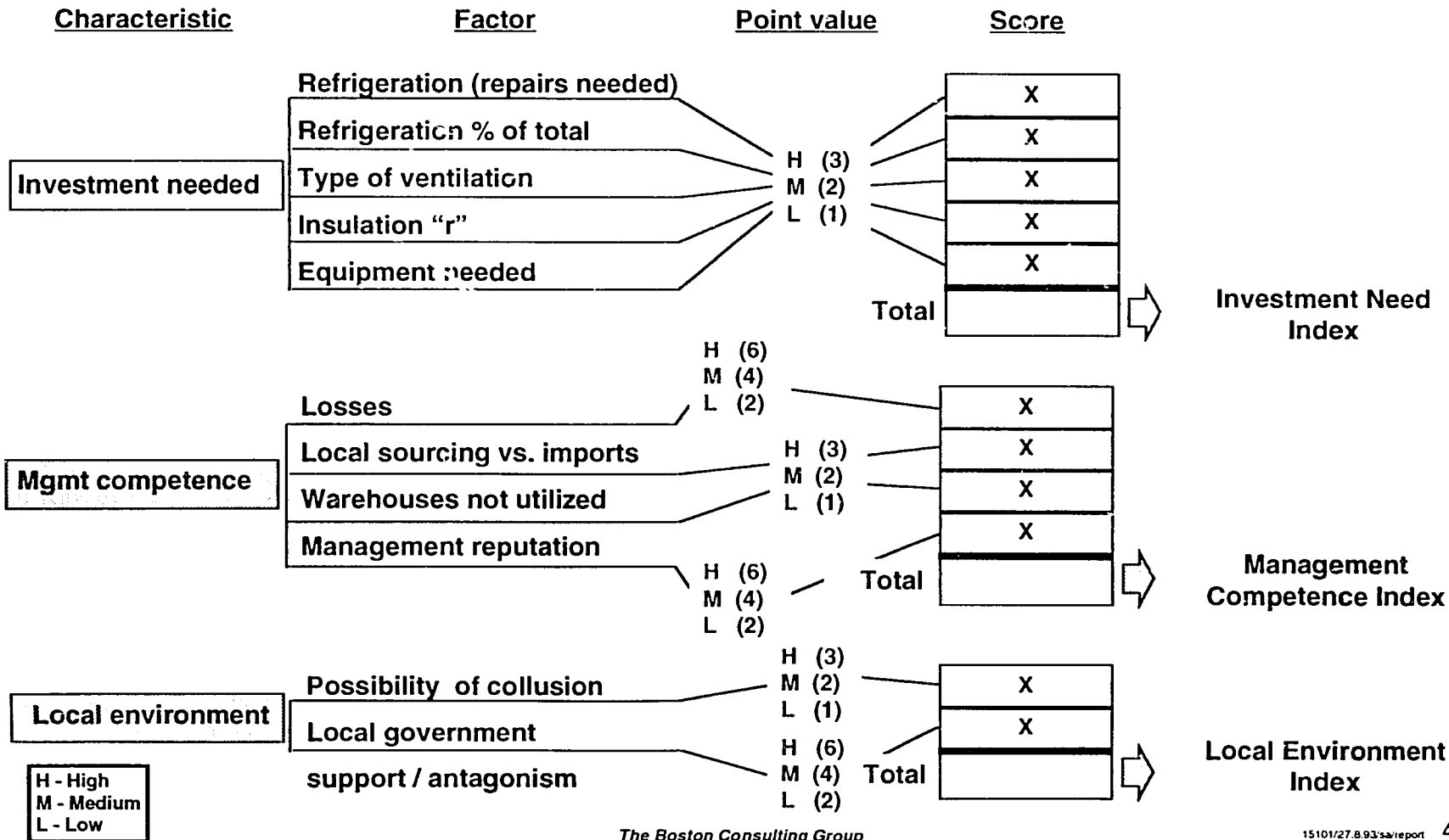
**Cooperativeness of local government in privatization process**

**Possibility of collusion among wholesalers**

**Acceptance of privatization in population**

**Degree of de-monopolization of “torg” or other large wholesalers**

# A DETAILED SCORING SYSTEM CAN BE USED TO ANALYSE MORE PRECISELY THE THREE MAIN CHARACTERISTICS



H - High  
M - Medium  
L - Low

# A SET OF QUESTIONS WILL DETERMINE THE LEVEL OF INVESTMENT NEEDED

## Refrigeration

What % of warehouse space is refrigerated?

- (H) < 20% -> 3 pt.
- (M) 20 - 40% -> 2 pt.
- (L) > 40% -> 1 pt.

What amount (if any) is needed to repair system?

$X = \frac{\text{amount in roubles to repair system}}{\text{total sales in current year (annualized)}}$

- (H)  $X > 3\%$  sales -> 3 pts.
- (M)  $X = 1-3\%$  sales -> 2 pts.
- (L)  $X < 1\%$  sales -> 1 pt.
- (NA)  $X = 0\%$  sales -> 0 pt.

## Ventilation

What type of ventilation system is currently in use at the company?

- (H) roof and doors -> 3 pts.
- (M) roof, doors and fans  
(wall mounted or free standing) -> 2 pts.
- (L) centralized system  
(compressor and ductwork) -> 1 pt.

## Equipment

What are the equipment needs of the enterprise?

- (H) company has no conveyors or loaders -> 3 pts.
- (M) company has only 1 conveyor per 2 warehouses -> 2 pts.
- (L) any other equipment needs -> 1 pt.

## Insulation

What insulation material is used \_\_\_\_\_ ?

How thick is the material \_\_\_\_\_ cm?

Use these figures and attached table to determine "R" value

- (H) "R" value < 10 -> 3 pts.
- (M) "R" value 10-20 -> 2 pts.
- (L) "R" value > 20 -> 1 pt.

(H) - High investment need, (M) - Medium investment need, (L) - Low investment need, (NA) - Not applicable

# RESISTANCE (R) VALUES FOR VARIOUS CONSTRUCTION AND INSULATION MATERIALS FOR POTATO STORAGE

Material	Thickness (cm)	R value/cm
Air space (enclosed by ordinary material)	1	0.48
Air space (facing aluminum foil)	1	1.14
Blanket insulation	1	1.46
Concrete	1	0.03
Concrete block	1	0.05
Expanded polystyrene, moulded (bead board)	1	1.41
Expanded polystyrene, extruded (styrofoam)	1	1.97
Fill insulation		
• shavings or sawdust	1	0.87
• rock wool, mineral or glass fiber	1	1.46
Insulation board, typical fiber	1	1.20
Plywood	1	0.49
Pressed board (wood fiber - hardboard type)	1	0.28
Roofing, roll (asphaltic)	1 layer	0.18
Roofing, metal	1 layer	0.00
Sheathing and flooring (softwood)	1	0.48
Sheathing and flooring (hardwood)	1	0.36
Shingles (asphalt)	1 layer	0.15
Shingles (wood)	1 layer	0.78
Siding, drop	1	0.41
Siding, lap	1	0.41
Urethane foam	1	2.76
Urethane foam, after aging	1	2.36
Window (as commonly used - including air films)	1 pane	0.88

# A SET OF QUESTIONS WILL DETERMINE THE LEVEL MANAGEMENT COMPETENCE

Losses during storage
What amount of vegetables* are lost during storage?
<b>(H)</b> > 30% losses -> 6 pt.
<b>(M)</b> 10 - 30% losses -> 4 pt.
<b>(L)</b> < 10% losses -> 2 pt.

Management reputation
(Comparison to other companies)
What is your impression and / or local reputation of management competence?
<b>(H)</b> bad reputation/poor impression -> 3 pts.
<b>(M)</b> medium reputation -> 2 pts.
<b>(L)</b> minimal problems -> 1 pt.

Import of products
What % of products are sourced not via oblast suppliers?
<b>(H)</b> <10% -> 3 pts.
<b>(M)</b> 10%-30% -> 2 pts.
<b>(L)</b> >30% -> 1 pt.

Warehouse utilization
What % of warehouse space is <u>not</u> utilized** (including renting out)?
<b>(H)</b> > 75% not utilized -> 3 pts
<b>(M)</b> 40%-75% not utilized -> 2 pts.
<b>(L)</b> < 40% not utilized -> 1 pt.

**(H)** - High need for change, **(M)** - Medium need for change, **(L)** - Low need for change

\* Potatoes, cabbage, carrots and beets, September to May

\*\* May to September / average i.e. off season



## A SET OF QUESTIONS WILL DETERMINE THE LOCAL ENVIRONMENT

### Possibility of Collusion

Is there a chance that local wholesalers will attempt collude during privatization process?

- (H)** Yes, obvious signs of collusion visible-> 3 pts.
- (M)** Possible collusion in process -> 2 pts.
- (L)** Many wholesalers, no signs of collusion activity -> 1 pts.

### Local Government support

Is local government interference likely in the process of privatization?

- (H)** Local government resistant to privatization and non JSC variant 2 plans -> 6 pts.
- (M)** Some government resistance to process -> 4 pts.
- (L)** Local government support for quick and economically motivated privatization -> 2 pts.

**(H)** - High support and autonomy, **(M)** - Medium support and autonomy, **(L)** - Low support and autonomy

# COLLUSION BETWEEN VEGETABLE WHOLESALERS IS A POSSIBILITY DURING PRIVATIZATION

- Current legislation must be enforced to prevent this

Scenario
Vegetable wholesalers agree not to bid during auctions to keep price low in exchange for partial ownership in privatized entity or payment

Legislation
<ul style="list-style-type: none"> <li>• Any agreement to raise or lower auction prices is illegal                             <ul style="list-style-type: none"> <li>- Art. 6 Anti-Monopoly Law</li> </ul> </li> <li>• Non-privatized enterprises cannot participate in auctions / tenders                             <ul style="list-style-type: none"> <li>- Art. 9 Law on Privatization</li> </ul> </li> <li>• “Holding companies are illegal in any form in the food sector”                             <ul style="list-style-type: none"> <li>- Regulation on holding companies</li> </ul> </li> </ul>

Scenario
Perm vegetable wholesalers begin acquisition of each other at tender auctions

Legislation
<ul style="list-style-type: none"> <li>• If an entity acquiring another enterprise has &gt; 35% market share* than purchase needs approval of AMC                             <ul style="list-style-type: none"> <li>- Art. 50 Government Regul.</li> </ul> </li> <li>• Non-privatized enterprises cannot participate in auctions / tenders                             <ul style="list-style-type: none"> <li>Art. 9 Law on Privatization</li> </ul> </li> </ul>

\* As defined by Anti-Monopoly Committee

## INDEX SCORES WILL INDICATE WHICH PRIVATIZATION ROUTE IS PREFERRED

Index level	Investment needed	Best*	Second*	Undesirable
> 16	Investment need so high, it is uneconomical	A	–	all others
13 - 16	Considerable need and essential for enterprise survival	IT	CT	JSC1, 2, 3
9 - 12	Investment needed but not essential, <u>possible</u> condition for sale	CT	IT	JSC1, 2, 3
0 - 8	Investment decisions not necessary to be made by privatisation commission, not a factor for decision making	CT	–	all others

Index level	Management competence	Best*	Second*	Undesirable
> 12	Management competence is critically low. High need for empowered, motivated leadership. JSC Option 2 threatens enterprises viability	CT	IT	JSC 1, 2, 3
9 - 12	Possible problem with management situation. JSC options are undesirable	CT	IT	JSC 1, 2, 3
0 - 8	Current management acceptable, CT preferred, but other options not excluded	CT	all others	–

Index level	Local environment	Best*	Second*	Undesirable
> 7	Political climate forces uneconomic decisions, but it is preferable to no privatization	CT	all others	–
3 - 7	Inconclusive: follow other dimensions as guide (investment, management)	CT	IT	JSC 1, 2, 3
0 - 3	Speed and flexibility are possible, transparency of process	CT	–	all others

\* In cases of contradiction between 3 dimensions, the dimension which is graded with the highest point score should dictate the selected route

## MINIMAL INVESTMENT REQUIREMENTS DETERMINED COMMERCIAL TENDER AS THE OPTIMAL OPTION IN ALMOST ALL CASES

- Sverdlovskaya is a possible exception

### Necessary investment

Enterprise	% of refrigerat.	Refrigerat.	Ventil.	Insulat.	Equip.	Score	Privatization Route		
							Best	Possible	Undersirable
Kirovskaya	2	0	1	3	1	7	CT	-	All others
Sverdlovskaya	2	0	3	3	3	11	IT	CT	JSC 1, 2,3
Ordzshonikid**	3	0	2	3	2	10	CT	IT	JSC 1, 2,3
Industrialnaya	1	0	1	1	1	4	CT	-	All others
Motovilikh.	1	3	1.5	3	1	9.5	CT	IT	JSC 1, 2,3
Yunost	2	0	1	?	1	4 +	CT	-	All others
Obshepit	3	0	1	3	1	8	CT	-	All others
GKP	1	0	3	3	1	8	CT	-	All others
Kirovskaya 2	2	0	2	3	2	9	CT	-	All others
Kod*	2	0	2	3	2	9	L1	-	-
PPOP	1	0	1	3	3	8	CT	-	All others
Nagorny***	?	?	?	?	?	?	?	?	?

\* Lease and ≤ 1 M fixed assets - only buy out is possible

\*\* ≤ 1 M fixed assets - JSC unavailable

\*\*\* Uncooperative in supplying data

## THE NEED TO EMPOWER MANAGEMENT DETERMINED COMMERCIAL TENDER AS THE OPTIMAL OPTION

Management competence
-----------------------

Enterprise	Losses	Imports	Utiliz.	Reputation***	Score	Privatization Route		
						Best	2nd	Undersirable
Kirovskaya	6	2	2	2	12	CT	IT	JSC 1,2,3
Sverdlovskaya	6	2	2	6	16	CT	IT	JSC 1,2,3
Ordzhonikid**	4	2	2	2	10	CT	IT	JSC 1,2,3
Industrialnaya	4	3	2	2	11	CT	IT	JSC 1,2,3
Motovilikh.	4	3	2	6	15	CT	IT	JSC 1,2,3
Yunost	4	3	1	6	14	CT	IT	JSC 1,2,3
Obshepit	4	3	2	4	13	CT	IT	JSC 1,2,3
GKP	4	3	2	4	13	CT	IT	JSC 1,2,3
Kirovskaya 2	4	2	1	4	12	CT	IT	JSC 1,2,3
Kod*	4	2	2	2	10	L1	-	-
PPOP	6	2	2	2	12	CT	IT	JSC 1,2,3
Nagorny****	?	?	?	?	?	?	?	?

- \* Lease and ≤ 1 M fixed assets - only buy out is possible
- \*\* ≤ 1 M fixed assets - JSC unavailable
- \*\*\* Estimated by expert group
- \*\*\*\* Uncooperative in supplying data

## LOCAL CONDITIONS IN PERM ALLOWED FOR THE ECONOMICALLY OPTIMAL ROUTE CHOICE TO BE SELECTED

<b>Local conditions</b>
-------------------------

Enterprise	Administration support	Collusion	Score	Privatization Route		
				Best	2nd	Undersirable
Kirovskaya	4	2	6	CT	IT	JSC 1,2,3
Sverdlovskaya	4	2	6	CT	IT	JSC 1,2,3
Ordzshonikid**	4	2	6	CT	IT	JSC 1,2,3
Industrialnaya	4	3	7	CT	IT	JSC 1,2,3
Motovilikh.	4	2	6	CT	IT	JSC 1,2,3
Yunost	4	2	6	CT	IT	JSC 1,2,3
Obshepit	4	1	5	CT	IT	JSC 1,2,3
GKP	4	2	5	CT	IT	JSC 1,2,3
Kirovskaya 2	4	2	6	CT	IT	JSC 1,2,3
Kod*	4	2	5	L1	-	-
PPOP	4	3	7	CT	IT	JSC 1,2,3
Nagorny***	?	?	?	?	?	?

\* Lease and - only buying is possible

\*\* ≤ 1 M fixed assets - only buying is possible

\*\*\* Uncooperative in supplying data

**Obstacles to privatization**

**Subdivision**

**Privatization route choice**

**Privatization conditions**

**Privatization of wholesalers in financial crisis**

**Privatization process**

**Privatization results**

# **PRIVATIZATION CONDITIONS ARE OFTEN DEVELOPED WITHOUT CONSIDERATION OF LAW OR ECONOMIC RATIONALE**

**Privatization commission develops conditions in “bargaining atmosphere”**

- **Conservative members suggest very stringent conditions, opposed by progressives**
  - **regardless of law or economics**
- **Goal of conditions is usually unclear**
  - **often simply to preserve control**

**District and Main City Council deputies follow same pattern**

- **Add conditions that are illegal**
- **Little thought to practicality or economic rationale**

**Management attitude variable but generally not economically driven**

- **Generally oppose strict conditions**
- **In some cases, strict conditions favoured to discourage competitive bidders**



**FOR TENDERS\* A LIMITED AND SPECIFIC CONDITION ON PROFILE MAY BE NECESSARY TO ENSURE VEGETABLE SUPPLY**

Preferred condition	Rationale
<ul style="list-style-type: none"> <li>• 50-60% of core vegetable sales** should be retained</li>   <li>- measured in <u>tons</u> sold for <u>sales to humans</u></li>   <li>- condition to be imposed for maximum of 3 years</li>   <li>- with a review option that would allow for a decrease in % based on demand in subsequent years</li> </ul>	<ul style="list-style-type: none"> <li>• A % higher than 60% would be burdensome for the enterprise due to:               <ul style="list-style-type: none"> <li>- increasing direct farm sales</li> <li>- unrealistic sales in past years due to planned economy</li> </ul> </li>   <li>• Measuring in tons allows for a guarantee of specific amounts to be sold in the city. It motivates enterprise to reduce losses in storage that are disposed of as sales for fodder.</li>   <li>• A 3 year condition will give sufficient time for market forces to develop and stabilize vegetable supply</li>   <li>• Allows trade and agricultural patterns to be taken into account in subsequent years</li> </ul>

\* Conditions illegal for joint stock companies

\*\* Percentage sales of potatoes, carrots, cabbages, beets in recent 1-3 years to humans

## MANY TYPES OF PRIVATIZATION CONDITIONS THAT HAVE BEEN SUGGESTED ARE ILLEGAL OR UNDERSIRABLE

Type	Condition	Legal?	Why undesirable ?
Profile	<ul style="list-style-type: none"> <li>• 100% retention of current tonnes product range                             <ul style="list-style-type: none"> <li>- 3 yrs</li> <li>- 5 yrs</li> <li>- 10 yrs</li> </ul> </li> <li>• x% of historic volume to be sold in a specific season (eg. first half of year)</li> <li>• x% turnover in rubles to come from specific products                             <ul style="list-style-type: none"> <li>- 3 yrs</li> <li>- 5 yrs</li> <li>- 10 yrs</li> </ul> </li> <li>• x amount of product (veg/fruit) must be stored each year</li> <li>• Sales condition based on total sales (including to farms for fodder)</li> </ul>	<ul style="list-style-type: none"> <li>• Yes</li> <li>• No**</li> <li>• No**</li> <li>• No*</li> <li>• Yes</li> <li>• No**</li> <li>• No**</li> <li>• No</li> <li>• Yes</li> </ul>	<ul style="list-style-type: none"> <li>• Wholesalers are being bypassed in supply chain by farms</li> <li>• A profile condition that is too restrictive will not allow entrepreneurial activity</li> <li>• Sales should be based on demand, not planned supply</li> <li>• Restricts ability to enter new businesses</li> <li>• Sales are important, not what is stored in warehouse</li> <li>• Disincentive to reduce losses</li> <li>• Sales to humans important. Reduces incentive to cut losses and improve operations</li> </ul>
Investment	<ul style="list-style-type: none"> <li>• Specific investment obligation</li> </ul>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>	<ul style="list-style-type: none"> <li>• Privatization commission not qualified to judge investment needs. Tendency to overestimate needs</li> </ul>
Employment	<ul style="list-style-type: none"> <li>• Hold employment at 100% for 1yr</li> </ul>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>	<ul style="list-style-type: none"> <li>• New owner should decide his staffing needs, old staffing not economically rational</li> </ul>
Activities	<ul style="list-style-type: none"> <li>• Require sales to social institutions (not on B/S)</li> <li>• Require specific goods be provided to social institutions</li> </ul>	<ul style="list-style-type: none"> <li>• No</li> <li>• No</li> </ul>	<ul style="list-style-type: none"> <li>• All social institutions pay full price for goods, no need to dictate client list</li> <li>• Demand of goods should dictate supply levels and variety</li> </ul>

\* Perm GKI believes this conditions to be legal

\*\* Illegal due to Decree 640 / 1108

Legal source: According to White & Case

# **PROFILE CONDITIONS SHOULD BE ON SALES RATHER THAN STORAGE VOLUME**

**Losses in storage currently a significant proportion of purchases**

**Planned operational improvements will significantly reduce losses**

**A lower storage volume will therefore be required to deliver the same sales**

**A condition on storage volume would therefore be a disincentive to improve efficiency**

**A condition on storage volume also does not allow for a paradigm shift towards a more “western” pattern**

- **More storage on farms**
- **A higher proportion of product traded between regions**

# **PROFILE CONDITIONS SHOULD EXCLUDE SALES OF SPOILED PRODUCTS TO FARMS**

**Currently high losses occur in storage**

**Such products are often sold to farms at low prices**

**With reduced storage losses such sales would be reduced**

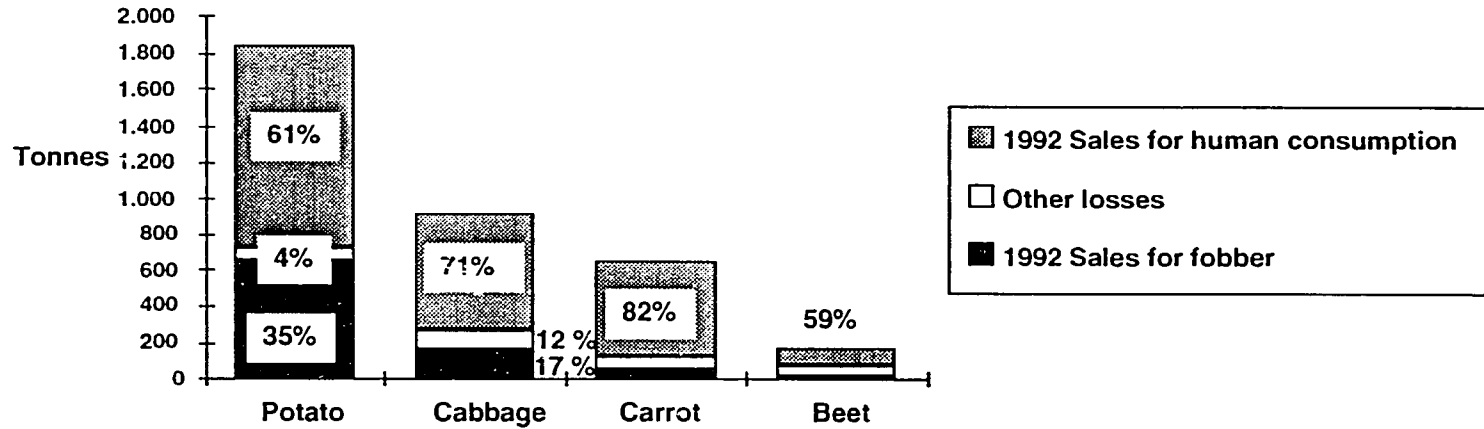
**Profile conditions should therefore exclude farm sales**

**The ratio of losses to sales varies according to season**

- **Any condition on seasonality should exclude farm sales specific to that season**

# SALES FOR FODDER CAN CONSTITUTE A HIGH PROPORTION OF TOTAL SALES

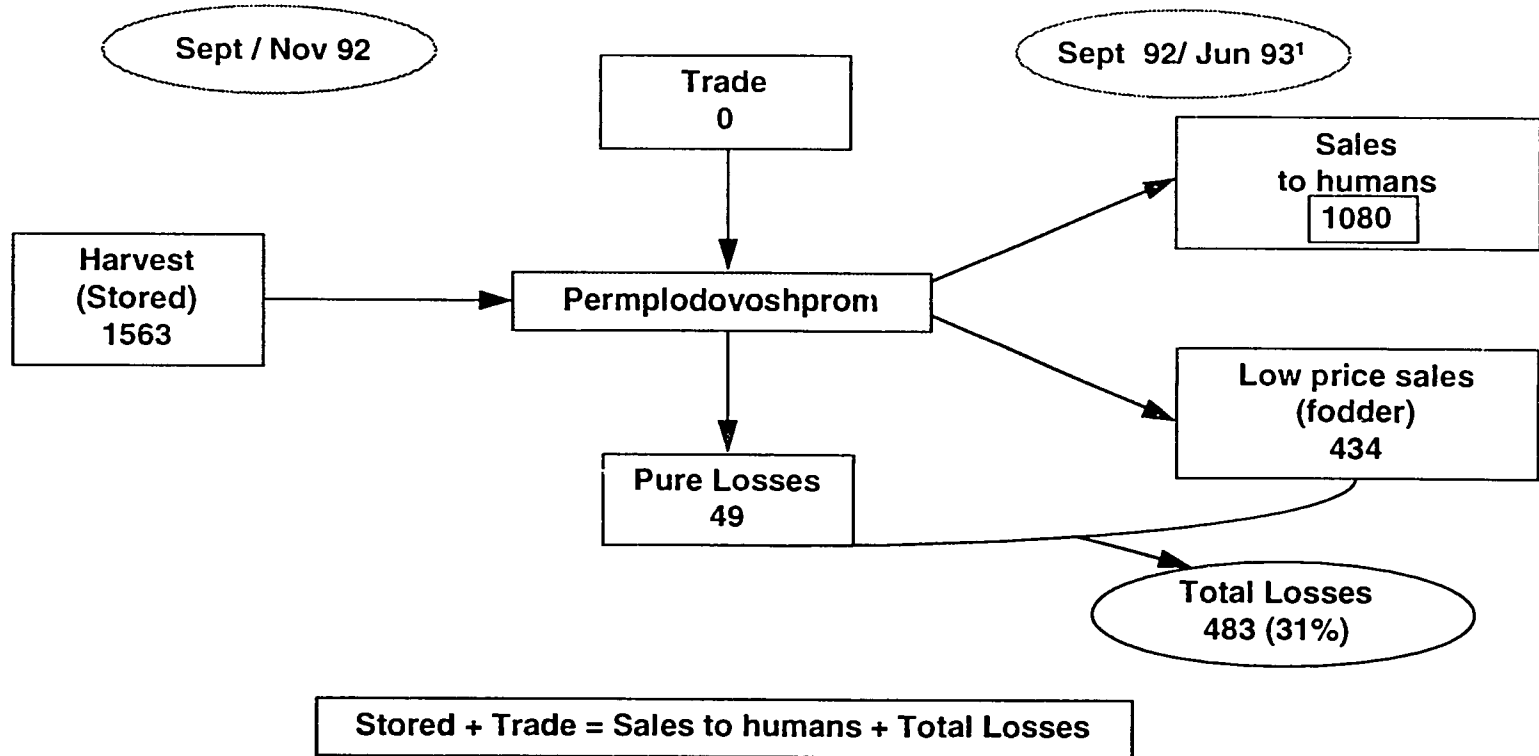
- Example: Perm vegetable wholesaler



Other losses are determined as :  $\text{Inventory (beg of year)} + \text{Purchases} - \text{Sales (Human and Fodder)} - \text{Inventory (end of year)} = \text{Other losses}$   
 Other losses may be due to drying, dirt, rotting, theft etc.

# PROFILE CONDITION SHOULD BE PLACED ON HUMAN SALES, NOT TOTAL SALES OR STORAGE

- Example of Perm vegetable wholesaler, potatoes

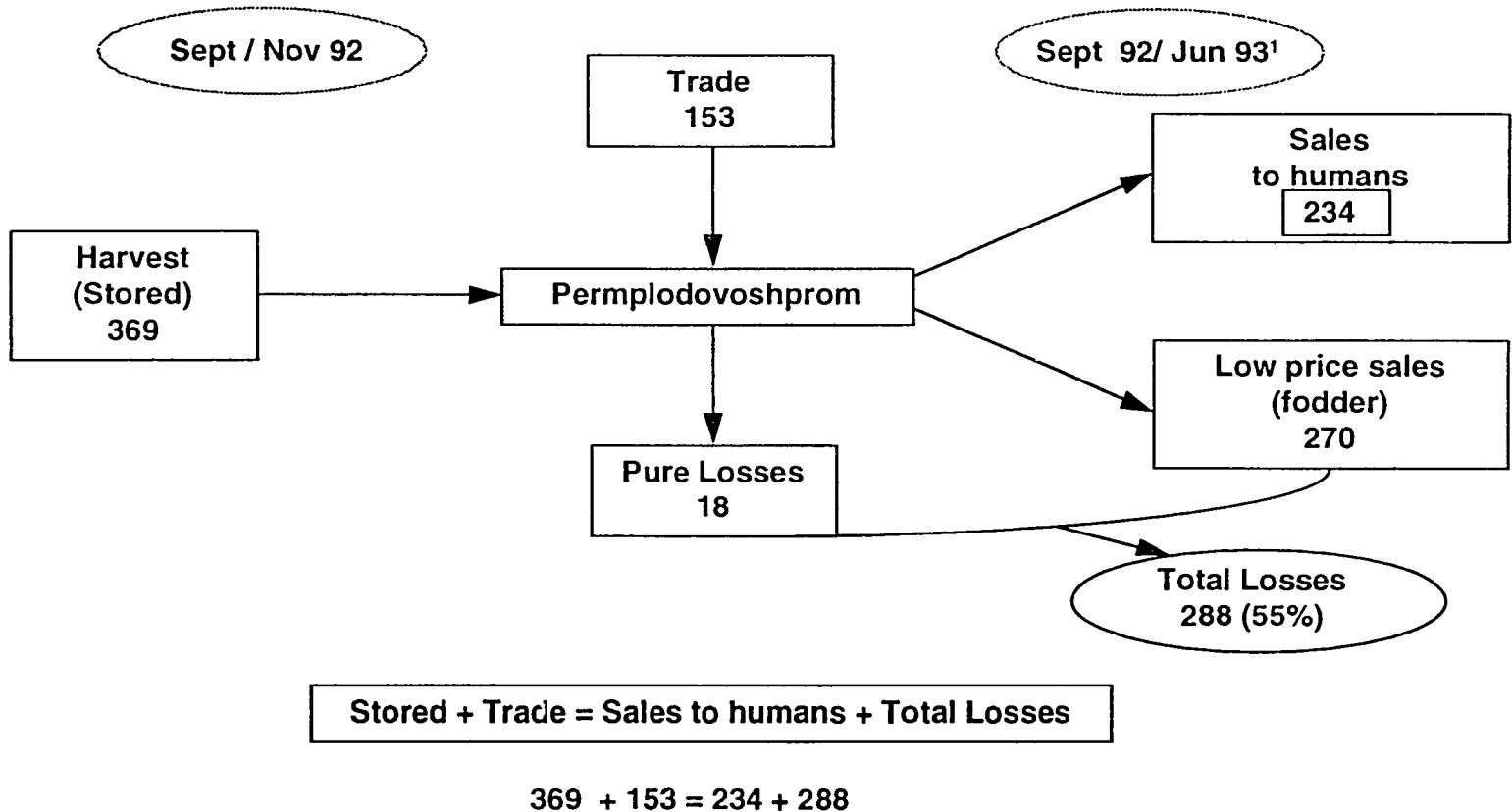


$$1563 = 1080 + 483$$

<sup>1</sup> Some figures are estimated due to lack of data May / Jun 1993

# PROFILE CONDITION SHOULD BE PLACED ON HUMAN SALES, NOT TOTAL SALES OR STORAGE

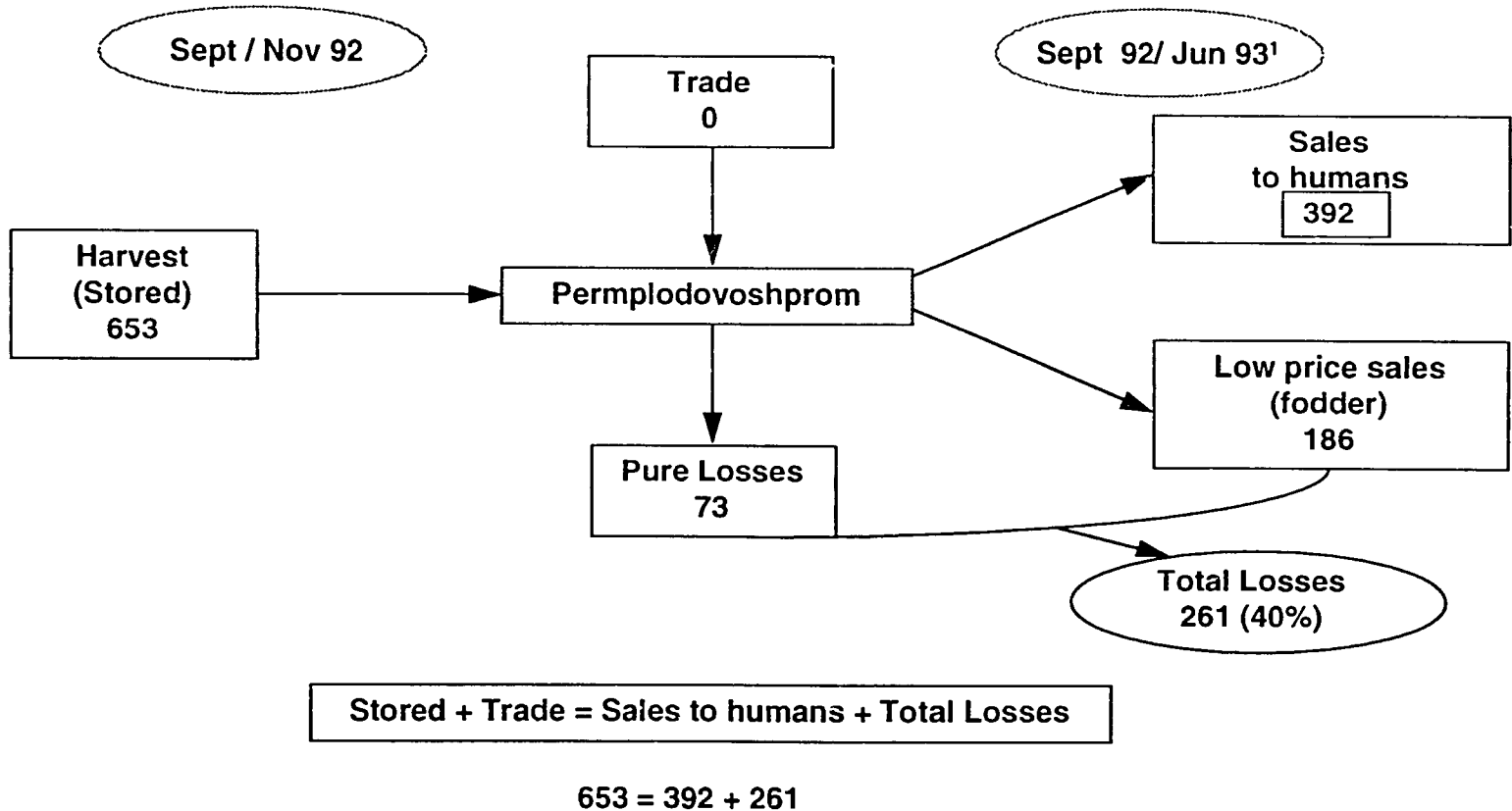
- Example of Perm vegetable wholesaler, carrots



<sup>1</sup> Some figures are estimated due to lack of data May / Jun 1993

# PROFILE CONDITION SHOULD BE PLACED ON HUMAN SALES, NOT TOTAL SALES OR STORAGE

- Example of Perm vegetable wholesaler, cabbage

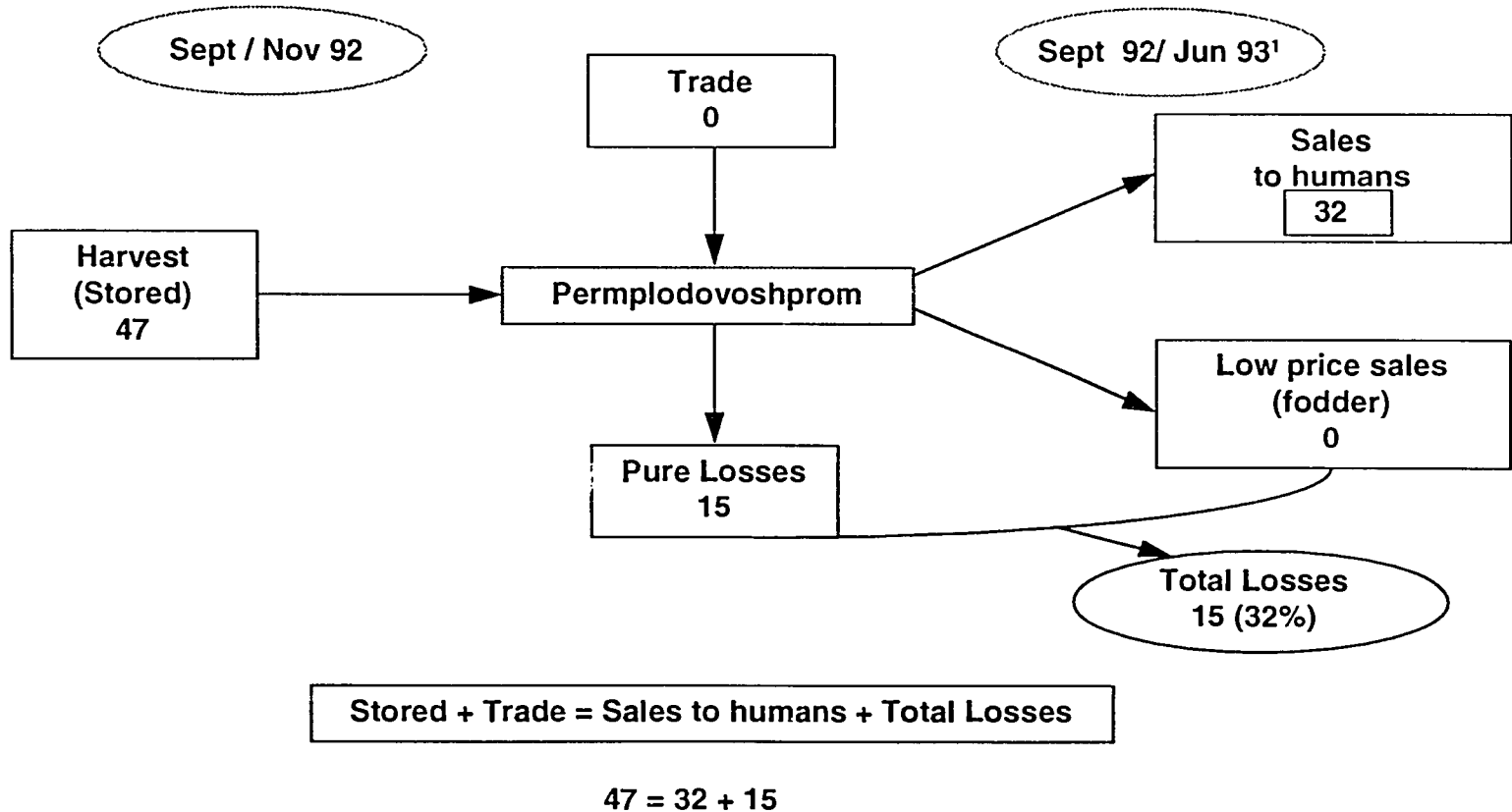


<sup>1</sup> Some figures are estimated due to lack of data May / Jun 1993



# PROFILE CONDITION SHOULD BE PLACED ON HUMAN SALES, NOT TOTAL SALES OR STORAGE

- Example of Perm vegetable wholesaler, beets



<sup>1</sup> Some figures are estimated due to lack of data May / Jun 1993

# INVESTMENT CONDITIONS ARE APPLICABLE ONLY IN VERY LIMITED CASES

An investment condition is applicable:

- If investment is economically rational
- And imperative to enterprise survival as a fruit/ vegetable wholesaler

In most cases new owner should have the right to make own investment decisions however

- Privatization commission not qualified to determine investment needs and financial impact
- Strong tendency to overestimate the investment needs of vegetable wholesalers

# **CONDITIONS ON PROFILE CAN BE HELD FOR THREE YEARS BUT RESTRICTIONS ON SEASONALITY OF SALES ARE NOT PERMISSIBLE BY FEDERAL LAW**

## **• Commercial tender**

**GKI provisional regulations set the possible conditions\***

- **“Keeping commitments to produce specific goods, products, services, and preserving profile for a term to be determined by privatization plan”**
- **“Maintaining existing personnel levels and preserving existing social provisions for up to one year”**
- **“Continuing the bidder’s obligation with respect to investments in purchased property during the first year after sale”**
- **“Funding up to one year for social facilities that are a part of the enterprise slated for privatization”**

**Presidential Decree further defines the period of profile / conditions**

- **“Enterprises sold through commercial or investment tender must hold a profile of selected / specific goods, for 3 years with demand for sold goods taken into account”**

– **Presidential Decree N 640 (May 8, 1993)**

**However neither regulation allows for the imposition of conditions on seasonality of sales**

- **“Other than those conditions enumerated in the privatization program no other conditions may be added”**

– **Presidential Decree N 640**

- **“Conditions not stipulated shall not be permissible”**

– **GKI Provisional Requirements\***

\* Approved by Presidential Decree 66 (Jan 29, 1992)

## EXAMPLE OF RECOMMENDATION TO PRIVATIZATION COMMISSION FOR KIROVSKAYA

- Only a simple product profile condition needs to be imposed

### Profile

- 50-60% condition on maintaining volume of commodity vegetables
  - reasonable for city and sustainable for the company
  - condition should not be unnecessarily complex

### Employment

- Kirovskaya requires significant restructuring
- Management should be free to determine size and structure of workforce

### Investment

- No significant operational investment necessary
- Utilization of existing capacity is low

### Supply to social institutions

- No condition on sales to social institutions is necessary
  - social institutions pay market prices for all products
  - social institutions are attractive clients for privatized wholesalers

## **LOCAL ADMINISTRATION INITIALLY BELIEVED THAT A PRODUCT PROFILE CONDITION WAS UNENFORCEABLE**

- **Proposal that purchasing and storage conditions also necessary**

**Both City Council and Property Fund can enforce profile conditions\***

- **State Property Fund is empowered to enforce purchasers compliance with tender conditions**
- **Council of Peoples' Deputies has the right of appeal to a court to annul a privatization by tender if conditions are not met**

**"A deal for acquisition is void if the conditions of the privatization tender are violated"**

**- Article 30 Law on Privatization**

\* Law on Privatization July 3, 1991

Source: White & Case

# **PROFILE CONDITIONS COULD BE UNENFORCEABLE IF ASSET SALE AND TRANSFERABILITY OF PROFILE CONDITIONS ARE NOT ADDRESSED IN THE PURCHASER-SELLER AGREEMENT**

**After privatization, enterprises are free to dispose of assets**

**This could jeopardize ability to fulfil profile conditions**

- **Profile conditions are not automatically transferable on asset disposal**

**Asset sale should therefore be addressed in purchaser-seller agreement**

- **New buyer inherits profile condition related to proportion of warehousing space acquired**
- **Or property fund approves warehouse disposals**

**Obstacles to privatization**

**Subdivision**

**Privatization route choice**

**Privatization conditions**

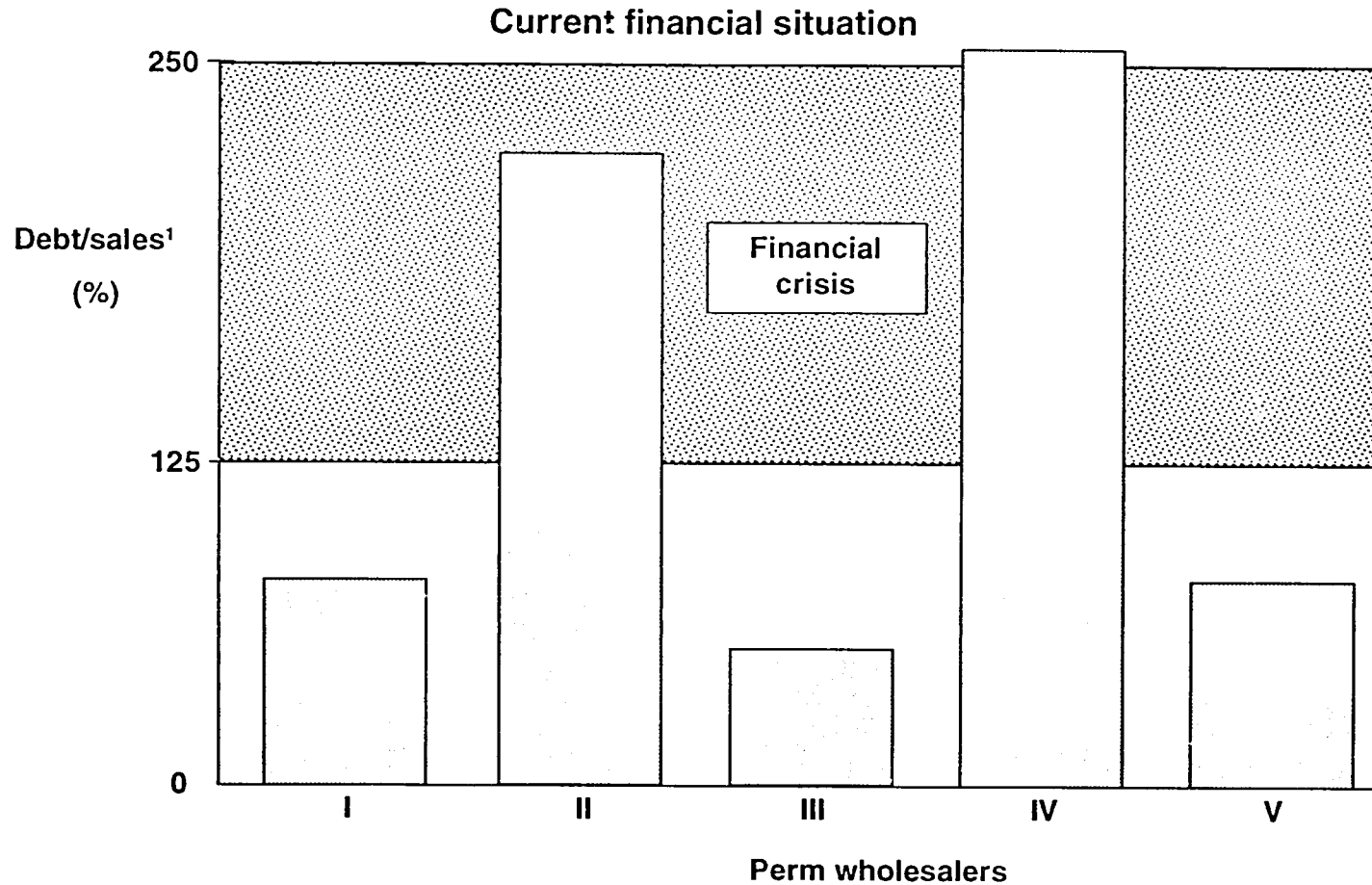
**Privatization of wholesalers in financial crisis**

**Privatization process**

**Privatization results**

# FINANCIAL CRISIS IS COMMON AMONG WHOLESALERS

- 2 out of 5 largest wholesalers are in financial crisis

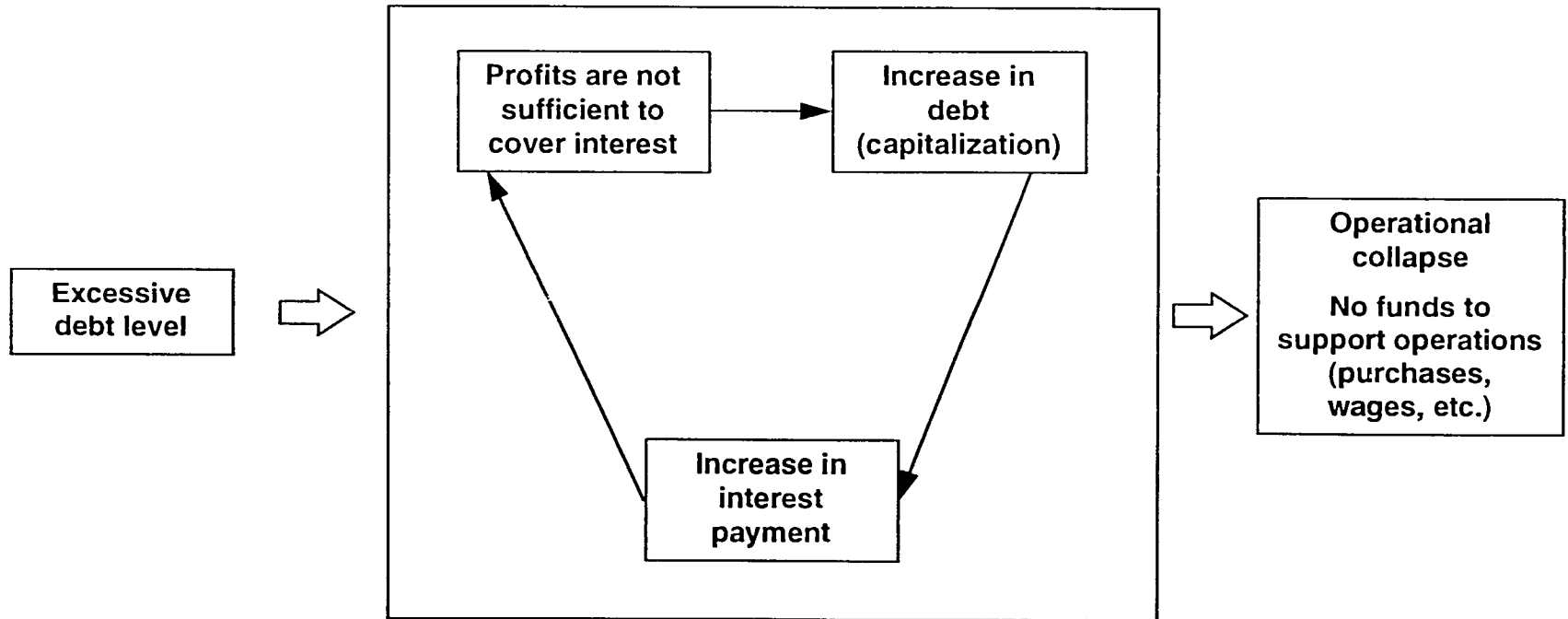


<sup>1</sup> Average expected monthly sales over next 3 months

Source: BCG Analysis



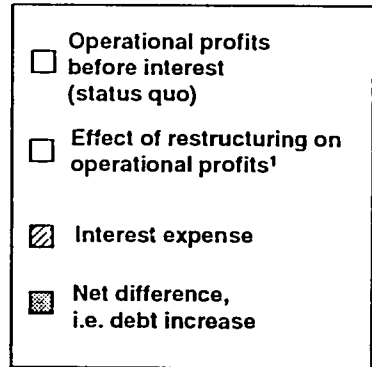
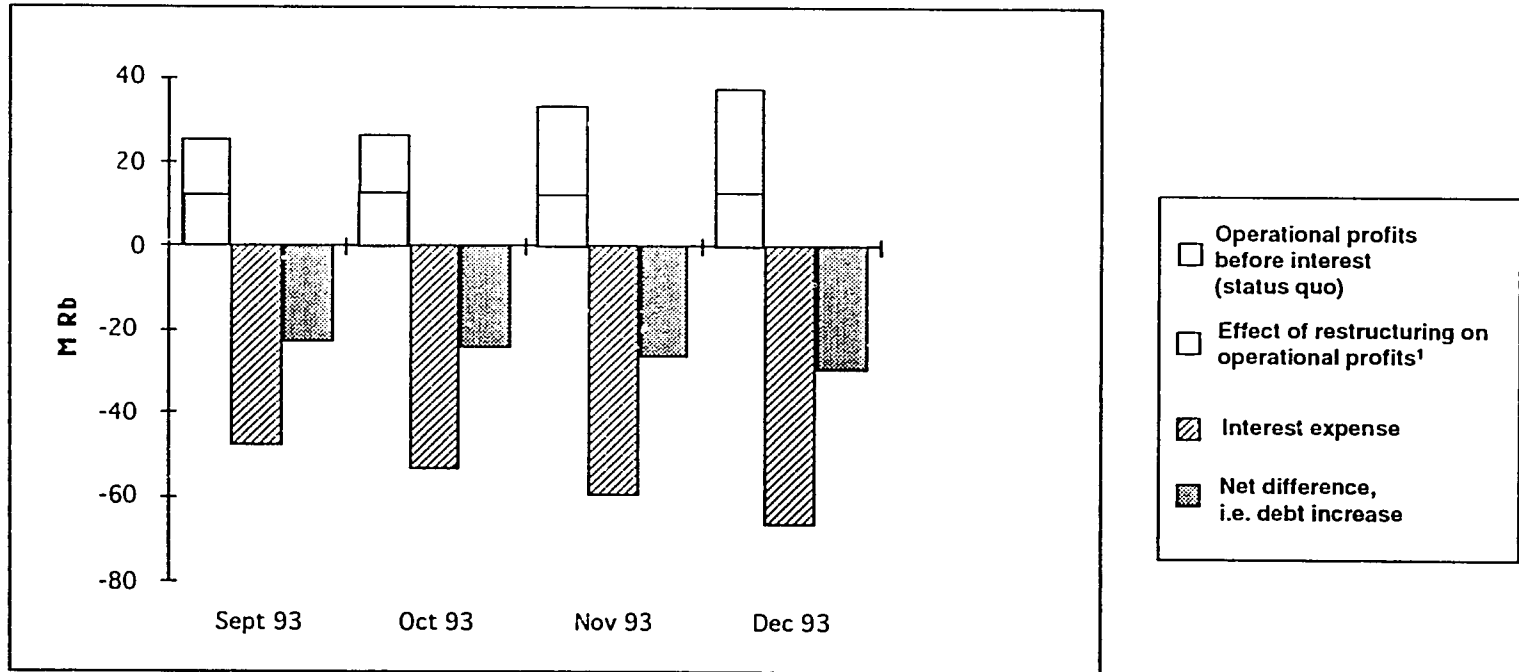
# FINANCIAL CRISIS LEADS TO OPERATIONAL COLLAPSE



Source: BCG Analysis

# INCREASE IN OPERATIONAL PROFITS FROM PRIVATIZATION AND RESTRUCTURING IS NOT SUFFICIENT TO PREVENT COLLAPSE

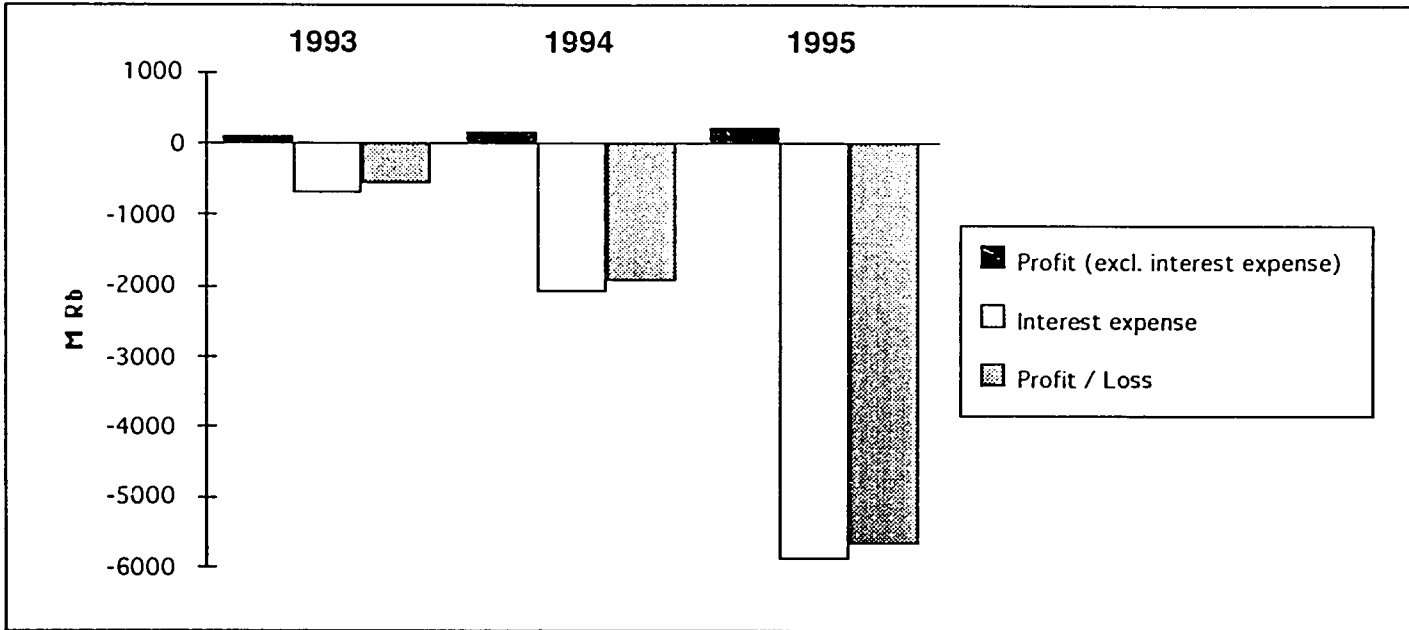
• Example of large Perm wholesaler



<sup>1</sup> Optimistic estimates of impact of marketing, operational and financial improvements

# ACUTE FINANCIAL CRISIS WILL LEAD TO OPERATIONAL COLLAPSE

- Example of large Perm vegetable wholesaler



Source: BCG Analysis

# OPERATIONAL COLLAPSE OF LARGE WHOLESALERS COULD CAUSE DISRUPTION OF VEGETABLE SUPPLY

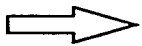
Major wholesalers supply high share of basic vegetables

- Share is particularly high in November - April
- Direct sales low after harvest season

New entry limited by need to build or acquire expensive facilities

Quick redeployment of facilities unlikely upon financial failure

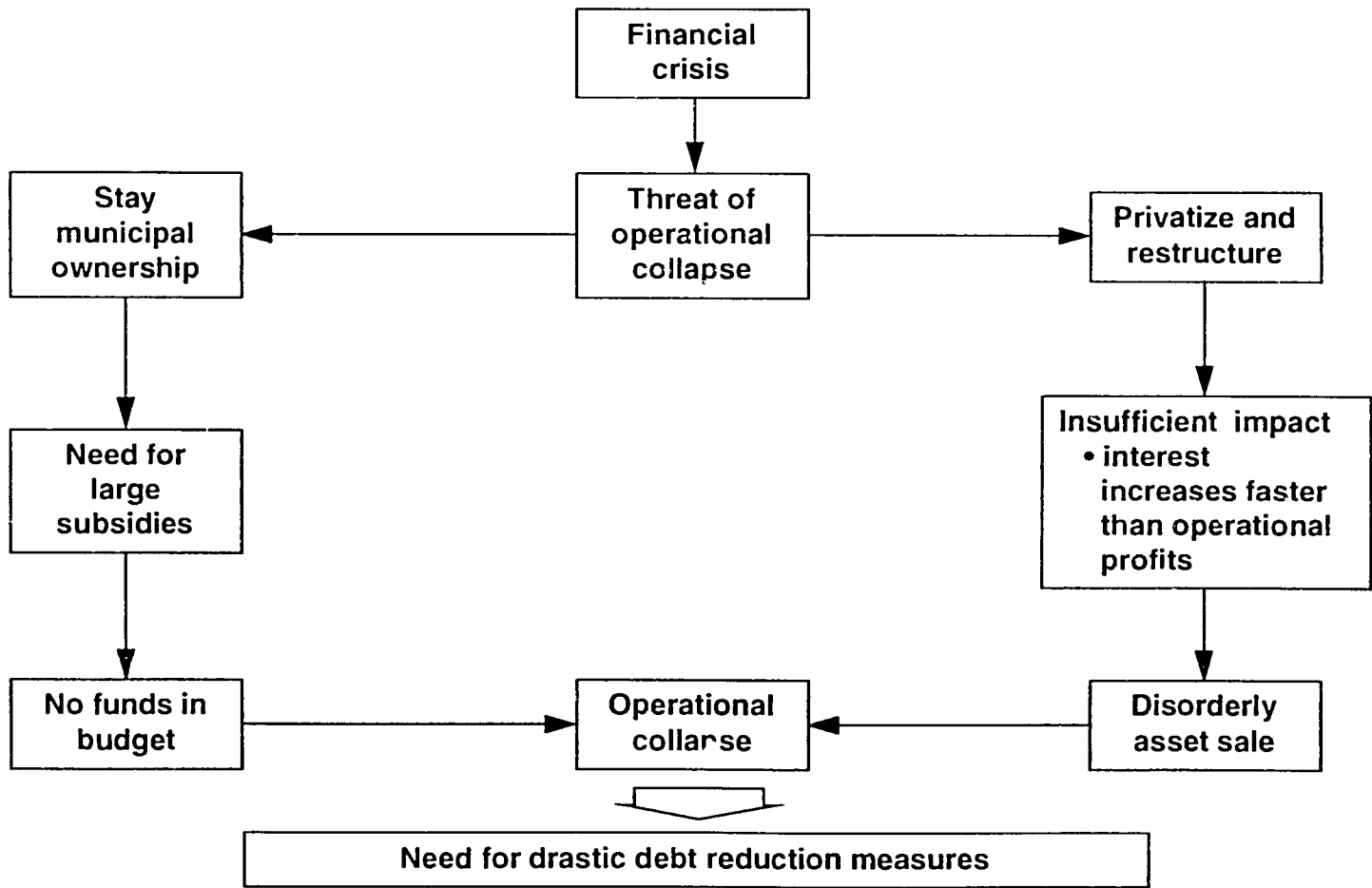
- Inefficiency of bankruptcy laws and procedures



**Loss of supply of vital wholesalers will not be easily replacable in short term**

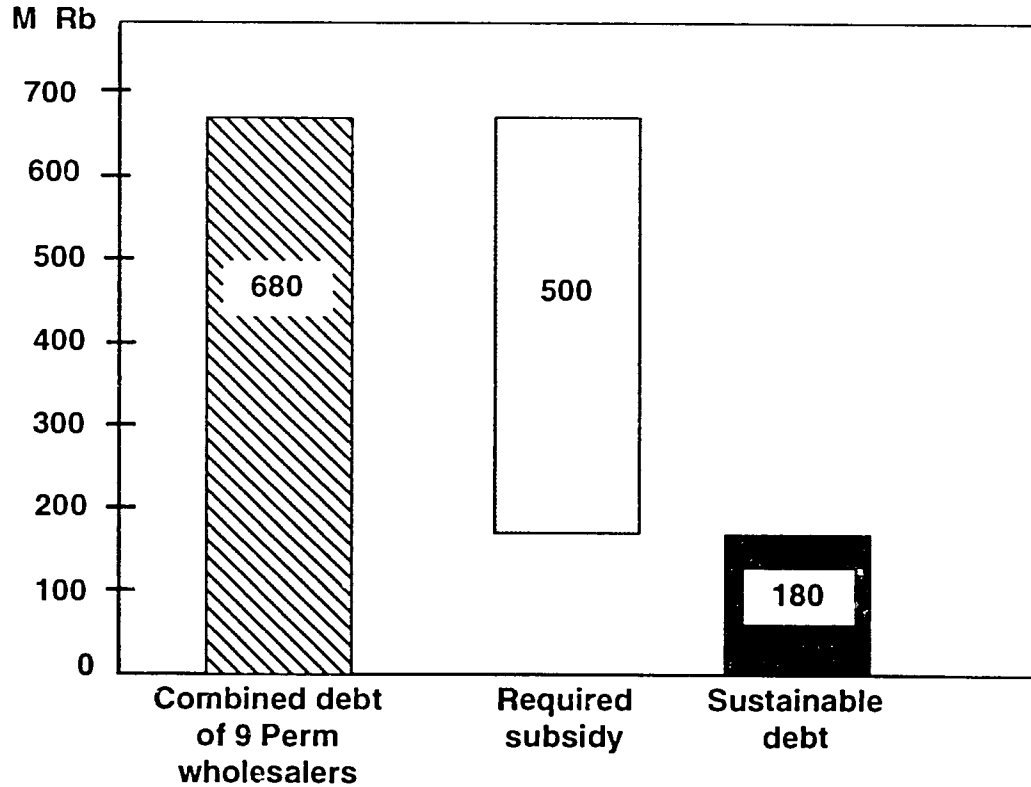
# OPERATIONAL COLLAPSE IS INEVITABLE WITHOUT SPECIFIC RESCUE MEASURES

- Independent of ownership status



# REDUCTION OF DFBT TO SUSTAINABLE LEVEL<sup>1</sup> FOR ALL WHOLESALERS WOULD REQUIRE AT LEAST 500 M RB SUBSIDY




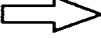

- Harvest purchase financing will require additional funds



<sup>1</sup> 53% of monthly sales

Source: BCG Analysis

# SEVERAL PRIVATIZATION OPTIONS ARE AVAILABLE TO ADDRESS THE DEBT PROBLEM

Option	What does it mean?
"Just privatize"	 <ul style="list-style-type: none"><li>• Commercial tender</li><li>• Let new owner reduce debt</li></ul>
"Debt repayment condition"	 <ul style="list-style-type: none"><li>• Commercial tender with investment condition</li><li>• Winning bidder has to repay debt immediately</li></ul>
"Asset sale before privatization"	 <ul style="list-style-type: none"><li>• Enterprise* selects and sells assets before privatization</li><li>• Proceeds are used to retire debt</li><li>• Enterprise is privatized</li></ul>
"Subdivision"	 <ul style="list-style-type: none"><li>• MKI privatizes selected wholesalers under model privatization plan<ul style="list-style-type: none"><li>- subdivide and allocate debt to assets for debt reduction</li><li>- privatization of debt absorbing and "debt free" entities separately</li></ul></li></ul>
"Liquidation"	 <ul style="list-style-type: none"><li>• MKI liquidates enterprise and sells off assets</li></ul>

\* With MKI proposal

## SEVERAL PARAMETERS DETERMINE ATTRACTIVENESS OF PRIVATIZATION OPTIONS

### **Solution should be feasible**

- Legally possible
- Simple to execute and replicate
- Fast / does not slow down privatization

### **Solution should have sufficient impact on financial situation**

- Reduces debt to sustainable level
- Has low risk of failure / unintended consequences
- Preserves operational viability
  - prevent “disorderly” asset sale



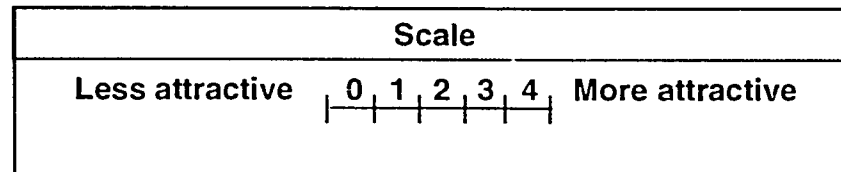
# PRIVATIZATION OPTIONS DIFFER SIGNIFICANTLY ALONG SIX DIMENSIONS OF ATTRACTIVENESS

• Key issues

Option	Feasibility			Impact		
	Legality	Simplicity / replicability	Speed	Debt reduction potential	Low risk	Operational viability
“Just privatize”	Standard procedure	Simple	Low acceptability	No control	Outcome unpredictable	High chance of disorderly sale
“Liquidate”	Standard procedure	Complex administratively	Piece meal sale-slow	Value maximising sale	Predictable	Full disintegration
“Debt repayment condition”	Standard procedure	Condition fulfilment mechanism	High acceptability	Full control	Chance of no bidders	Intact
“Asset sale before privatization”	Special procedure	Administration of sale process	Two step process	Controlled sale	Result of sale known before privatization	Reduced capacity
“Subdivision”	Special procedure	Legal entity creation	Parallel process	May be not enough assets in debt absorbing unit	No certainty about market value of units	Reduced capacity

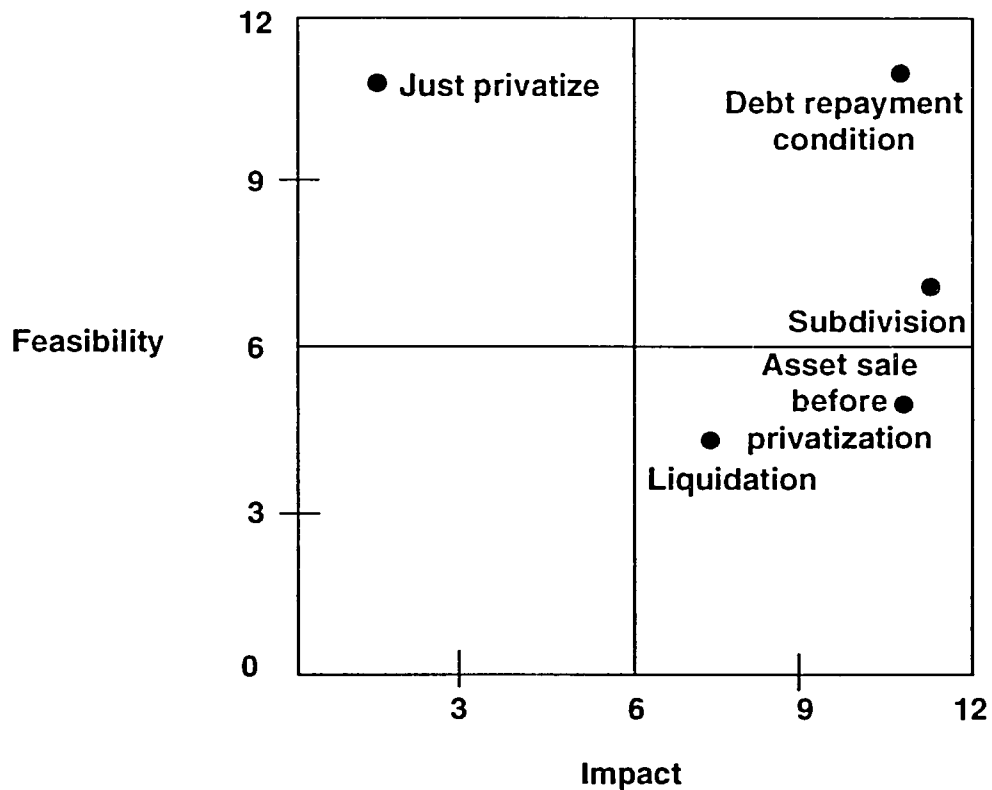
## “DEBT REPAYMENT CONDITION” IS THE MOST ATTRACTIVE OPTION

Option	Feasibility				Impact				Total points
	Legality	Simplicity replicability	Speed	Feasibility total	Debt reduction potential	Low risk <sup>1</sup>	Operational viability	Impact total	
Just privatize	4	4	3	11	1	0	1	2	13
Debt repayment condition	4	3	4	11	4	3	4	11	22
Asset sale before privatization	3	2	0	5	4	4	3	11	16
Subdivision	3	2	2	7	3	3	3	9	16
Liquidate	4	0	0	4	4	4	0	8	12



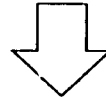
<sup>1</sup> Certainty of debt reduction, preserving operational viability and chances of unintended consequences

- “DEBT REPAYMENT CONDITION” IS THE MOST ATTRACTIVE OPTION**
- **“Subdivision” and “asset sale before privatization” are second best options**



# **“JUST PRIVATIZE” OPTION, THOUGH FEASIBLE, HAS VERY HIGH RISK OF DISORDERLY ASSET SALE AND LOW CHANCE OF DEBT REDUCTION**

Auction price is low, since asset value is discounted by liabilities



Management / workers collective are most likely to buy the company

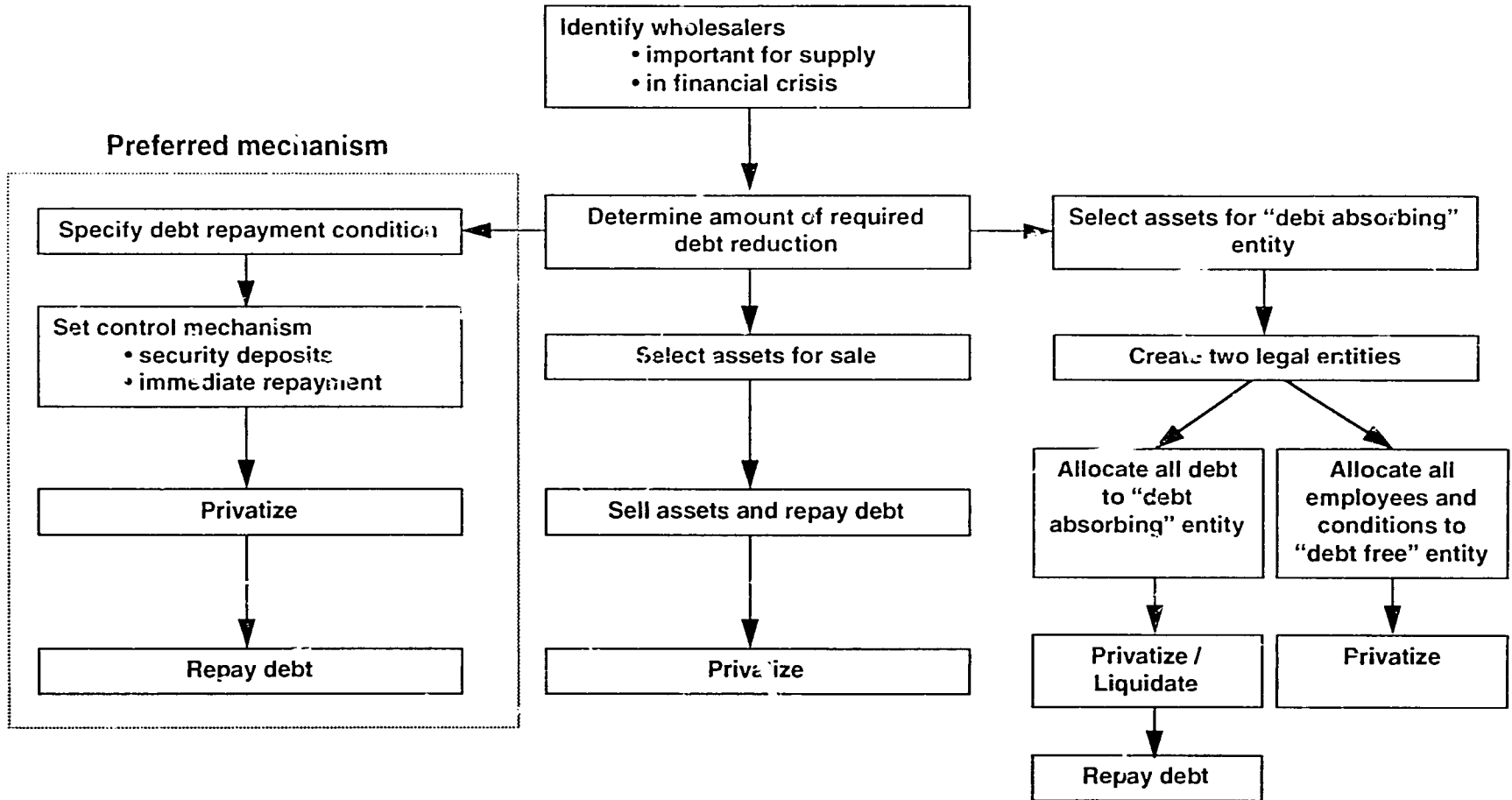
- May buy company even though lack funds to reduce debt
- Low cash cost
- Irrational desire to control own firm



Financial distress and disorderly sale of assets

- Existing management lack skills to restructure or manage company
- Suboptimal or extensive asset sale => operations undermined

# RECOMMENDED PROCESS TO ALLOW FOR ORDERLY RESOLUTION OF FINANCIAL CRISIS



# IMPORTANT WHOLESALERS IN FINANCIAL CRISIS CAN BE IDENTIFIED BY SIMPLE OBJECTIVE CRITERIA

A wholesaler is operationally important if it has

- A high local market share (say > 35%)
  - define market as district where enterprise located
  - share in post harvest season (highest in November - April)
- A high share of warehouse space
  - specialized (refrigerated and ventilated)

A wholesaler is in financial crisis if

- Ratio of debt to monthly sales exceeds 125% or
- Ratio of monthly sales to monthly interest payment is less than 5 or
- Profit before interest to interest (cover) ratio is less than one

# GKI WILL DETERMINE AMOUNT OF CAPITAL THAT NEEDS TO BE RAISED TO REDUCE DEBT TO SUSTAINABLE LEVEL

## Identify current amount of debt

- Wholesalers balance sheet
- Information from banks

## Determine sustainable level of debt based on

- Minimum interest cover of 2
- Operational and financial parameters
  - margins, sales volume, interest rate

**Necessary capital = Current debt - Sustainable level**

# SUSTAINABLE LEVEL OF DEBT IS DETERMINED FROM INTEREST COVER AND OPERATIONAL PARAMETERS

## • Example calculation

Inputs
<ul style="list-style-type: none"><li>• Desired interest cover ratio 2:1<sup>1</sup></li><li>• Annual sales: 1,400 M Rb</li><li>• Average profit margin before interest: 20%</li><li>• Market interest rate: 200%</li></ul>

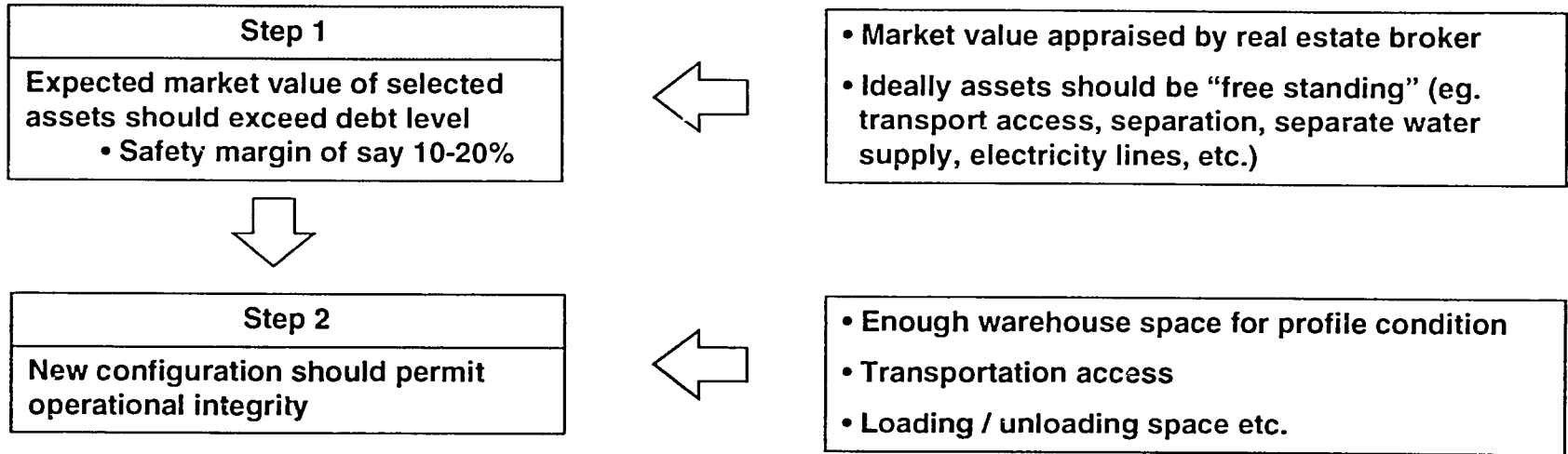


Calculation
Profit before interest : $1,400 \times 20\% = 280 \text{ M Rb}$
Sustainable interest payment: $280 \div 2 = 140 \text{ M Rb}$
Sustainable debt: $140 \text{ M Rb} \div 200\% = 70 \text{ M Rb}$

<sup>1</sup> Interest cover ratio is a ratio of profits before interest to interest payments



# SELECTING ASSETS FOR SEPARATION SHOULD ALLOW PAYMENT OF DEBT AND OPERATIONAL VIABILITY



**SUBDIVISION WITH DEBT REALLOCATION SHOULD BE  
VIA MODEL PRIVATIZATION PLAN**

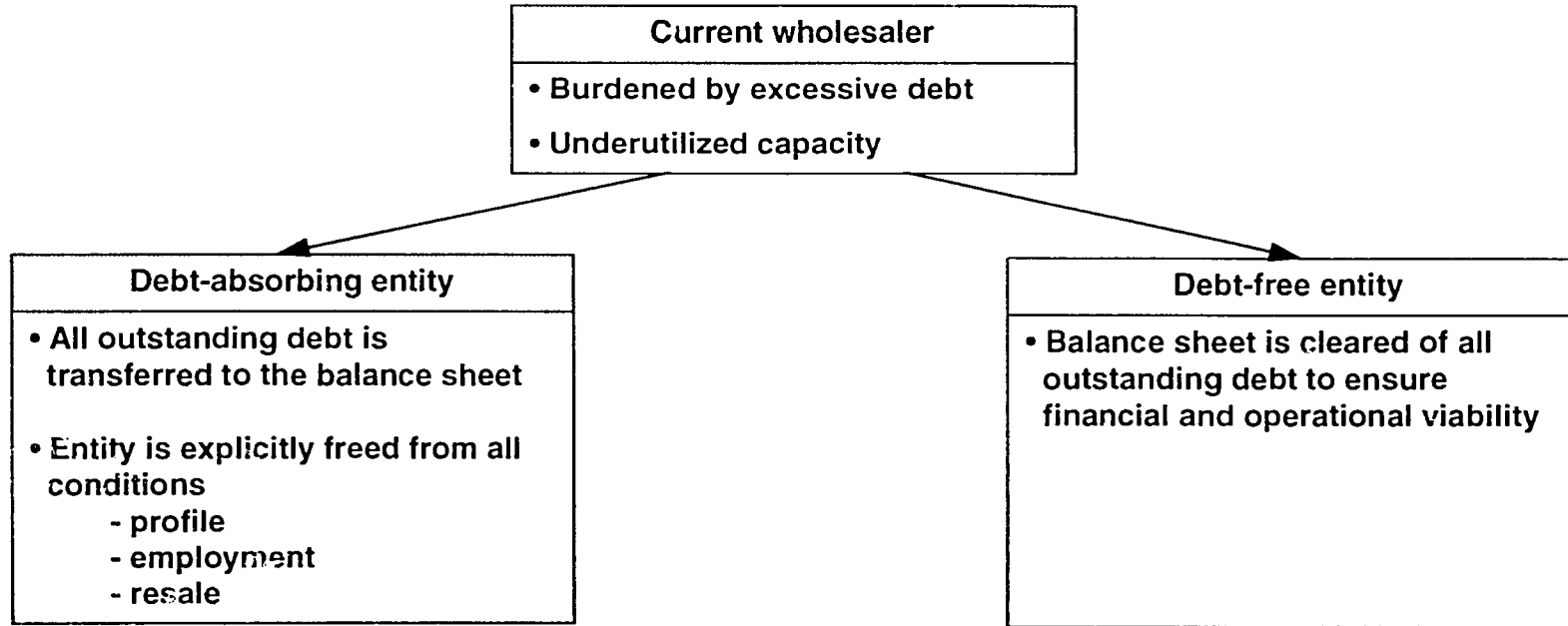
- Ensures legality and replicability

**Committees on Property Administration set terms of privatization for selected group of enterprises in Model Privatization Plan (MPP)**

- **Select wholesalers that are in financial crisis**
- **Prepare subdivision plans for wholesalers**
  - no management consent or initiative needed
  - allocate all debt on balance sheets to “debt absorbing” units
  - allocate all employees to “debt free” units<sup>2</sup>
  - specify condition free status of “debt absorbing” units

**Privatization via MPP is recommended in recent GKI directive N 837, 13 May 1993**

# THE WHOLESALER SHOULD BE SUBDIVIDED INTO TWO INDEPENDENT LEGAL ENTITIES WITH SEPARATE BALANCE SHEETS



# BY LAW DECISION ON ASSET SALE BEFORE PRIVATIZATION MUST HAVE MANAGEMENT CONSENT

GKI regulation allows Committees on Property Administration to make decisions on sale of fixed assets of municipal property according to proposals of management

If management objects options are to:

- Persuade showing economic benefits
  - 100% proceeds go to enterprise vs. only 20-30% (to workers) during privatization
- Oblast Privatization Committee can pass a special regulation on wholesalers in financial crisis
  - wholesalers in “financial crisis” do not require management consent

# **METHODOLOGY AND PRACTICAL GUIDELINES FOR MODEL PRIVATIZATION PLANS SHOULD BE DEVELOPED**

**Federal GKI recommends Oblast Privatization Committee to use methodology and guidelines of MPP for vegetable wholesaler**

- **Identify important wholesalers in financial crisis**
- **Evaluate attractiveness of suggested rescue options**
  - **debt repayment condition or**
  - **subdivision and debt reallocation or**
  - **asset sale before privatization**
- **Specify process steps for each privatization option**
  - **legal procedures**
  - **logistics**

**This mechanism could be used as part of the vegetable wholesaler roll out project**

**Obstacles to privatization**

**Subdivision**

**Privatization route choice**

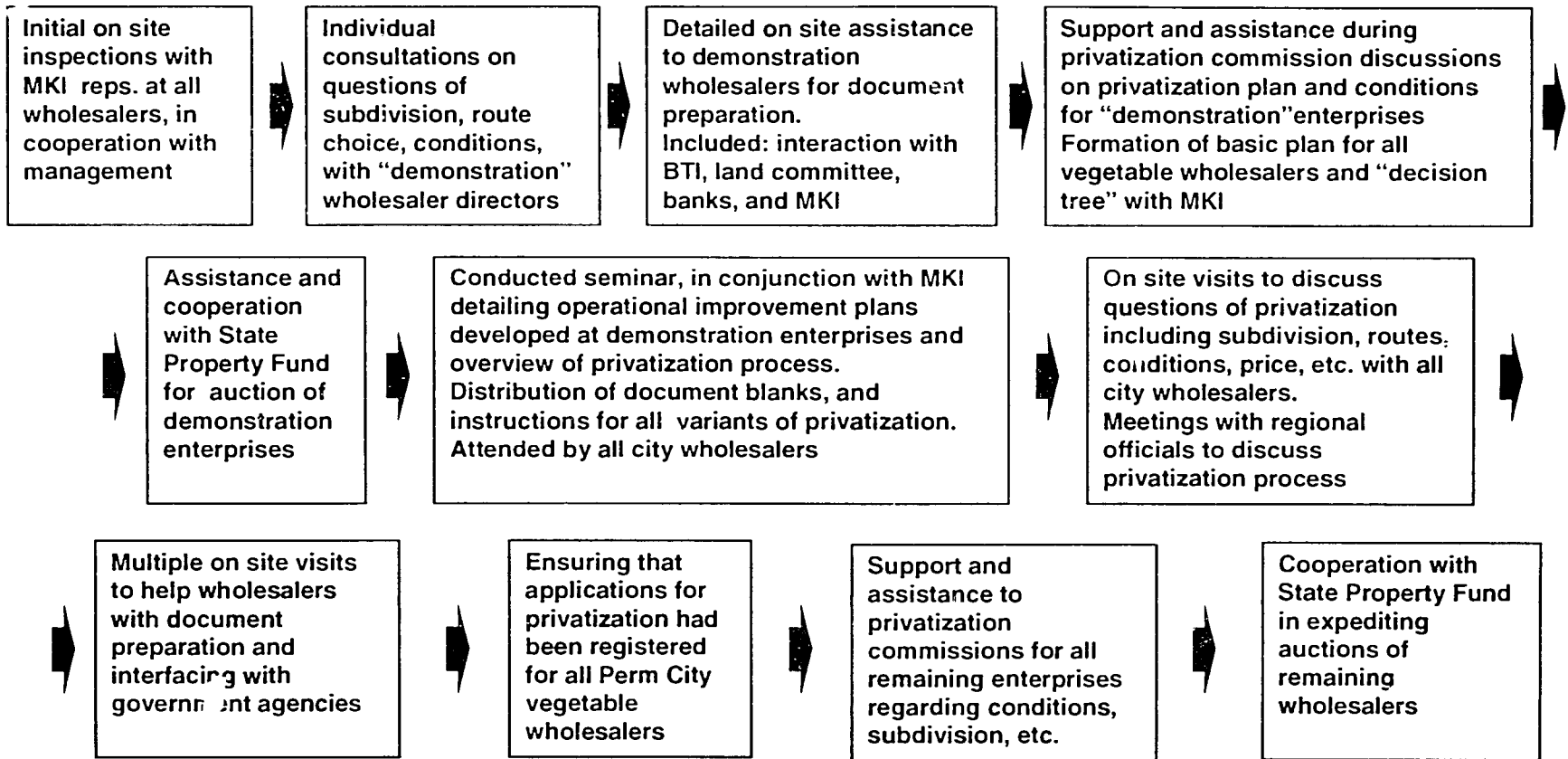
**Privatization conditions**

**Privatization of wholesalers in financial crisis**

**Privatization process**

**Privatization results**

# BCG WORKED WITH ALL VEGETABLE WHOLESALERS THE PERM CITY MKI IN ALL PHASES OF THE PRIVATIZATION PROCESS



# **BCG IDENTIFIED PERMPLODOVOSHPROM (PPOP) AS A DEMONSTRATION ENTERPRISE AND ASSISTED THEM TOWARDS PRIVATIZATION**

## **Route choice**

- **Met with director and top management to discuss options**
  - **decision for commercial tender**

## **Administrative support**

- **Liasion between GKI and accounting department**
- **Explanation of how to fill out documents**
- **Expedited document flow for speedy result**

## **Privatization Commission support**

- **Recommendations on conditions, route, and entity**
- **Performed additional research at request of MKI and commission**

## **Political support**

- **Obtained approval from administrative bodies**

## **State Property Fund**

- **Met with leadership to speed process**
- **Moved paperwork through in minimum time allowed by law**



# **KIROVSKAYA BAZA WAS IDENTIFIED AS THE SECOND PILOT ENTERPRISE**

## **• Example of wholesaler in financial distress**

### **Route choice**

- **Met with director and top management to discuss options**
  - **decision for commercial tender**

### **Documentation preparation**

- **Hands on document preparation assistance**
- **Liasion with MKI officials**
- **Worked with BTI to produce technical passports in shortest time at fair price**

### **Privatization Commission**

- **Recommended conditions, route, and entity**
- **Explained financial distress of enterprise and negotiated minimal conditions**
- **Assisted management during discussions**

### **Political support**

- **Secured support for privatization from city officials**
- **Secured agreement on asset disposal for financial rescue**

### **State Property Fund**

- **Assisted in setting auction date with minimum delay**

# THE ROLL OUT TO OTHER PERM WHOLESALERS BEGAN WITH A SEMINAR ON PRIVATIZATION ARGUMENTS, PROCEDURES AND IMPACT

Hosted by BCG and the Perm City GKI

Attended by all Perm vegetable wholesalers

- PPOP
- Kirovskaya
- Motovilikhsкая
- Sverdlovskaya
- Ordzhonikidzevskaya
- Kirovsky Trade Center
- Yunost
- Obshepit
- GKP Baza
- KOD
- Pakt
- Merkury
- Industrialnaya

Several other general food wholesalers also attended at GKI invitation

**“This was the first time many of the wholesalers had seriously thought about or discussed privatization”**

**- MKI official**

# **BCG AND PERMPLODOVOSHPROM DIRECTOR EXPLAINED THE OPERATIONAL IMPROVEMENT PLAN**

**Identified and discussed key areas for improvement**

- **Purchasing**
- **Storage**
- **Sorting**
- **Marketing / sales**
- **Financial / management**
- **Organisational structure**

**Comparisons were drawn with structure of US vegetable wholesaling system**

**PPOP director discussed benefits of privatization and his personal experience with implementation**

- **Need for strong management to make tough decisions**
- **Financial benefits of operational changes**
- **Progress in implementation**

## **GKI OFFICIALS AND BCG PRESENTED PRIVATIZATION ROUTES**

- **Prepared and distributed privatization documents with instructions**

**Legal limitations on route choice**

**Economic rationale for commercial tender as optimal route**

**Blank documents prepared and distributed**

**Each wholesaler given complete set of forms for all route choices**

## FOUR ENTERPRISES WERE IDENTIFIED AS “SECOND WAVE” CANDIDATES FOR PRIVATIZATION

- Enthusiasm for privatization and cooperativeness were the determining factors

Enterprise	BCG assistance / activity
Sverdlovskaya	<ul style="list-style-type: none"> <li>• Route choice discussion with director and top management               <ul style="list-style-type: none"> <li>- decision for commercial tender</li> </ul> </li> <li>• Extensive document preparation assistance, especially BTI</li> <li>• Privatization commission support</li> </ul>
KOD	<ul style="list-style-type: none"> <li>• Discussions with all parties involved in legal dispute on right to lease</li> <li>• Obtained vital document necessary to unblock impasse</li> <li>• Expedited document flow to ensure completion of privatization by lease buyout</li> </ul>
Kirovsky Trade Center	<ul style="list-style-type: none"> <li>• Route choice discussion with director and top management</li> <li>• Joint preparation of application for privatization</li> <li>• Extensive meetings with district officials concerning route, conditions, etc.               <ul style="list-style-type: none"> <li>- obtained support for privatization</li> </ul> </li> <li>• Document preparation assistance</li> <li>• Privatization commission support</li> </ul>
Industrialnaya	<ul style="list-style-type: none"> <li>• Route choice discussion with director and top management               <ul style="list-style-type: none"> <li>- decision for commercial tender</li> </ul> </li> <li>• Extensive document preparation assistance               <ul style="list-style-type: none"> <li>- including multiple BTI visits / discussions</li> </ul> </li> <li>• Privatization Commission support</li> </ul>

## **THE PRIVATIZATION PROCESS IS ALSO BEING EXPEDITED FOR OTHER VEGETABLE WHOLESALERS**

**Remaining enterprises were more reluctant to privatize**

- **Focus effort on persuasion and economic benefits**

**Third party privatization applications for 4 enterprises not willing to apply themselves**

**On going document preparation assistance**

- **Focus on general “pre-route choice” documents**
- **Ensure BTI process of technical passport preparation begun**

# **THROUGHOUT THE PRIVATIZATION PROCESS VARIOUS CITY / OBLAST OFFICIALS WERE CONSULTED ON A REGULAR BASIS**

## **Institutions included**

- **Oblast Administration**
- **City Administration**
- **Oblast GKI**
- **City Council of Peoples Deputies**
- **City trade officials**
- **City agriculture officials**
- **Peoples Deputies Trade Committee**
- **Former torg management**
- **State Property Fund officials**
- **Land Committee officials**

## **Discussions directed at**

- **Obtaining support for privatization**
- **Expediting privatization process**
- **Understanding and resolving objections**

## VARIOUS MEETINGS WERE ORGANIZED WITH THE BTI

Meeting participants	Topic discussed	Result / action taken
BCG, BTI, GKI, Kirovskaya Baza	<ul style="list-style-type: none"> <li>• 800,000 Rb charge for completion of passports</li> </ul>	<ul style="list-style-type: none"> <li>• 300,000 Rb reduction in cost</li> <li>• Agreement to coordinate and instruct other wholesalers how to interact with the BTI</li> <li>• Kirovskaya received passports next day</li> </ul>
BCG, BTI	<ul style="list-style-type: none"> <li>• How BTI works and what improvements needed</li> </ul>	<ul style="list-style-type: none"> <li>• BCG to develop policy recommendations for operational changes at BTI</li> </ul>
BCG, BTI, Sverdlovskaya Baza, Industrialnaya Baza	<ul style="list-style-type: none"> <li>• How wholesalers will pay / receive their passports</li> </ul>	<ul style="list-style-type: none"> <li>• Agreement on timing and cost of technical passports for 2 wholesalers</li> </ul>
BCG, BTI, GKI, Sverdlovskaya Baza	<ul style="list-style-type: none"> <li>• BTI valuation method and need for Jan 1, 1992 valuation for MKI privatization commissions</li> </ul>	<ul style="list-style-type: none"> <li>• Special letter to come from MKI asking BTI to produce both current and 1991 valuations</li> <li>• Each wholesaler will attach a letter to their passports informing BTI about on the basis of their own valuations</li> </ul>
BCG, BTI	<ul style="list-style-type: none"> <li>• Why system continuously breaks down?</li> </ul>	<ul style="list-style-type: none"> <li>• Recommendations on operational improvements</li> </ul>



## IN PERM, THE BTI WAS A BOTTLENECK IN PRIVATIZATION

<b>Problem</b>	<b>Causes</b>
<p><b>Delays in document preparation</b></p> <p><b>Erratic and often high pricing</b></p> <p><b>Valuations often inappropriate for privatization</b></p> <ul style="list-style-type: none"><li>• <b>Buildings not included</b></li><li>• <b>Base year</b></li><li>• <b>Coefficients</b></li></ul> <p><b>Enterprises have insufficient information on prices, timing and information required for BTI</b></p>	<p><b>Lack of qualified staff and equipment</b></p> <p><b>Limited administrative control</b> <b>Self-financing status</b></p> <p><b>Legal requirements unclear</b> <b>Poor communication with MKI</b></p> <p><b>Poor communication between MKI, companies and BTI</b></p>

# VALUATION PROCESS WOULD BE MORE EFFECTIVE IF CONTROLLED BY GKI

**BTI unit responsible for technical passports needed by enterprises undergoing privatization could become part of GKI**

- **GKI budget control**
- **GKI administrative control**

**This would result in greater speed and efficiency**

- **One organization rather than two**
- **Consistency of aims and objectives**
- **Reduced confusion over information requirements**
- **Access to better facilities and equipment**
- **Consistent, published price schedules**

# **THE LOW LEVEL OF ACCOUNTING SKILLS AND LACK OF MKI SUPPORT DELAY THE PROCESS OF DOCUMENT PREPARATION FOR PRIVATIZATION**

Since torg break up, work of accountants has become more demanding and complex

- Transition from “base book keeper” to “enterprise financial manager”

Many accountants lack experience and qualifications to complete privatization documentation

- Asset revaluation
- Balance sheet preparation
- Disorganized book keeping system (eg. inventories)
- Financial calculations

This is exacerbated by lack of support from GKI

- Documents required
- Instructions on how to complete them

# **THIS ISSUE COULD BE ADDRESSED VIA INSTRUCTIONAL MATERIALS, TRAINING AND ADVICE**

**Each enterprise could be issued with a set of instructional materials**

- **Set of blank forms**
- **Model responses**
- **Detailed instructions on format, information sources, calculation methods**
- **Contacts for BTI, Land Committee, MKI, etc.**



**Training scenarios could be given for accountants of small and medium enterprises**

**An MKI accountant could be available to answer queries**

## LEGAL DISPUTES SHOULD NOT BE ALLOWED TO STALL THE PRIVATIZATION PROCESS

- Arbitration should be initiated if disputes not settled within say 3 months

### Examples of stalled wholesaler privatizations

Lease buy out example	Illegal asset sale example
<p data-bbox="354 417 820 448">Right to buy out lease disputed</p> <p data-bbox="354 488 782 520">Original contract unavailable</p>  <p data-bbox="354 747 845 778">Privatization stalled for 6 months</p>	<p data-bbox="997 417 1540 448">Assets sold without MKI permission</p> <p data-bbox="997 488 1467 555">MKI demanded return of assets New owner refused</p>  <p data-bbox="997 747 1488 778">Privatization stalled for 4 months</p>

**Obstacles to privatization**

**Subdivision**

**Privatization route choice**

**Privatization conditions**

**Privatization of wholesalers in financial crisis**

**Privatization process**

**Privatization results**

## BCG AND THE PERM CITY GKI DEVELOPED AND IMPLEMENTED A PRIVATIZATION PLAN FOR THE VEGETABLE WHOLESALING SECTOR

Firm	Subdivision recommend.	Privatization Application	Documentation		Comm meeting	Rec route	Workers vote	Region. council	Small council	Docs at SPF	Privatization
			In prepn	Finished							
PPOP	√	√	√	√	√	CT	√	√	√	√	Aug 19
Kirovskaya Baza		√	√	√	√	CT	√	√	√	√	Sep 15
Kirovsky Comm. Center	√	√	√	√	√	CT	√				Sep 15
Sverdlovskaya	√	√	√	√	√	CT/IT					Sep 15
Industrialnaya		√	√	√	√	CT	√				Sep 15
Sodruzhestvo		√	√			CT					
Ordzhonikidze		√				CT					
KOD*		√	√	√		L1				√	Sep 93?
Nagorny**		√	√	√		N.A.					
Yunost	√	√				CT					
Obshepit	√	√	√			CT					
GKP Baza		√				CT					
Pakt		√	√	√	√	L1				√	Jul 93
Mercury		√	√	√	√	-	√	√	√	-	A/O Dec 1992

\* Leased buyout was stalled due to legal dispute but problems now appear to have been resolved

\*\* Legal problems with sale of state property

## RESTRUCTURING PLAN FOR PERMPLODOVOSHPROM



# RESTRUCTURING PLAN FOR PERMPLODOVOSHPROM

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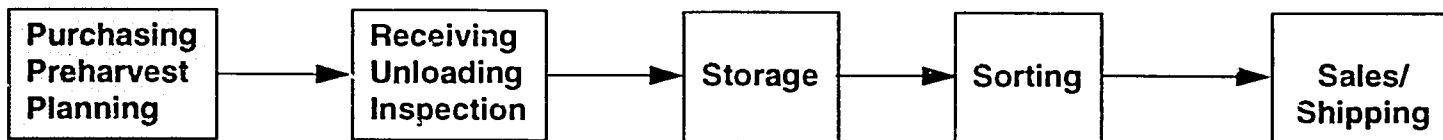
## **Operations**

- **Operational problems and improvements**
- **Financial impact of operational improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

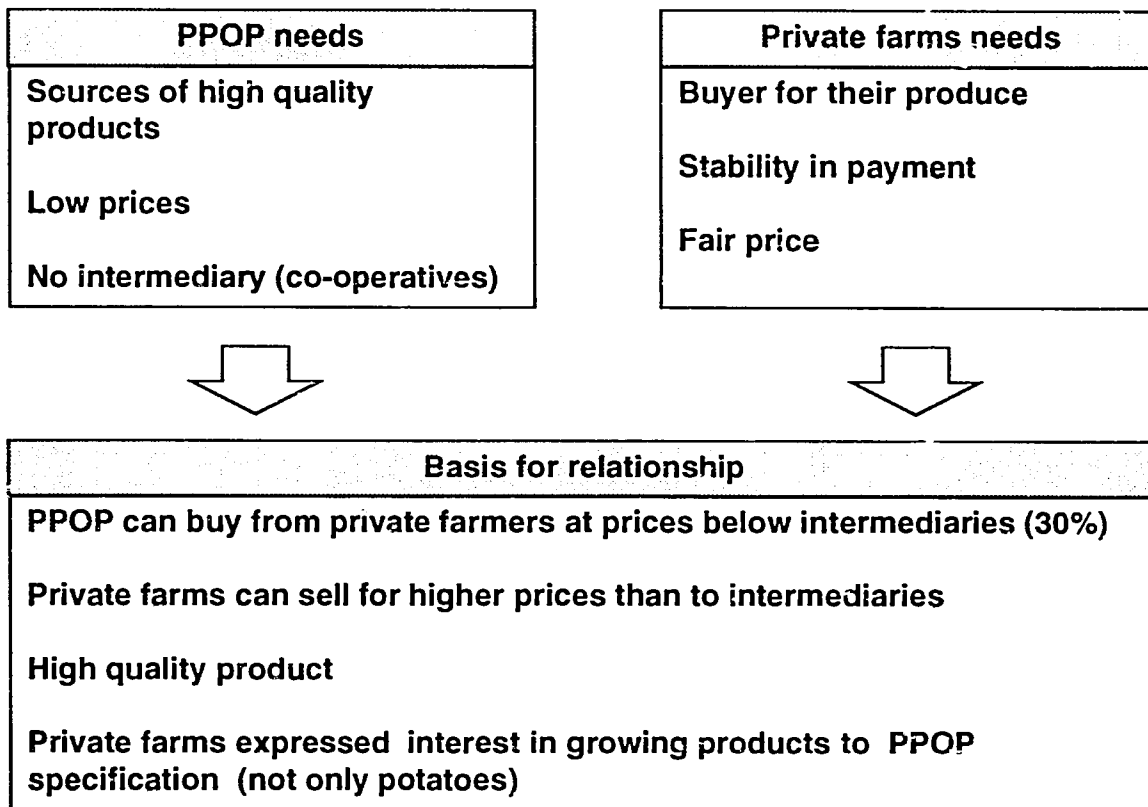
- **Market segmentation**
- **Pricing**
- **New products**
- **Financial management**
- **Financial impact of strategy and operational improvements**
- **Action plan and implemented results**

## AN IMPORTANT FACTOR IN REDUCING LOSSES IS TO BUY HIGHER QUALITY PRODUCTS



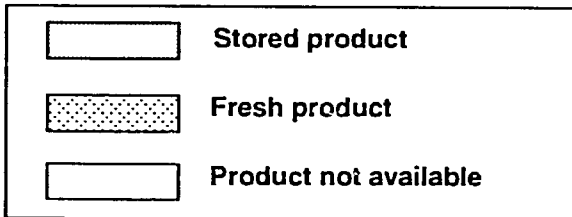
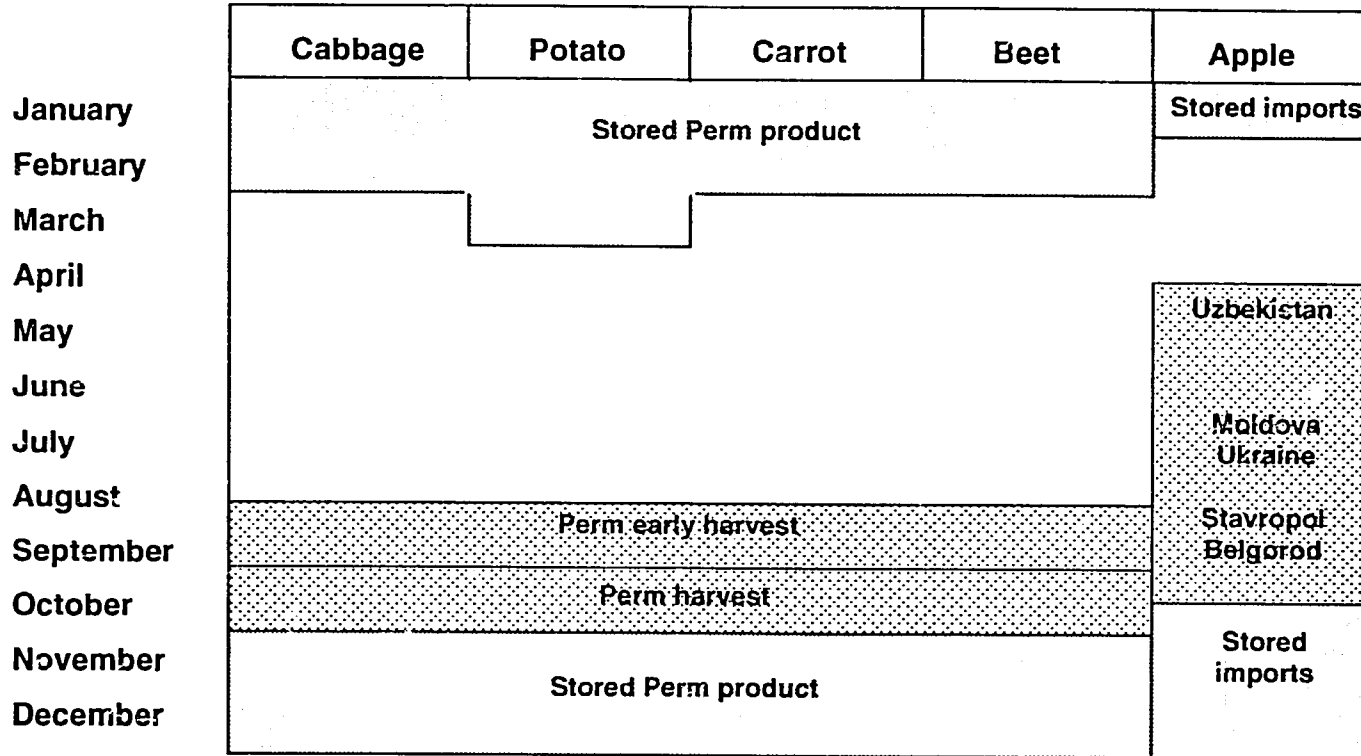
Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Contracts negotiated with limited number of suppliers</li>   <li>• Product delivery is concentrated within a short period</li>   <li>• Quality is determined by suppliers - no choice</li>   <li>• Product suffers from disease</li> </ul>	<ul style="list-style-type: none"> <li>• Limited choice of quality</li>   <li>• Handling difficulties, unloading damage</li>   <li>• Increased losses, low quality</li>   <li>• High losses, wasted utilisation of storage facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Investigate alternative sources of supply               <ul style="list-style-type: none"> <li>- increase competition of suppliers</li> <li>- increase quality</li> <li>- increase assortment</li> <li>- decrease prices</li> </ul> </li>   <li>• Farm storage</li> <li>• Staggered contracts</li> <li>• Different varieties of product</li> <li>• Increased inter-regional trade</li>   <li>• Contracts specifying quality</li> <li>• Inspect product in field               <ul style="list-style-type: none"> <li>- diseases</li> <li>- maturity</li> </ul> </li>   <li>• Reject and impose penalties</li> </ul>

# RELATIONS WERE ESTABLISHED BETWEEN PPOP AND THE ASSOCIATION OF PRIVATE FARMERS



# ONLY 5% OF ALL POTATOES, CABBAGES, CARROTS, AND BEETS ARE IMPORTED FROM OUTSIDE PERM OBLAST

• Origin of products sold by Permplodovoshprom



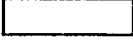


Source: Permplodovoshprom

# VEGETABLES SHOULD BE AVAILABLE THROUGHOUT THE YEAR IN PERM

• Possible exception of April & May\*

	Cabbage	Potato	Carrot	Beet	Apple
January	Stored Perm product				Stored imports
February	Stored Perm product				Stored imports
March	Fresh product				Stored imports
April	Fresh product				Stored imports
May	Tadjikistan Uzbekistan Kazakhstan		Uzbekistan Tadjikistan Kazakhstan	Uzbekistan Tadjikistan Kazakhstan	Uzbekistan Tadjikistan
June	Krasnodar Stavropol				Dagestan Kirgisia Moldova Ukraine Krasnodar
July	Perm early harvest	Bryanskaya Perm early harvest	South. Russian reg. Perm early harvest	South. Russian reg. Perm early harvest	Stavropol region Rostov region
August	Perm harvest				Belgorod region
September	Perm harvest				Belgorod region
October	Perm harvest				Belgorod region
November	Stored Perm product				Stored imports
December	Stored Perm product				Stored imports

	Fresh product
	Stored product
	Product not available

\* Possible sources of products during april and May are: extended storage, greenhouse, or import stored products

Note: Second harvest of southern republics coincides with Perm harvest

Source: Permplodovoshprom

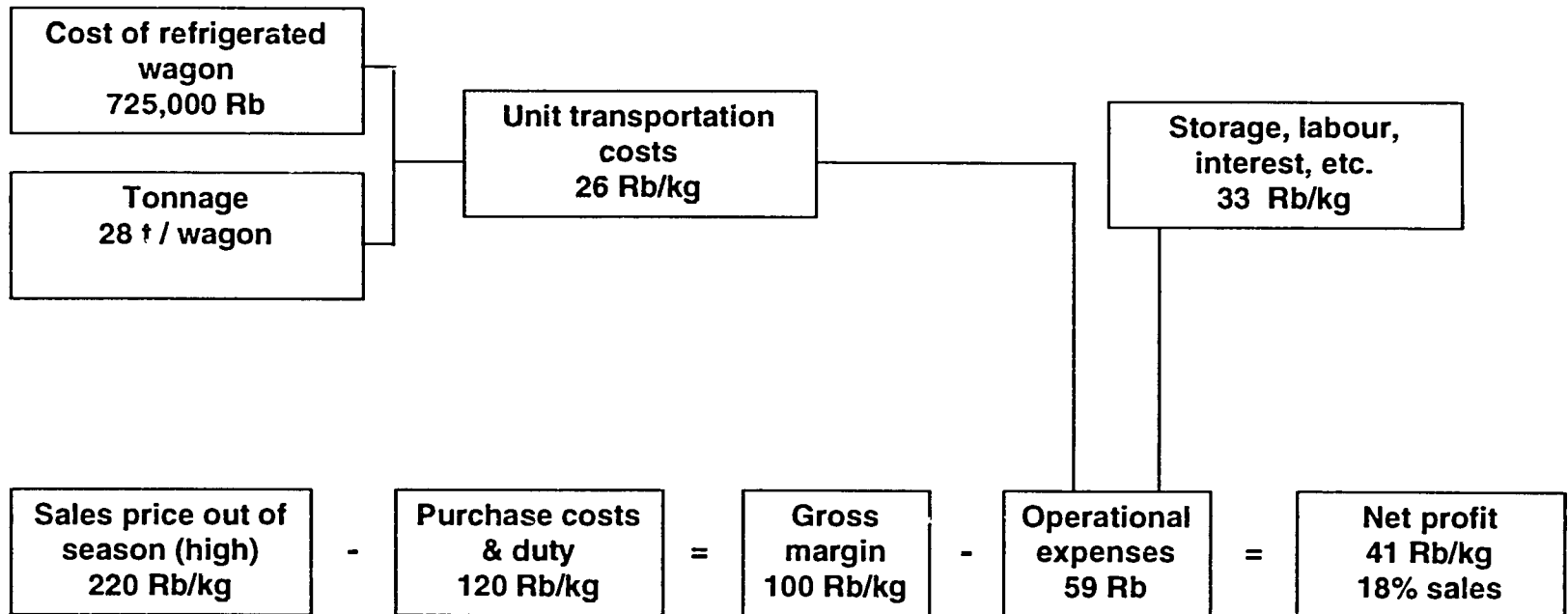
## FINANCIAL AND INSPECTION CONSTRAINTS ARE THE ONLY SUBSTANTIAL BARRIERS TO INCREASING TRADE WITH CIS REPUBLICS

Area of concern	Current situation	Possible solution
Cash shortage	Biggest problem for wholesalers	Privatize and restructure
Barter goods unavailable	Availability not a problem! • Cash to purchase goods is the problem	Privatize and restructure
Difficulty in transferring money to foreign banks	Cash clearing house in Moscow requires 2-3 weeks to process transfer	Speed transfer mechanism, allow large rouble withdrawals
Information about availability of products within CIS	Agricultural fair in Moscow every February Ministry of Agriculture has a procurement department in Moscow	Procurement department sends a weekly availability report to agriculture department of each oblast
Customs duties	0.15% of contract amount only	-
Trade restrictions	No laws in place to restrict trade of vegetables	-
Transportation unavailability	Train utilization < 60%	-
Transportation liability	Liability is sufficient	-
Mechanism for assuring quality	Limited • Product quality is listed at time of shipment by supplier	Regional quality inspectors certify quality at origin and destination
Road transportation network	Lack of long haul trucks and adequate roads	Important issue requiring further investigation

Source: Railway, Perm City Trade Dept, Ministry of Agriculture quality Inspector, Perm Oblast Agriculture Dept, Perm region Dept of Trade and Consumer Defence

# IMPORTING PRODUCTS FROM OTHER CIS REPUBLICS IS FINANCIALLY VIABLE

- Example - shipment of cabbage from Uzbekistan in April

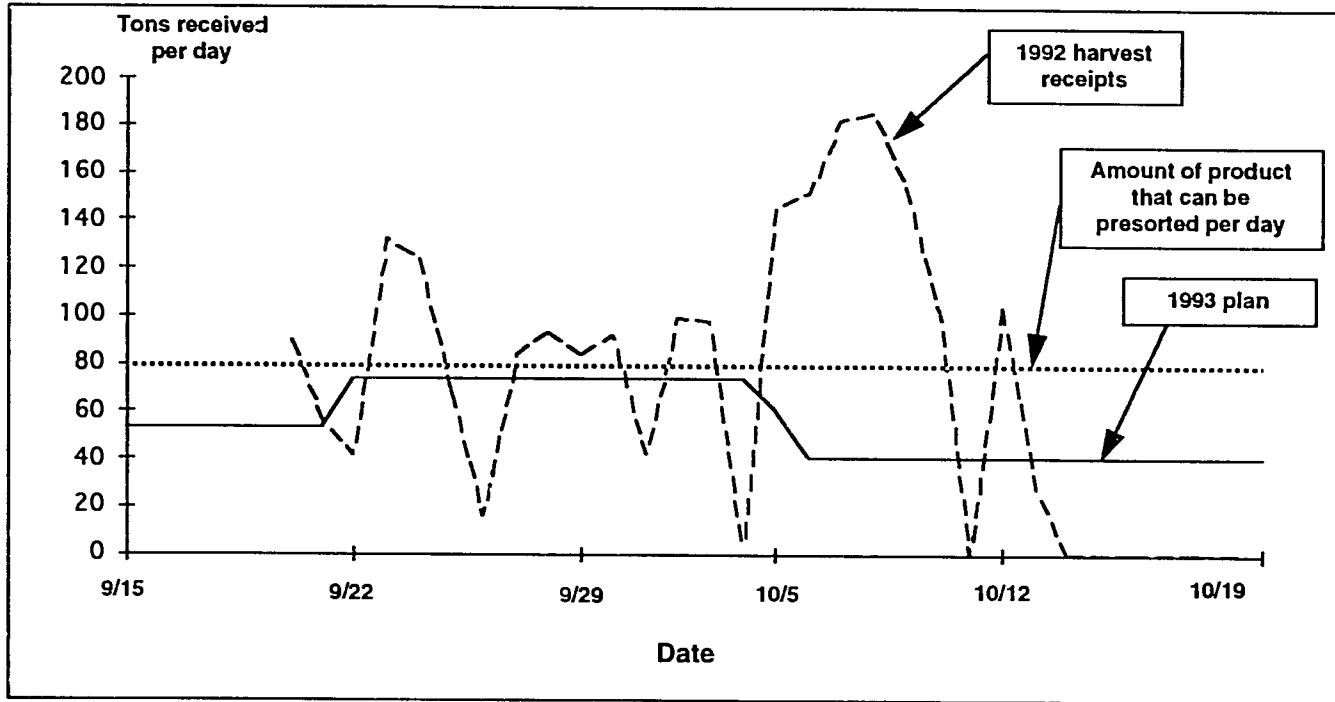


**Imported cabbage results in 18% net profit on sales**



# 1993 DELIVERY SCHEDULES WILL SPREAD RECEIPTS OVER A LONGER INTERVAL

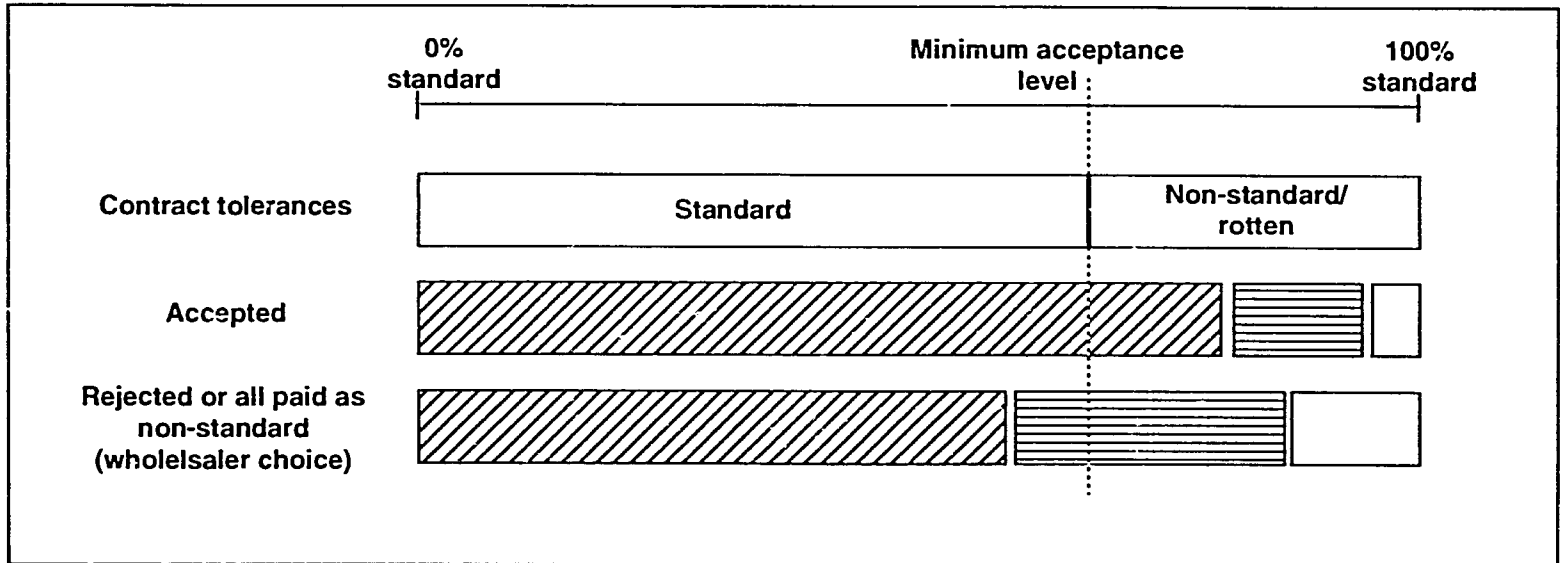
- Negotiated into some existing contracts


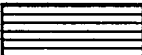
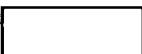


The delivery window will be extended by two weeks to reduce strain on sorting and handling capacity

# THE NEW SUPPLY CONTRACT RELATES ACCEPTANCE AND PRICE TO DELIVERED QUALITY

- Contract has been developed and is being used\*



	<u>Quality</u>	<u>Price</u>
	Standard	P
	Non-standard	x% P
	Rotten	0

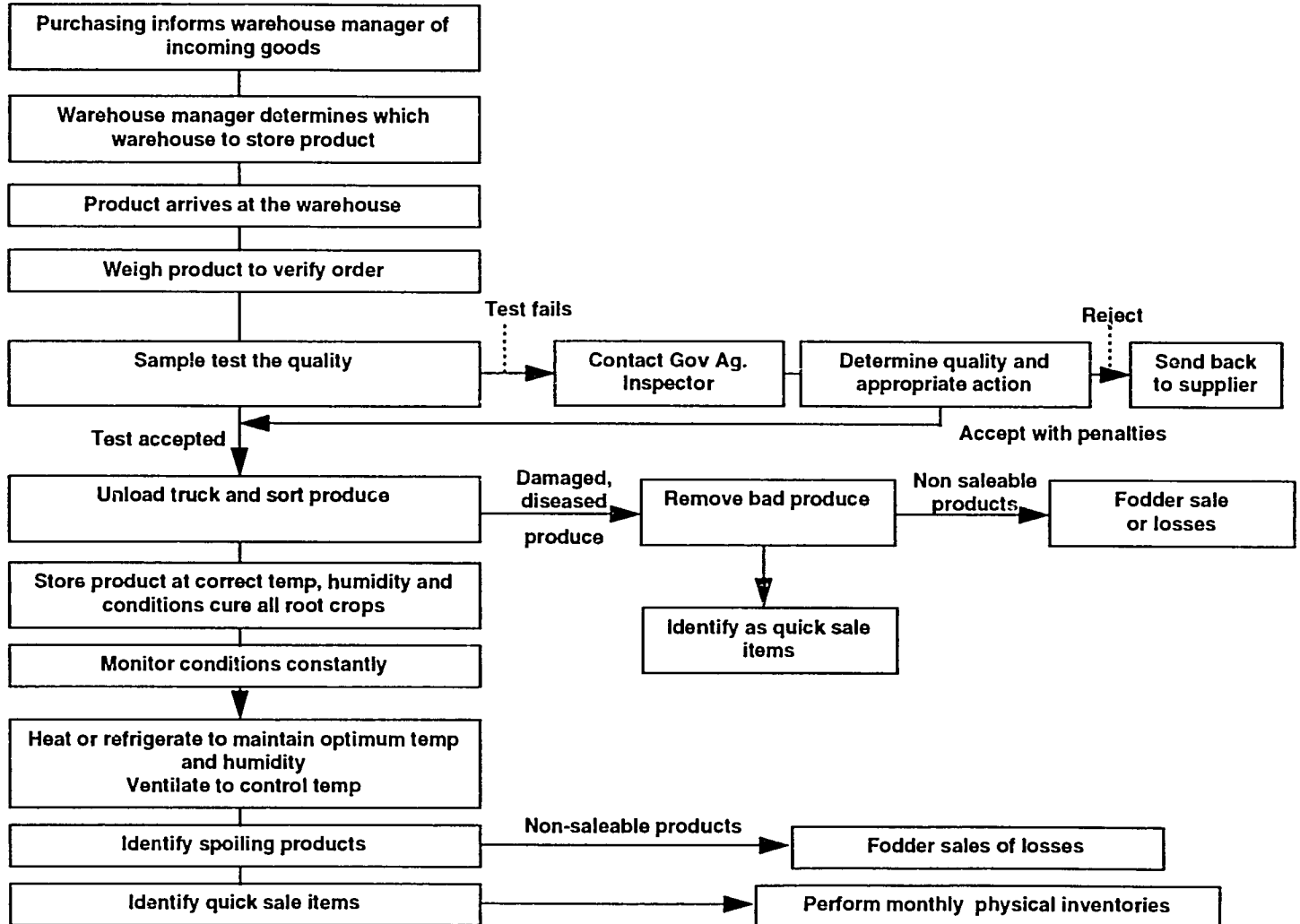
\* This is now the standard contract of Permplodovoshprom

## THE NEW SUPPLY CONTRACT SETS PRECISE QUALITY AND DELIVERY TARGETS

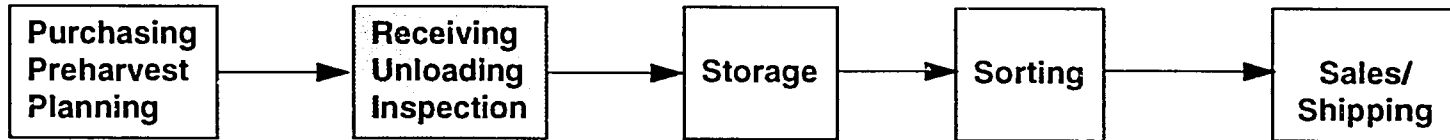
- Provides a mechanism for linking quality and price

Dimension	New contract	Old contract
Quality level	Specific quality targets	No explicitly stated quality targets
Latent diseases	Provides a period to renegotiate price if diseases develop	No contingency for disease
Differences in contracted quality vs. received quality	Mechanism to vary price according to received quality	Quality verbally agreed and if different from received quality no mechanism to change price
Minimum quality levels	Reject the shipment or accept and pay non-standard price	No rejection clause
Temporary farm storage for part of the harvest	Clause that includes farm storage	No specific statement
Delivery schedule (t/day)	Provides a clear delivery schedule	No clear delivery schedule

# THE PURCHASING PROCESS WILL BE RATIONALISED



# PRE-SORTING PRODUCT PRIOR TO STORAGE WILL REDUCE THE INCIDENCE AND SPREAD OF DISEASE



Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Quality of product is not controlled</li> <li>• Emphasis is placed on unloading speed and drop height exceeds 15 cm</li> <li>• Large amounts of damaged and diseased product are placed in storage</li> </ul>	<ul style="list-style-type: none"> <li>• Supply of low quality product</li> <li>• Mechanical damage and losses</li> <li>• Losses are amplified, space is wasted</li> </ul>	<ul style="list-style-type: none"> <li>• Use acceptance testing procedures before unloading               <ul style="list-style-type: none"> <li>- acceptance or rejection</li> </ul> </li> <li>• Use alternative handling techniques               <ul style="list-style-type: none"> <li>- conveyer</li> <li>- chutes</li> </ul> </li> <li>• Pre-sort product as it arrives               <ul style="list-style-type: none"> <li>- cull rotten, diseased and damaged product</li> <li>- identify quick-sale items</li> <li>- decrease losses</li> </ul> </li> </ul>

# STORING PRODUCT UNDER THE CORRECT CONDITIONS WILL DRAMATICALLY INCREASE SHELF LIFE



Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Lack of specialisation of warehouses</li> <li>• Rotten products are not culled</li> <li>• No curing period</li> <li>• Refrigeration and ventilation equipment need repair</li> </ul>	<ul style="list-style-type: none"> <li>• Product is not stored at the correct temperature</li> <li>• Losses are amplified</li> <li>• Losses are increased</li> <li>• Inadequate storage conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Segregate product according to storage requirements</li> <li>• Remove containers with rotten product immediately               <ul style="list-style-type: none"> <li>- sell what can be salvaged</li> <li>- remove the rest</li> </ul> </li> <li>• Effective utilization of curing period               <ul style="list-style-type: none"> <li>- heal mechanical damage</li> <li>- dryrotten product</li> <li>- increase resilience</li> </ul> </li> <li>• Repair facilities               <ul style="list-style-type: none"> <li>- refrigeration and ventilation</li> </ul> </li> </ul>

## A QUICK REFERENCE PRODUCT STORAGE CONDITION CHART IS NOW BEING USED BY PPOP WAREHOUSE MANAGERS

Product	Storage Temperature	Humidity	Storage life	Compatibility
Potatoes	-2 <sup>o</sup> - 4 <sup>o</sup> C	90%-95%	5-8 months	Products with same temperature and humidity requirements
Cabbages	-1 <sup>o</sup> C - 0 <sup>o</sup> C	90%-95%	5-6 months	Preferable separate from other vegetables and fruits (esp. apples)
Carrots	0 <sup>o</sup> C - 1 <sup>o</sup> C	90%-95%	5-9 months	Store with beets, horseradish
Onion	0 <sup>o</sup> C	65%-75%	1-8 months	Preferable separate from other vegetables and fruits (due to humidity and odor)
Horseradish	0 <sup>o</sup> C	95%	2-4 months	Store with beets, carrots
Beets	0 <sup>o</sup> C - 1 <sup>o</sup> C	90%-95%	4-6 months	Store with carrots, horseradish
Tomatoes red	7 <sup>o</sup> C - 10 <sup>o</sup> C	85%-90%	2-4 weeks	
green	11 <sup>o</sup> C - 13 <sup>o</sup> C	85%-90%	3-4 weeks	
Cucumbers	8 <sup>o</sup> C - 10 <sup>o</sup> C	85%-90%	10 days	
Apples	2 <sup>o</sup> C - 3 <sup>o</sup> C	90%-95%	2-6 months	Store with other fruits. Separate from cabbage and other leafy green products
Orange/mandarin (mature)	1 <sup>o</sup> C - 2 <sup>o</sup> C	85%-90%	4-6 months	Store with other fruits
(not mature)	3 <sup>o</sup> C - 4 <sup>o</sup> C			
Lemons (mature)	2 <sup>o</sup> C - 3 <sup>o</sup> C	85%-90%	4-6 months	Store with other fruits
Bananas	12 <sup>o</sup> C - 14 <sup>o</sup> C	80%-85%	4-10 days	
Peaches	1 <sup>o</sup> C - 4 <sup>o</sup> C	90%	1 month	Store with other fruits
Watermelon	2 <sup>o</sup> C - 3 <sup>o</sup> C	80%-90%	2-3 weeks	Store with other fruits

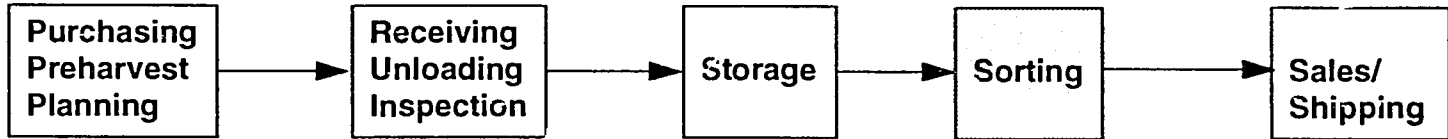
Data Source: USDA Agricultural Handbook # 66, USSR Guidebook for purchasing vegetables, USSR wholesaler guidebook

## A CHART ILLUSTRATING THE CORRECT CURING CONDITIONS FOR POTATOES IS NOW BEING USED BY WAREHOUSE MANAGERS

Quality	Curing temperature (humidity)	Curing period
Dry, ripe potatoes stored for 5-7 days after being gathered	12-18°C (90-95%)	7-10 days
Dry, ripe, recently harvested potatoes	12-18°C (90-95%)	10-12 days
Not very ripe or highly damaged (50%) potatoes	12-18°C (90-95%)	up to 15 days
Potatoes affected by ring rot disease	10-12°C (85-90%)	up to 15 days
Potatoes with high phytophthora	Cooling to 1-2°C (85-90%)	No curing period because disease propogates rapidly at high temperature



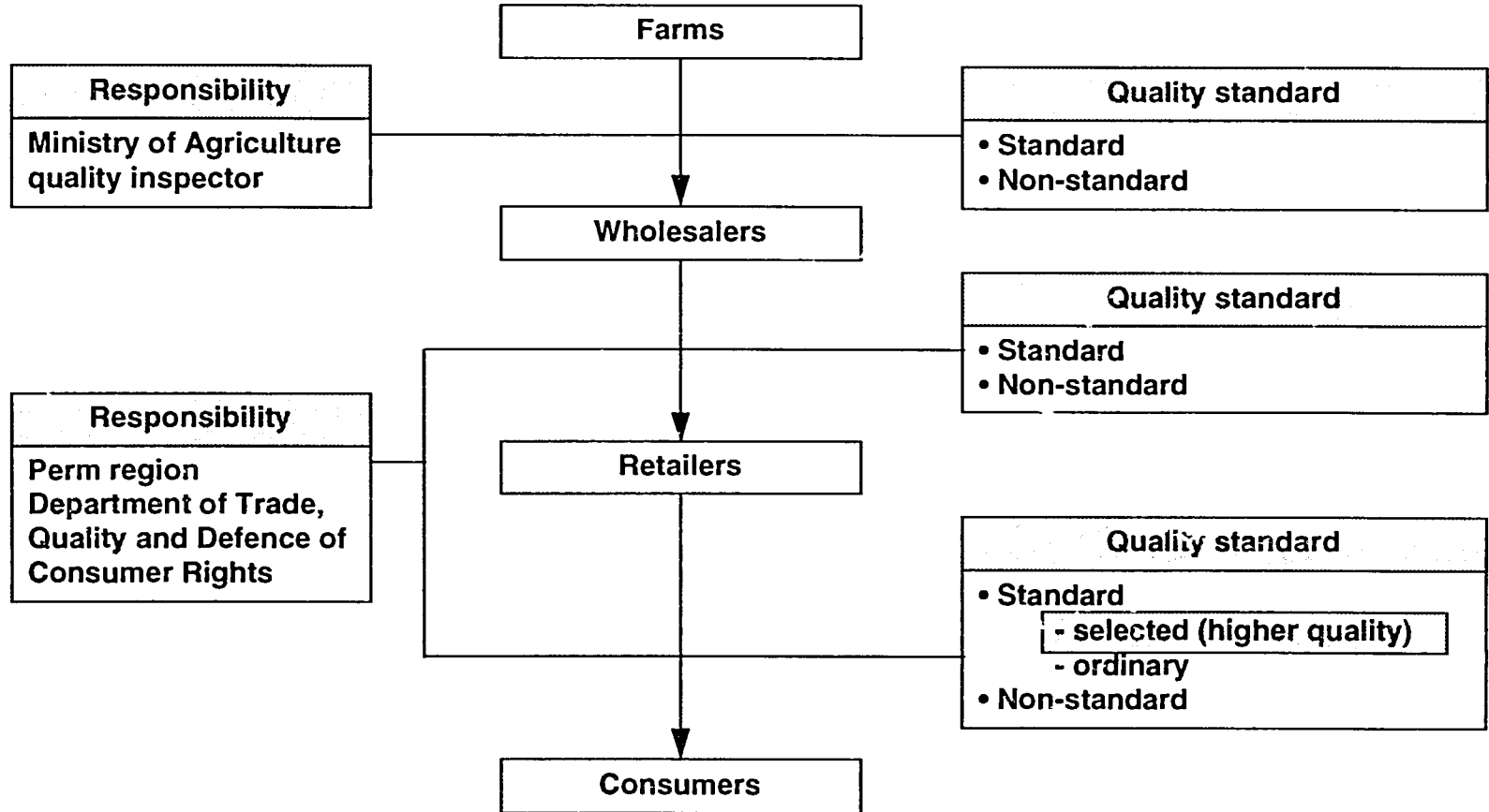
# GRADING, SORTING AND CLEANING VEGETABLES ARE EXAMPLES OF VALUE-ADDING SERVICES THAT CAN INCREASE REVENUE



Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Only 2 sorting grades of vegetables               <ul style="list-style-type: none"> <li>- standard</li> <li>- non-standard</li> </ul> </li>   <li>• No sorting from mid-September to early November</li>   <li>• No washing and packaging</li> </ul>	<ul style="list-style-type: none"> <li>• Missed opportunity to differentiate product and maximize revenue</li>   <li>• Lack of space during period</li>   <li>• Technical difficulties</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce different product grades for vegetables eg.               <ul style="list-style-type: none"> <li>- market quality</li> <li>- standard quality</li> <li>- non-standard</li> </ul> </li>   <li>• Rationalize space</li>   <li>• Wash and package products</li> </ul>

# THE RETAIL QUALITY STANDARD CONTAINS AN ADDITIONAL HIGHER QUALITY LEVEL COMPARED TO FARM AND WHOLESALER STANDARDS

- Not widely used however



**THE “SELECTED” QUALITY LEVEL COINCIDES WITH THE HIGHEST U.S. GRADE**  
 • Potato example

<b>Dimension</b>	<b>Standard grade</b>	<b>Selected grade</b>	<b>United States Extra No 1 grade</b>
<b>Size</b> • Round • Oblong	> 4.5 cm > 3 cm	> 5.0 cm > 4.0 cm	> 5.7 cm > 5.7 cm
<b>Mechanical damage</b> • Depth (> 5mm) • Length (> 10 mm)	< 5% < 5%	< 2% < 2%	< 5% < 5%
<b>Disease</b>	< 2%	0%	< 2%
<b>Frozen</b>	0%	0%	< 0.5%
<b>Soil</b>	< 1%	< 1%	0%
<b>Smashed and cut tubers</b>	0%	0%	0%
<b>Damaged by agricultural pests</b>	< 2%	0%	< 2%

Source: Russian Ministry of Agriculture, United States Department of Agriculture

# **THE HIGHER RETAIL QUALITY STANDARD COULD BE APPLIED TO FARMS AND WHOLESALERS**

- **Essential component of quality segmentation strategy**

**The implementation steps are:**

- **Ministry of Agriculture and Perm region Department of Trade, Quality and Consumer Defence determine suitability of existing “selected” quality standard**
- **Modify the selected quality standard, as appropriate**
- **Modify testing procedures**
- **Communicate standard to inspectors and conduct training**

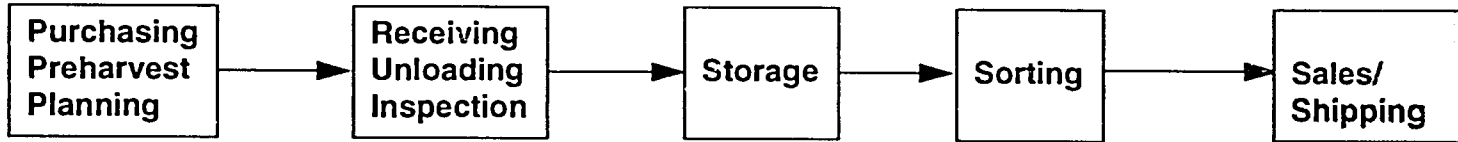
**Inspection and regulation could be performed by the Ministry of Agriculture (farms) and Department of Trade, Quality and Consumer Defence**

- **No additional inspectors necessary**

**Essential to adopt new standard to permit market segmentation by wholesalers**

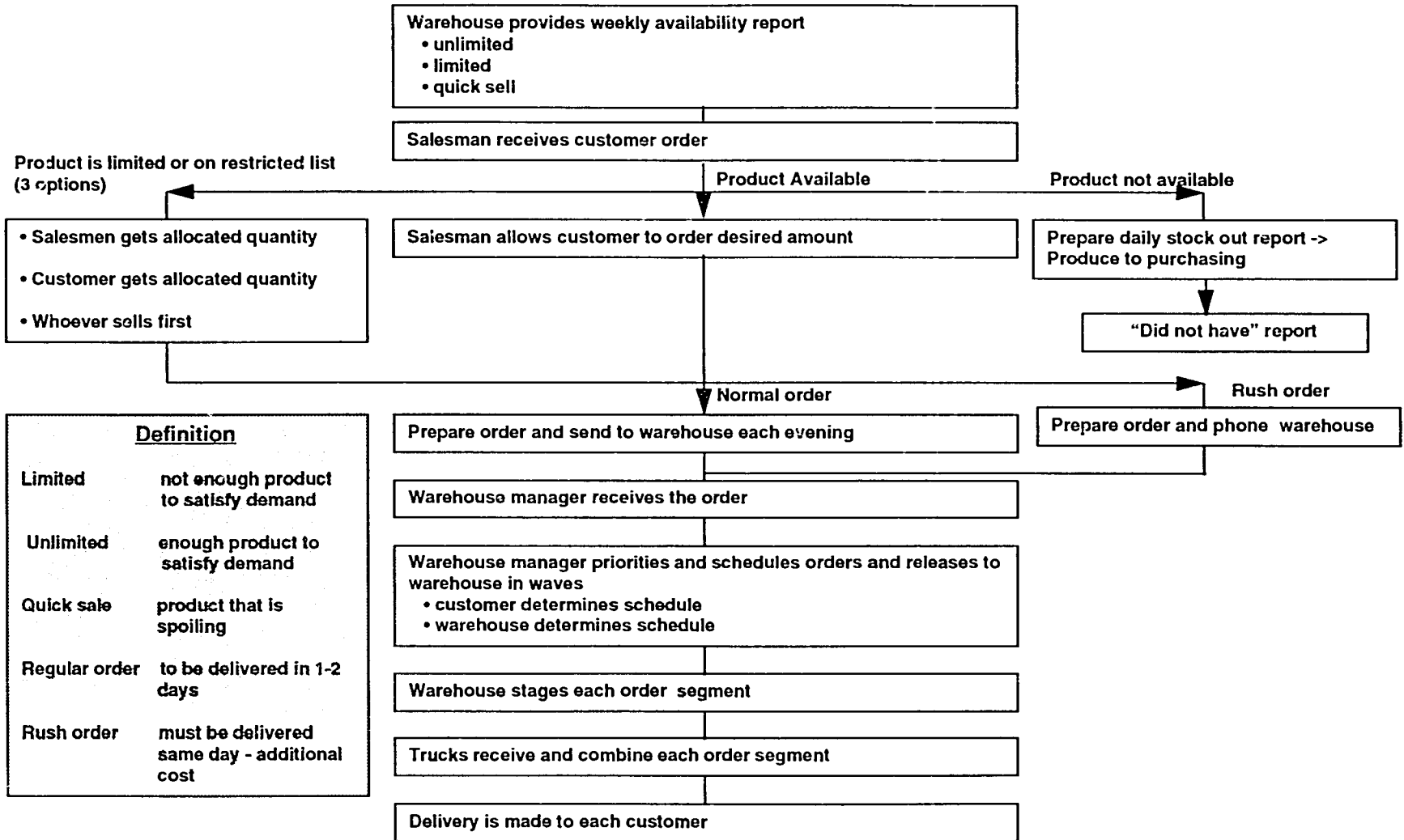
- **Match product quality with consumer needs**
- **Maximise profit potential**

# A MOTIVATED SALES FORCE IS THE EASIEST WAY TO INCREASE SALES AND OBTAIN NEW CUSTOMERS



Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Manager can sell only products in their warehouse</li>   <li>• No incentives to increase sales and find new customers</li>   <li>• Passive sales method               <ul style="list-style-type: none"> <li>- limited advertising</li> <li>- limited sales visits</li> <li>- reliance on phone and personal connections</li> <li>- lack of product information</li> </ul> </li>   <li>• Don't take into account demand and customer needs</li>   <li>• No sales planning</li> </ul>	<ul style="list-style-type: none"> <li>• Do not utilize selling opportunities</li>   <li>• Warehouse managers not motivated to sell</li>   <li>• Lack of co-ordination between warehouses</li>   <li>• Miss market trends</li>   <li>• High transportation costs</li> </ul>	<ul style="list-style-type: none"> <li>• Aggressively begin to promote the company via               <ul style="list-style-type: none"> <li>- visits</li> <li>- mailings</li> <li>- phone conversation</li> <li>- advertising</li> </ul> </li>   <li>• Create financial incentive               <ul style="list-style-type: none"> <li>- new customer bonus</li> <li>- sales bonus</li> </ul> </li>   <li>• Create a sales force that sells all products</li>   <li>• Sales team provides daily market report</li>   <li>• Consolidate orders 2 days prior to delivery</li> </ul>

# THE SALES AND DELIVERY PROCESS WILL BE RATIONALISED



## Definition

Limited	not enough product to satisfy demand
Unlimited	enough product to satisfy demand
Quick sale	product that is spoiling
Regular order	to be delivered in 1-2 days
Rush order	must be delivered same day - additional cost

## **Operations**


- **Operational problems and improvements**
- **Financial impact of operational improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Market segmentation**
- **Pricing**
- **New products**
- **Financial management**
- **Financial impact of strategy and operational improvements**
- **Action plan and implemented results**

# FIVE OPERATIONAL IMPROVEMENTS THAT CAN BE IMPLEMENTED OVER THE NEXT SIX MONTHS WILL INCREASE PPOP'S PROFITS BY 44 M RB

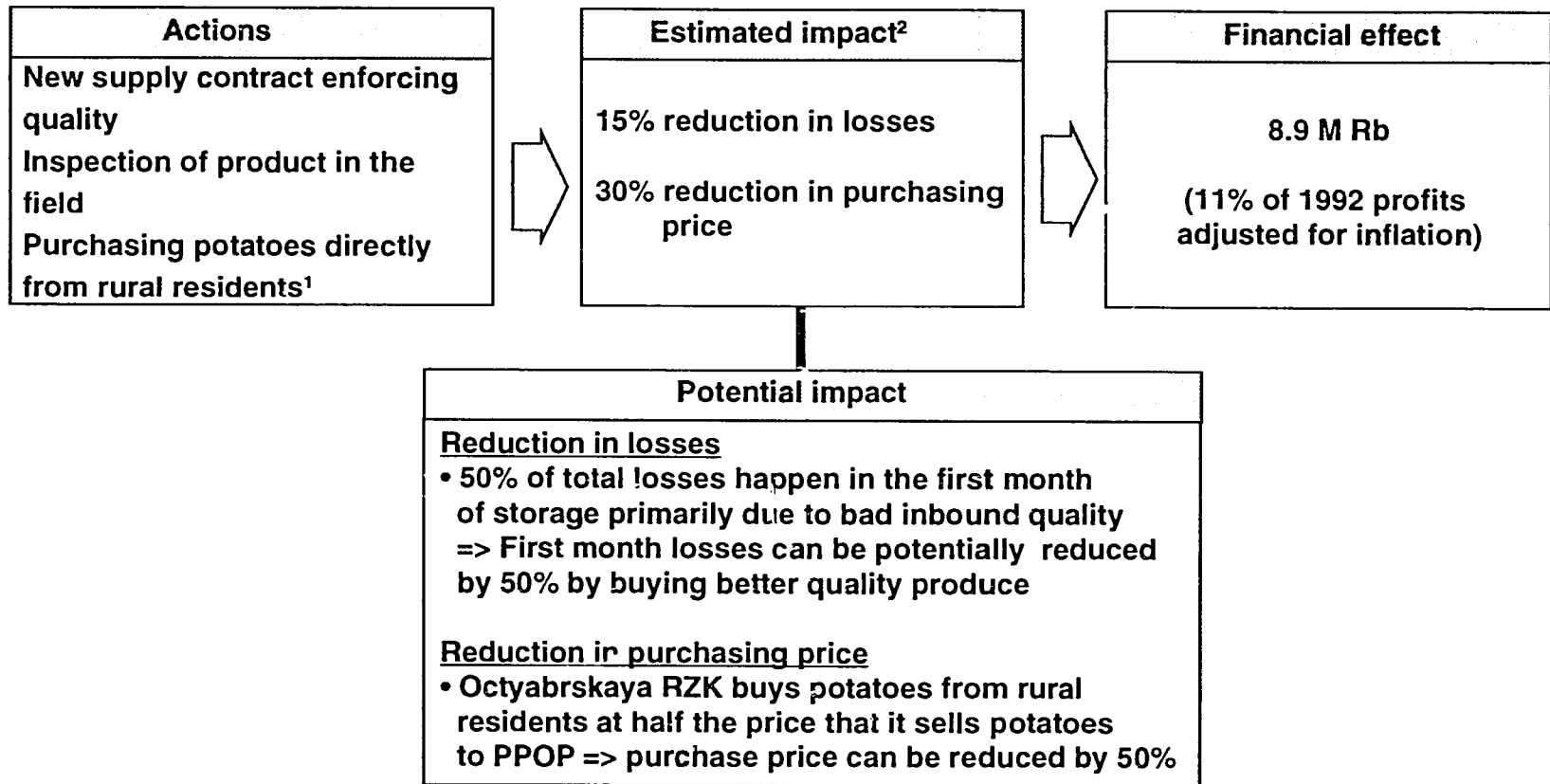
Improvements	Estimated impact (M Rb)
Action 1 - Improve the purchasing process	8.9
Action 2 - Improvements in inbound sorting	1.8
Action 3 - Improvement in storage	5.9
Action 4 - Introduce outbound sorting and grading	15.1
Action 5 - Recruit new customers	12.2



Note: All figures are in March 1993 Rbs



## ACTION 1. IMPROVE THE PURCHASING PROCESS



<sup>1</sup> Purchases of cabbages and carrots are also possible in small amounts

<sup>2</sup> Estimated impact is conservative

Note: All figures are in March 1993 Rbs

Source: BCG Analysis

# ACTION 1. IMPROVE THE PURCHASING PROCESS

## • Estimate of financial results

Loss reduction by 15%											
Product	Planned purchases (t)	x	Total losses (%)	=	Tons lost (t)	x	15% impact loss reduction (t)	x	Purchase Price (Rb/kg)	=	Reduction in Purchase Costs (Rb) <sup>1</sup>
Potato	1,500		34		510		76.5		40		3 M
Cabbage	800		32		256		38.4		70		2.7 M
Carrot	400		50		200		30		40		1.2 M
Beet	300		25		75		11.25		40		0.5 M
											Total: 7.4 M Rb

Purchase price reduction by 30% (potato only)								
Purchase from rural residents <sup>2</sup>	x	30% reduction in purchase price (Rb)	=	Reduction in purchase cost (Rb)	-	Transport, labour costs <sup>2</sup>	=	Net financial results (Rb)
300 t		12		3.6 M		2.1 M		1.5 M Rb

Financial effect
8.9 M Rb (11% of 1992 profits adjusted for inflation)

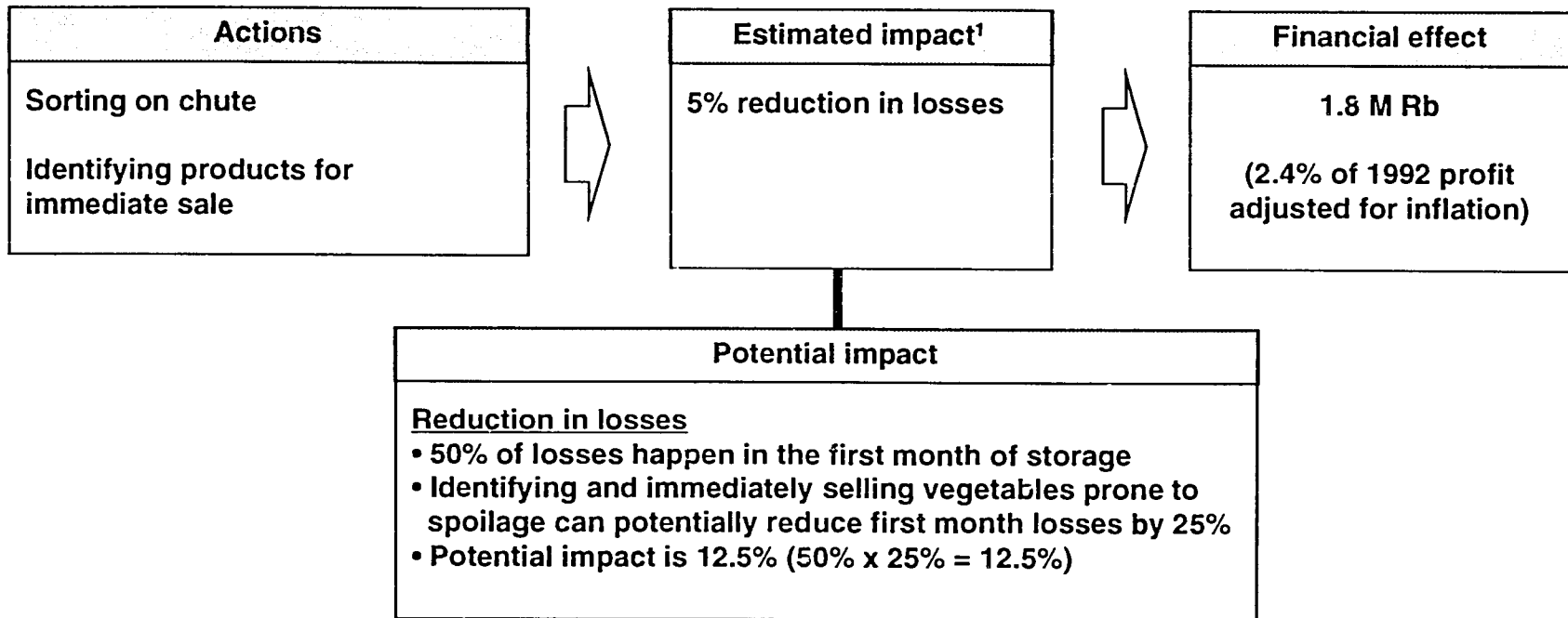
<sup>1</sup> Loss reduction will allow to buy less and sell the same amount (conservative approach vs. buy same amount but sell more)

<sup>2</sup> Based on 75 truckdays and 75 mandays needed at prices 25,000 Rb per truckday and 3,000 Rb per man

Note: All figures in March 1993 Rbs

Source: BCG Analysis

## ACTION 2. IMPROVEMENTS IN INBOUND SORTING



<sup>1</sup> Based on conservative assumption that reduction in losses allows to buy less and sell the same amount (vs. buy same, and sell more). Reduction in storage costs and alternative use of freed capacity may improve financial results as well

Note: All figures are in March 1993 Rbs

Source: BCG Analysis

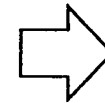
## ACTION 2. IMPROVEMENT IN INBOUND SORTING

### • Estimate of financial results

5% loss reduction											
Product	Planned purchases (t)	x	Total losses (%)	=	Tons lost (t)	x	5% impact loss reduction (t)	x	Purchase Price (Rb/kg)	=	Reduction in Purchase Costs (Rb) <sup>1</sup>
Potato	1,500		34		510		25.5		40		1 M
Cabbage	800		32		256		12.8		70		0.9 M
Carrot	400		50		200		10		40		0.4 M
Beet	300		25		75		3.75		40		0.2 M
											Total: 2.5 M Rb



Increased labor and equipment costs	
2 chutes @ 0.2 M	= 0.4 M
8 additional @ 0.04 M people	= 0.3 M
Total 0.7 M Rb	



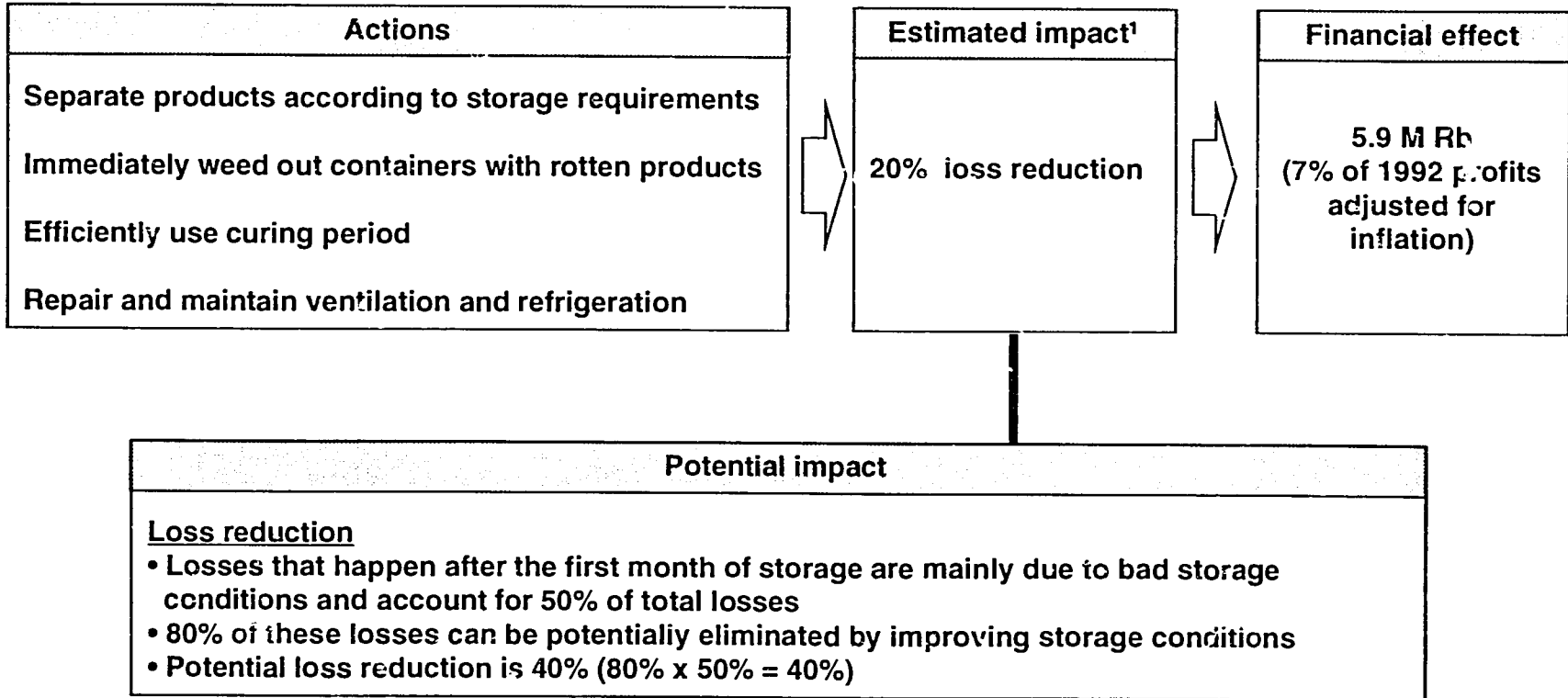
Financial effect
1.8 M Rb (2.4% of 1992 profit adjust for inflation)

<sup>1</sup> Based on conservative assumption that reduction in losses allows to buy less and sell the same amount (vs. buy same, and sell more). Reduction in storage costs and alternative use of capacity may improve financial results as well

Note: All figures are in March 1993 Rbs

Source: BCG Analysis

## ACTION 3. IMPROVEMENTS IN STORAGE<sup>1</sup>



<sup>1</sup> Includes only improvements that do not require significant capital investment  
 Note: All figures are in March 1993 Rbs  
 Source: BCG Analysis

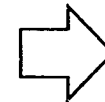
## ACTION 3. IMPROVEMENT IN STORAGE<sup>1</sup>

### • Estimate of financial results

20% loss reduction											
Product	Planned purchases (t)	x	Total losses (%)	=	Tons lost (t)	x	20% impact loss reduction (t)	x	Purchase Price (Rb/kg)	=	Reduction in Purchase Costs (Rb) <sup>2</sup>
Potato	1,500		34		510		102		40		4.1 M
Cabbage	800		32		256		52		70		3.6 M
Carrot	400		50		200		40		40		1.6 M
Beet	300		25		75		15		40		0.6 M
											Total: 9.9 M Rb



Costs	
Ventilation repair	2 M
Refrigeration repair	2 M
Total 4 M Rb	



Financial effect
5.9 M Rb
(7% of 1992 profits adjusted for inflation)

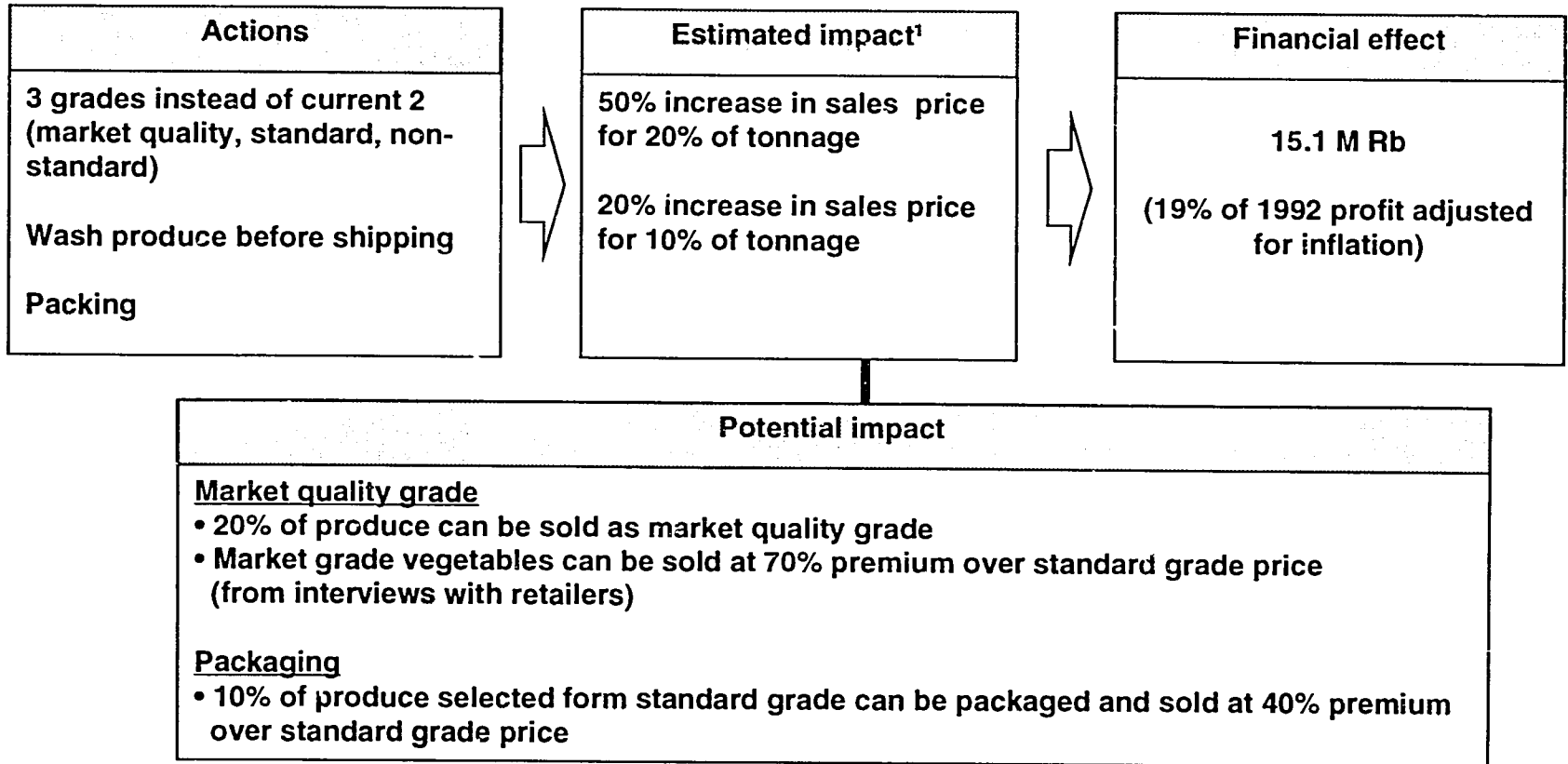
<sup>1</sup> Includes only improvements that do not require significant capital investment

<sup>2</sup> Based on conservative assumption that reduction in losses allows to buy less and sell the same amount (vs. buy same amount and sell more).

Note: All figures are in March 1993 Rbs

Source: BCG Analysis

## ACTION 4. INTRODUCE OUTBOUND SORTING AND GRADING



<sup>1</sup> Increase in price is fully supported by increase in quality and does not cause volume reduction  
 Note: All figures are in March 1993 Rbs  
 Source: BCG Analysis

## ACTION 4. INTRODUCE OUTBOUND SORTING AND GRADING

### • Estimate of financial results

Impact: 50% increase in price for market quality									
Product	Planned sales (t) <sup>1</sup>	x 20%	=	Mkt quality sales (t)	x Sales price (Rb/kg)	= Sales revenue (Rb)	x 50% price increase	=	Increased revenue <sup>2</sup>
Potato	1000			200	50	10 M			5 M
Cabbage	544			109	100	11 M			5.5 M
Carrot	200			40	55	2.2 M			1.1 M
Beet	225			45	55	2.5 M			1.3 M
									Total: 12.9 M Rb

Impact: 20% increase in price for packed goods									
Product	Planned sales (t) <sup>1</sup>	x 10% <sup>3</sup>	=	Packed sales (t)	x Sales price (Rb/kg)	⇒ Sales revenue (Rb)	x 20% price increase	=	Increased revenue
Potato	1,000			100	50	5 M			1 M
Cabbage	200			20	55	1.1 M			0.2 M
Fruit	2,000			200	300	60 M			12 M
									10.2 M Rb

Costs	
Packing <sup>3</sup>	(10 M)
Labor (4 people)	(1M)
Total	(11 M) Rb

Financial effect
15.1 M Rb
(19% of 1992 profits adjusted for inflation)

<sup>1</sup> Planned sales are estimated on the basis of planned purchases minus losses. Sales exclude sales of spoiled product for fodder

<sup>2</sup> No additional costs, since grading is already in place, however, only on standard and non-standard grades

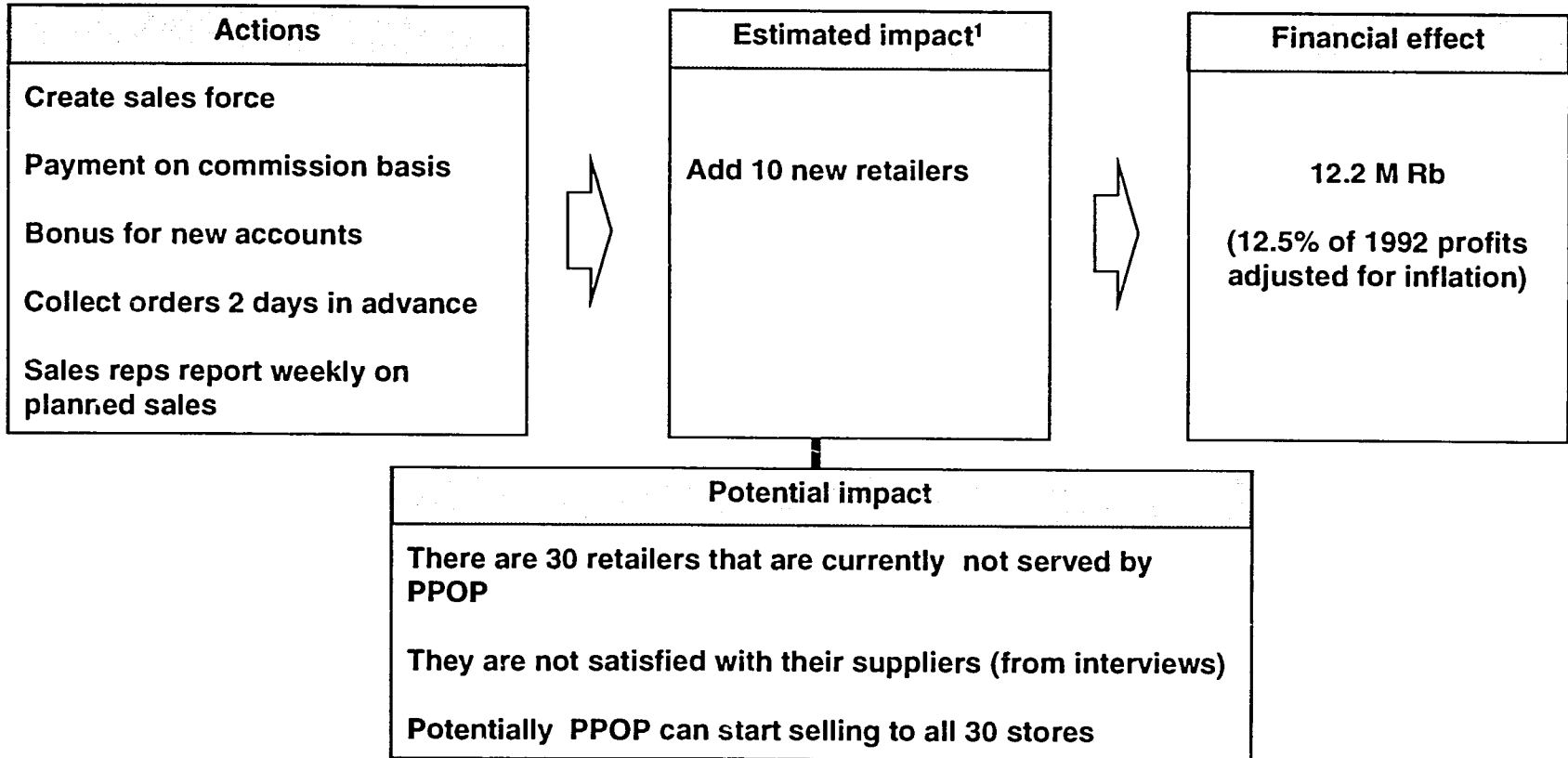
<sup>3</sup> Part of the packaging costs should be allocated to market quality grade revenue since some of that produce will be packed

Note: All figures are in March 1993 Rbs

Source: BCG Analysis



## ACTION 5. RECRUIT NEW CUSTOMERS



<sup>1</sup> Estimated on basis of March 93 average sales adjusted for inflation and size of retailers that are not served  
 Note: All figures are in March 1993 Rbs  
 Source: BCG Analysis

## ACTION 5. RECRUIT NEW CUSTOMERS

- Estimate of financial impact

Revenue								
Average sales volume per retailer <sup>1</sup> (Rb)	x	10 retailers	=	Increased revenue	x	Net profit margin <sup>2</sup>	=	Cash inflow
25 M				250 M		5%		12.5 M Rb



Costs	
Comissions (0.1% of sales)	0.3 M Rb



Net effect
12.2 M Rb (12% of 1992 profits adjusted for inflation)

<sup>1</sup> Estimated on basis of March 1993 average sales adjusted for inflation and size of retailers which are not served

<sup>2</sup> Based on historical 5% net profit margin on sales

Note: All figures are in March 1993 Rbs

Source: BCG Analysis

## TWO CONVEYORS SHOULD BE PURCHASED AND THE REFRIGERATION AND VENTILATION SYSTEMS NEED TO BE REPAIRED

Equipment	Cost (000's Rb)	Benefit (000's Rb)	Payback *
Chute	400	1,900	1/4 year
Refrigeration repair	2,000	3,100	< 1 year
Ventilation repair	2,000	2,800	< 1 year
Conveyer			
- electric	4,500	2,450	2.5 years
- gravity	3,000	1,900	2 years
Insulated storehouse gates	800	270	5 years
Insulation			
- 50 mm	3,900	160	>20 years
- 100 mm	7,800	320	>20 years
- 200 mm	15,600	540	>20 years

\* Assuming net interest rate of 20%/year  
Data Source: BCG Analysis

### **Operations**

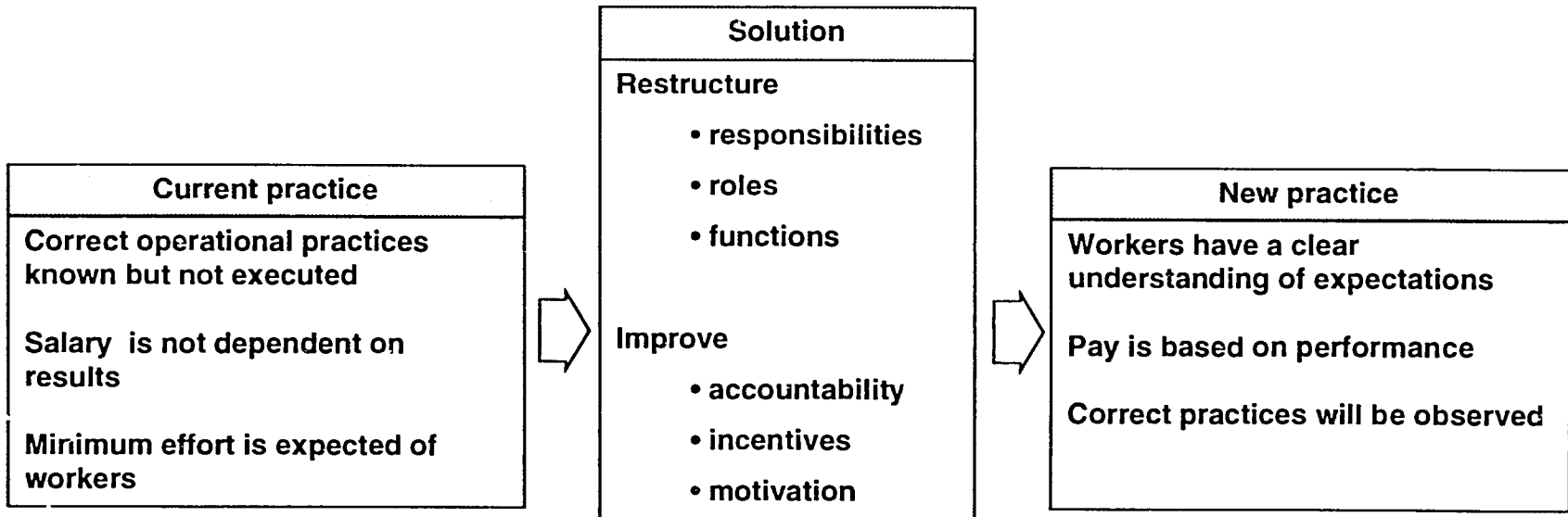
- **Operational problems and improvements**
- **Financial impact of operational improvements**
- **Organizational improvements**
- **Action plan and implemented results**

### **Strategy**

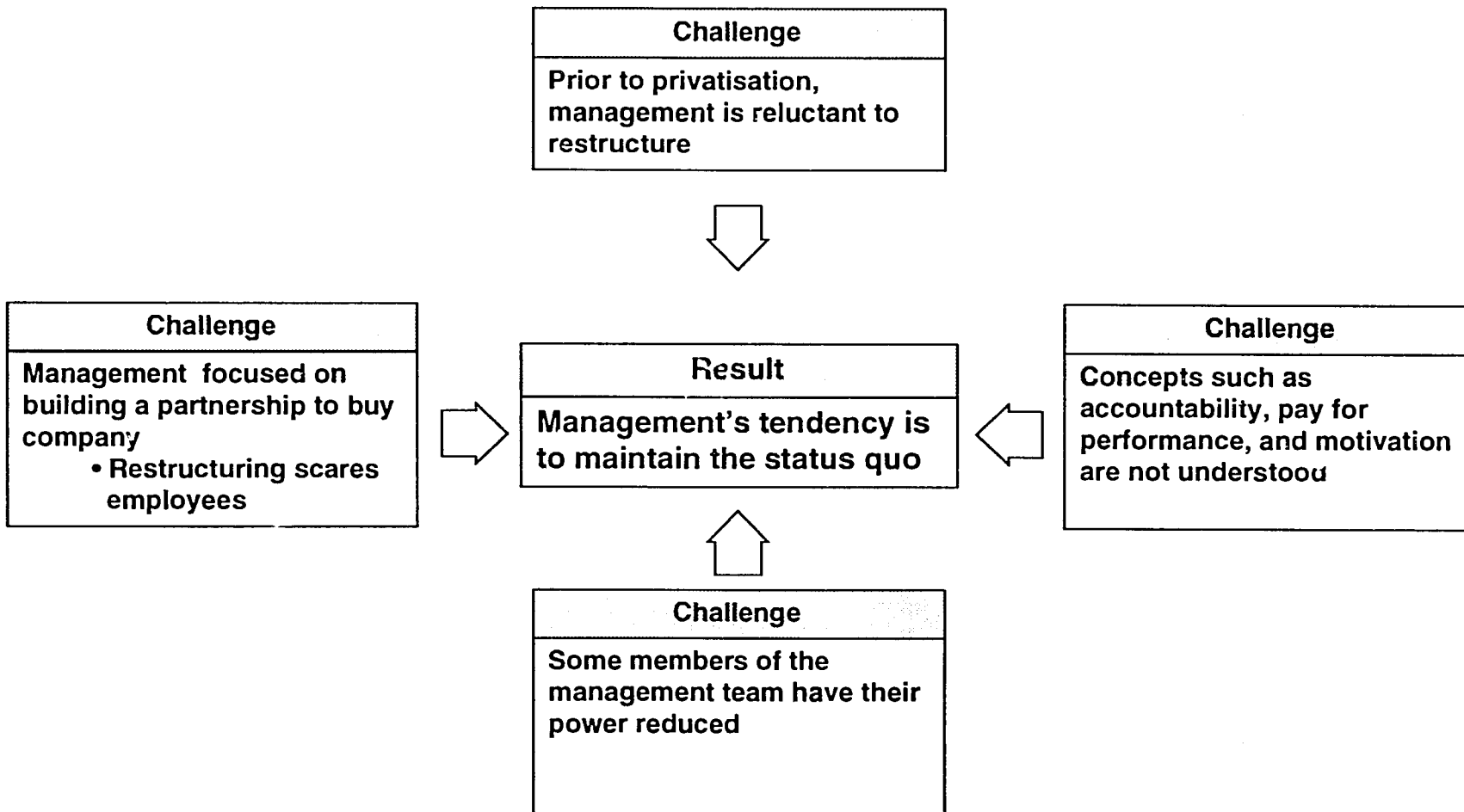
- **Market segmentation**
- **Pricing**
- **New products**
- **Financial management**
- **Financial impact of strategy and operational improvements**
- **Action plan and implemented results**

# ORGANISATIONAL IMPROVEMENTS ARE THE MOST IMPORTANT ASPECT OF RESTRUCTURING

- Necessary for all other operational improvements

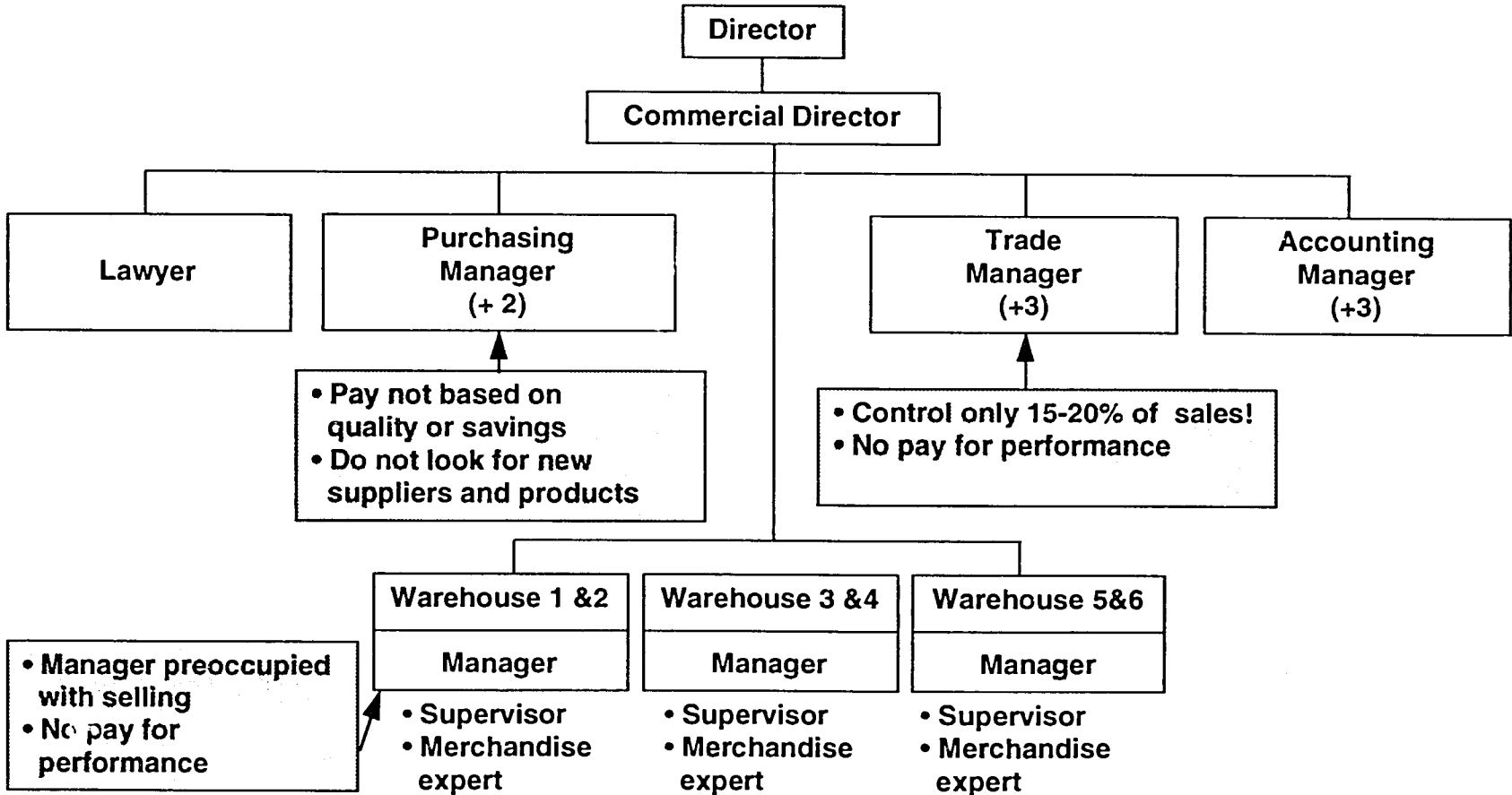


# THERE ARE MANY CHALLENGES ASSOCIATED WITH RESTRUCTURING THE EXISTING ORGANISATION



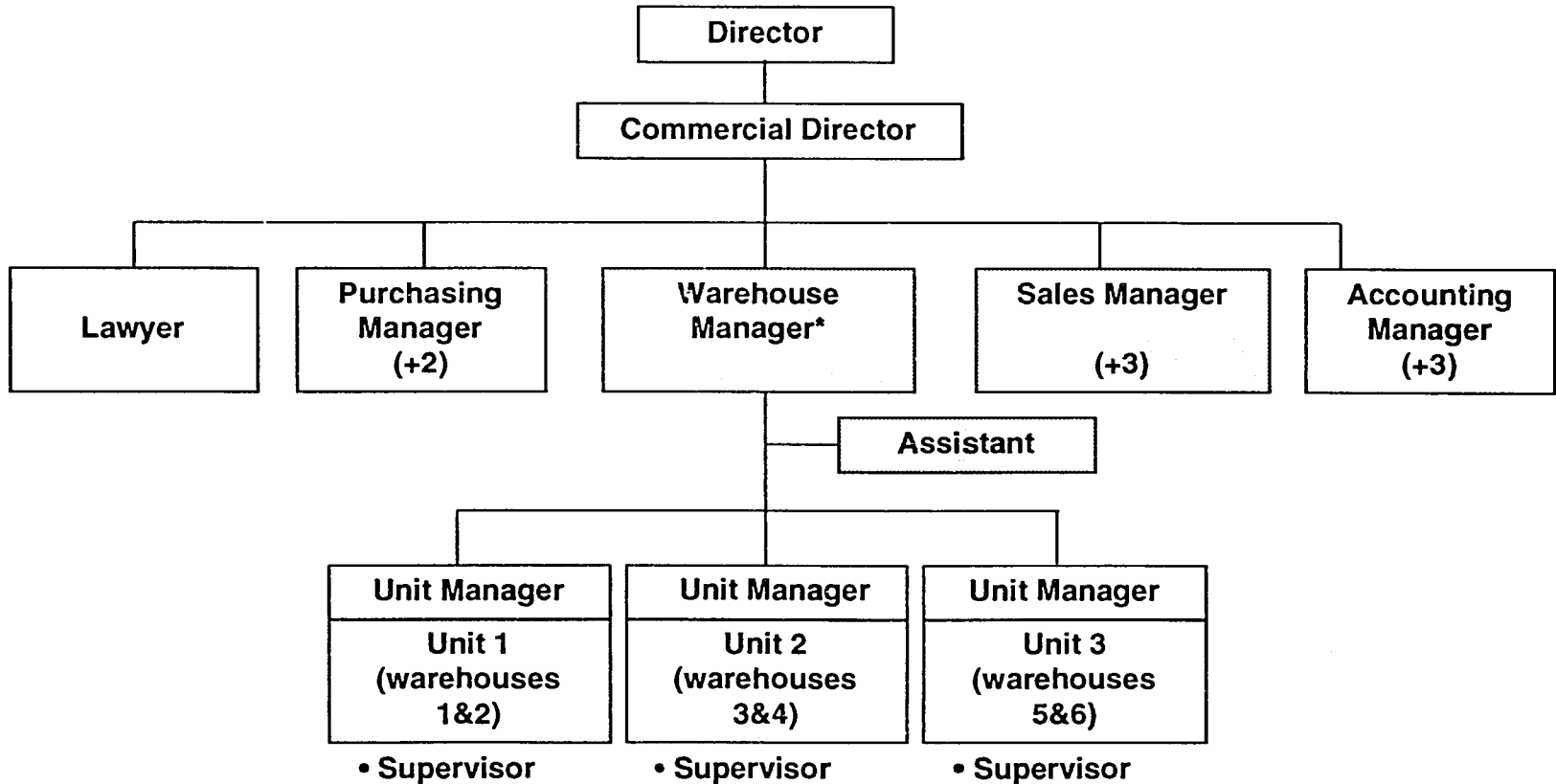
# DEPARTMENTAL RESPONSIBILITIES NEED TO BE REDEFINED

## • Existing structure



**BY THE END OF THE YEAR THERE WILL BE A NEW WAREHOUSE  
CO-ORDINATOR, TWO EXTRA SALESMEN, AND A WAREHOUSING ASSISTANT**

- New organisational structure



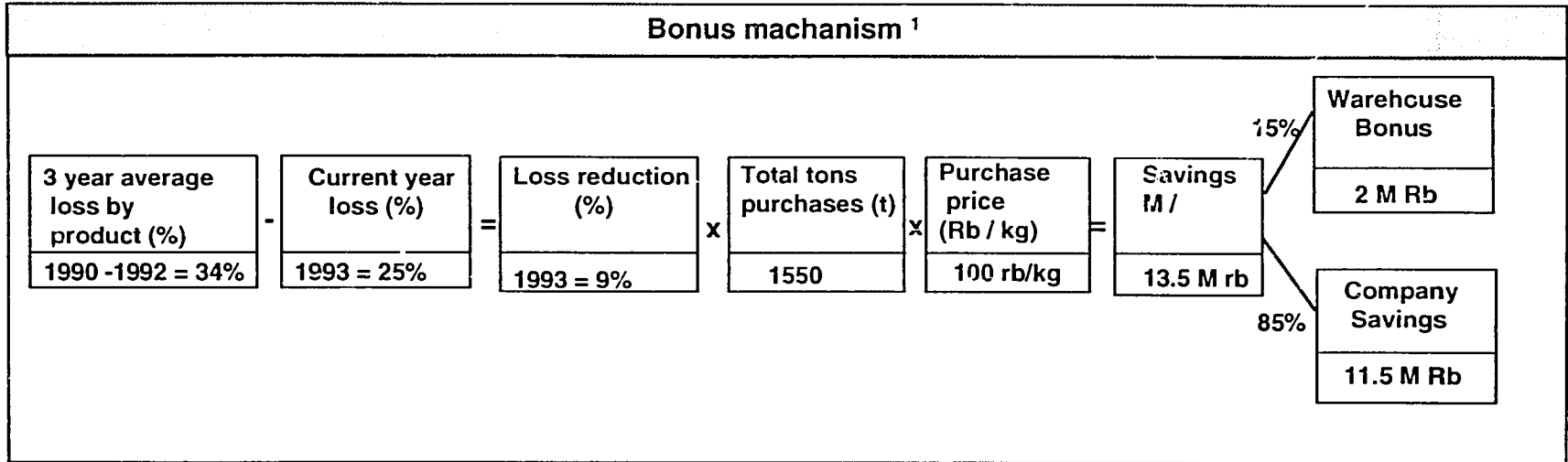


## RESPONSIBILITIES, INCENTIVES AND COMMUNICATION WILL BE IMPROVED

Problem	Solution
<ul style="list-style-type: none"> <li>• Lack of accountability at all levels</li> <li>• Managers can sell only a limited range of products</li> <li>• Managers are not directly responsible for losses and quality control</li> </ul>	<ul style="list-style-type: none"> <li>• Make personnel directly responsible for performance</li> <li>• Allow sales team to sell all products</li> <li>• Salary incentive based on loss reduction</li> </ul>
<ul style="list-style-type: none"> <li>• Purchasing does not actively seek new suppliers</li> <li>• There are no financial incentives for purchasing better quality products at lower prices</li> <li>• Trade department is not motivated to seek out new customers</li> </ul>	<ul style="list-style-type: none"> <li>• Create awareness and motivation to reduce product cost</li> <li>• Reward buyers based on savings and quality levels</li> <li>• Reward salesmen based on sales volume</li> </ul>
<ul style="list-style-type: none"> <li>• Little communication between purchasing and sales resulting in missed market needs</li> </ul>	<ul style="list-style-type: none"> <li>• Provide daily feedback between departments</li> </ul>

# THE NEW WAREHOUSING INCENTIVE SYSTEM CONSISTS OF A BONUS FOR LOSS REDUCTION IN STORAGE\*

- Warehouse employees receive proportion of net savings



Bonus is expected to comprise approximately 10% of annual salary and will be allocated by:

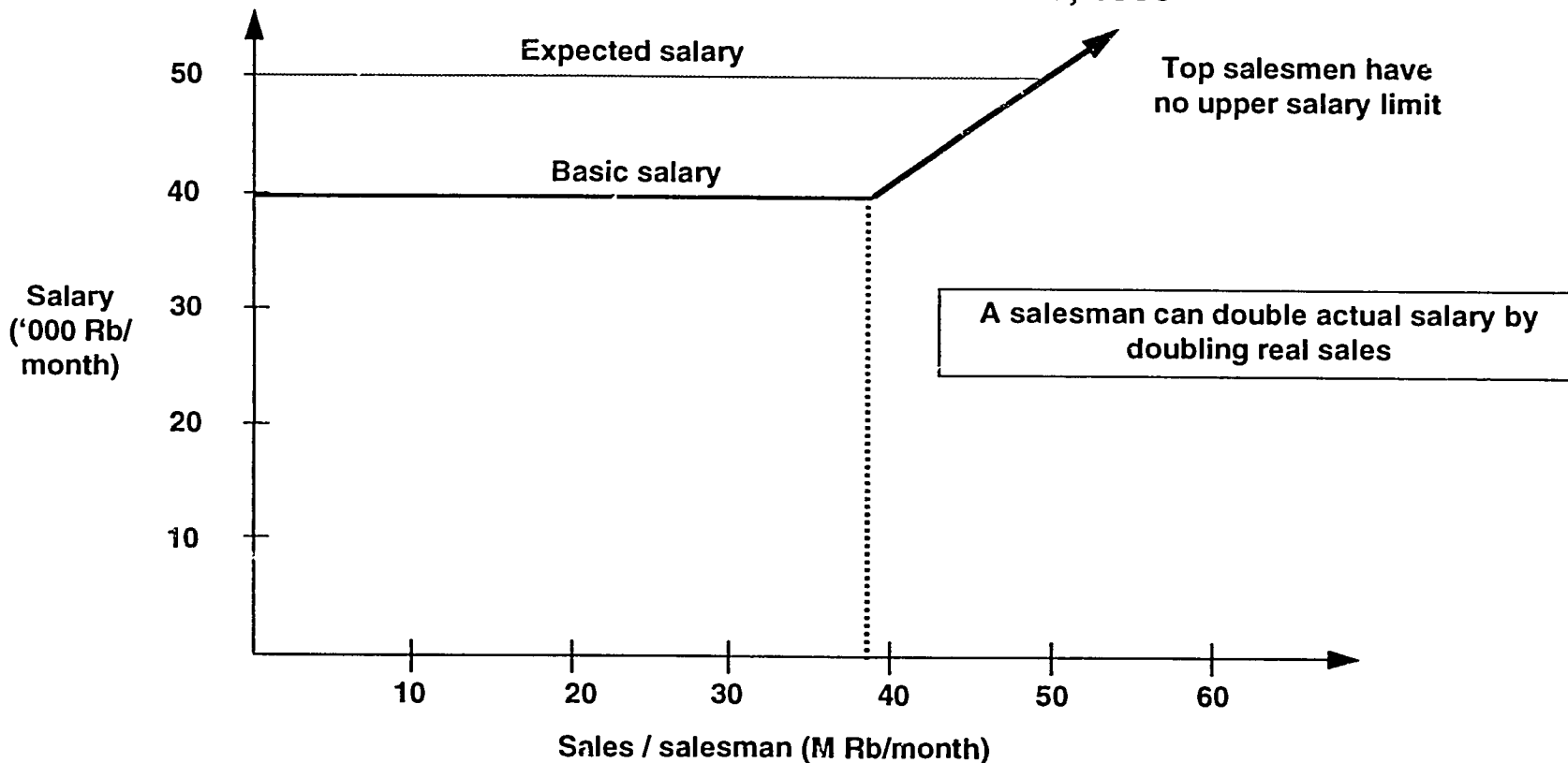
- Unit
- Product
- Year

\* Beets , carrots, cabbage, potatoes

<sup>1</sup>Impact is conservative due to neglect of revenue enhancement (buy less, sell same amount vs. buy same, sell more)

Source: BCG Analysis

# THE NEW SALES INCENTIVE SYSTEM HAS BEEN AGREED AND TAKES EFFECT SEPTEMBER 1, 1993

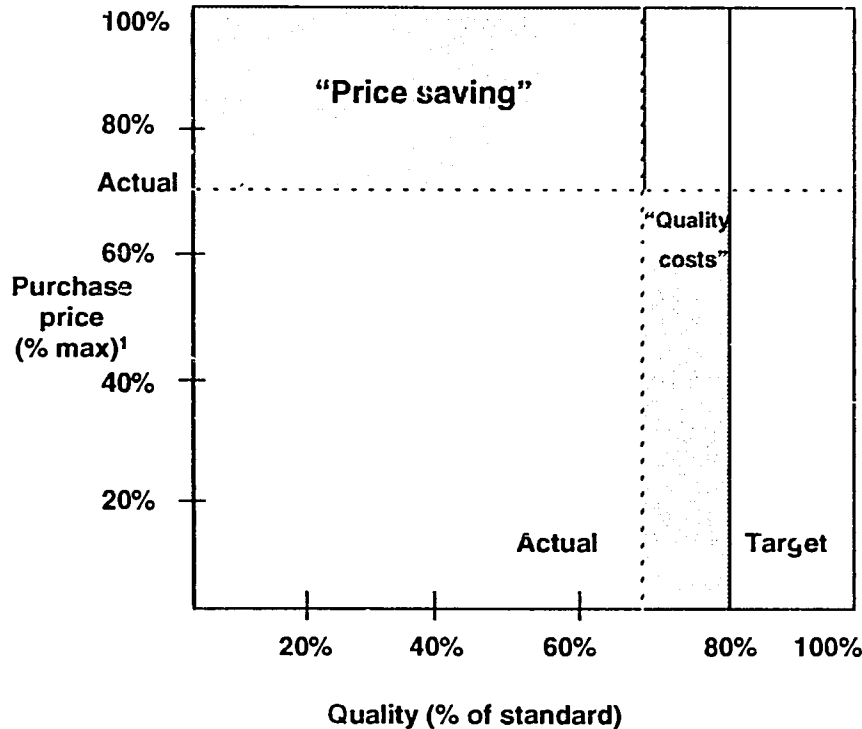


Base salary is 75% of expected salary  
Commission begins at 38 M Rb and the commission level is 0.1% of sales

• May change on monthly basis

# A NEW PURCHASING INCENTIVE SYSTEM HAS BEEN PROPOSED AND IS UNDER CONSIDERATION

## • Potato example



Incentive calculation <sup>2</sup>								
<b>"Price saving"</b>	<b>"Quality costs"</b>	<b>"Net saving"</b>						
Price decrease x quality level	Quality decrease x actual price	Net cost savings						
30% x 70% = 21%	10% x 70% = 7%	14%						
		<table border="1"> <tr> <td><b>Incentive</b></td> <td><b>Company benefit</b></td> </tr> <tr> <td>2% x 19% =</td> <td>98% x 19% =</td> </tr> <tr> <td>0.28%</td> <td>13.72%</td> </tr> </table>	<b>Incentive</b>	<b>Company benefit</b>	2% x 19% =	98% x 19% =	0.28%	13.72%
<b>Incentive</b>	<b>Company benefit</b>							
2% x 19% =	98% x 19% =							
0.28%	13.72%							

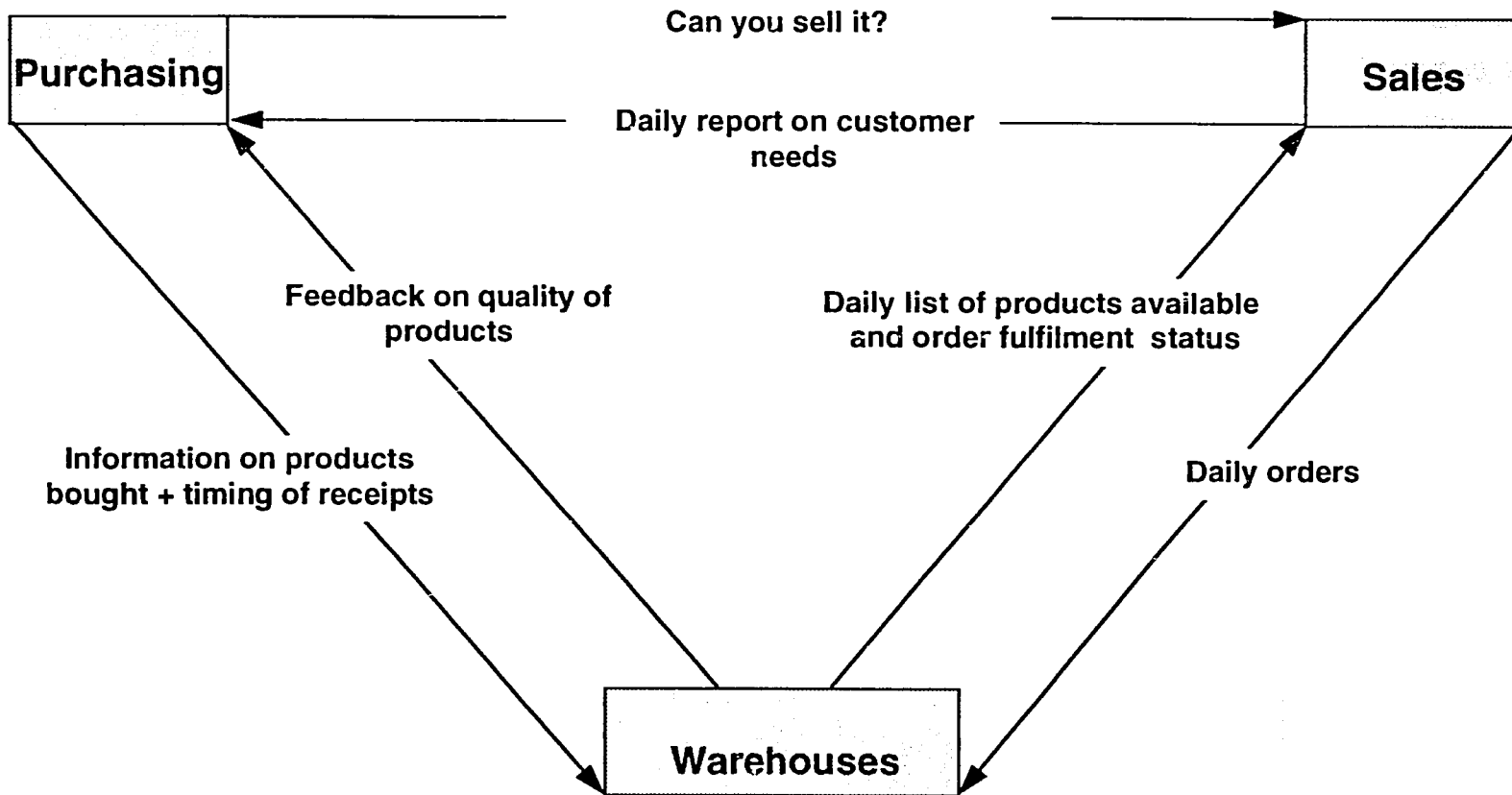
Incentive principle
<ul style="list-style-type: none"> <li>• Reduction in purchase prices offset by decrease in quality</li> <li>• Purchasing staff receives 2% of net saving on top of base salary</li> <li>• Company keeps 98% of net saving</li> </ul>

<sup>1</sup> "Maximum" price = Sales price - added costs - 3% profit margin

<sup>2</sup> Calculated as % of maximum price per kg of standard product

Source: BCG Analysis

# THE SUCCESS OF A NEW ORGANISATION WILL DEPEND ON INTERACTIONS BETWEEN DEPARTMENTS



## AN EMPLOYEE SUGGESTION SCHEME WAS INTRODUCED

### Sample comments

**“Change the system of payments; introduce bonus system to provide incentive”**

**“The quality of products sold to retailers is poor; increase the quality which will lead to increased sales”**

**“Build refrigeration systems in all storehouses”**

**“Build a railway to the warehouse”**

**“Use containers to transport potatoes from the field to the warehouse”**

**“Buy 2 new forklifts”**

**“Improve the quality of inbound products”**

**“Install additional telephone line”**

**“Buy new mechanisms (conveyers) to use for loading and unloading”**

## PURCHASING DEPARTMENT JOB DESCRIPTION (1)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Responsible for contacts with key suppliers</li>   <li>• Investigate alternative sources of supply</li>   <li>• Coordinate with other departments</li> </ul>	<ul style="list-style-type: none"> <li>• Periodic visits to supplier               <ul style="list-style-type: none"> <li>- phone calls and written contacts</li> <li>- investigate future prices/quality and products</li> <li>- encourage supplier to grow certain products</li> <li>- visit farms before harvest to assess quality</li> </ul> </li>   <li>• Visit to other farms/regions               <ul style="list-style-type: none"> <li>- investigate price/quality</li> <li>- availability</li> <li>- variety</li> </ul> </li>   <li>• Investigate direct buying from private sector</li> <li>• Analyse price vs. quality/possible losses (including transport costs)               <ul style="list-style-type: none"> <li>- use information from warehouse management</li> </ul> </li>   <li>• Keep warehouse management informed of products bought + timing of receipts</li> <li>• Use feedback from warehouse management on products with low losses</li> <li>• Keep sales department informed of special purchase opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Min number of visits</li> <li>• Quotas</li> <li>• Quality assessment               <ul style="list-style-type: none"> <li>- pre-harvest</li> <li>- harvest</li> </ul> </li>   <li>• Purchase price/quality vs. historical prices</li> <li>• Loss reduction</li> <li>• Quality assessments</li>   <li>• Timely reports</li> </ul>

## PURCHASING DEPARTMENT JOB DESCRIPTION (2)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Negotiate contracts and prices with suppliers</li>   <li>• Assess quality</li> </ul>	<ul style="list-style-type: none"> <li>• Verify quality/price comparison</li> <li>• Determine payment terms</li> <li>• Negotiate quality contract</li> <li>• Storage location (wholesaler or farm)</li>   <li>• Verify quality of purchased products</li> <li>• Assess quality to determine price</li> </ul>	<ul style="list-style-type: none"> <li>• Savings vs. historical prices</li> <li>• Extended receiving window</li>   <li>• Warehouse quality determinations</li> <li>• Amount of losses</li> </ul>

**Incentives**  
**Salaries based on reduction of prices by grade of product**



## WAREHOUSE MANAGER JOB DESCRIPTION (1)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Ensure correct warehouse segmentation</li> <li>• Responsible for facilities maintenance</li> <li>• Supervise storage</li> <li>• Coordinate with purchasing department</li> </ul>	<ul style="list-style-type: none"> <li>• Allocate products to warehouse upon receipts</li> <li>• Supervise Unit Managers                             <ul style="list-style-type: none"> <li>- look out for possible problems</li> <li>- supervise repairs/construction</li> <li>- buy new machines when needed</li> </ul> </li> <li>• Check that correct storage conditions are kept in all warehouses                             <ul style="list-style-type: none"> <li>- temperature/humidity</li> <li>- physical inventory vs. projected inventory</li> <li>- curing period</li> <li>- space utilization / proper lay out</li> </ul> </li> <li>• Written feedback on which products have better storability                             <ul style="list-style-type: none"> <li>- % of losses by product type/supplier</li> </ul> </li> <li>• Receive information on timing of receipts                             <ul style="list-style-type: none"> <li>- plan warehouse segmentation</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• % loss reduction compared to last year average</li> <li>• Facility conditions                             <ul style="list-style-type: none"> <li>- refrigeration</li> <li>- ventilation</li> <li>- other</li> </ul> </li> <li>• % of loss reduction</li> <li>• Utilization of space</li> <li>• Timely feedback</li> </ul>

## WAREHOUSE MANAGER JOB DESCRIPTION (2)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• <b>Coordinate with Sales Department</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Provide Sales Department with a weekly list of products specifying limited or unlimited amounts</b> <ul style="list-style-type: none"> <li>- in tonnes</li> <li>- by product/grade</li> <li>- list of quick sell items</li> </ul> </li> <li>• <b>Receive orders from Sales and prioritise and schedule delivery</b> <ul style="list-style-type: none"> <li>- customer specific delivery date</li> <li>- warehouse specifies delivery based on location demand</li> </ul> </li> <li>• <b>Monitor order picking and shipping</b></li> <li>• <b>Arrange transportation and monitor delivery</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Timely report / list</b></li> <li>• <b>Adherence to delivery schedule</b> <ul style="list-style-type: none"> <li>- customer service</li> <li>- cost</li> </ul> </li> <li>• <b>Adherence to delivery schedule</b> <ul style="list-style-type: none"> <li>- customer service</li> <li>- cost</li> </ul> </li> </ul>

<p><b><u>Incentives</u></b></p> <p>Salary based on</p> <ul style="list-style-type: none"> <li>• Loss reduction</li> <li>• Timely delivery</li> <li>• Correct shipment of products</li> </ul>
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## UNIT MANAGER JOB DESCRIPTION (2)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Supervise workers</li>   <li>• Ship orders</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-sorting</li> <li>• Grading</li>   <li>• Loading - unloading</li> <li>• Receive orders from warehouse manager</li> <li>• Pull the orders from storage =&gt; weigh</li> <li>• Verify quantity and quality - weigh and visual inspection</li> <li>• Stage at entrance of warehouse</li> <li>• Load trucks</li> </ul>	<ul style="list-style-type: none"> <li>• Productivity</li>   <li>• Adherence to schedule</li> <li>• Productivity</li> </ul>

### Incentives

Salary based on:

- Loss reduction
- Maintenance of proper conditions
- Physical inventory vs. projected inventory

## SALES DEPARTMENT JOB DESCRIPTION (1)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Responsible for a given set of customers</li>   <li>• Assess demand and needs of market and specific customers</li>   <li>• Keep purchasing department informed of market trends and specific customer needs</li>   <li>• Expand the customer base</li>   <li>• Negotiate contract / prices</li> </ul>	<ul style="list-style-type: none"> <li>• Daily contact by phone with existing customers to inform them of products available and take orders</li>   <li>• Visits with customers to assess their needs/problems               <ul style="list-style-type: none"> <li>- investigate which products they are buying from other suppliers</li> <li>- investigate which products/prices they want now/ near future</li> <li>- investigate which services they need/desire</li> </ul> </li>   <li>• Write daily reports based on customer interviews</li> <li>• Informal meetings with Purchasing Department</li>   <li>• Personal visits to possible customers to establish relationships</li> <li>• Promote PPOP through phone calls and letters with information on products/ prices/ services</li> <li>• Advertising</li>   <li>• Negotiate and sign contracts when needed               <ul style="list-style-type: none"> <li>- negotiate prices and payment terms</li> <li>- inform Accounting Department</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Meet quotas</li> <li>• Minimum sales level/product               <ul style="list-style-type: none"> <li>- based on last year's sales</li> </ul> </li>   <li>• Customer satisfaction               <ul style="list-style-type: none"> <li>- periodic phone call by the deputy director to customers</li> </ul> </li>   <li>• Timely feedback               <ul style="list-style-type: none"> <li>- generated sales opportunities</li> </ul> </li>   <li>• # of new customers added</li> <li>• # of new calls/week</li>   <li>• Payment history</li> <li>• Price realization</li> </ul>



## PERSONALITY PROFILE AND SKILLS

Position	Skills	Profile	
<ul style="list-style-type: none"> <li>• Sales Department</li> </ul>	<ul style="list-style-type: none"> <li>• Communication skills</li> <li>• Knowledge of the market (product knowledge)</li> </ul>	<ul style="list-style-type: none"> <li>• Energetic</li> <li>• Convincing</li> <li>• Articulate</li> </ul>	<ul style="list-style-type: none"> <li>• Self confident</li> <li>• Initiative</li> </ul>
<ul style="list-style-type: none"> <li>• Purchasing Department</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge of quality/ standards</li> <li>• Communication skills</li> <li>• Knowledge of contract law</li> <li>• Knowledge of the market</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiator</li> <li>• Motivated</li> </ul>	<ul style="list-style-type: none"> <li>• Team player</li> <li>• Energetic</li> </ul>
<ul style="list-style-type: none"> <li>• Warehouse Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Management skills</li> <li>• Knowledge of storage (conditions, quality testing, facility maintenance, order scheduling)</li> </ul>	<ul style="list-style-type: none"> <li>• Organised</li> <li>• Team player</li> <li>• Energetic</li> </ul>	<ul style="list-style-type: none"> <li>• Motivated</li> <li>• Common Sense</li> </ul>
<ul style="list-style-type: none"> <li>• Unit Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge of storage conditions</li> <li>• Quality testing knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Team player</li> <li>• Motivated</li> <li>• Common sense</li> </ul>	

## **Operations**

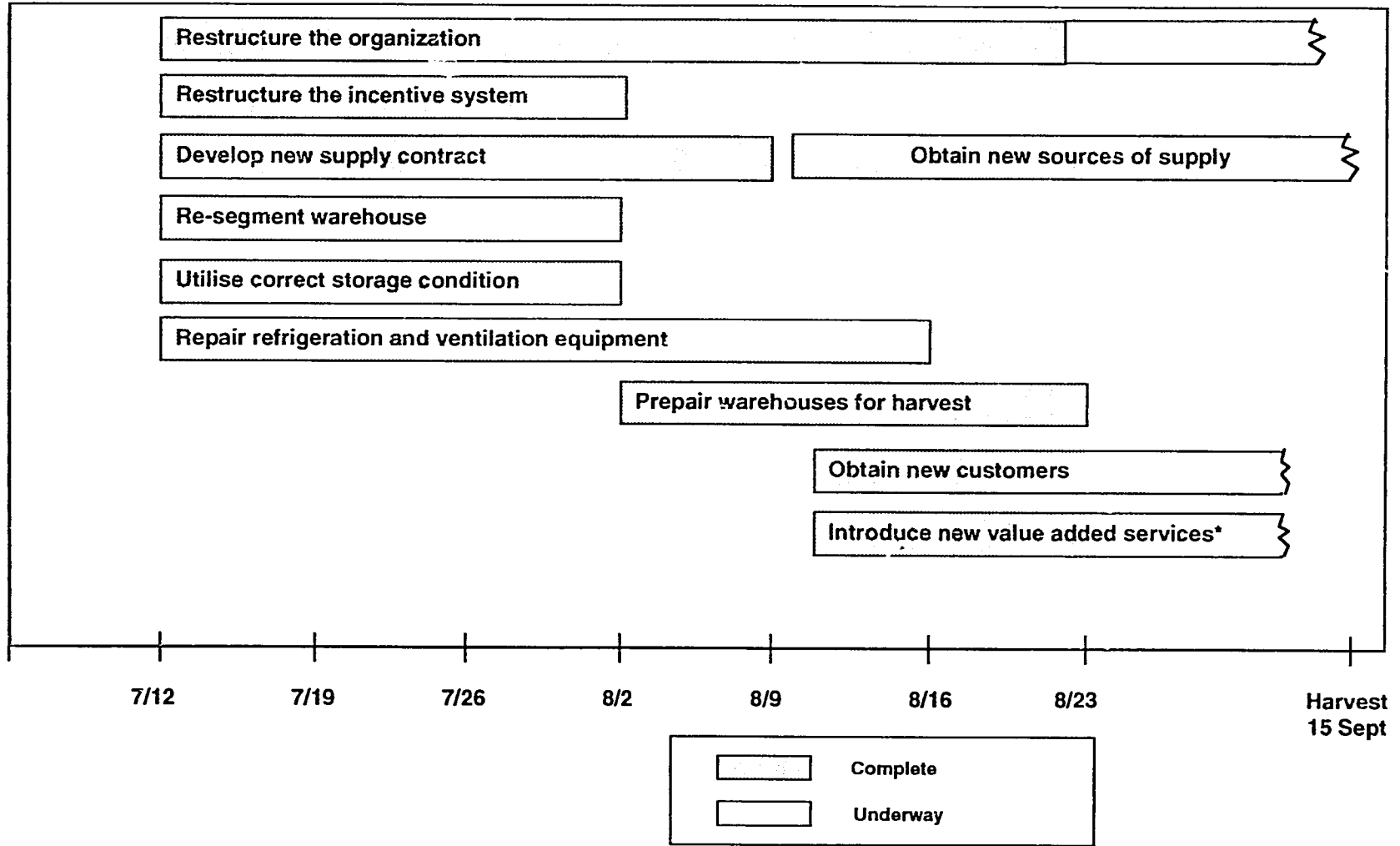
- **Operational problems and improvements**
- **Financial impact of operational improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Market segmentation**
- **Pricing**
- **New products**
- **Financial management**
- **Financial impact of strategy and operational improvements**
- **Action plan and implemented results**



# IMPLEMENTATION IS WELL UNDERWAY AND WILL CONTINUE AT PPOP



\* Purchasing of chute, and setting up washing and packaging machine

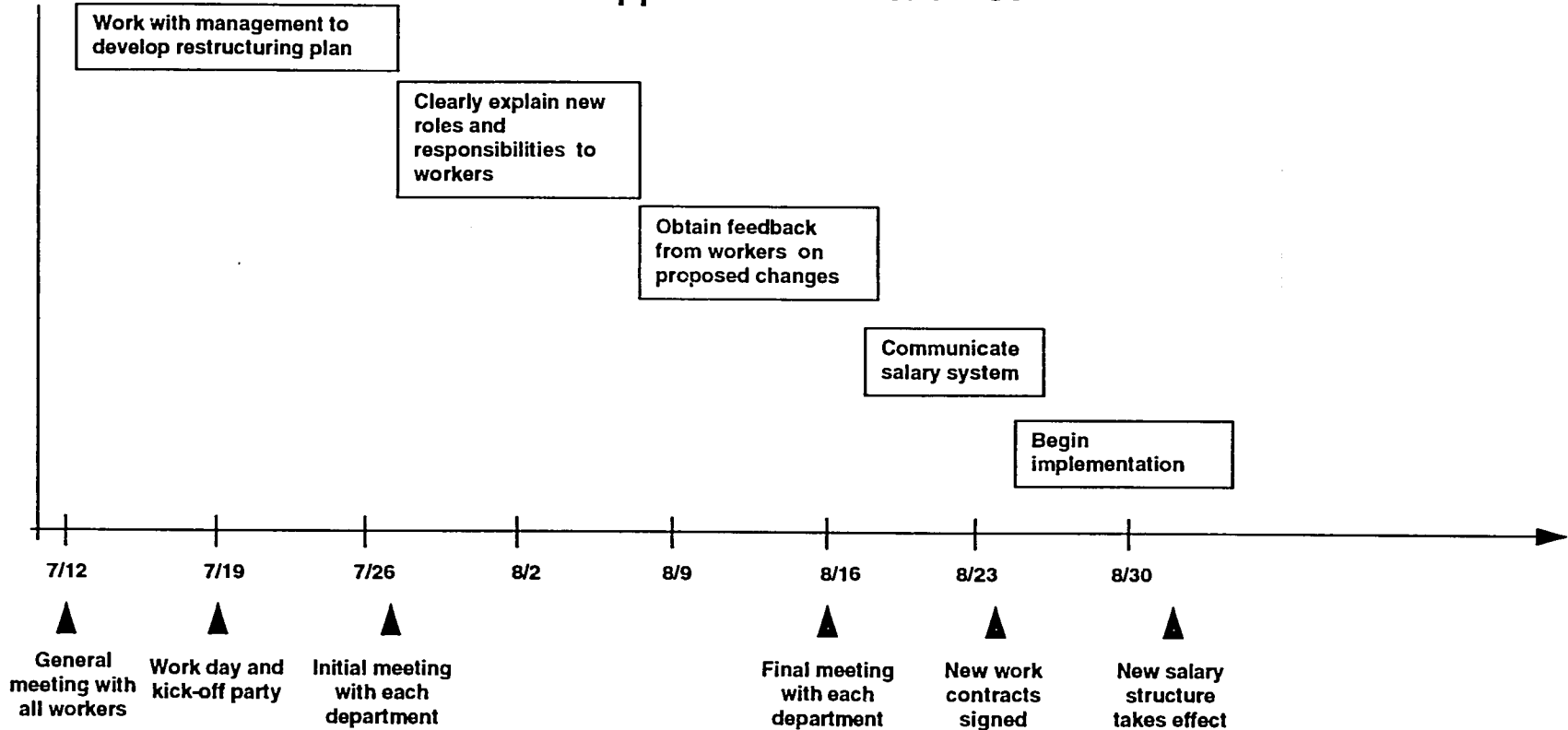
# **SUBSTANTIAL PROGRESS HAS BEEN MADE IN ALL AREAS**

## **• Implemented results**

<b>Organization</b>
Employee suggestion scheme Kick-off meeting, site clean up and kick-off party New job responsibilities New organisational structure
<b>Purchasing</b>
New supply contracts developed and signed Relationship established with association of private farmers New farmers visited, quality inspected, and new contracts signed Advertising for new suppliers Harvest receipts leveled out over time
<b>Receiving</b>
Using acceptance testing procedures
<b>Storage</b>
Warehouses re-segmented by product Products stored under correct conditions with proper curing period Refrigeration and ventilation equipment repaired Electrical system repaired
<b>Sorting / grading</b>
Outbound sorting introduced
<b>Sales</b>
New sales team New incentive system

# TO ENSURE THE SUCCESS OF RESTRUCTURING IT MUST BE THOROUGHLY EXPLAINED TO ALL WORKERS

## • Approach used for PPOP



# SEVERAL IMPORTANT LESSONS WERE LEARNED DURING THE OPERATIONAL IMPROVEMENT PROCESS

- Director's support is the most essential ingredient

Problem	Solution
<p><b>Management does not buy into change</b></p>	<p>Show clear financial benefits of improvements</p> <p>Have management make all presentations to workers, city officials, and privatisation committee</p> <p>Management involvement in solution generation</p> <p>Conduct a customer survey of perceived strengths and weaknesses</p>
<p><b>Implementation tasks were not performed in a timely manner</b></p>	<p>Assign specific tasks to specific individuals</p> <p>Agree a detailed work plan</p> <p>Monitor progress closely</p> <p>Perform hands on training/assistance, eg. make sales calls with sales department</p>
<p><b>Workers are sceptical of change</b></p>	<p>Work day and kick-off party</p> <p>Implement performance pay scheme</p> <p>Suggestion scheme                     <ul style="list-style-type: none"> <li>• incentive for best suggestions</li> </ul> </p> <p>Management presentations of restructuring program</p>

## **Operations**

- **Operational problems and improvements**
- **Financial impact of operational improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

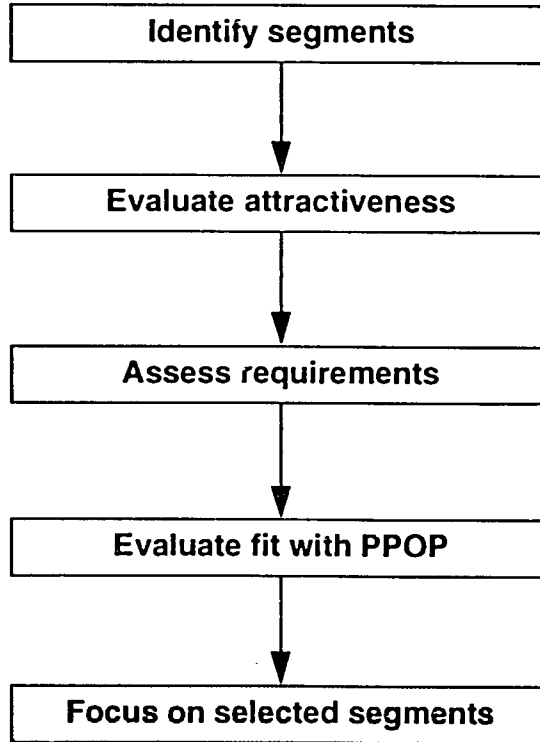
- **Market segmentation**
- **Pricing**
- **New products**
- **Financial management**
- **Financial impact of strategy and operational improvements**
- **Action plan and implemented results**

# BY FOCUSING ON SELECTED SEGMENTS AND SERVING THEIR NEEDS PPOP CAN INCREASE TOTAL REVENUES

## • Segmentation

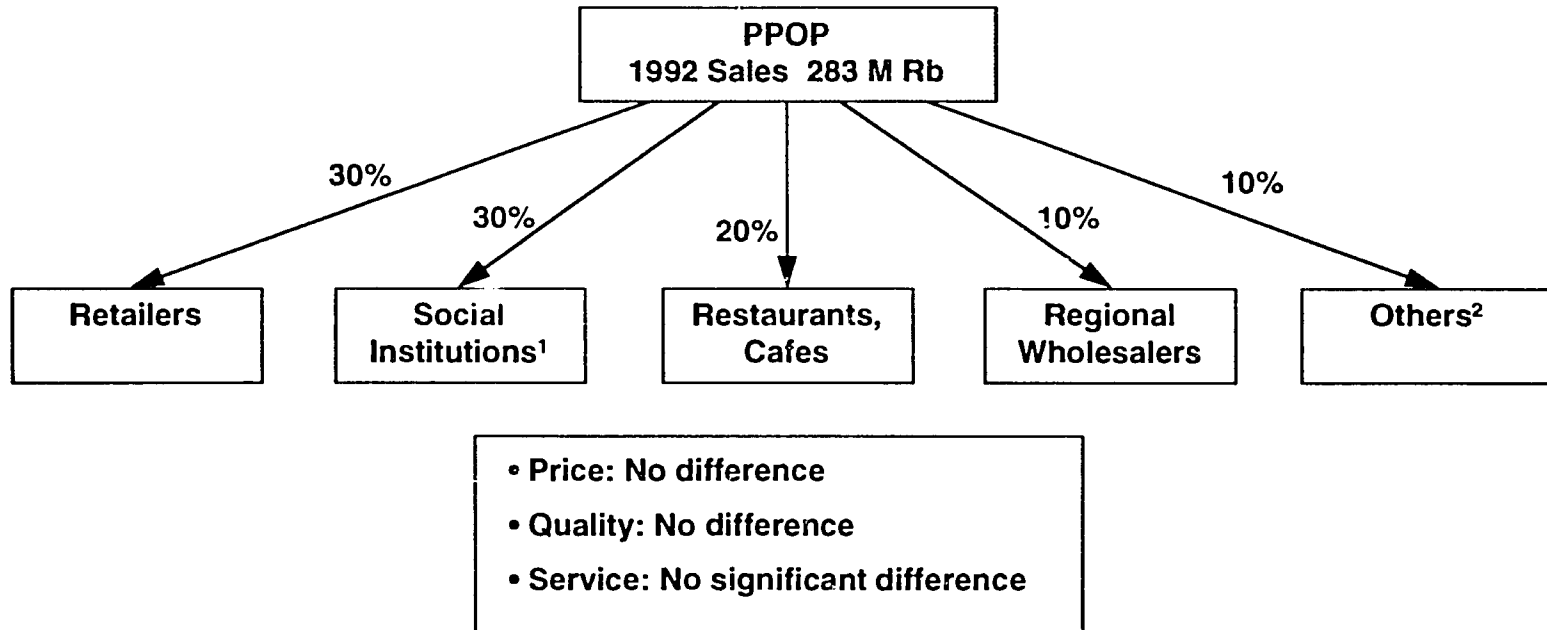
Current Practice	Problem	Solution
<ul style="list-style-type: none"> <li>• All customers receive products of same quality</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of revenue               <ul style="list-style-type: none"> <li>- low end customers would buy more if they could find cheaper vegetables even of lesser quality</li> <li>- high end customers would buy more if they could find better quality even at higher price</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Identify different segments               <ul style="list-style-type: none"> <li>- group customers with similar needs</li> <li>- separate groups that have different needs</li> </ul> </li> <li>• Evaluate attractiveness of the segments               <ul style="list-style-type: none"> <li>- size</li> <li>- growth</li> <li>- margins</li> <li>- competition</li> </ul> </li> <li>• Assess the requirements of serving the segment               <ul style="list-style-type: none"> <li>- how the needs of segment can be satisfied</li> </ul> </li> <li>• Evaluate the task for PPOP               <ul style="list-style-type: none"> <li>- is it profitable for PPOP to serve the segments?</li> </ul> </li> <li>• Focus on selected segments</li> </ul>

# PPOP SHOULD FOCUS ON SERVING THE SELECTED SEGMENTS



# PPOP IS CURRENTLY SELLING TO SEVERAL DIFFERENT GROUPS OF CUSTOMERS

- Without differentiating them, however



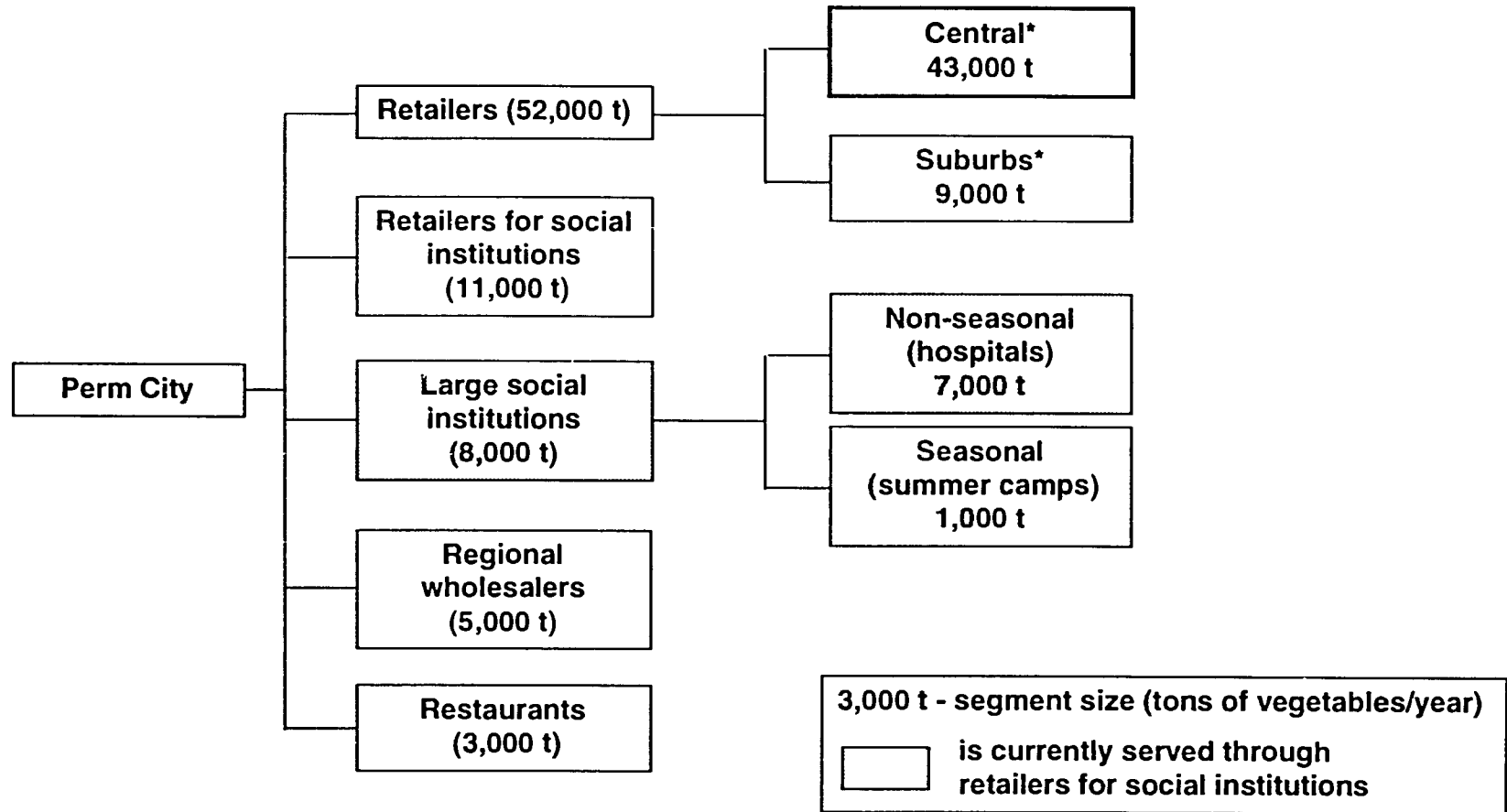
<sup>1</sup> Through intermediaries (retailers)

<sup>2</sup> Include sales to farms (barter for vegetables) and truck sales to consumers

Source: BCG Interviews



# THE CENTRAL RETAILER SEGMENT IS THE BIGGEST IN PERM CITY

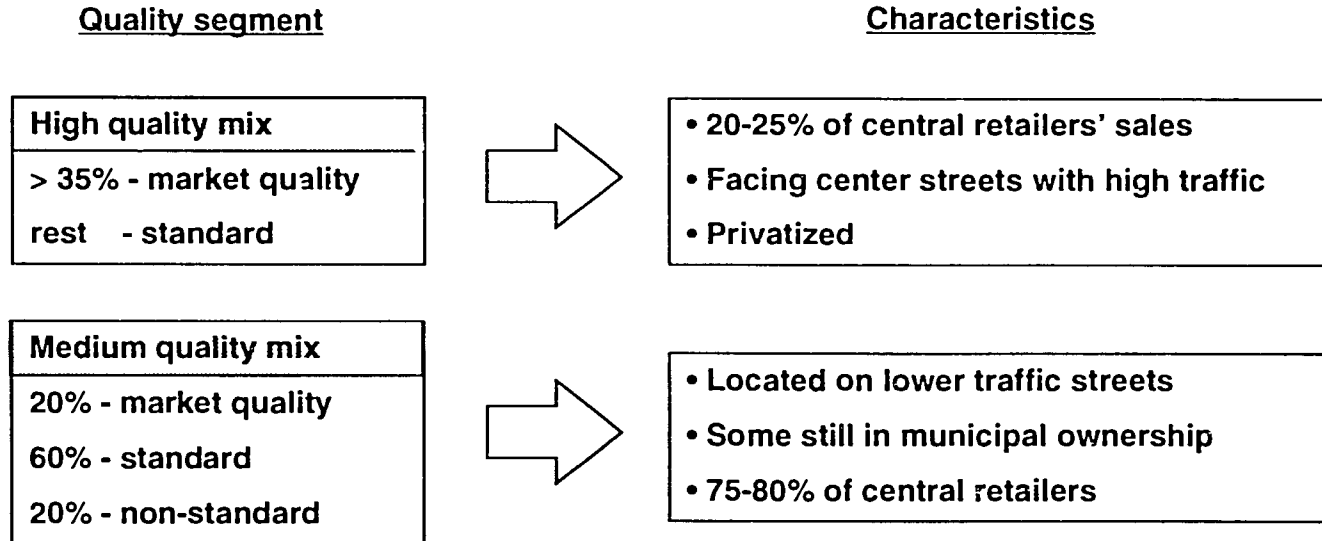


\* 60% of population lives in central part of Perm city. Central part has significantly better developed infrastructure. Population in suburbs buys vegetables either from farms or in daily commutes to work in the center

Source: BCG Analysis (estimated figures)

# CENTRAL RETAILERS MAY BE FURTHER SEGMENTED BY QUALITY

- Segmentation should be based on sales force reports<sup>1</sup>



<sup>1</sup> Significant differences were observed in retailers located closely one to each other => direct estimate of requirements is needed

Source: BCG Interviews and Analysis

# SEGMENTS OF LARGE SOCIAL INSTITUTIONS, CENTRAL RETAILERS AND RESTAURANTS ARE MOST ATTRACTIVE

Large social institutions (seasonal and non-seasonal) are attractive due to high margins (up to 20% net profit margins), low competition and long term contract purchasing

- This segment was buying 100% of its large volumes at retail prices until recently
  - currently start buying directly from wholesalers

Central retailers is a large growing segment, with healthy margins

- Central retailers buy four times more produce than next largest segment

Restaurants, cafes, canteens have high margins and are fast growing

- Growth rate is 10-12% a year

## FOUR MAIN FACTORS DEFINE SEGMENT ATTRACTIVENESS

Segments (# of units)	Size (000's t/yr)	Growth (% of sales per year in constant Rb)	Margins	Competition	Segment Attractiveness
Central (41) Retailers	<b>Big</b> (43,000)	2-3%	Average (quality mix)	High (all wholesalers + direct farm suppliers)	<b>Average/high</b>
Remote (19) Retailers	Average (9,000)	-3-5%	Low (cheap produce)	High from other channels (direct sales from farms)	Low
Big Social (11) Institutions (non-seasonal)	Average (7,000)	-2-4%	<b>High</b> (15% retailer margin + wholesaler margin, 100% prepayment, stable demand)	<b>Low</b> (old structure of supply through retail/wholesalers)	<b>High</b>
Big Social (12) (seasonal)	Small, but concentrated in summer (1,000)	0%	<b>High</b> (retail 15% margins + 100% prepayment)	<b>Low</b> (no commercialization of supply yet; old structure)	<b>Average/high</b>
Retailers for (9) Social Institutions	<b>Average</b> (11,000)	-5-7%	Low (quality mix)	High (from direct suppliers)	Low
Regional (5-15) Wholesalers	Small (5,000)	-4-6%	Average (use PPOP as last resort, hence, price is usually high, however demand is spontaneous)	Average (from farms, other wholesalers)	Low
Restaurants <sup>1</sup> , (85) cafes, canteens	Small (3,000)	<b>10-12%</b>	<b>High</b> (pay high price for high quality products)	High (from private rural residents, food wholesalers that also carry some fruits)	<b>Average/high</b>

<sup>1</sup> There is a potential of further quality segmentation between high quality restaurants and lower quality canteens. Resulting subsegments are, however, not very significant due to small size.

## GROWING DIFFERENCES IN INCOMES WILL DRIVE DIFFERENCES IN SEGMENT GROWTH

- Demand for vegetables will stay unchanged in 1993/94

Segment	Growth Estimate <sup>1</sup> (% / year)	Rationale
Central Retailers	2-3%	<ul style="list-style-type: none"> <li>• Gaining most from quality grading due to highest diversity of clients</li> <li>• Capture some of fast growing demand of high income clients (1st quarter - 0.5% growth<sup>2</sup>)</li> </ul>
Remote Retailers	-3-5% (decline)	<ul style="list-style-type: none"> <li>• Demand from low income clients is going to decline</li> </ul>
Large Social Institutions (Non-seasonal)	-2-4% (decline)	<ul style="list-style-type: none"> <li>• Consumption is regulated by norms per person</li> <li>• Decline in budget financing</li> <li>• No increase in people served by institutions</li> </ul>
Large Social Institutions (Seasonal)	0%	<ul style="list-style-type: none"> <li>• Increase of supply to summer camps of some industrial plants (eg. Permorgsintez, cable plant) offsets general decline in budget financing</li> </ul>
Retailers for Social Institutions	-5-7% (decline)	<ul style="list-style-type: none"> <li>• Social institution demand is not growing</li> <li>• Increased bypassing</li> </ul>
Regional Wholesalers	-4-6% (decline)	<ul style="list-style-type: none"> <li>• Increased sales from farmers directly</li> </ul>
Restaurants, Cafes, Canteens	10-12%	<ul style="list-style-type: none"> <li>• Increase in number of restaurants and cafes (11 new private opened last year)</li> <li>• Population (especially higher income groups) is going to eat out more</li> </ul>
Overall Market	0%	<ul style="list-style-type: none"> <li>• Segmentation on quality offsets demand decline (low income population buys more cheap products, high income groups buy more since quality is good even if more expensive)</li> </ul>

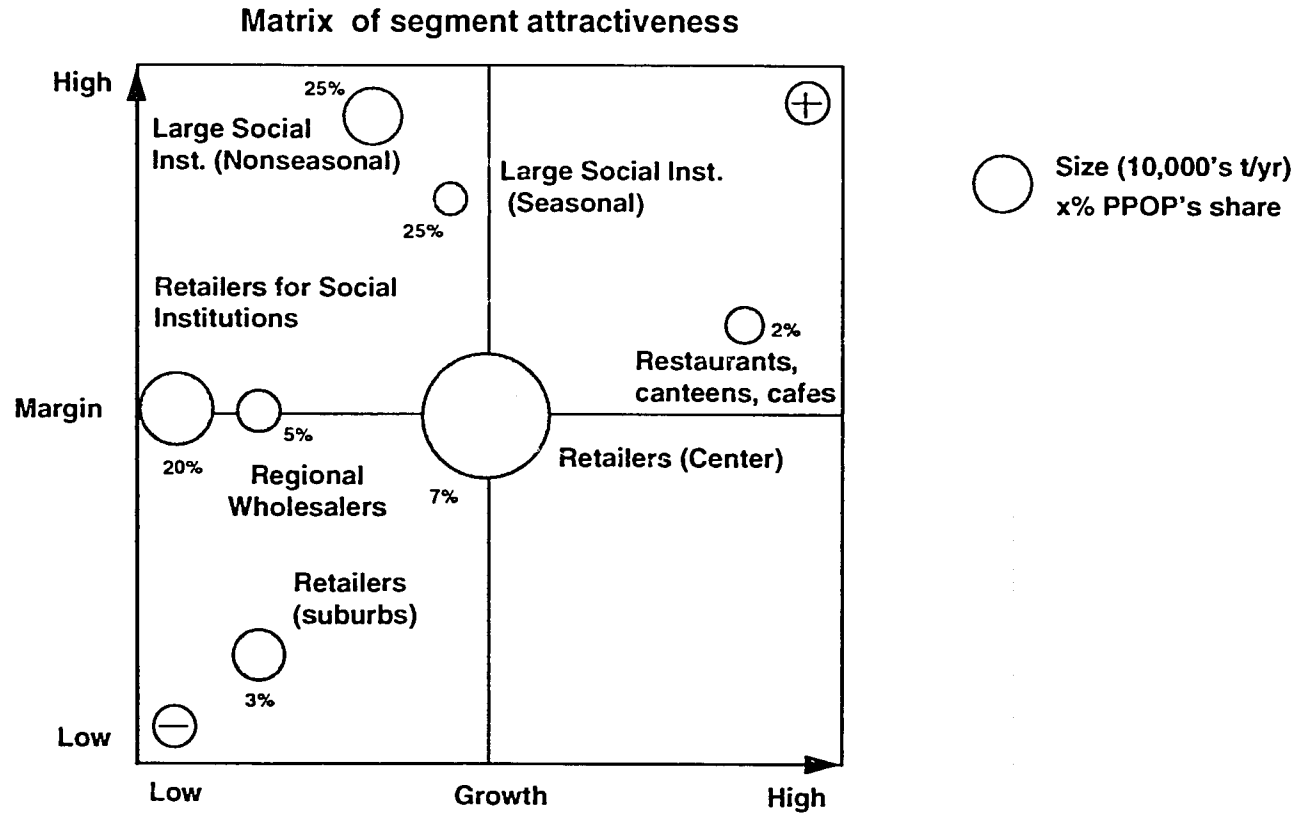
<sup>1</sup> All growth estimates are in real Rbs

<sup>2</sup> Growth is estimated comparing weekly sales of interviewed retailers of products that were available throughout the 1st quarter

Source: BCG Interview and Analysis

# SEGMENTS OF LARGE SOCIAL INSTITUTIONS, CENTRAL RETAILERS AND RESTAURANTS ARE MOST ATTRACTIVE

- Best combination of size, growth and margins



Source: BCG Analysis

# ASSORTMENT, QUALITY GRADING AND FLEXIBLE PRICING ARE KEY FACTORS IN SERVING CENTRAL RETAILERS

## What they need?

- Assortment (fruits, canned food, sugar, rice etc.)
- Quality (20-25% high quality, 60% - standard, 15-20% - non-standard)
- Packaging (20-30% of products should be packed in plastic bags or nets)
- Availability in spring, summer

## How to serve it?

### Basic

- Increase assortment and out of season availability by trade/better storage
- Supply products of different quality mix
- Provide quantity discounts
- Supply packaged products

### Plus extra

- Deliver packaged produce shortly before evening peak hours
- Flexible price-payment scheme

## PPOF's Task

- Increase trade, speed up turnover
- Establish quality mix (high - 20%, standard - 60%, non-standard - 20%)
- Introduce flexible pricing
- Install equipment for washing
- Install equipment for sorting

Source: BCG Analysis

# PPOP HAS CAPABILITIES TO SUPPLY NON-SEASONAL LARGE SOCIAL INSTITUTIONS

## What they need?

- Reliability (truck should arrive every day at agreed time)
- Convenience (they do not want to spend time and effort dealing with ordering, delivery, unloading, etc.)
- Constant supply of basic vegetables ( need to fulfil the norms year around)
- Quality ( quality requirements are high for diseases, dryness, but low for shape and size<sup>1</sup>)

## How to serve it?

### Basic

- Long term contract of supply
- Reliability of supply (mix, quantity, quality and delivery schedule)
- Contact with municipal authorities (they pay)

### Plus extra

- Provide discounts on sales volume (or rebates on quarterly sales)
- Free delivery

## PPOP's Task

- Leverage resources for quick entry into the segment
  - sufficient volume
  - own transport
  - management talent
  - contacts with city administration
- Develop contacts with management of large social institutions

<sup>1</sup> Eg. can take "firm" non-standard, i.e. produce with cuts, that is not taken as standard by retailers



# LARGE SOCIAL INSTITUTIONS (SEASONAL) REQUIRE HIGH TRADE AND DELIVERY CAPABILITIES

## What they need?

- Availability in summer (there are norms that they have to fulfil)
- Reliability of supply (products must be delivered in time)
- Quality (quality requirements are high for diseases, dryness, but low for shape and size. Eg. can take produce with cuts, that is not taken as standard by retailers<sup>1</sup>)
- Price (a factor for parent organizations allocating money)

## How to serve it?

### Basic

- Long term contract of supply
- Reliability of supply of basic vegetables in summer
- Contacts with parent organizations (plants, factories)

### Plus extra

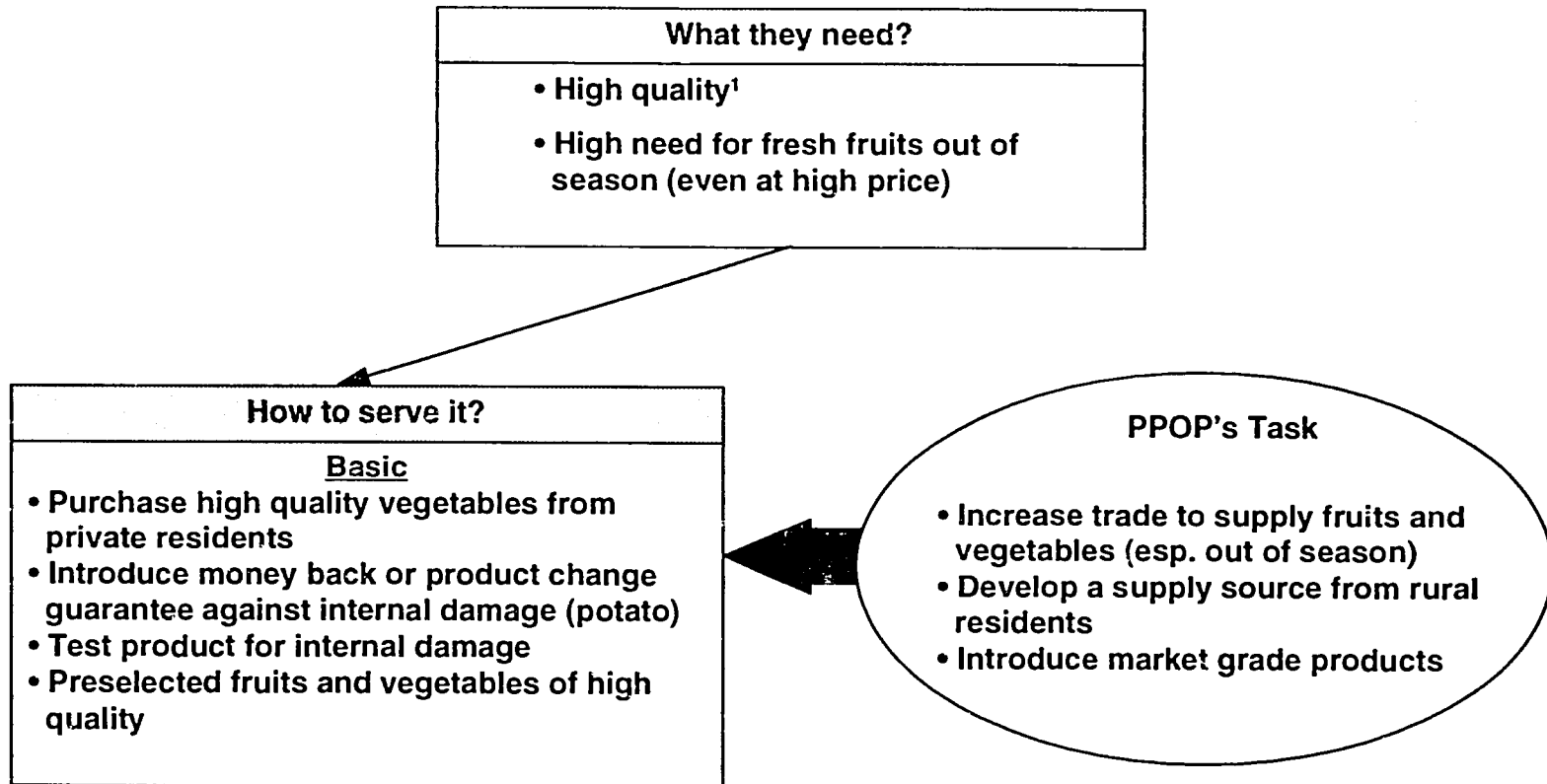
- Discounts on sales volume (or rebates on summer sales)
- Occasionally fruits at discount

## PPOP's Task

- Leverage resources for quick entry
  - best in trade
  - management talent
  - contacts with parent companies
- Develop contacts with management of institutions

<sup>1</sup> So called 'firm' non-standard

# RESTAURANTS AND CAFES ARE VERY KEEN ON HIGH QUALITY FRUITS AND VEGETABLES



<sup>1</sup> High quality includes the requirement of supply only from private farmers and rural residents. Restaurants do not want to buy products coming from big farms due to internal damage

Source: BCG Analysis

# PPOP SHOULD NEUTRALIZE NEGATIVE REACTION FROM RETAILERS FOR SOCIAL INSTITUTIONS THAT WILL BE BYPASSED

## What they need?

- Assortment (assorted fruits, vegetables, flour, rice, sugar, tea, salt etc.)
- Quality ( can take some non-standard products with cuts, shape defects, but keen on freshness and dryness<sup>1</sup>)
- Daily delivery, reliability
- Price

## How to serve it?

### Basic

- Match their quality mix (90% - standard or "firm" non-standard<sup>1</sup>, 10% - high quality)
- Provide better assortment and availability in spring, summer (trade, better storage)

### Plus extra

- Offer special selection of quality for social institutions at lower price

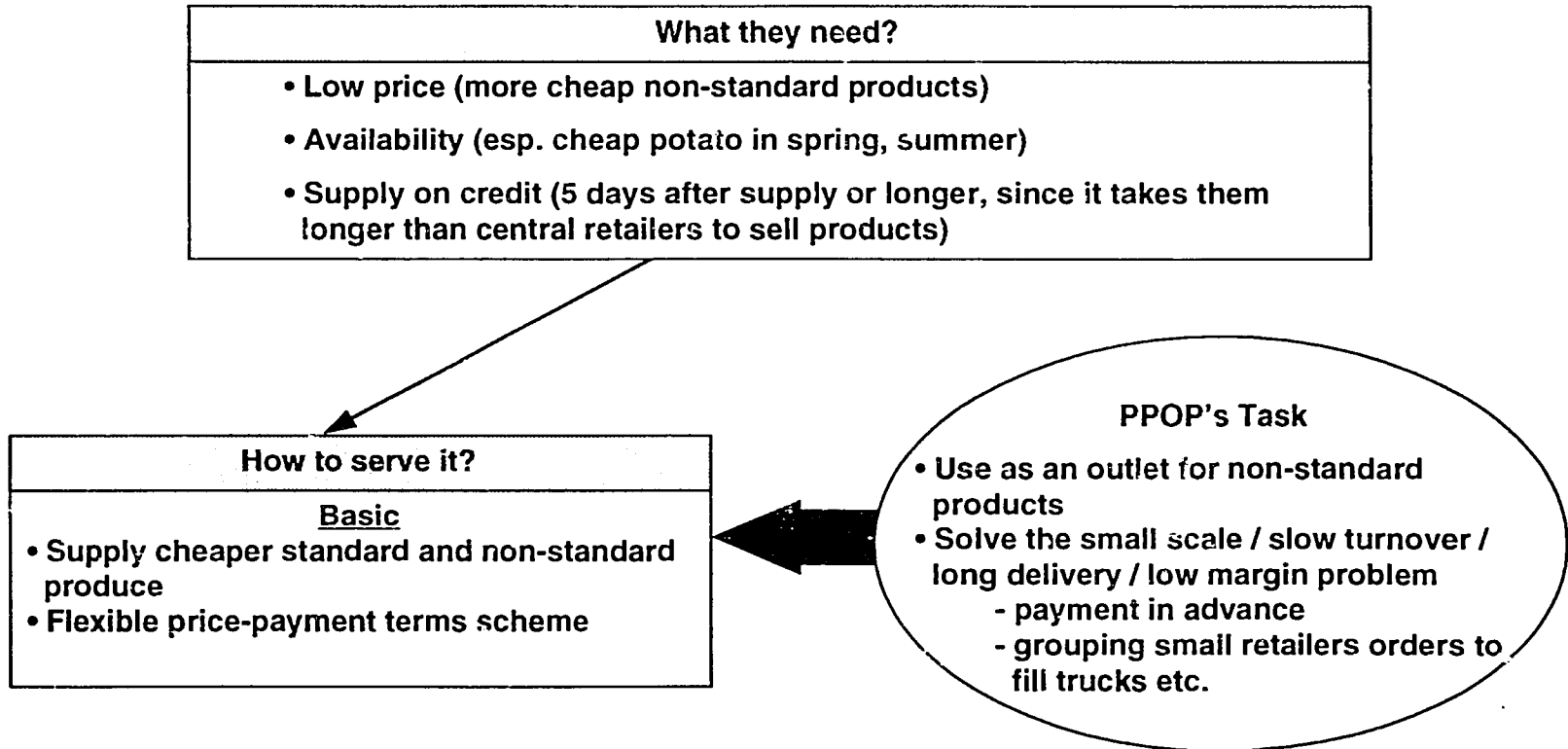
## PPOP's Task

- Maintain the contacts and do not allow a break of relationships when PPOP starts to bypass them (sell to large social institutions directly )

<sup>1</sup>"Firm" non-standard - vegetables with cuts of shape defects, but good otherwise

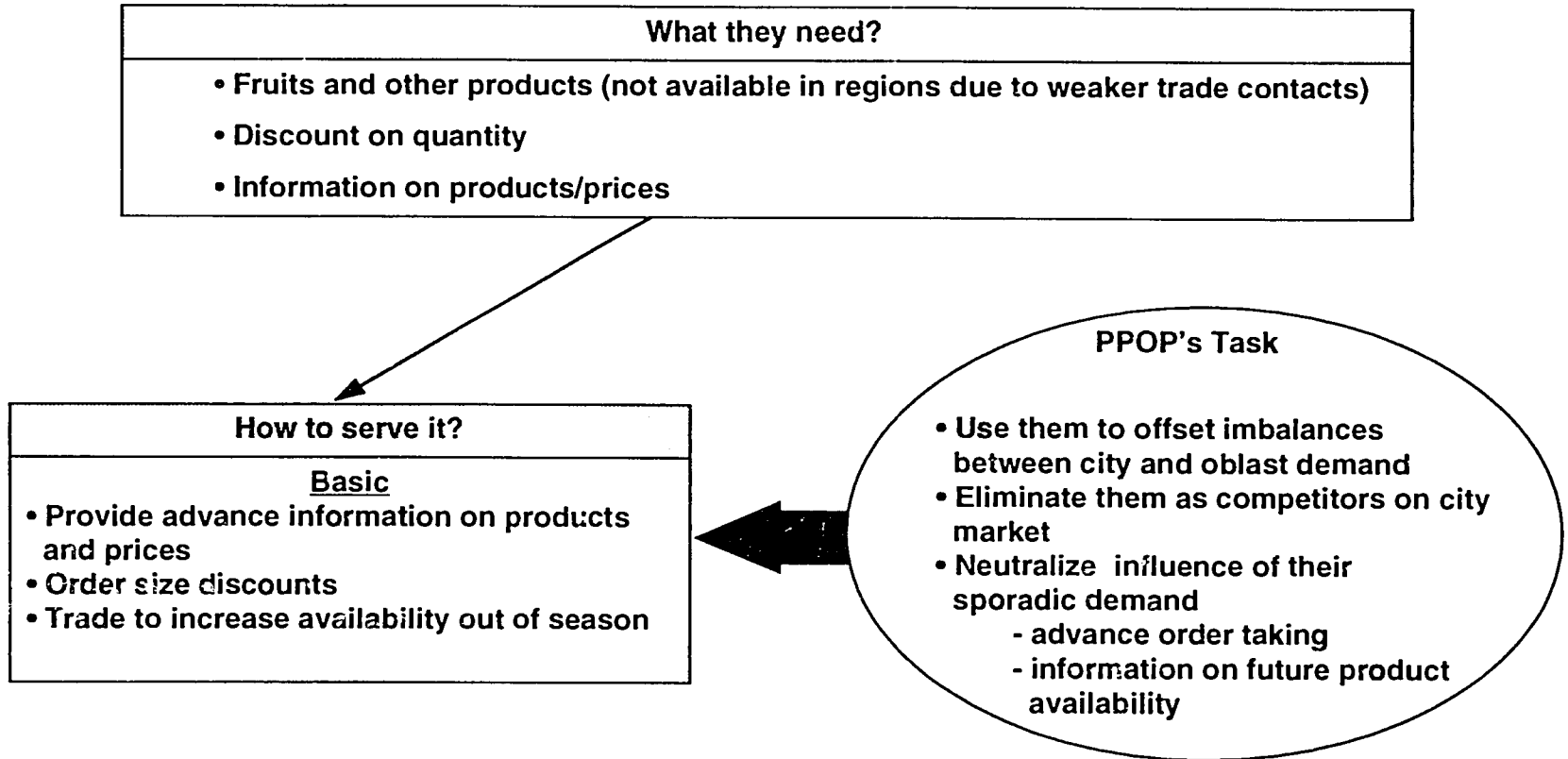
# REMOTE RETAILERS NEED LOW QUALITY CHEAPER PRODUCTS

- May be used as an outlet for non-standard products

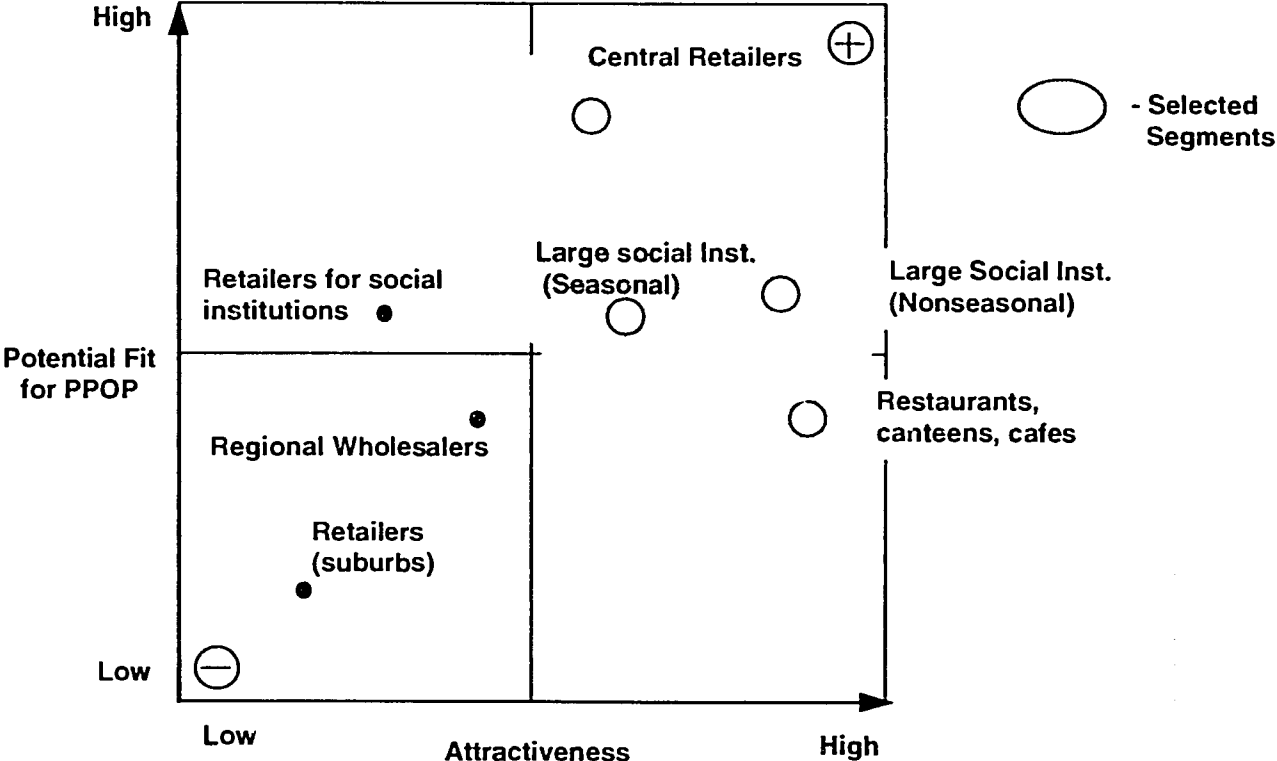


Source: BCG Analysis

# REGIONAL WHOLESALERS' DEMAND IS SPORADIC AND MAINLY FOR NON-VEGETABLES

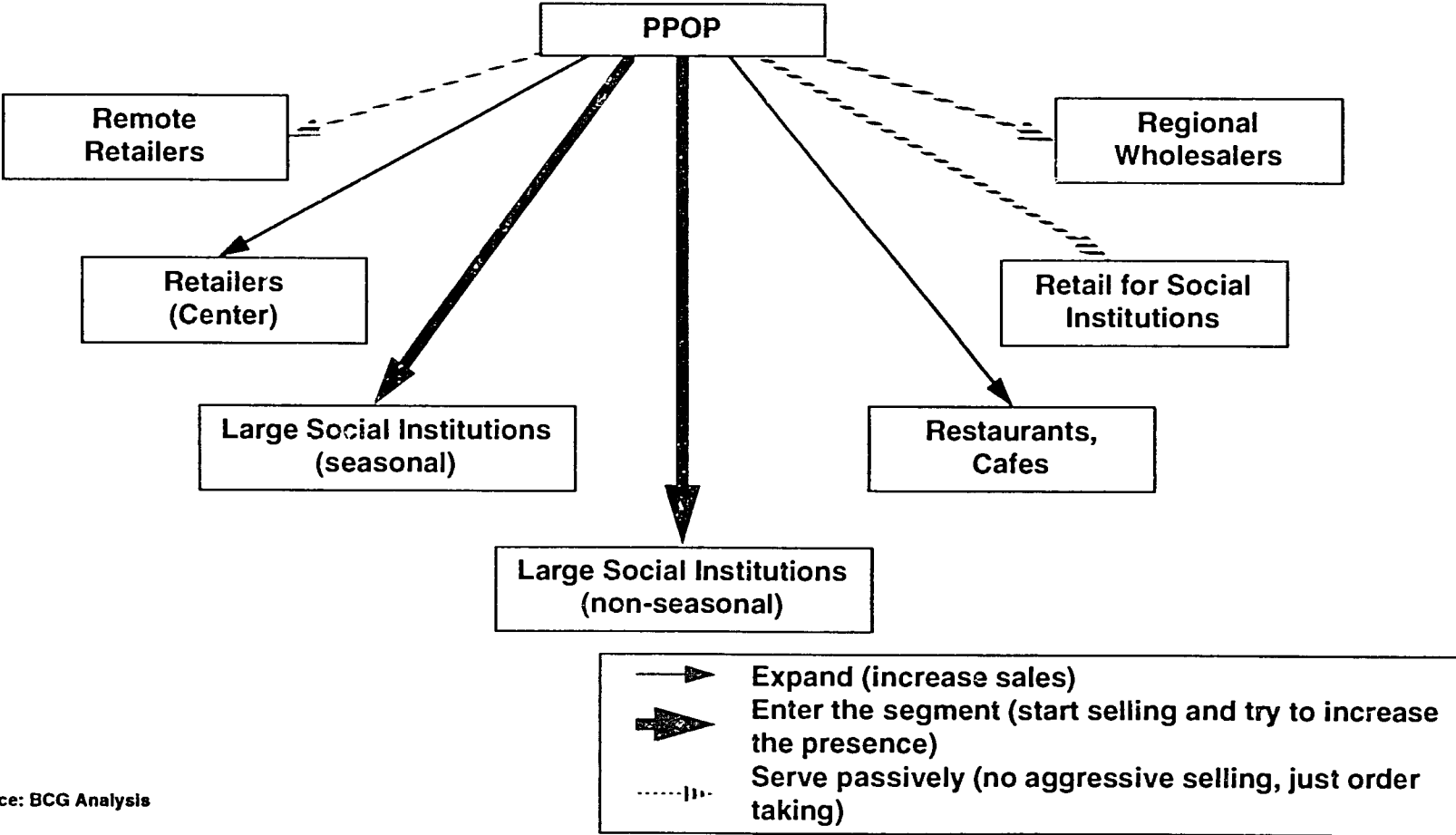


# LARGE SOCIAL INSTITUTIONS, CENTRAL RETAILERS AND RESTAURANTS HAVE BEST COMBINATION OF ATTRACTIVENESS AND POTENTIAL FIT



Source: BCG Analysis

# PPOP SHOULD FOCUS ON SELLING TO LARGE SOCIAL INSTITUTIONS, CENTRAL RETAILERS AND RESTAURANTS



Source: BCG Analysis

## ENTERING SEGMENTS, EXPANDING IN THEM AND SERVING THEM PASSIVELY IMPLY DIFFERENT SALES STRATEGIES

Entering segments	Expanding in segments	Passively serving segments
<ul style="list-style-type: none"> <li>• Aggressive entry pricing and discounting</li> <li>• Favourable payment terms for new customers</li> <li>• Aggressive frequent direct sales calls</li> <li>• High bonuses to sales force for new accounts</li> <li>• Direct mail advertising</li> <li>• Samples and free deliveries</li> <li>• Full assortment</li> <li>• Order priority</li> </ul>	<ul style="list-style-type: none"> <li>• Favourable pricing</li> <li>• Flexible payment terms</li> <li>• Direct sales calls</li> <li>• Bonuses to sales force for new accounts</li> <li>• Full assortment</li> <li>• Advertising</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunistic pricing</li> <li>• Passive order taking</li> <li>• Low priority for delivery</li> <li>• Limited assortment</li> <li>• No advertising</li> </ul>



## DIRECT CALLING, FLEXIBLE PRICING AND GRADING CAN INCREASE SALES TO CENTRAL RETAILERS IMMEDIATELY

<b>Plan of sales to central retailers</b>	
<b>Products:</b>	<ul style="list-style-type: none"> <li>• Full range of food products</li> </ul>
<b>Quality:</b>	<ul style="list-style-type: none"> <li>• High, standard, non-standard</li> </ul>
<b>Prices:</b>	<ul style="list-style-type: none"> <li>• Flexible prices depending on order sizes and payment terms (see example of price list)</li> <li>• Rebates based on monthly sales</li> </ul>
<b>Promotion:</b>	<ul style="list-style-type: none"> <li>• Direct calling (visits and telephone calls of sales force)</li> </ul>
<b>Order taking:</b>	<ul style="list-style-type: none"> <li>• Orders are taken by sales department via visits or by phone</li> </ul>
<b>Delivery:</b>	<ul style="list-style-type: none"> <li>• By PPOP's truck unless agreed otherwise (delivery is paid by customer)</li> <li>• Weekend delivery for largest retailers</li> </ul>

# PPOP WILL PROMOTE CONVENIENCE, RELIABILITY AND LOW PRICES TO LARGE SOCIAL INSTITUTIONS

<b>Plan of sale to large social institutions</b>	
<b>Products:</b>	<ul style="list-style-type: none"> <li>• Basic vegetables, apples</li> </ul>
<b>Quality:</b>	<ul style="list-style-type: none"> <li>• Standard, firm non-standard<sup>1</sup></li> </ul>
<b>Prices:</b>	<ul style="list-style-type: none"> <li>• Prices are set in monthly supply agreements and are equal to prices set for retailers minus 10% discount</li> </ul>
<b>Promotion:</b>	<ul style="list-style-type: none"> <li>• Management meets with city administration personnel in charge of hospitals and other social institutions                             <ul style="list-style-type: none"> <li>- discuss prices</li> <li>- get blessing for long-term contracts</li> </ul> </li> <li>• Sales force visits social institutions weekly or biweekly and makes sales pitches emphasizing convenience and reliability</li> </ul>
<b>Order taking:</b>	<ul style="list-style-type: none"> <li>• By trade department over the phone</li> </ul>
<b>Delivery:</b>	<ul style="list-style-type: none"> <li>• By own transport with PPOP workers loading/unloading</li> <li>• Weekend delivery</li> </ul>

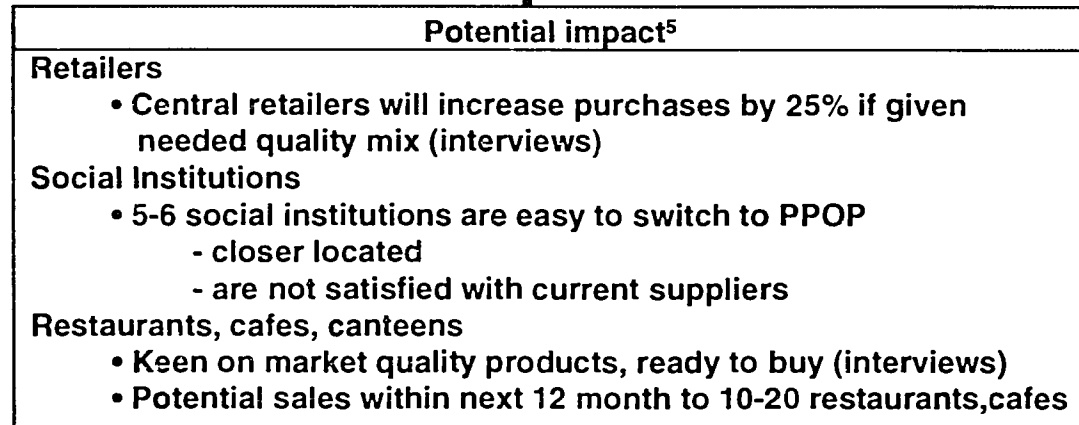
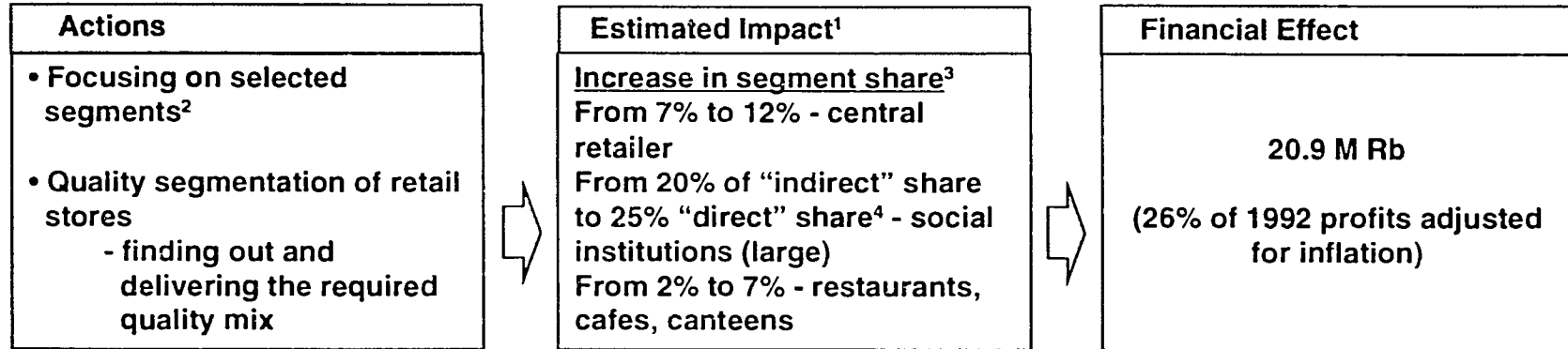
<sup>1</sup> Firm non-standard vegetables are dry, non-rotten vegetables that are small or have cuts, other defects of shape

# HIGH QUALITY AND ASSORTMENT ARE THE KEY SUCCESS FACTORS IN SALES TO RESTAURANTS AND CAFES

<b>Plan of sales to restaurants and cafes</b>	
<b>Products:</b>	<ul style="list-style-type: none"><li>• Vegetables out of season, exotic fruit</li></ul>
<b>Quality:</b>	<ul style="list-style-type: none"><li>• High (close or equal to “city market” quality)</li></ul>
<b>Prices:</b>	<ul style="list-style-type: none"><li>• 70%-100% over prices of standard products (see price list)</li></ul>
<b>Promotion:</b>	<ul style="list-style-type: none"><li>• Direct calls by sales force (weekly visits)</li><li>• Provide samples of products available</li><li>• Information ( by telephone or by mail) on products coming</li></ul>
<b>Order taking:</b>	<ul style="list-style-type: none"><li>• By salesforce during visits or by phone</li></ul>
<b>Delivery:</b>	<ul style="list-style-type: none"><li>• By own customer’s transport twice a week</li></ul>

# MARKET SEGMENTATION WILL IMPROVE PPOP'S REVENUES AND PROFITS IMMEDIATELY

- Higher impact is expected in consecutive years



<sup>1</sup> Estimated impact is conservative

<sup>2</sup> See market segmentation slides for detailed set of actions

<sup>3</sup> Incremental increase in share

<sup>4</sup> By starting selling directly to social institutions PPOP captures a 25% share (direct share). Currently PPOP sells 20% of large social institutions consumption, but indirectly

<sup>5</sup> The other potential impact - price increase - is reviewed in operational improvement plan

# IMMEDIATE FINANCIAL EFFECT OF MARKET SEGMENTATION<sup>1</sup>

## • Detailed calculation

<u>Segment</u>	Incremental sales increase to segment <sup>2</sup> (next 12 months)	x Net profit margin on sales (%)	= Net financial effect <sup>3</sup>
Central Retailers	168 M Rb	5%	8.4 M Rb
Social Institutions	150 M Rb	10% <sup>4</sup>	15 M <u>(4M)<sup>5</sup></u> 11 M
Restaurants, Cafes, Canteens	21 M Rb	7%	1.5 M



**Total effect**  
**20.9 M Rb**  
**(26% of 1992 profits adjusted for inflation)**

<sup>1</sup> Includes impact only for next 12 months

<sup>2</sup> Sales forecasts are adjusted for inflation

<sup>3</sup> Expenses of grading, washing and packing are included in operational improvement plan and, hence, are excluded from analysis here

<sup>4</sup> 10% margin is conservative estimate of potential margin

<sup>5</sup> Offsetting effects of lost sales to retailers for social institutions (80 M of lost sales @ 5% margin = 4 M Rb)

## **Operations**

- **Operational problems and improvements**
- **Financial impact of operational improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Market segmentation**
- **Pricing**
- **New products**
- **Financial management**
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## A PROPER PRICE SCHEME CAN GREATLY STRENGTHEN THE SALES POSITION OF PPOP

### • Pricing

Current Practice	Problem	Solution
<ul style="list-style-type: none"> <li>• Same price for all order sizes</li>   <li>• Price is not affected by volume of total sales to customer</li> </ul>	<ul style="list-style-type: none"> <li>• Sales volume is not stimulated</li>   <li>• Higher losses due to longer storage</li>   <li>• No stimulation of customer loyalty</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a system of quantity based discounts                             <ul style="list-style-type: none"> <li>- discounts based on order size of a specific product</li> <li>- discounts based on long term purchase agreements</li> <li>- rebates based on monthly, quarterly, or annual purchases</li> </ul> </li>   <li>• Order size discounts should be differentiated by products                             <ul style="list-style-type: none"> <li>- higher perishability - higher discount</li> </ul> </li>   <li>• Sales volume discounts may be based on total sum of purchases, or on sum of purchases of certain products (eg. only fruit and vegetables sales qualify for rebates)</li> </ul>

Source: BCG Interviews and Analysis

## HOW ORDER SIZE DISCOUNTS WOULD WORK

- Eg. carrots

Order size discount	
Order size (kg)	% of basic price
< 100	100
100-200	99
200-400	98
400-800	97
800-1,600	96
1,600-3,200	95
3,200-7,400	94
7,400-15,000	93
> 15,000	Negotiated with sales department

### How to use it?

- 1-2% discount curve<sup>1</sup> (discount is increased by 1-2% with every doubling of volume)
- Basic price is set by director, deputy director, or chief of sales department
- Salesmen can not discount more than is set by the scheme
- Discount scheme should be tested on limited orders before adopting it
- Discount scheme should be periodically reviewed and adjusted for seasonal differences and other changes

<sup>1</sup> All numbers are illustrative

<sup>2</sup> Usual retail practice is approximately 2% discount per each doubling of volume. However, it is recommended to start with smaller 1% scale



## HOW REBATE WOULD WORK

Rouble based <sup>1</sup>	
Purchase volume	Rebate <sup>2</sup> %
< 30 M Rb <sup>3</sup>	0%
30,000,001 - 100 M Rb	3%
100,000,001 - 300 M Rb	5%

Tonnage based	
Purchase Volume	Rebate (% of total payment)
< 1,000kg	0%
1,001 kg - 2,000 kg	3%

### How to use it?

- Customer receives money back from PPOP if customer's purchases exceed the agreed volume (in roubles or tonnes) for agreed period
- The rebate may be paid to customer or credited towards future purchases
- Purchases of all or only certain products may be included (eg. only fruits and vegetables due to perishability)
- Rebate discounts may be used together with long term purchase contracts

<sup>1</sup> Rouble based rebate may be less useful in high inflation environment.

<sup>2</sup> Rebate is paid only on amount above 30 M Rb and corresponding percentage is applied to each volume bracket

<sup>3</sup> All numbers are for illustrative purposes only

**DISCOUNTS SHOULD BE REGULARLY CHECKED  
AND ADJUSTED IF NECESSARY**

- How to achieve optimal discounts?

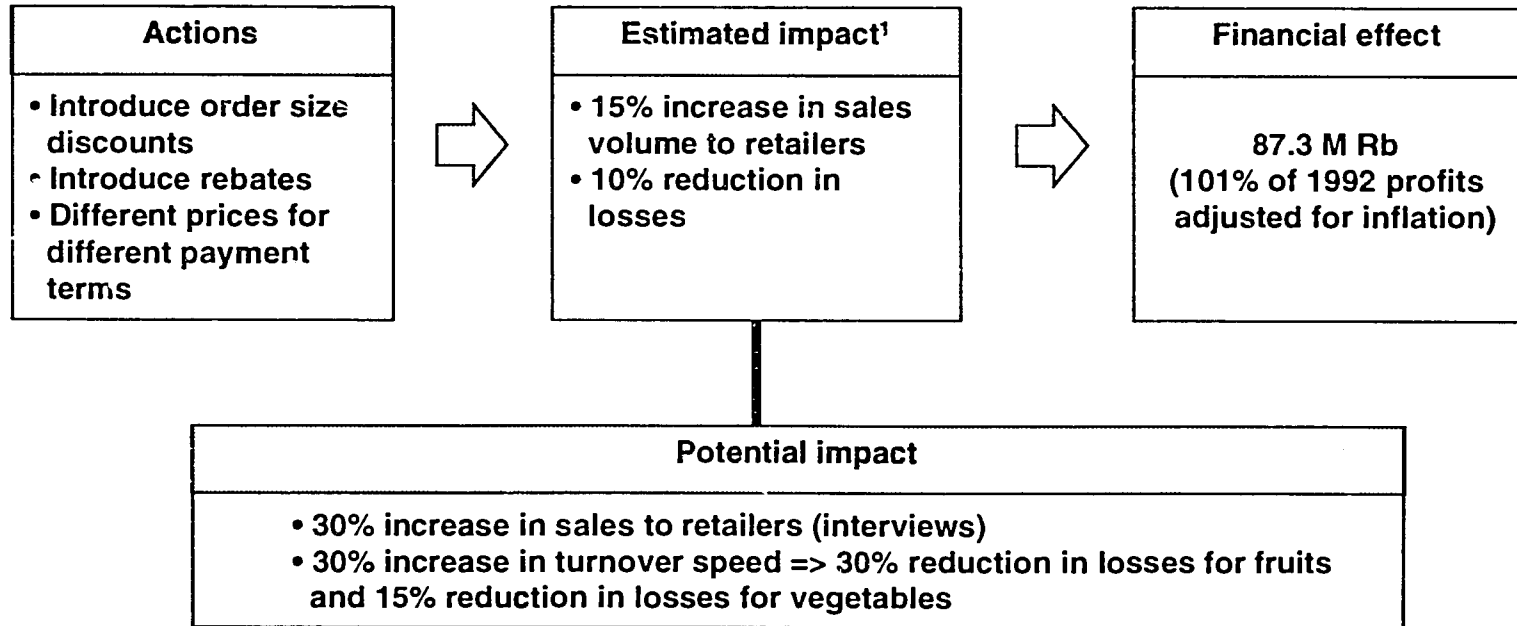
Determine the floor (lowest possible level of price after discounting)

- Floor = purchase costs + transportation costs + other variable costs

Start with giving small discounts to check the reaction of buyers

It is profitable to discount more if increase in profits due to increased sales is more than loss on margin

# NEW PRICING WILL HAVE A SIGNIFICANT IMPACT ON PROFITS



<sup>1</sup> Estimated impact is conservative

# EFFECT OF NEW PRICING POLICY

## • Detailed calculation

Sales volume increase			
	Sales volume	X Net profit margin	= Net profit
New Pricing	1,650 M Rb	6% <sup>1</sup>	99 M Rb
Status Quo	1,435 M Rb	5%	72 M Rb
			Incremental: 27MRb

Loss reduction <sup>2</sup>			
Purchases of fruit and vegetables	X	Loss reduction	= Decreased costs
603 M		10%	60.3 M Rb

Financial effect
87.3 M Rb
(101% of 1992 profits adjusted for inflation)

<sup>1</sup> Increase in profit margin results in spreading fixed costs that are currently 20% of sales over higher volume. This effect is offset by discounting, however. The net increase of 1% is conservative estimate

<sup>2</sup> Effect is calculated under conservative assumption that you buy less but sell same amount if losses are reduced (vs. buy same - sell more)

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# PPOP SHOULD ACTIVELY SEARCH FOR NEW PRODUCT OPPORTUNITIES

Current Practice	Problem	Solution
<ul style="list-style-type: none"> <li>• Slow introduction of new products into PPOP                             <ul style="list-style-type: none"> <li>- only 6% of products were outside of fruit-vegetable profile in 1992</li> </ul> </li> <li>• No system of evaluation of fit of new products to PPOP's profile and capacities</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of potential revenue and profits</li> </ul>	<ul style="list-style-type: none"> <li>• Weekly report from chief of sales department to director on new product opportunities                             <ul style="list-style-type: none"> <li>- what products are in demand</li> <li>- purchase and sales prices</li> <li>- forecasts of major shifts in demand (monthly)</li> </ul> </li> <li>• Evaluate new product fit                             <ul style="list-style-type: none"> <li>- storage conditions (temperature, humidity, volume per ton)</li> <li>- capacity utilization (What are the delivery months? Is demand seasonal? etc.)</li> </ul> </li> <li>• Assess profitability                             <ul style="list-style-type: none"> <li>- purchase price</li> <li>- sales price</li> <li>- direct expenses</li> <li>- losses</li> </ul> </li> </ul>

## **INTRODUCTION OF MORE NEW PRODUCTS WILL INCREASE PROFITABILITY**

- **New products include imported fruits, preserved vegetables and fruits, sugar, flour, rice, canned food, non-food products**

**New products allow to increase capacity utilization in “low utilization” months**

- **New products mostly are non-seasonal**

**Losses on other food products and fruits are lower**

- **30% on vegetables vs. 3-5% on other food products, 15% on fruits**

**Run down period on “fruits and other products” is usually shorter, hence, quicker turnover**

- **4-6 months for vegetables, 2 weeks for fruits, 1 month for other food products**

**Storage is cheaper**

- **Storage conditions are less demanding**

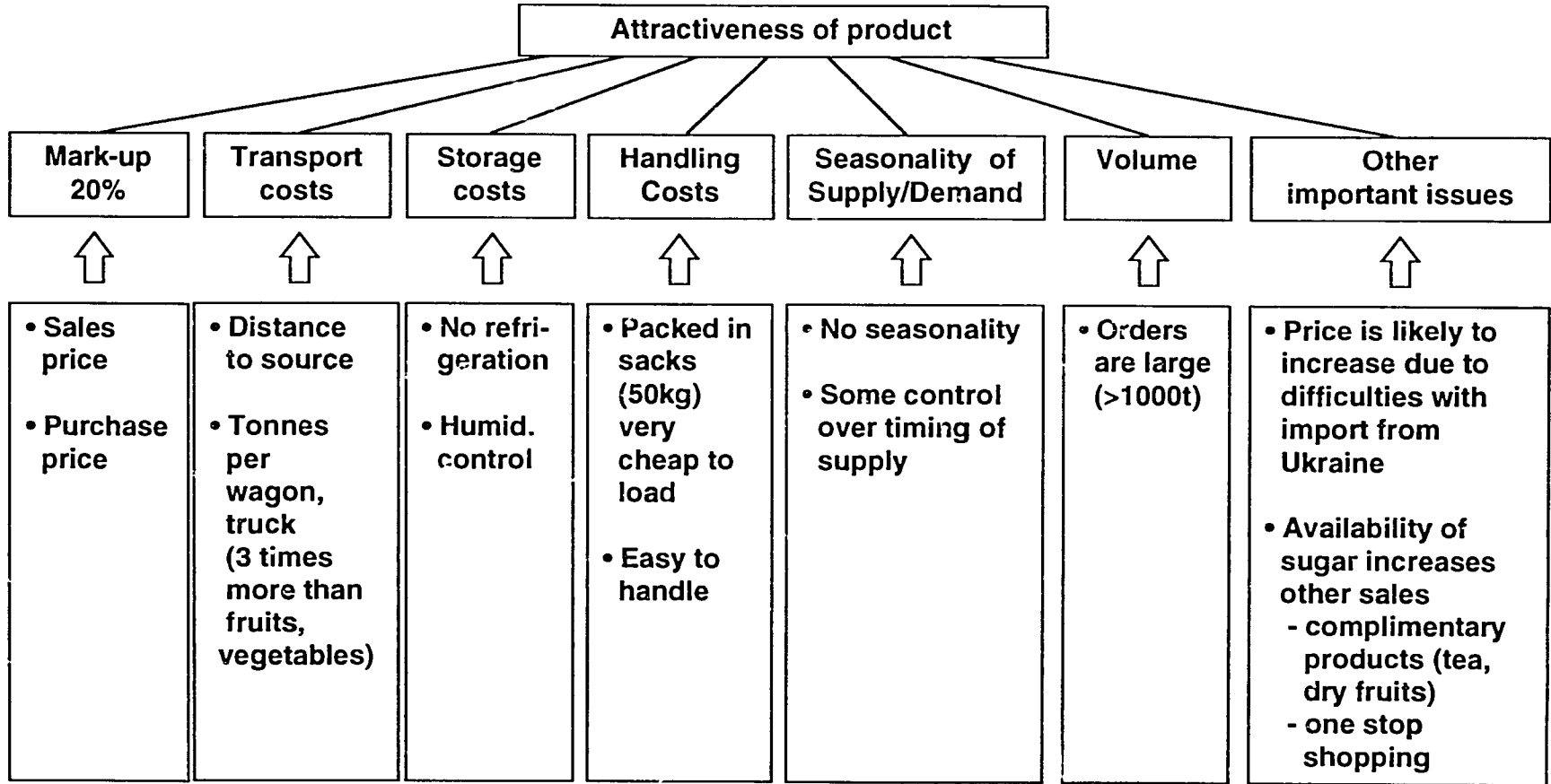
**New products allow increase in customer base**

- **Eg. exotic fruits - restaurants, cafes; food products - general food stores, etc.**

Source: BCG Analysis

# ATTRACTIVENESS OF A PRODUCT SHOULD BE EVALUATED ACCORDING TO SEVERAL PARAMETERS

• Eg. sugar





# THERE ARE VARIOUS INTERESTING PRODUCTS TO INCREASE PPOP ASSORTMENT

• Summarised product evaluation matrix for some products

Products	Mark up*	Storage Conditions	Seasonality/ Control of Supply Timing	Transport Costs	Other
Apples	70%	Refrigeration	Seasonal, low control over supply timing	High (long distances)	Very quick sale is required (< 2 wks, sorting and grading is necessary)
Canned Products	10-15%	None	Full control, no seasonality	Low	High value per volume and weight
Sugar	20%	Humidity control	Some control of supply timing, no seasonality	Very low (3 times less than fruits and some vegetables)	Price will likely to go up (cut off of Ukrainian imports) Sales of sugar increase other sales <ul style="list-style-type: none"> <li>• One stop shopping</li> <li>• Complementary products</li> </ul>
Flour	20%	Humidity control	Significant control of supply timing, no seasonality	Same	
Coffee	10-15%	None	Full control, no seasonality	Low	High value per volume and weight

\* Net of losses  
Source: BCG Analysis

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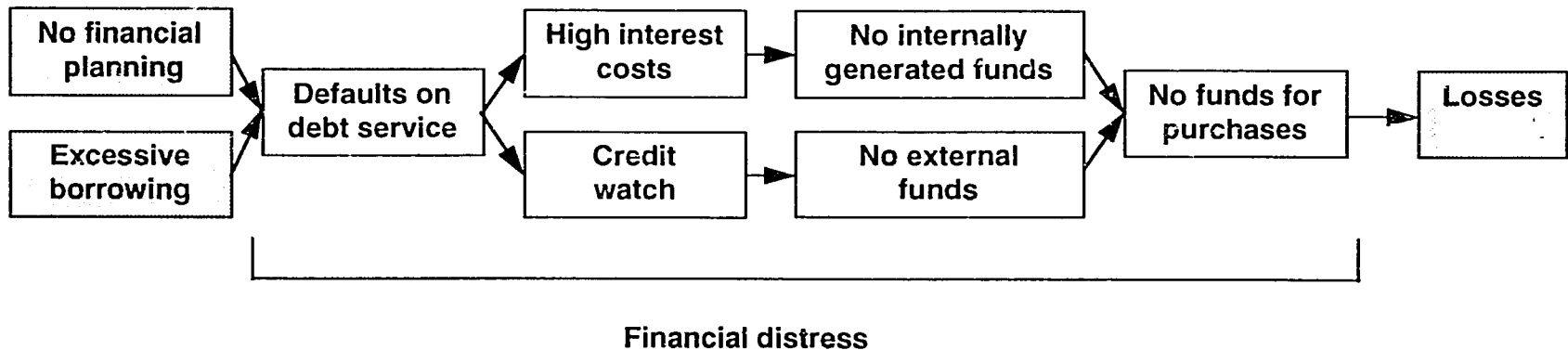
# MANY OF PPOP'S PROBLEMS COME FROM IMPRUDENT FINANCIAL MANAGEMENT

## • Finance

Current Practice	Problem	Solution
<ul style="list-style-type: none"> <li>• Excessive borrowing</li>   <li>• No planning of overall cash position                             <ul style="list-style-type: none"> <li>- borrowing is based on separate purchases</li> </ul> </li>   <li>• All loans are taken from one bank</li>   <li>• No mechanism for evaluating financial aspects of business decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Level of debt is too high                             <ul style="list-style-type: none"> <li>- drains cash needed for operations</li> </ul> </li>   <li>• Defaults on debt payments                             <ul style="list-style-type: none"> <li>- increased interest costs</li> <li>- no availability of external funds</li> </ul> </li>   <li>• Weak bargaining position</li>   <li>• Vulnerability to bank performance</li>   <li>• Suboptimal allocation of financial resources =&gt; loss of potential profits</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce the debt level                             <ul style="list-style-type: none"> <li>- sale of inventory</li> <li>- collection of receivables</li> <li>- sale of one of six warehouses (last resort measure)</li> </ul> </li>   <li>• Develop financial plan (overall cash position of the company)</li>   <li>• Identify possible sources of financing</li> <li>• Solicit financing by presenting financial plan</li>   <li>• Use of simple methods of financial analysis (eg. payback period)</li>   <li>• Prioritising projects</li> </ul>

# FINANCIAL DISTRESS CAUSED BY LACK OF FINANCIAL PLANNING AND EXCESSIVE BORROWING LEADS TO LOSSES

- PPOP lost 25 M Rb 1st Qtr '93 ( first time in history)



Source: BCG Analysis

## **EXAMPLE OF IMPRUDENT BORROWING: 140 M Rb DECEMBER LOAN**

**Only 60% of loan could be used for purchasing (within a week)**

- **There was no advanced preparation and planning of how to spend the money**

**Desperate to use money PPOP advanced 35 M Rb to unknown supplier that did not ship the goods**

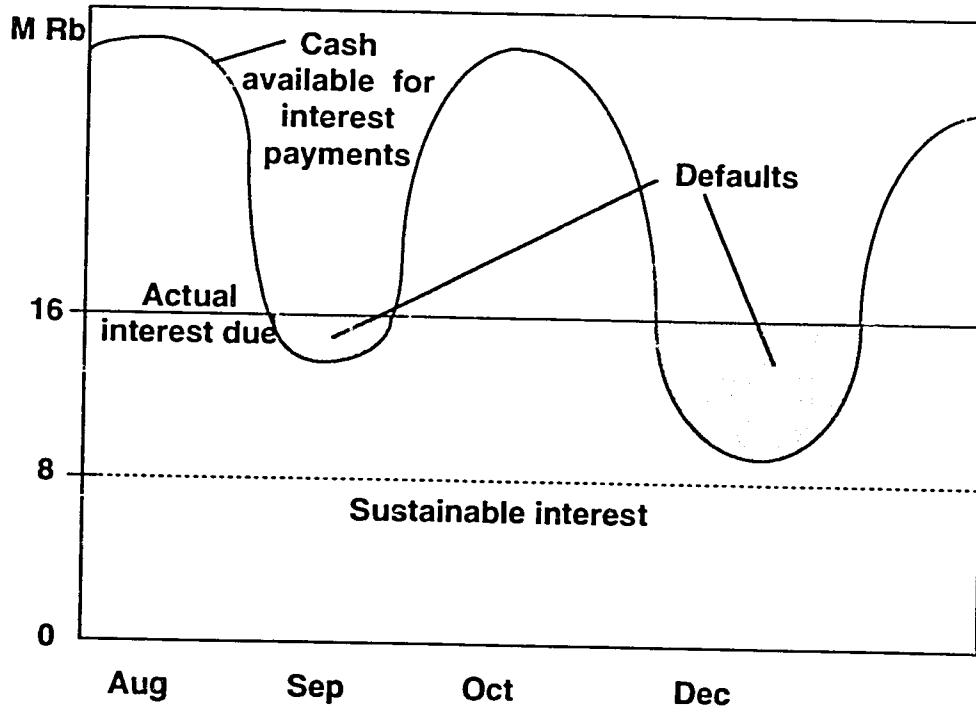
- **PPOP lost at least 10 M Rb, as a result**

**Slow turnover and low margins of purchased products impeded debt service**

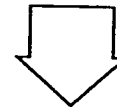
- **Less than 10% monthly return on products purchased on December credit**

**Source: BCG Interviews and Analysis**

# REDUCTION OF DEBT TO SUSTAINABLE LEVEL MINIMIZES PROBABILITY OF DEFAULT



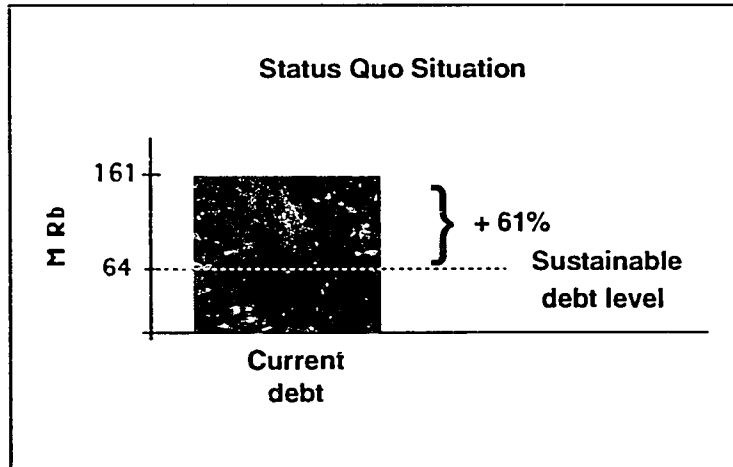
- Current debt level is 100 M Rb
- Monthly interest is 16 M Rb (200% annual rate)
- Cash available for interest payments comes from profits from operations before interest
- On two occasions there is not enough cash to pay interest due => Defaults



- Company will not have defaults if its interest payments are 8 M Rb or less
- Company can sustain only 50 M Rb of debt<sup>1</sup>

<sup>1</sup> 8 M Rb x 12 = 96 M Rb roughly equal annual interest payments on 50 M Rb of debt @ 200% interest rate

# CURRENT LEVEL OF DEBT IS MUCH HIGHER THAN MAXIMUM DEBT THAT CAN BE SUSTAINED UNDER STATUS QUO EFFICIENCY



- Factors defining sustainable debt (Status Quo)**
- Desired interest coverage ratio<sup>1</sup> 2:1
  - Average turnover cycle<sup>2</sup>: 1.5 months
  - Average margin before interest<sup>3</sup>: 15%
  - Sales volume for 1.5 months: 180 M Rb
  - Current interest rate: 170%



**Sustainable Debt<sup>4</sup>**  
**64 M Rb**  
**(39% of current debt)**

<sup>1</sup> Interest cover is the ratio of profit before interest costs to interest costs  
<sup>2</sup> Average turnover is calculated as a weighted average of turnover of typical PPOP's product range  
<sup>3</sup> Margin before interest equals profits before interest divided by sales  
<sup>4</sup>  $180 \text{ M Rb} \times 15\% + 2 = 13.5 \text{ M Rb}$  - Interest for 1.5 months  $\{[(13.5/1.5) \times 12] + 1.70 = 64 \text{ M Rb}$

# HOW PPOP SHOULD REDUCE ITS DEBT TO SUSTAINABLE LEVEL WITHOUT RESTRUCTURING

## Step 1

### Immediate sale of current inventory

- Estimated proceeds are 96 M Rb<sup>1</sup>

## Step 2

### Speed up collection of receivables

- Reduce average credit period from 5 to 3 days  
(see recommended price-payment terms schedule)
- Estimated proceeds 7 M Rb

**Total cash proceeds of 105 M Rb are sufficient to reduce debt to sustainable level**

## Next harvest options

### Sell one of six warehouses if historical purchasing practices are not changed

- Estimated sales proceeds are 50-60 M Rb (small, not refrigerated)

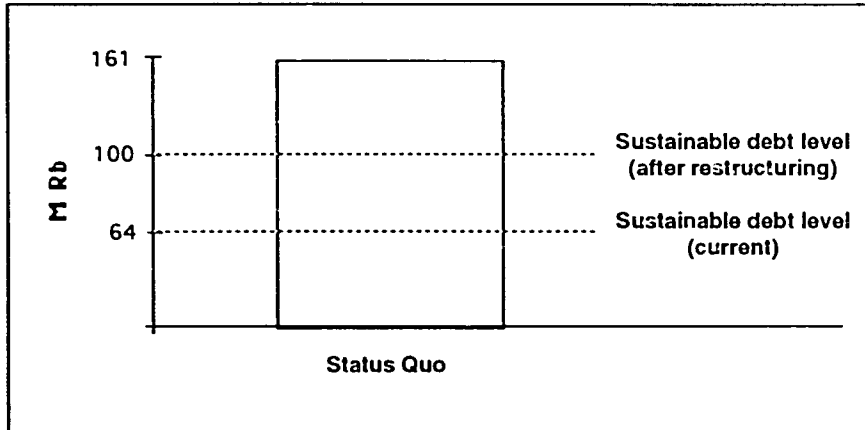
### Agreements on consignment with farms

<sup>1</sup> Net of VAT and profit taxes, 15% discounted to account for "fire sale"



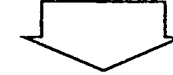
# RESTRUCTURING WILL ALLOW A SIGNIFICANT INCREASE IN THE SUSTAINABLE DEBT LEVEL

- Even at higher interest rates of commercial banks



## Factors defining sustainable debt level (after restructuring)

- Interest coverage ratio 2:1
- Average turnover: 1.1 months
- Average margin before interest<sup>1</sup>: 20%
- Average sales for 1.1 months: 202 M Rb
- Expected interest rate: 220%

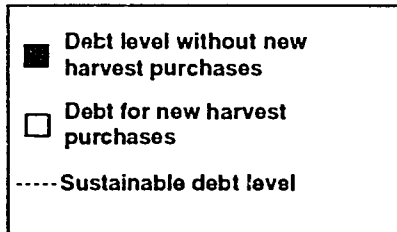
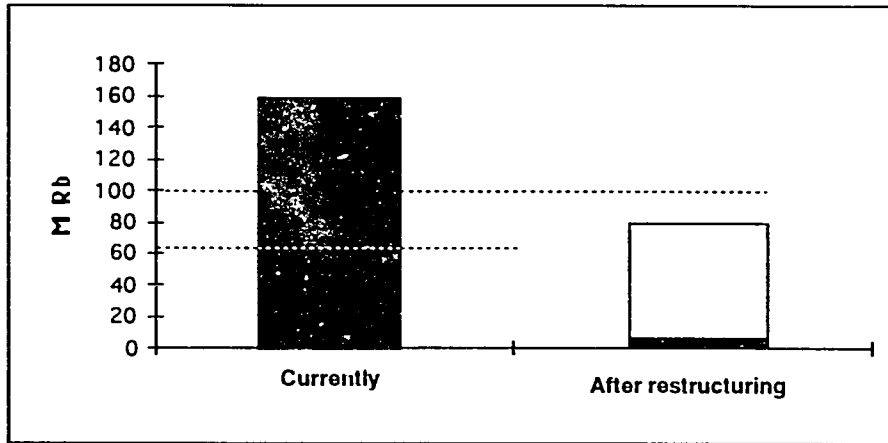


**Sustainable debt level<sup>2</sup>**  
**100 M Rb**

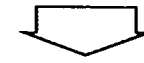
<sup>1</sup> Increase in margin results mainly from spreading fixed costs over higher volume, reduced losses and more profitable product mix

<sup>2</sup>  $202 \times 20\% + 2 = 20.0 \text{ M Rb}$  - Interest payment for 1.1 months  $[(20.0/1.1) \times 12] + 220\% = 100 \text{ M Rb}$

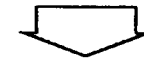
# DEBT REDUCTION WITH RESTRUCTURING WILL ALLOW FINANCING OF HARVEST PURCHASES KEEPING DEBT BELOW SUSTAINABLE LEVEL



• Restructuring allows to increase sustainable debt level to 100 M Rb



• 61 M Rb are used to keep debt in a sustainable level<sup>1</sup>

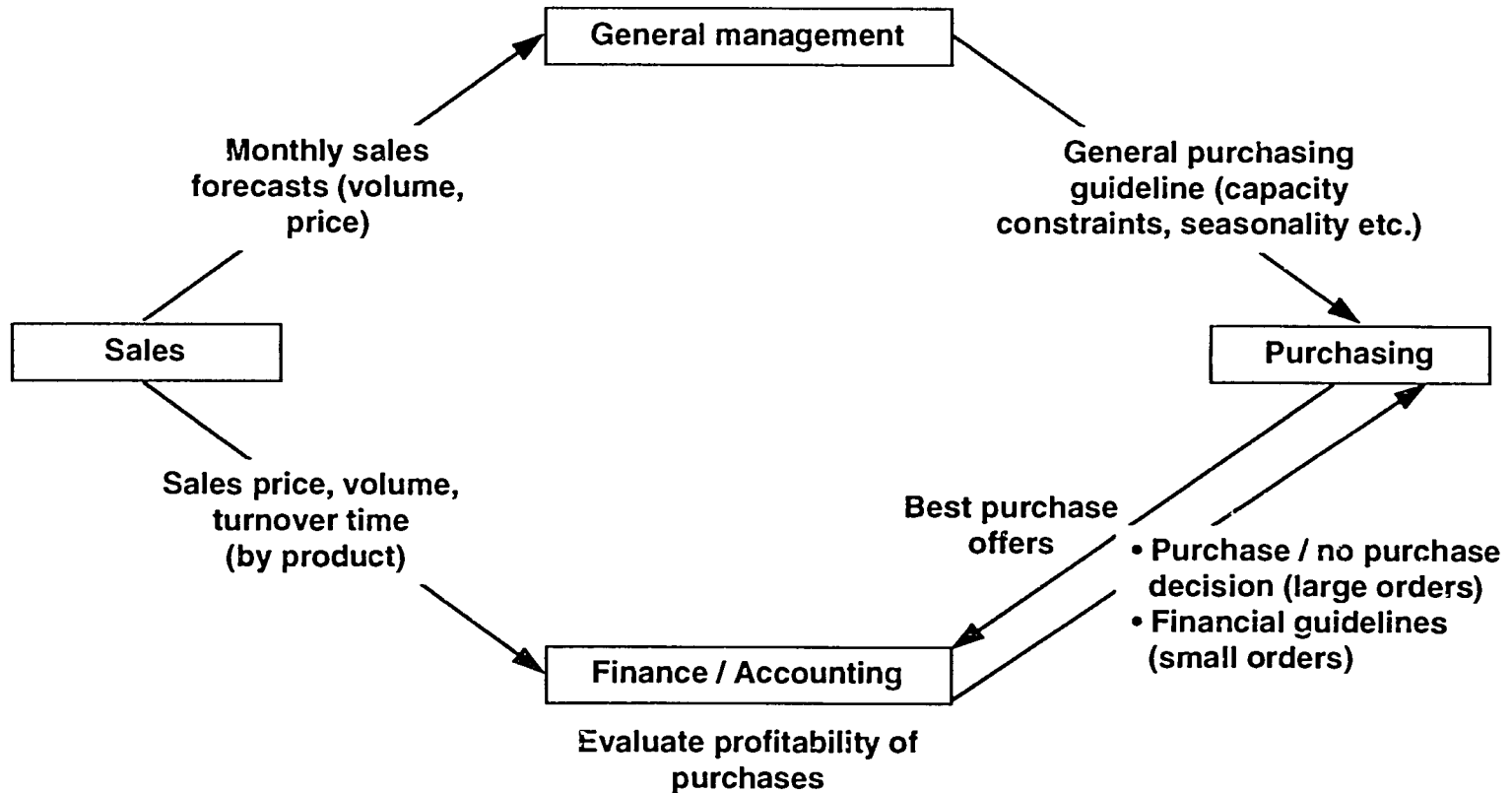


• Rest of restructuring benefit can go for harvest purchases

<sup>1</sup>If restructuring does not proceed fast enough and resulting increase of debt capacity is delayed, more than 61 M Rb will be needed to bring actual debt below sustainable debt level

# THE FINANCE / ACCOUNTING DEPARTMENT SHOULD EVALUATE THE FINANCIAL IMPACT OF DECISIONS

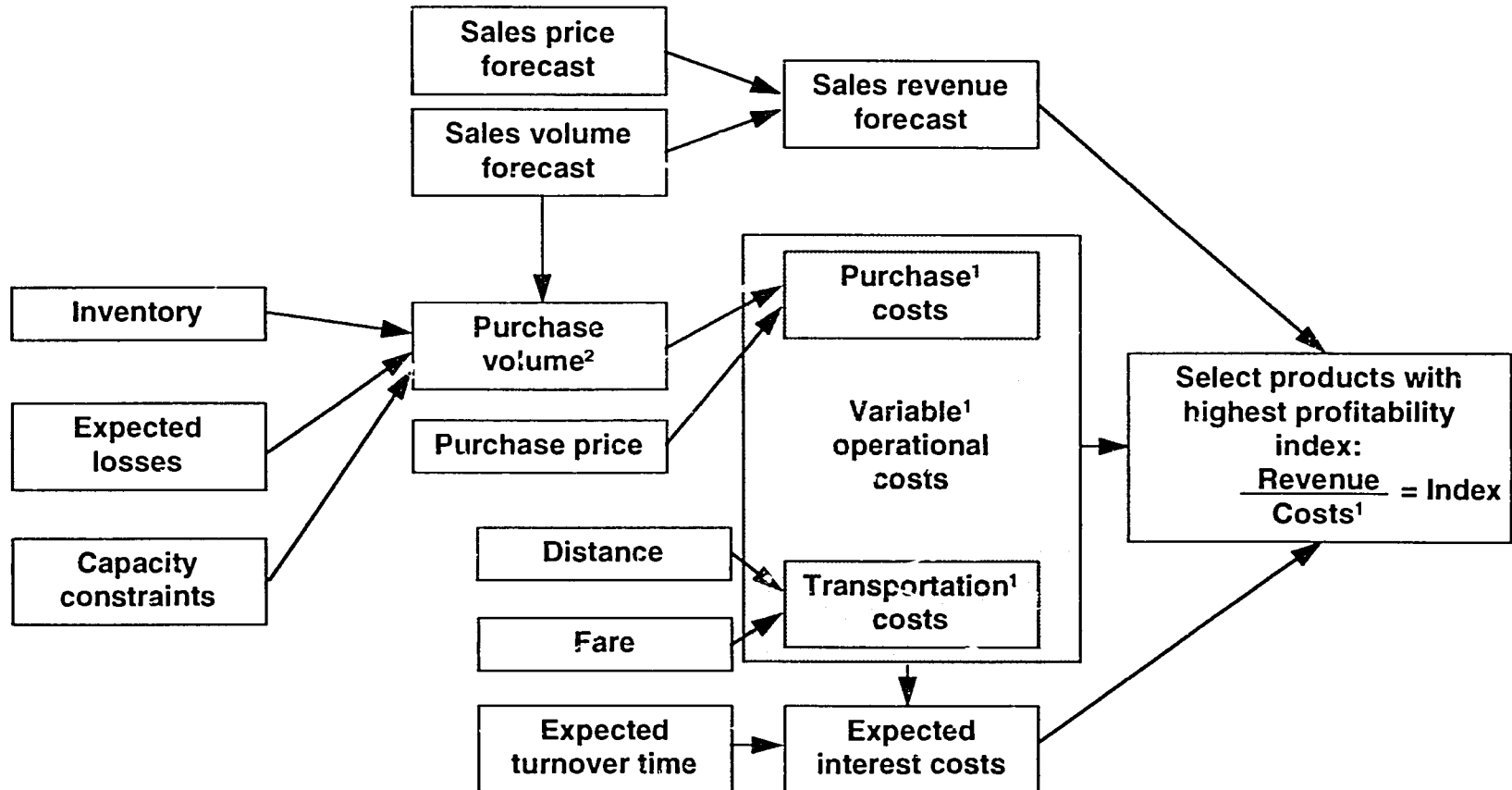
- Eg. purchasing decision



<sup>1</sup> Finance department evaluates only purchases of new products, large purchases or other non-typical purchases. For other purchases financial department formulates guidelines that are used by purchasing department

# HOW TO SELECT MOST PROFITABLE PRODUCTS FOR PURCHASE

## • Evaluation of product profitability index



<sup>1</sup> Only variable costs directly resulting from purchases of product are to be included into calculation. Labour, electricity and other costs are fixed with respect to single purchases

<sup>2</sup> Purchase volume = Sales forecast + Expected losses - Existing inventory

# HOW TO SELECT MOST PROFITABLE PRODUCTS FOR PURCHASE

## • Cabbage purchase example

Sales department estimates that 150 t of standard quality cabbages can be sold at 250 Rb/kg from Jan 1 to Jan 14



Purchase department solicits best offers and reports that the required purchase volume of 165 t can be purchased at 150 Rb/kg

- Source: Uzbekistan
- Transportation costs: 4.35 M Rb (725,000 Rb per wagon, 27 t max load)

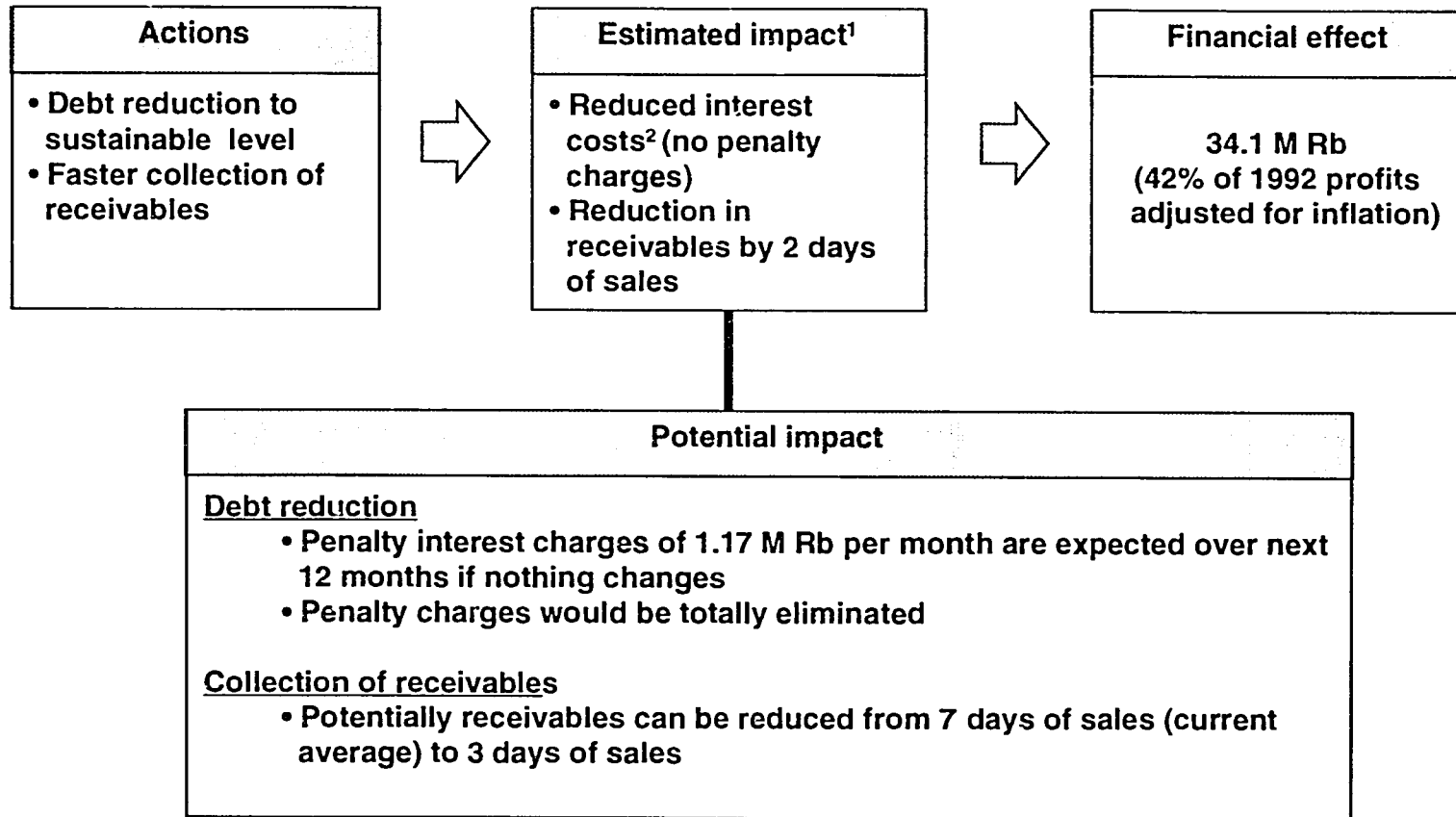


Expected interest costs: 1.2 M Rb (@ 250% rate over 1 week of average turnover)



Profitability Index:  $\frac{37.5 \text{ M Rb}}{24.8 \text{ M Rb}} = 1.5$  (compare with other products)

# NEW FINANCIAL MANAGEMENT WILL POSITIVELY IMPACT PROFITS



<sup>1</sup> Estimated impact is conservative

<sup>2</sup> Only reduction of excessive interest (penalty interest) is included. Overall reduction of interest due to reduction of debt should not be considered since its effect is already accounted for in debt reduction

# NEW FINANCIAL MANAGEMENT WILL HAVE POSITIVE EFFECT ON PROFITS

## • Detailed calculation

### Debt reduction to sustainable level

Average monthly penalty charge (based on 6 months 93)	x	Adjustment for interest rate increase <sup>1</sup>	=	Expected monthly penalty charges	x 12 =	Reduction in penalty charges (annualized)
0.83 M Rb		1.42		1.18 M Rb		14.1 M Rb

### Faster collection of receivables

Reduction in days of sales of receivables	x	Expected daily sales <sup>2</sup>	=	Reduction of working capital	x	Market interest rate	=	Reduction in interest costs
2 days		5 M Rb		10 M		200%		20 M Rb

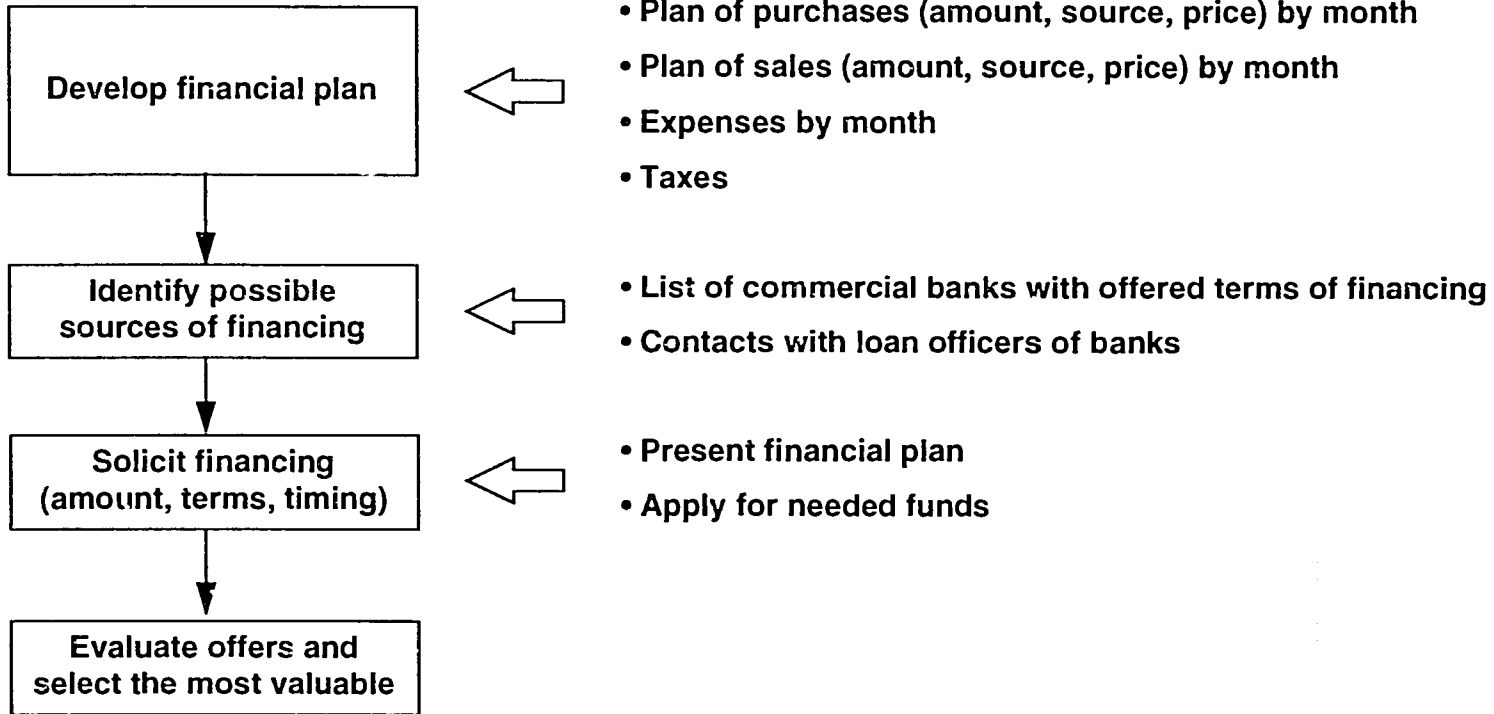


**Financial effect**  
**34.1 M Rb**  
**(42.6% of 1992 profits adjusted for inflation)**

<sup>1</sup> On average penalty charges in 1st half 1993 were based on 140% annual interest, hence adjustment for increase of interest rate to 200%. (200% : 140% = 1.42). Penalty charges equal 100% interest due

<sup>2</sup> Conservatively estimated from annual sales of 1,435 M Rb (Status Quo annual expected sales)

# DEVELOPING A BASE FOR PRIVATE FINANCING WILL PROVIDE ACCESS TO CAPITAL AND REDUCE FINANCING COSTS





## PPOP HAS SEVERAL ALTERNATIVE SOURCES OF BANK FINANCING

- Currently deal with one bank, however

Bank	Size of statutory fund	Commercial credits terms	Management Attitude
AB "ZapadUralBank"	1.5 B Rb	<ul style="list-style-type: none"> <li>• 210-220% annual rate for 3-4 months maturity</li> <li>• Business plan is required</li> </ul>	<ul style="list-style-type: none"> <li>• Ready to discuss a business plan</li> <li>• Appreciate problems with vegetables in the city</li> </ul>
"PermComBank"	2 B Rb	<ul style="list-style-type: none"> <li>• 240-250% annual rate for 3-6 months maturity</li> <li>• Insurance and guarantee are necessary</li> </ul>	<ul style="list-style-type: none"> <li>• Stopped opening new accounts to serve their clients better</li> <li>• Exceptions for big enterprises with solid business plan</li> </ul>
"Perm-Avers"	120 M Rb	<ul style="list-style-type: none"> <li>• 220-240% annual rate for 2-4 months maturity</li> <li>• Collateral is required</li> </ul>	<ul style="list-style-type: none"> <li>• Looking for big clients</li> <li>• Ready to deal with vegetables</li> </ul>
"PermStroibank"	116 M Rb	<ul style="list-style-type: none"> <li>• 220-230% annual rate for 3 months maturity</li> <li>• Insured contract is needed</li> </ul>	<ul style="list-style-type: none"> <li>• Very interested in big clients</li> <li>• Understand the seasonality of business and ready to discuss loan's terms</li> </ul>

## CENTRAL BANK REGULATION PROHIBITING COMPANIES FROM OPENING MORE THAN ONE ACCOUNT SHOULD BE REPEALED

- Instruction N 28 30.10.86 is still enforced

Current regulation	Problem	Solution
<p>§ 1.9 “Every company ... must have only one checking account...”</p> <p>§ 1.8 “Checking account ... must be opened in the bank office closest to company’s location”</p>	<ul style="list-style-type: none"> <li>• Greatly reduces flexibility of companies in payments</li> <li>• Reduces flexibility in borrowing</li> <li>• Limits competition in banking</li> </ul>	<p>Repeal of Instruction N 28 § 1.8, 1.9, i.e.</p> <ul style="list-style-type: none"> <li>• Account terms should be negotiated between banks and companies on competitive basis</li> <li>• Any company should be free to open checking or other accounts in any bank</li> </ul>

## MANDATORY DESPOSITING OF CASH SHOULD BE REPEALED

- “Law on Monetary System” 10.92, Instruction N 23 10.12.87

Current regulation	Problem	Solution
<p>Companies must use only bank transfer for most transactions</p> <ul style="list-style-type: none"> <li>• maximum limit for cash transaction 0.5 M Rb</li> <li>• cash purchases in excess of 0.5 M Rb allowed only for buying agricultural products from individuals</li> </ul> <p>Companies must deposit all cash in excess of maximum limits set by Central Bank</p>	<ul style="list-style-type: none"> <li>• Transfer mechanism slow, especially for inter-CIS</li> <li>• Wholesalers cannot make rapid purchases due to lack of cash               <ul style="list-style-type: none"> <li>- long clearing delays (1 week - 2 months)</li> <li>- not enough working capital</li> </ul> </li> <li>• Limits competition in banking               <ul style="list-style-type: none"> <li>- bank deposits should be attracted by banks but not granted to them</li> </ul> </li> </ul>	<p>Repeal regulations on mandatory depositing and / or allow wholesalers make cash purchases from all suppliers</p>

# PRO FORMA CASH FLOW STATEMENT IS A VITAL PLANNING TOOL THAT WILL ASSIST IN SOLICITING FINANCING FROM BANKS

	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
<b>Cash flow from operations</b>				
<b>Inflow:</b>				
Cash from sales				
Returns from suppliers				
<u>Cash from other activities</u>				
<b>Total inflow</b>				
<b>Outflow:</b>				
Purchases				
Transportation				
Labour				
Utilities				
Returns to customers				
<u>Other (eg. replacement reserves)</u>				
<b>Total outflow</b>				
<b>Net cash from operations</b>				
<b>Cash flow from financing</b>				
<b>Inflow:</b>				
Interest received				
<u>Loans received</u>				
<b>Total inflow</b>				
<b>Outflow</b>				
Interest paid				
<u>Loans paid</u>				
<b>Total outflow</b>				
<b>Net cash from financing</b>				
<b>Cash flow from investments</b>				
Inflow - disposition of assets				
Outflow - acquisition of assets				
<b>Net cash from investments</b>				
<b>Total cash flow</b>				

## Major indicators

Positive net cash flow from operations shows that company is generally healthy and can grow using internally generated funds

Growing company may have negative cash flow from investments

Cash from financing should be a function of target growth and cash from operations

- Financing provides cash that is needed for growth if operations cash flow is not sufficient

# LOCAL AUTHORITIES SHOULD RE-EXAMINE SUBSIDY POLICY FOR VEGETABLE WHOLESALERS

**After privatization and restructuring vegetable wholesalers will become profitable**

- **Change of strategy**
  - **more trade less storage**
- **Marketing improvements (segmentation, pricing, advertising, etc.)**
- **Operational improvements (storage, refrigeration, handling, etc.)**
- **Financial management improvements (shorter payment cycle, planning, etc.)**

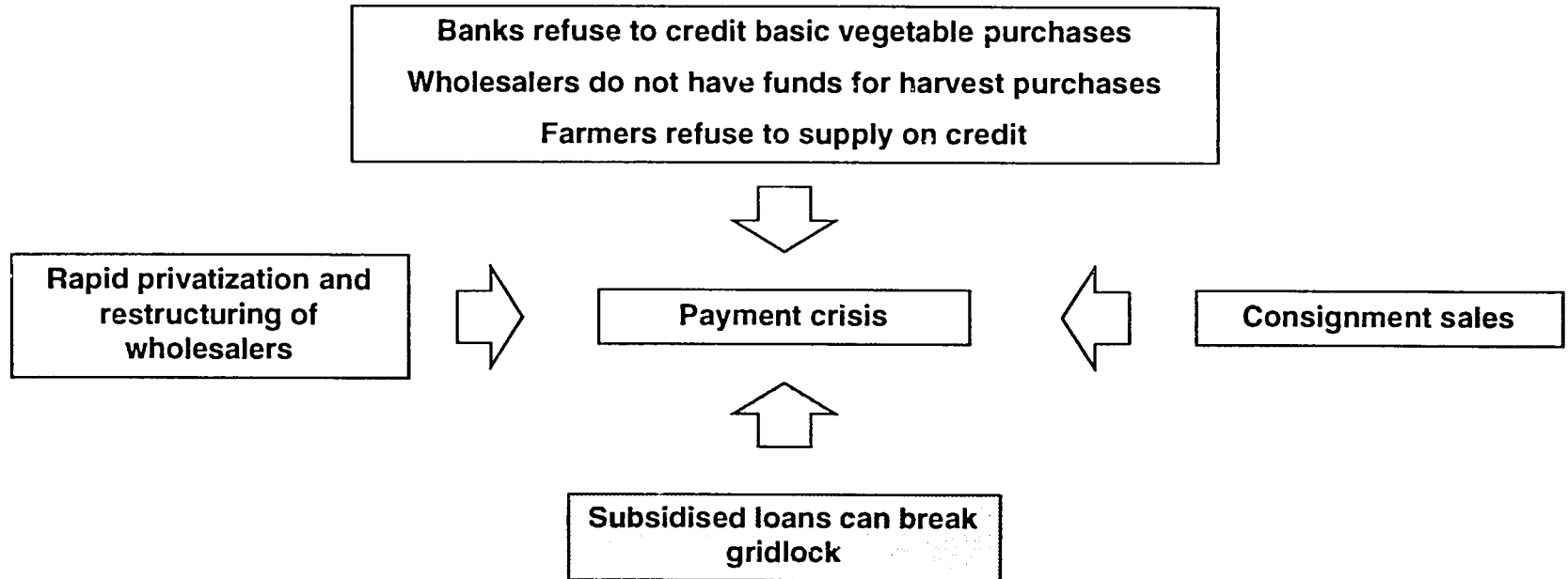
**All subsidies will become unnecessary**

**In short term, selective subsidies may help solve payments gridlock**

- **Wholesalers lack funds to purchase next harvest**
- **Banks refuse to lend to indebted wholesalers**

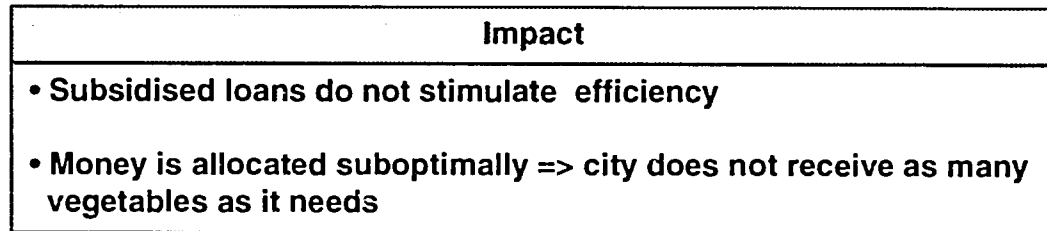
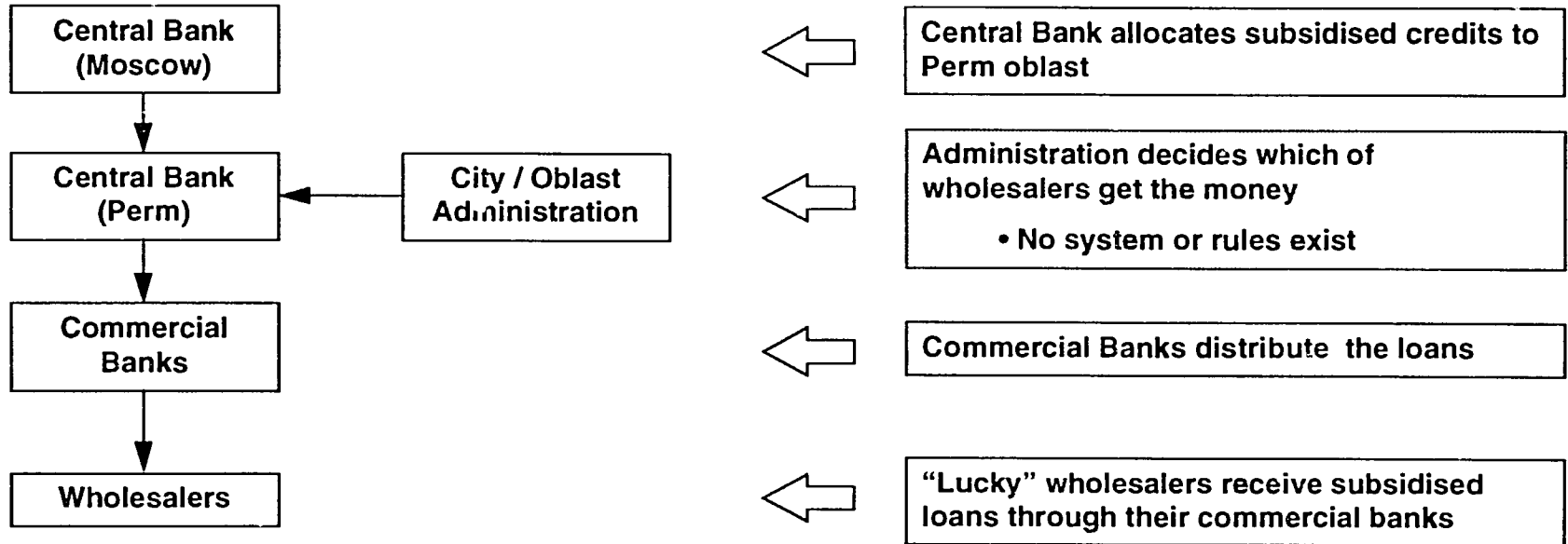
**If local authorities insist on distributing subsidies, rational allocation mechanism should be used**

# IN SHORT TERM, SUBSIDISED LOANS MAY HELP RESOLVE PAYMENTS CRISIS IN WHOLESALING



# ALLOCATION OF SUBSIDISED LOANS BETWEEN WHOLESALERS IS CURRENTLY AT FULL DISCRETION OF ADMINISTRATION

- No systematic allocation criteria



Source: BCG Interviews and Analysis

# A BIDDING SYSTEM LEADS TO FULFILMENT OF CITY NEEDS IN BASIC VEGETABLES AT THE LOWEST SUBSIDY COST

Example: potato bid

	Administration allocates 230 M Rb		
	bid	bid	bid
Wholesaler	A	B	C
Loan asked	100 MRb	150 M Rb	80 M Rb
Tons offered	2,500 t	3,000 t	1,500 t
Bid (t/M Rb)	25	20	18
Loans received	100 M Rb	130 M Rb	--

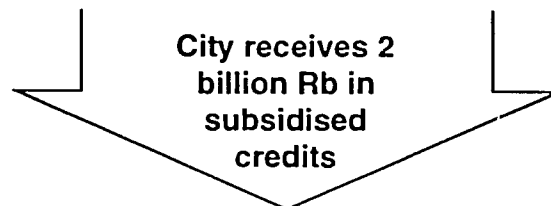
## Main steps

- Administration invites wholesalers to bid
- Bid specifies tons to be supplied and total loan required
- Administration allocates loans to highest bidders
- Accepted bids become contracts between the city and wholesalers
- Administration controls the contract performance of the wholesalers



# ALLOCATION OF SUBSIDISED CREDIT TO SPECIFIC VEGETABLES SHOULD BE A FUNCTION OF CONSUMPTION AND PURCHASE PRICE

## • Example calculation



	Potato	Carrot	Cabbage
Expected purchase price (Rb/kg)	50	60	60
Target consumption (tons) (last year + adjustments)	40,000	6,000	6,000
Target purchases (M Rb)	2,000	360	360
Percentage of total (%)	74%	13%	13%
	↓	↓	↓
Subsidised loans allocated (M Rb)	1,480	260	260

## THE BIDDING MECHANISM SHOULD BE CLEAR FOR PARTICIPANTS

### • Suggested bidding scheme

**What products should be included in bidding?**

- Potato, cabbage, carrots of standard quality
- One bid for one product type

**What will be the responsibility of wholesaler whose bid is accepted?**

- To sell out of season only ( to be defined) the amount of product specified in the bid to population of Perm

**What should be specified in the bid?**

- Total amount of sales offered (in tons)
- Total loan required
- Amount of tons of product

## POSSIBLE DANGERS CAN BE AVOIDED

**Dumping product during harvest season**

- **Qualification that September - October sales do not qualify for contract performance**

**“Sale - buy back - sale” schemes, or other fake sales**

- **Administration can check books and facilities**

**Misuse of subsidised loans (purchase of other products)**

- **Wholesaler must sell the contracted amount of a vegetable product irrespective of its actual loan use**

## **Operations**

- **Operational problems and improvements**
- **Financial impact of operational improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Market segmentation**
- **Pricing**
- **New products**
- **Financial management**
- **Financial impact of strategy and operational improvements**
- **Action plan and implemented results**

# MARKETING, OPERATIONAL AND FINANCIAL MANAGEMENT IMPROVEMENTS MORE THAN DOUBLE PROFITS

Area of improvements	Effect on Profits (over next year)
<b>Marketing</b> <ul style="list-style-type: none"> <li>• Segmentation</li> <li>• Pricing</li> </ul>	<p>20.9 M Rb</p> <p>87.3 M Rb<sup>1</sup></p>
<b>Operations</b>	43.9 M Rb
<b>Financial management</b>	34.1 M Rb
<b>Total</b>	<b>186.2 M Rb</b> <b>(233% of 1992 profits adjusted for inflation)</b>

**Effect of pricing operational and financial improvements are sustainable in the long term**

**Effect from segmentation will be higher in consecutive years**

- Lagged effect of advertising, customer awareness of new quality etc.

<sup>1</sup> Relatively high Impact since there is no lagging between implementation and effect

# PRIVATIZATION AND RESTRUCTURING WILL ALLOW TO TURN PPOP AROUND AND RECIEVE AT LEAST 80 M Rb OF PROFITS NEXT YEAR

Pro forma income statements for next 12 months<sup>1</sup>

	Status Quo	Quick Operational Fixes <sup>1</sup>	Operational, Marketing, Financial Improvements
Sales	1,435.0	1,622	2,211.0
Purchasing costs	(1,070.0)	(1,185)	(1,547.0)
VAT	( 80.3)	( 96.1)	(146.1)
Operational Expenses	<u>( 351.0)</u>	<u>( 363.3)</u>	<u>(398.0)</u>
Profit (Loss) Before Tax	( 66.3)	( 22.4)	119.9
Profit Tax	---	---	( 38.4)
Profit After Tax	<u>( 66.3)</u>	<u>( 22.4)</u>	<u>81.5</u>

<sup>1</sup> Under assumption of 15% per month general inflation, 20% per month rise in fuel and electricity prices. Interest rate of 250% per year. No subsidized credits. All estimates are based on conservative, least favourable assumptions of impact of the restructuring

## **Operations**

- **Operational problems and improvements**
- **Financial impact of operational improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Market segmentation**
- **Pricing**
- **New products**
- **Financial management**
- **Financial impact of strategy and operational improvements**
- **Action plan and implemented results**

# SEVERAL RECOMMENDATIONS HAVE ALREADY BEEN IMPLEMENTED

**Direct mail promotion**

**New system of sales**

- **Customer visits**
- **Transfer of sales functions from warehouses to specialized sales department**
- **Sales force training**

**New pricing system**

**Direct supply offers to large social institutions**

**... and practical insights were obtained on possible problems of implementation process**



# **PPOP's LETTER TO EXISTING AND POTENTIAL CUSTOMERS WAS THEIR FIRST EXPERIENCE OF DIRECT MAIL PROMOTION**

**Customers were informed that PPOP is becoming a private wholesaler and restructuring its business**

- **Positive image of “change”**
- **Removing association of municipal wholesalers with bad quality**

**New approach to quality, grading and marketing**

**Inform about changes in sales system**

- **No direct sales from warehouses**
- **Date of introduction of new system**

# **PPOP's NEW SALES DEPARTMENT VISITED 10 POTENTIAL CENTRAL RETAILER CUSTOMERS**

**Introduced customer driven approach of “new private” PPOP**

**Explained how the new system of sales would work**

- **All sales are done through sales department, i.e. no direct sales from warehouses**
- **Sales reps are going to visit retailers regularly**
- **New pricing (discount and rebates, payment terms)**
- **How to place orders, set delivery time, etc.**
- **Procedures on solving customer quality complaints**

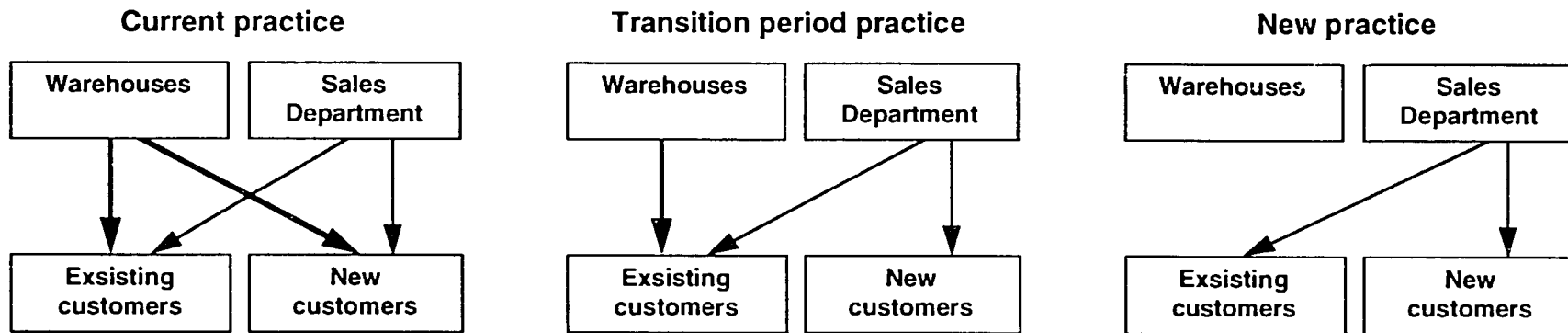
**Made a sales pitch**

- **Products currently available and arriving**
- **Superiority of PPOP's price-delivery-service package**
- **Dropped literature (price lists, rebate proposals, order forms)**

## VISITING NEW CUSTOMERS GENERATED INTEREST IN NEW APPROACH AND RESULTED IN NEW SALES

Retailer	Management attitude / reaction to new proposals	New sales (for 2 weeks of August)
Store 19	<ul style="list-style-type: none"> <li>• Keen on work with sales department</li> <li>• Liked ideas of price discounts</li> </ul>	4.5 M Rb
Store 14	<ul style="list-style-type: none"> <li>• Very interested in rebate system</li> <li>• Keen on quality complains procedures</li> </ul>	1.3 M Rb
Store 12	<ul style="list-style-type: none"> <li>• Indifferent (good contacts with other wholesalers)</li> </ul>	
Store 13	<ul style="list-style-type: none"> <li>• Very keen on packing</li> <li>• Liked idea of rebates and discounts</li> <li>• Keen on dealing with private supplier</li> </ul>	0.85 M RB
Store 24	<ul style="list-style-type: none"> <li>• Very keen on packing</li> </ul>	
Gastronom 1	<ul style="list-style-type: none"> <li>• High quality products - high price needs</li> <li>• Higher variety of non-vegetables</li> <li>• Interested in rebates</li> </ul>	0.75 M RB
Gastronom 10	<ul style="list-style-type: none"> <li>• Interested in quality complaints follow up procedure and rebates</li> </ul>	0.72 M Rb
"Commersant"	<ul style="list-style-type: none"> <li>• Are very keen on dealing with private supplier</li> </ul>	1.5 M Rb
Store 7	<ul style="list-style-type: none"> <li>• Keen on quality grading</li> <li>• Liked idea on rebates and discounts</li> </ul>	
Store 53	<ul style="list-style-type: none"> <li>• Not interested (passive management)</li> </ul>	
		<hr style="width: 20%; margin: auto;"/> <b>Total: 9 M Rb</b> <b>(10% of expected sales for August 1993)</b>

# TRANSFER OF ALL SALES RESPONSIBILITIES FROM WAREHOUSES TO SALES DEPARTMENT REQUIRES A TRANSITION PERIOD



**During transition period (1-2 months)**

- All customers are informed about proposed change (see advertising letter)
- Orders from new customers are taken only by sales department
  - Warehouses must refer all new customers to sales department
- Sales department people visit all customers to establish personal contacts



**Transition period avoids breaking off existing customer contacts**

# TRANSFER OF ALL SALES FUNCTIONS TO SALES DEPARTMENT MAY BE STRONGLY RESISTED BY WAREHOUSE PERSONNEL

• See Order N 60 in Appendix

Resistance: reasons and possible actions	Arguments for new system	How to overcome resistance
<p><b>Authority loss</b></p> <p>Loss of opportunity to make side money on quality-price manipulations of perishable products</p> <p style="text-align: center;">↓</p> <p>Warehouse personnel will ship better quality to “warehouse” customers and worse quality to “sales department” customers during transition period</p>	<p>Sales and warehousing cannot be done properly by same people</p> <ul style="list-style-type: none"> <li>• Sales require frequent customer visits while warehousing requires constant attendance</li> <li>• Profile of sales force (mobile, energetic, good communication skills) is different from profile of warehousing personnel (technical knowledge, book keeping skills)</li> </ul> <p>Sales practice requires supply of different products to same customer</p> <ul style="list-style-type: none"> <li>• Warehouse personnel is only responsible in his “own” warehouse</li> </ul>	<p>Ensure and publicly announce commitment of top management to new system and irreversibility of changes</p> <p>Specify and distribute in writing new responsibilities of warehouse personnel and sales department</p> <p>Set up the procedure to follow on customers’ quality complaints and specify responsibilities</p>

# **SETTING FOLLOW UP PROCEDURE ON QUALITY COMPLAINTS WILL PROTECT “SALES DEPARTMENT” CUSTOMER DURING TRANSITION PERIOD AND IMPROVE CUSTOMER SATISFACTION**

**Complaints on quality of perishable products should be addressed to sales department within 24 hours from receipt of shipment**

**Upon receipt of complaint sales person must visit complaining customer within 4 hours**

**During the visit, sales person and customer examine the shipment, determine quality and sign examination certificate<sup>1</sup>**

**If the actual quality (certified by examination certificate) is worse than the quality stated in shipping documents, then the quality expert and warehouse manager who signed shipment documents are held responsible**

- **They can be fined for up to 50% of price difference**

**Customer receives a reimbursement of 125% of price difference between quality in shipping documents and quality received**

<sup>1</sup> Sales department is to inform all customers about this procedure

# **BASIC SALES TRAINING IS NEEDED FOR NEW AND EXISTING PERSONNEL OF SALES DEPARTMENTS**

## **Customer driven approach to sales should be explained**

- **Constant attention to customer needs**
- **Maintaining good relationship**
- **Search for opportunities of improving customer satisfaction**

## **Basic sales techniques should be explained**

- **How to introduce oneself and the company**
- **How to present products and services offered**
- **How to negotiate price, payment terms, etc.**
- **How to close the sale**

## **Basic tools of sales forecasting should be explained**

- **Use of historic data**
- **Monitoring changes in customer behavior**
- **Monitoring competitor activity**

## SALES TRAINING SHOULD BE DIFFERENT FOR NEW AND OLD EMPLOYEES

- Reversal of attitude to retailers of old employees is most important

Type of sales person	Strengths	Weaknesses	Required specifics in training
<p><b>Current employee of sales department</b></p>	<p>Knowledge of current retail structure</p> <p>Knowledge of products</p> <p>Existing contacts with customers</p>	<div style="border: 1px solid black; padding: 5px;"> <p>Treat retailers as subordinates</p> <ul style="list-style-type: none"> <li>• Many retailers were subordinated to wholesalers under planned economy</li> </ul> </div> <p>Some customers might have had bad experience with sales person in the past</p> <p>Used to old work methods (no active selling)</p>	<p>Emphasize that customers are the highest value for wholesaler</p> <p>Educate that no mechanisms other than good service can influence customers' choice of supplier</p> <ul style="list-style-type: none"> <li>• Customers are completely independent and may choose suppliers freely</li> </ul>
<p><b>New employees with no experience in wholesaling</b></p>	<p>Energetic, motivated</p> <p>Mobile</p> <p>No work habits inherited from "old system"</p>	<p>No product knowledge</p> <p>No knowledge of retail structure / operations</p>	<p>Extensive product training</p> <p>Familiarization with retail operations / structure of retailers</p>

Source: BCG Analysis



## IMPLEMENTATION REVEALED MAJOR MISTAKES THAT WHOLESALERS MAY TEND TO MAKE IN SETTING NEW PRICING SYSTEM

Possible mistake	Problem	How to avoid it
<p>Sales department has full control over price setting</p> <p>Prompt payments are stimulated by penalty charges (as opposed by quoting higher prices for longer payment terms)</p>	<p>Prices are set too low</p> <ul style="list-style-type: none"> <li>• Commissions motivate sales force to generate sales volume even at “loss making” prices</li> </ul> <p>Penalty charges have negative connotation and discourage customers</p> <p>Penalty charges are paid <u>after tax</u> =&gt; customer pays more than wholesaler receives</p>	<p>Floor prices (base prices) must be approved by general management</p> <p>Provide flexible price-payment terms schedule</p> <ul style="list-style-type: none"> <li>• Customer may choose to pay higher price later or pay lower price sooner</li> </ul>

## SOME RESISTANCE TO IMPLEMENTING NEW PRICING SYSTEM MAY BE ENCOUNTERED

Reasons for resistance	Arguments for new pricing	How to overcome resistance to change
<p>Short-term profits are currently made by charging as much as customer can bear (by some wholesalers)</p> <ul style="list-style-type: none"> <li>• Central retailers that are richer are charged higher price though they make bigger orders</li> <li>• Remote retailers may pay lower prices though they take small orders</li> </ul>	<p>Privatisation =&gt; increase in competition among wholesalers =&gt; undercutting of artificially high prices to rich retailers</p> <p style="text-align: center;">↓</p> <p>Loss of profits from higher prices</p> <p>Loss of best customers</p> <p style="text-align: center;">↓</p> <p>Need for new pricing scheme</p> <ul style="list-style-type: none"> <li>• Ensure sustainable profitability (high volumes =&gt; economies of scale)</li> <li>• Makes it unprofitable for competitors to undercut prices</li> </ul>	<p>Eliminate perceived complexity</p> <ul style="list-style-type: none"> <li>• Develop a template for order size discount and rebates</li> </ul> <p>Inform customers about proposed new pricing and communicate their opinion to management</p> <p>Persuade sales department</p> <ul style="list-style-type: none"> <li>• Sales people have the most to gain from new pricing (payment based on volume)</li> </ul>

# **PPOP STARTED TO OFFER DIRECT SUPPLY TO LARGE SOCIAL INSTITUTIONS**

**Sales department and BCG visited three large social institutions**

- **Introduced “new private PPOP”**
- **Collected information on current purchases and needs**
  - **suppliers**
  - **products, prices, delivery etc.**
  - **unsatisfied needs / concerns**

**PPOP evaluated possibility of direct sales to institutional customers**

- **Possible reaction from bypassed retailers for social institutions**
- **Profitability and volumes**

**PPOP made an offer of direct supply to one large social institution**

- **Emphasizing lower price and reliability of supply**
- **Agreement of exclusive rights to supply basic vegetables was offered**

## LONG TERM SUPPLY AGREEMENTS SHOULD INCLUDE AN EXCLUSIVITY CLAUSE INSTEAD OF COMMITMENTS TO FIXED VOLUMES

Current practice	Problem	Solution
<p>Attempt to force customers to commit to buying fixed volumes over period up to 1 year</p> <ul style="list-style-type: none"> <li>• Specifying purchase volumes by product (in tons) in long term agreements</li> </ul>	<p>Customer is not prepared to make firm commitments to volumes</p> <ul style="list-style-type: none"> <li>• High uncertainty of business conditions or budget financing (for social institutions)</li> </ul>	<p>Secure exclusive rights to supply customer without specifying any volumes (see example in Appendix)</p> <ul style="list-style-type: none"> <li>• No limitation of upside               <ul style="list-style-type: none"> <li>- all volumes that customer buys go to the exclusive supplier</li> </ul> </li> <li>• Customer is not forced to buy excessive volumes</li> <li>• May be product specific (eg. only basic vegetables)</li> </ul>

**PRIVATIZATION AND RESTRUCTURING OF VEGETABLE WHOLESALERS**  
• Perm Pilot Project

**Final Report**

**Part II**

**2 September 1993**



**THE BOSTON CONSULTING GROUP**

## RESTRUCTURING PLAN FOR KIROVSKAYA

# RESTRUCTURING PLAN FOR KIROVSKAYA

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## **Operations**

- **Operational problems and improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Financial rescue plan**
- **Market segmentation**
- **Pricing**
- **Advertising**
- **New products and services**
- **Financial management**
- **Financial impact of strategic and operational improvements**



## **THERE ARE 5 MAIN OPERATIONAL IMPROVEMENT AREAS**

**Improve the quality of incoming products**

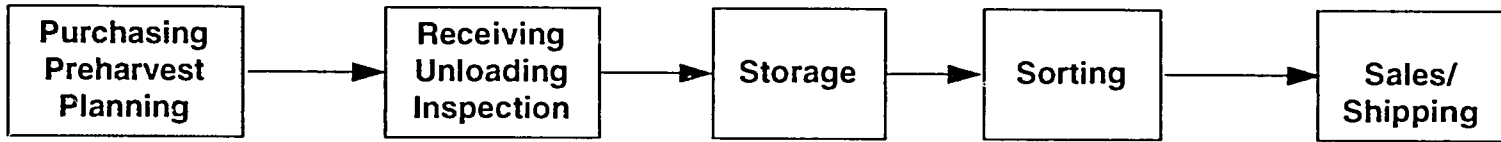
**Modify handling and receiving techniques**

**Optimise utilisation of storage space and maintain proper storage conditions**

**Introduce new value-added services**

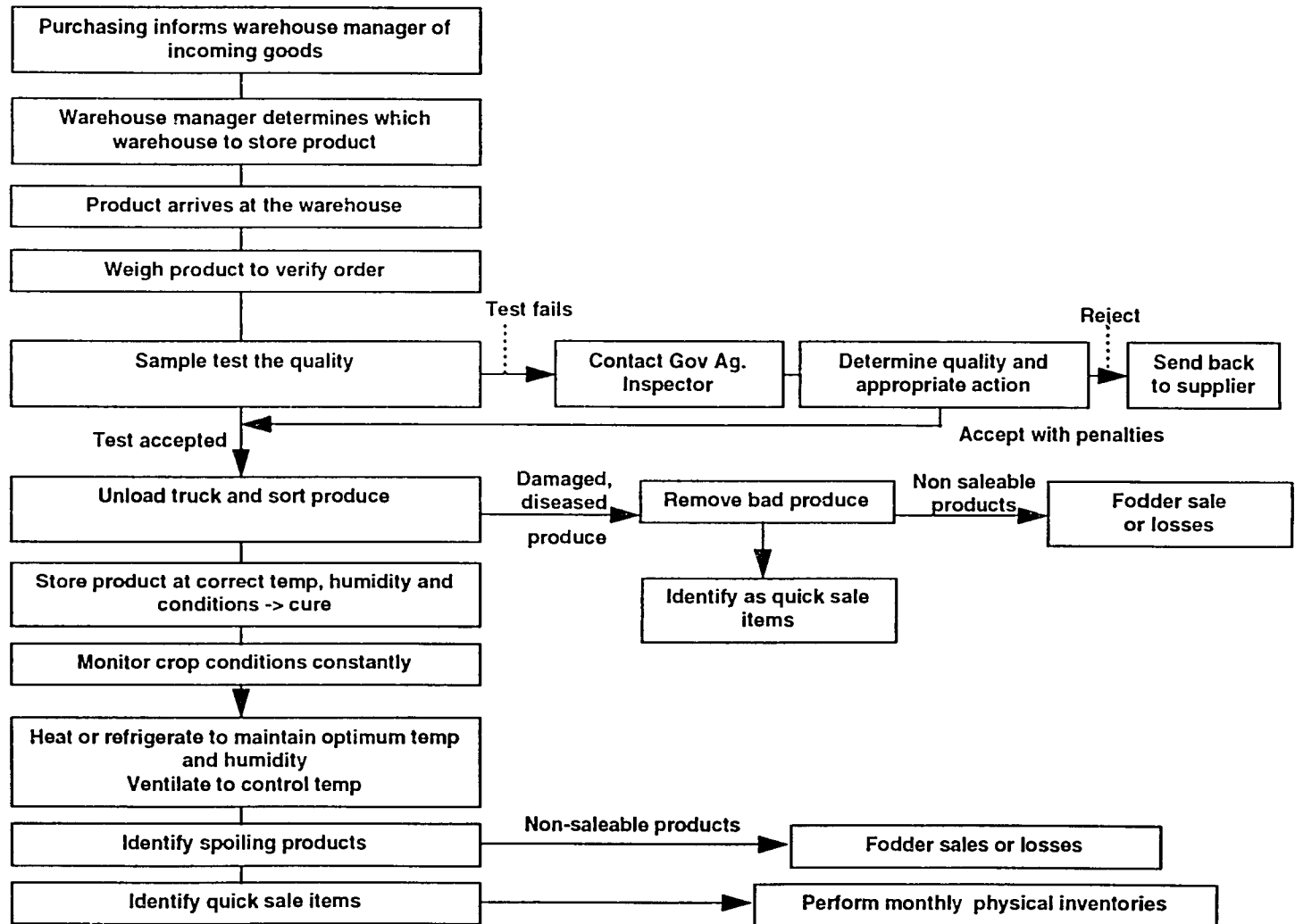
**Improve the sales and distribution process**

# MORE EMPHASIS ON BUYING HIGH QUALITY PRODUCTS WILL REDUCE LOSSES

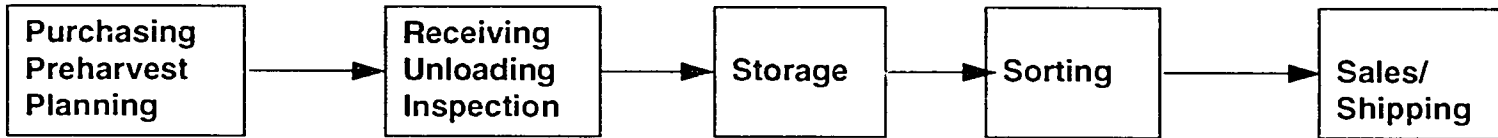


Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Products/quantity bought according to last year's sale</li> <li>• Contracts negotiated with limited numbers of suppliers               <ul style="list-style-type: none"> <li>- only 1 for carrots and cabbage</li> <li>- 2 for potatoes</li> </ul> </li> <li>• Not enough emphasis on quality when choosing suppliers               <ul style="list-style-type: none"> <li>- more emphasis on distance/ historical relationship</li> </ul> </li> <li>• Minimal emphasis on quality in contracts</li> <li>• Product delivery is concentrated within a short period</li> <li>• Products suffer from disease</li> </ul>	<ul style="list-style-type: none"> <li>• Inefficient planning and consideration of customer needs</li> <li>• Limited choice of quality due to insufficient attempts to look for new sources               <ul style="list-style-type: none"> <li>- Perm district farms dictate their conditions</li> </ul> </li> <li>• Low quality and increased losses</li> <li>• Suppliers are not responsive to wholesalers needs</li> <li>• Handling difficulties, unloading damage</li> <li>• High losses</li> </ul>	<ul style="list-style-type: none"> <li>• More interaction with sales department</li> <li>• Create a dedicated purchasing team with financial incentives and a good knowledge of quality</li> <li>• Investigate alternative sources of supply               <ul style="list-style-type: none"> <li>- look for suppliers in other districts/ regions</li> </ul> </li> <li>• Introduce new contracts specifying quality standards</li> <li>• Specify delivery schedules in contract               <ul style="list-style-type: none"> <li>- spread timing of receipts</li> </ul> </li> <li>• Inspect produce in field prior to harvest               <ul style="list-style-type: none"> <li>- disease</li> <li>- maturity</li> </ul> </li> </ul>

# THE FARM TO WHOLESALER PURCHASING PROCESS WILL FOCUS ON QUALITY

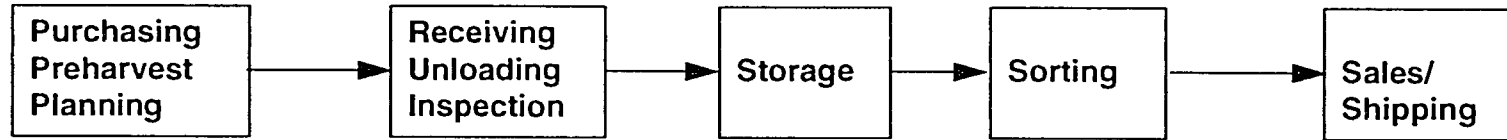


# PRE-SORTING PRODUCT PRIOR TO STORAGE WILL REDUCE THE INCIDENCE AND SPREAD OF DISEASE



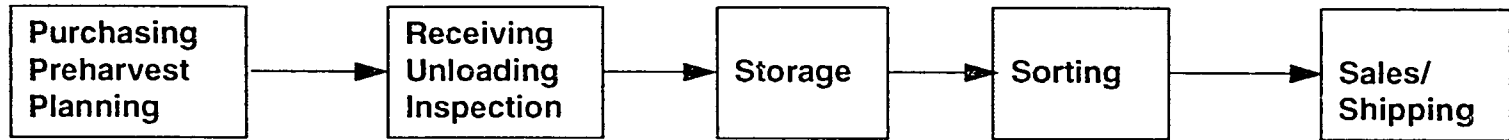
Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Limited quality checks of incoming products</li>   <li>• Emphasis is placed on unloading speed and drop height exceeds 30 cm</li>   <li>• Large amounts of damaged and diseased product are placed in storage</li> </ul>	<ul style="list-style-type: none"> <li>• Low quality</li>   <li>• Mechanical damage and losses</li>   <li>• Losses are amplified, space is wasted</li> </ul>	<ul style="list-style-type: none"> <li>• Use acceptance testing procedure before unloading               <ul style="list-style-type: none"> <li>- acceptance or rejection</li> <li>- penalties and price reductions</li> </ul> </li>   <li>• Modify existing handling techniques</li>   <li>• Introduce and increase pre-sorting, especially for carrots and potatoes               <ul style="list-style-type: none"> <li>- increase the number of sorters</li> <li>- slow down and extend conveyor</li> </ul> </li> </ul>

# STORING PRODUCT UNDER THE CORRECT CONDITIONS WILL DRAMATICALLY INCREASE SHELF LIFE



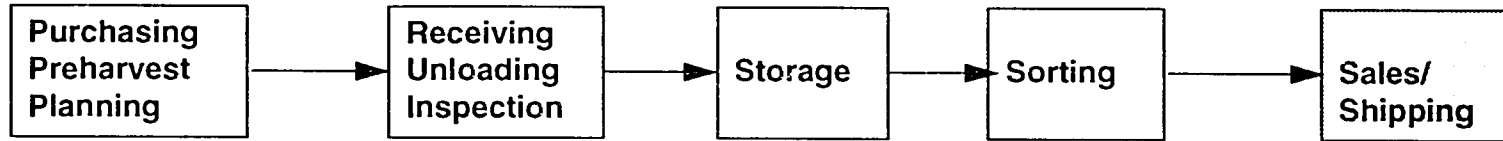
Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Products allocated to warehouses according to historical principles               <ul style="list-style-type: none"> <li>- profitable products divided between warehouses</li> </ul> </li> <li>• Refrigerated facilities are not fully utilised</li> <li>• Rotten products are not culled</li> <li>• Insufficient monitoring of storage conditions               <ul style="list-style-type: none"> <li>- temperature</li> <li>- humidity</li> <li>- curing period</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Incorrect allocation of products</li> <li>• Products are stored at incorrect temperatures</li> <li>• Rotten products are stored together with healthy products</li> <li>• No incentives for managers to reduce losses               <ul style="list-style-type: none"> <li>- insufficient accountability</li> <li>- no financial incentives</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Re-segment the warehouse</li> <li>• Refrigerate as many carrots and cabbages as possible</li> <li>• Remove rotten/diseased products</li> <li>• Create incentives for managers to control losses               <ul style="list-style-type: none"> <li>- target loss % for each product</li> </ul> </li> <li>• Clearly define responsibilities</li> </ul>

# GRADING, SORTING AND CLEANING VEGETABLES ARE EXAMPLES OF VALUE-ADDED SERVICES THAT CAN INCREASE REVENUE



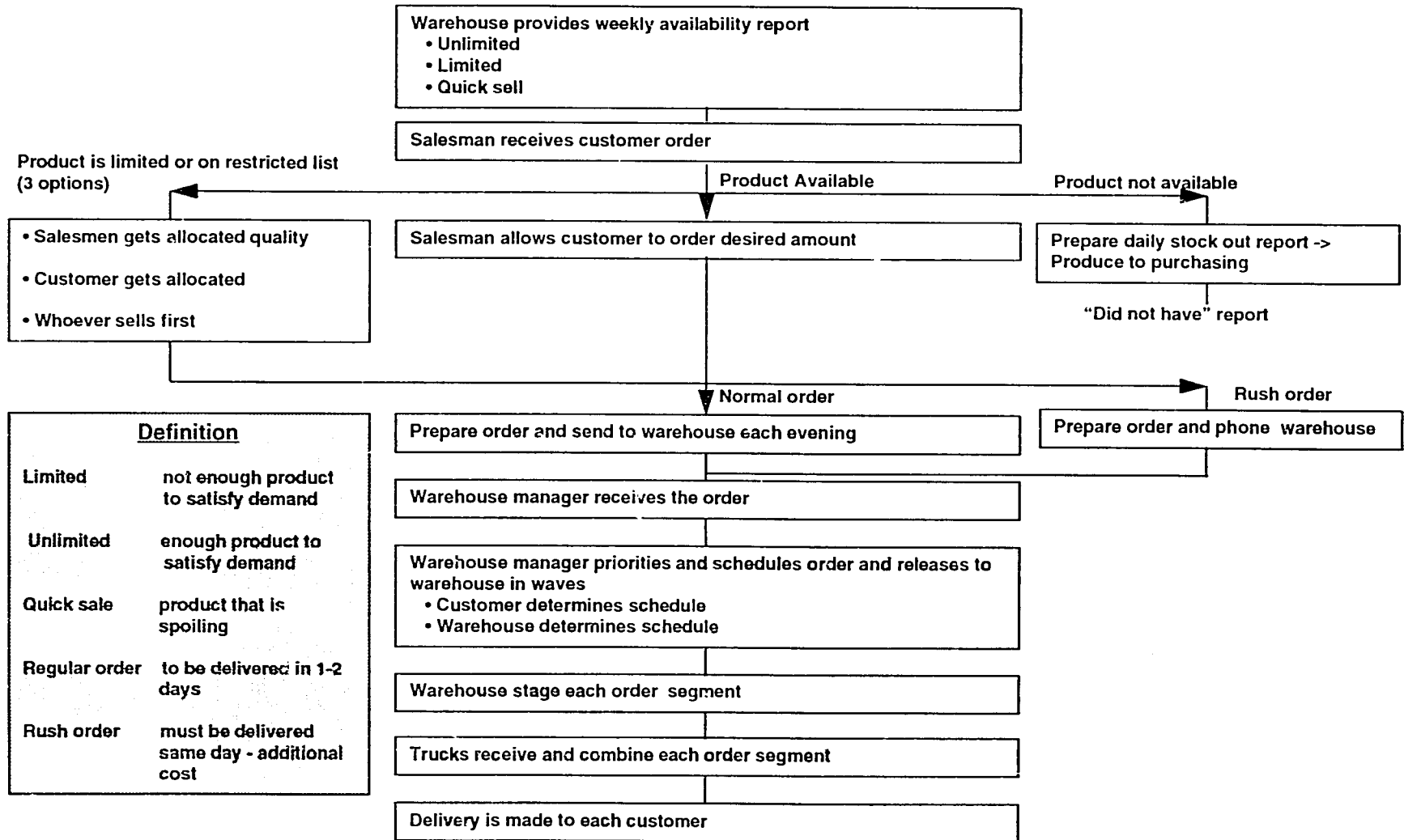
Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• Only 2 sorting grades of vegetables               <ul style="list-style-type: none"> <li>- standard</li> <li>- non-standard</li> </ul> </li>   <li>• Sorting done a few hours before selling               <ul style="list-style-type: none"> <li>- products sometimes sold without sorting</li> </ul> </li>   <li>• No washing and packaging</li> </ul>	<ul style="list-style-type: none"> <li>• Missed opportunity to differentiate products and maximize revenue</li>   <li>• Missed opportunity to differentiate products and maximize revenue</li>   <li>• Potato washing machine is not utilised</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce different product grades for vegetables eg.               <ul style="list-style-type: none"> <li>- market grade</li> <li>- standard grade</li> <li>- non-standard</li> </ul> </li>   <li>• Sort products as far in advance of shipment as possible</li>   <li>• Wash and package products</li> </ul>

# A DEDICATED AND MOTIVATED SALES FORCE WOULD BE ABLE TO SEEK NEW CUSTOMERS AND INCREASE SALES



Existing Practice	Existing Problems	Possible Solution
<ul style="list-style-type: none"> <li>• No one is directly responsible for sales</li>   <li>• Warehouse managers can only sell the products in their warehouses</li>   <li>• Phone calls as the primary sales mechanism               <ul style="list-style-type: none"> <li>- only 2 phones available with direct lines</li> </ul> </li>   <li>• Not enough coordination with purchasing</li>   <li>• Passive sales methods               <ul style="list-style-type: none"> <li>- limited sales visits</li> <li>- no information on customer needs</li> <li>- no incentives to look for new customers</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• No accountability</li>   <li>• Lack of coordination between warehouses</li>   <li>• Limited contact with customers</li>   <li>• Missed market trends</li>   <li>• Selling opportunities are not maximised               <ul style="list-style-type: none"> <li>- no motivation to sell</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Create sale team               <ul style="list-style-type: none"> <li>- they can sell all products</li> <li>- they will look for new customers</li> </ul> </li>   <li>• Create financial incentive to increase sales               <ul style="list-style-type: none"> <li>- % of sales</li> <li>- new customer bonus</li> <li>- sales bonus</li> </ul> </li>   <li>• Install additional phones</li>   <li>• Sales team to provide daily reports on customer needs and missed sales opportunities</li>   <li>• Engage in pro-active selling               <ul style="list-style-type: none"> <li>- personal visits</li> <li>- mailings</li> <li>- advertising</li> </ul> </li> </ul>

# THE WHOLESALER TO CUSTOMER ORDER FLOW WILL BE RATIONALIZED





**THE MOST FEASIBLE INVESTMENTS ARE TO INSTALL THE CONVEYOR IN THE ONION STOREHOUSE AND COMPLETE THE INSTALLATION OF THE REFRIGERATION SYSTEM**

<b>Equipment</b>	<b>Cost (000's Rb)</b>	<b>Benefit (000's Rb)</b>	<b>Payback *</b>
Install conveyor in the onion warehouse	21	240	1 month
Finish installation of the refrigeration system	800	8,000	1.5 months
Install two wells	2,100	1,800	1.5 years
Purchase four forklift batteries	2,000	600	6 years
<b>Insulation</b>			
- 50 mm	3,900	160	>20 years
- 100 mm	7,800	320	>20 years
- 200 mm	15,600	540	>20 years

\* Assuming net interest rate of 20%/year  
Data Source: BCG Analysis

## **Operations**

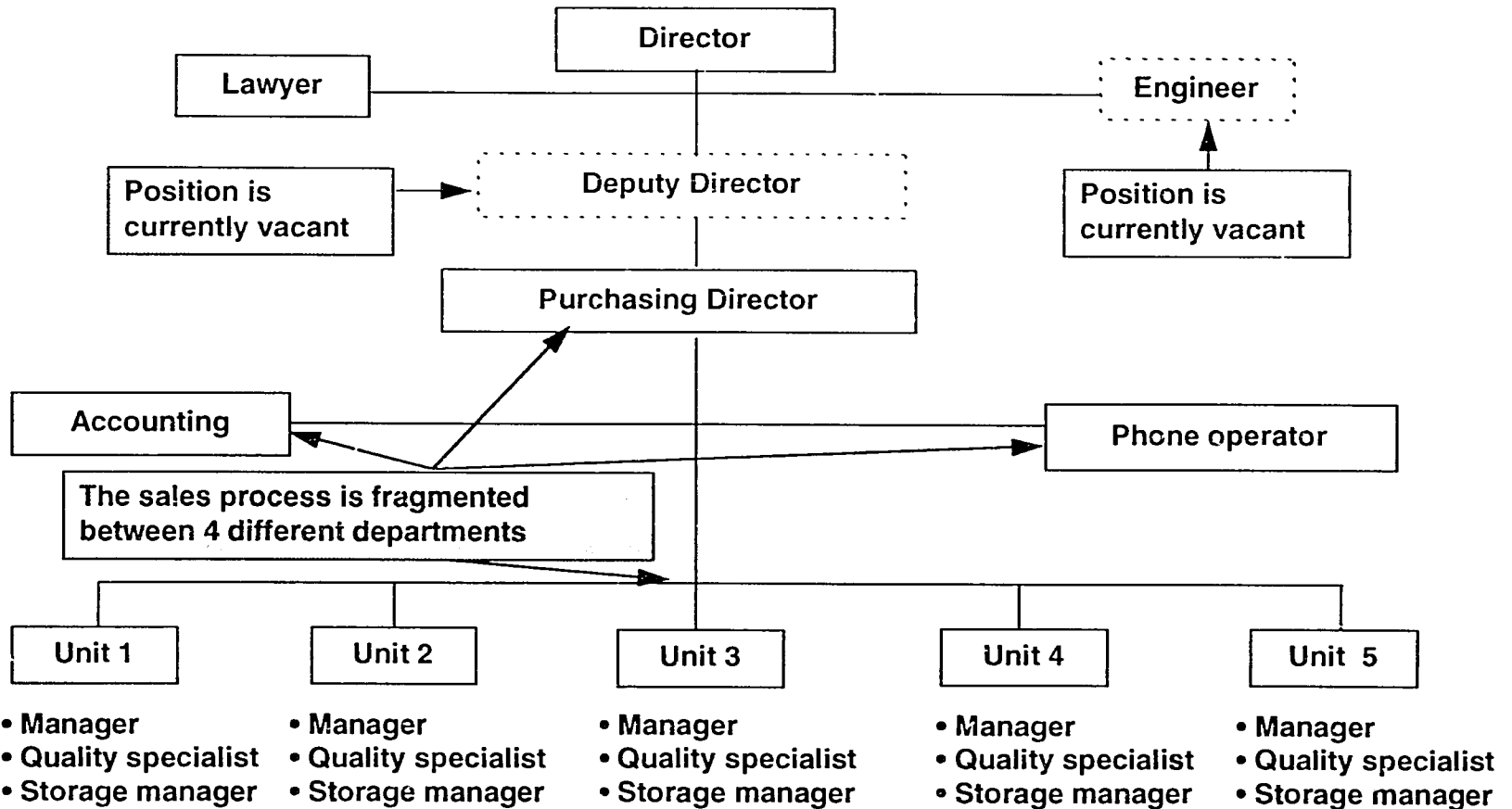
- **Operational problems and improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Financial rescue plan**
- **Market segmentation**
- **Pricing**
- **Advertising**
- **New products and services**
- **Financial management**
- **Financial impact of strategic and operational improvements**

# KIROVSKAYA HAS VACANCIES IN TWO KEY POSITIONS AND PROCESSES ARE FRAGMENTED BETWEEN DEPARTMENTS

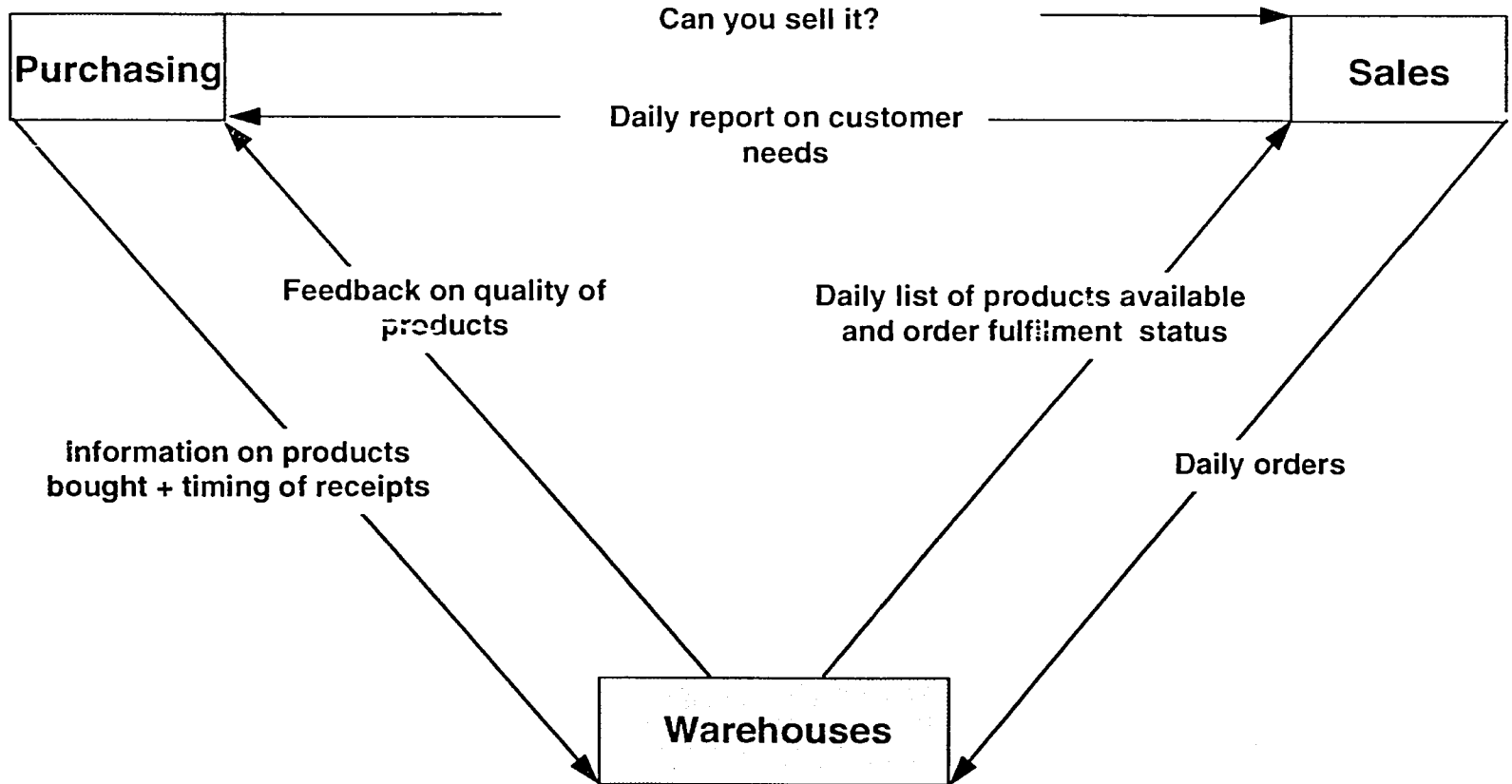
- Existing organizational structure



## REDEFINING JOB RESPONSIBILITIES AND PROVIDING INCENTIVES WILL IMPROVE COMPETITIVENESS

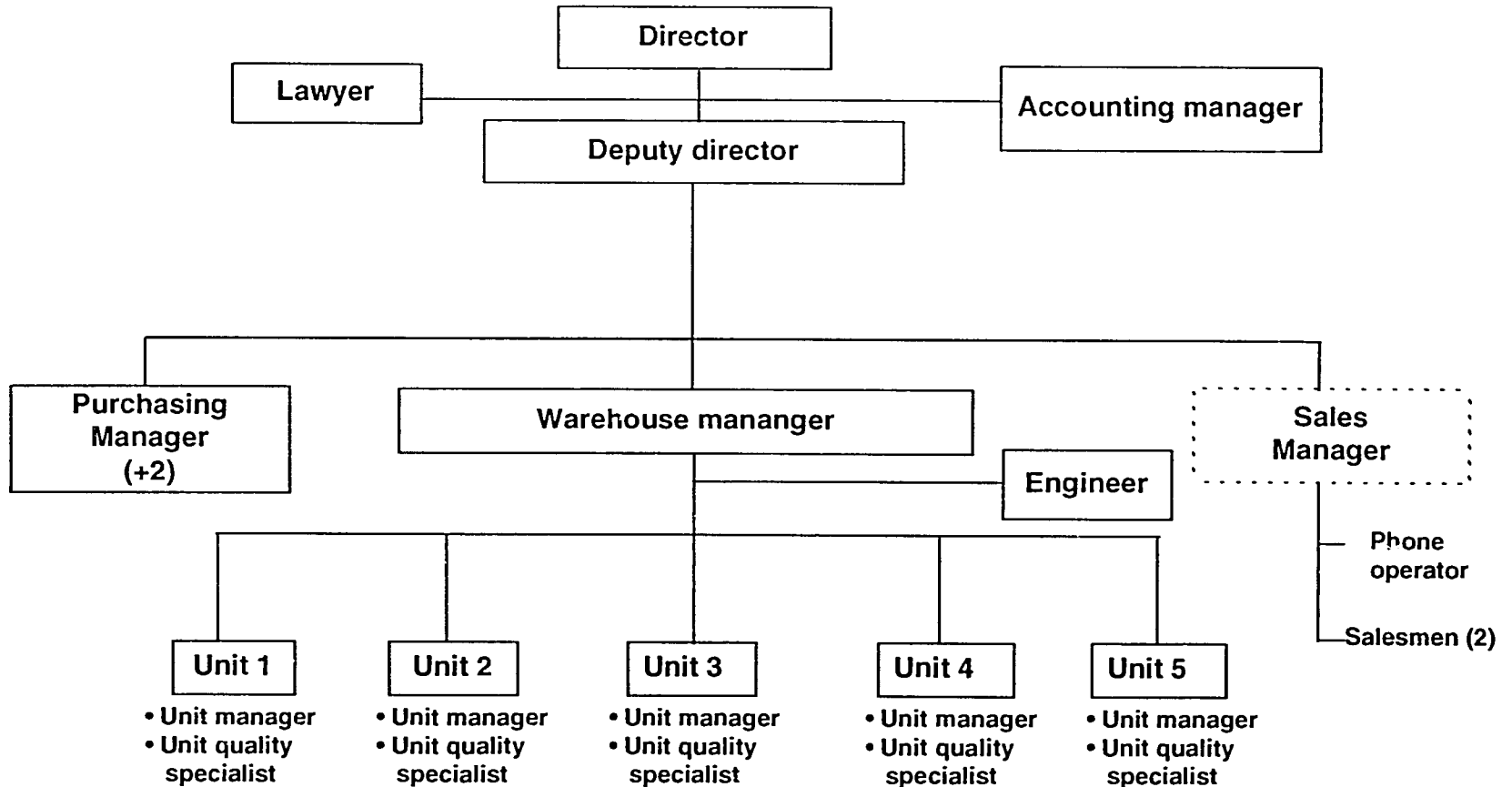
Problem	Solution
<ul style="list-style-type: none"> <li>• Lack of accountability at all levels</li> <li>• There is a lack of leadership in upper management</li> <li>• Sales is fragmented across four different departments within the organization</li> </ul>	<ul style="list-style-type: none"> <li>• Make personnel directly responsible for performance</li> <li>• Hire a Deputy Director and a Chief Engineer</li> <li>• Consolidate the sales function into one department focused solely on sales</li> </ul>
<ul style="list-style-type: none"> <li>• Purchasing does not actively seek new suppliers</li> <li>• There are no financial incentives for purchasing better quality products at lower prices</li> <li>• Sales department is not motivated to seek out new customers</li> <li>• Managers are not directly responsible for losses and quality control</li> </ul>	<ul style="list-style-type: none"> <li>• Create awareness and motivation to reduce product cost and increase availability</li> <li>• Reward buyers based on savings and quality levels</li> <li>• Reward salesmen based on sales volume</li> <li>• Salary incentive based on loss reduction</li> </ul>

# THE SUCCESS OF A NEW ORGANIZATION WILL DEPEND ON INTERACTIONS BETWEEN DEPARTMENTS



# THE NEW ORGANIZATION WILL CONSOLIDATE THE SALES PROCESS AND WILL INCLUDE A WAREHOUSE MANAGER

- Recommended organization structure



## PURCHASING DEPARTMENT JOB DESCRIPTION (1)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Responsible for contacts with key suppliers</li>   <li>• Investigate alternative sources of supply                             <ul style="list-style-type: none"> <li>- assess different sources</li> </ul> </li>   <li>• Coordinate with other departments</li> </ul>	<ul style="list-style-type: none"> <li>• Periodic visits to supplier                             <ul style="list-style-type: none"> <li>- phone calls and written contacts</li> <li>- investigate future prices/quality and products</li> <li>- encourage supplier to grow certain products</li> <li>- visit farms before harvest to assess quality</li> </ul> </li>   <li>• Visit to other farms/regions                             <ul style="list-style-type: none"> <li>- investigate price/quality</li> <li>- availability</li> <li>- variety</li> </ul> </li>   <li>• Investigate direct buying from dachas</li> <li>• Analyse price vs. quality/possible losses (including transport costs)                             <ul style="list-style-type: none"> <li>- use information from warehouse management</li> </ul> </li>   <li>• Keep sales department informed of possible products to buy                             <ul style="list-style-type: none"> <li>- analyse sales department daily reports</li> </ul> </li>   <li>• Keep warehouse management informed of products bought + timing of receipts</li> <li>• Use feedback from warehouse management on products with low losses</li> </ul>	<ul style="list-style-type: none"> <li>• Min number of visits</li> <li>• Quotas</li> <li>• Quality assessment                             <ul style="list-style-type: none"> <li>- pre-harvest</li> <li>- harvest</li> </ul> </li>   <li>• Purchase price/quality vs. historical or farm prices</li> <li>• Loss reduction</li> <li>• Quality assessment</li>   <li>• Timely report</li> </ul>

# PURCHASING DEPARTMENT JOB DESCRIPTION (2)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Negotiate contracts and prices with suppliers</li>   <li>• Assess quality</li> </ul>	<ul style="list-style-type: none"> <li>• Verify quality/price comparison</li> <li>• Determine payment terms</li> <li>• Negotiate quality contract</li> <li>• Storage location (wholesaler or farm)</li>   <li>• Verify quality of purchased products</li> <li>• Assess quality to determine price</li> </ul>	<ul style="list-style-type: none"> <li>• Savings vs. historical</li> <li>• Availability</li> <li>• Extended receiving window</li>   <li>• Warehouse quality determination</li> <li>• Amount of losses</li> </ul>

**Incentives**  
**Salaries based on reduction of prices by grade of product**



## WAREHOUSE MANAGER JOB DESCRIPTION (1)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Ensure correct warehouse segmentation</li> <li>• Responsible for facilities maintenance</li> <li>• Supervise storage</li> <li>• Co-ordinate with purchasing department</li> </ul>	<ul style="list-style-type: none"> <li>• Allocate products to warehouse upon receipts</li> <li>• Supervise Unit Managers                             <ul style="list-style-type: none"> <li>- look out for possible problem check</li> <li>- supervise repairs/construction</li> <li>- buy new machines when needed</li> </ul> </li> <li>• Check that correct storage conditions are kept in all warehouses                             <ul style="list-style-type: none"> <li>- temperature/humidity</li> <li>- physical inventory vs. projected inventory</li> <li>- airing period</li> <li>- space utilization / proper lay out</li> </ul> </li> <li>• Written feedback on which products have better storage conditions                             <ul style="list-style-type: none"> <li>- % of losses by product type/supplier</li> </ul> </li> <li>• Receive information on timing of receipts                             <ul style="list-style-type: none"> <li>- plan warehouse segmentation</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>% loss reduction compared to last year average (including sales for fodder)</li> <li>• Facility conditions                             <ul style="list-style-type: none"> <li>- refrigeration</li> <li>- ventilation</li> <li>- other</li> </ul> </li> <li>• % of loss reduction</li> <li>• Utilization of space</li> <li>• Timely feedback</li> </ul>

## WAREHOUSE MANAGER JOB DESCRIPTION (2)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Co-ordinate with Sales Department</li> </ul>	<ul style="list-style-type: none"> <li>• Provide Sales Department with a weekly list of products specifying limited or unlimited amounts                             <ul style="list-style-type: none"> <li>- in tonnes</li> <li>- by product/grade</li> <li>- list of quick sell items</li> </ul> </li> <li>• Receive orders from Sales to prioritise and schedule delivery                             <ul style="list-style-type: none"> <li>- customer specific delivery date</li> <li>- warehouse specifies delivery based on location demand</li> </ul> </li> <li>• Monitor order picking and shipping</li> <li>• Arrange transportation and monitor delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Timely report / list</li> <li>• Adherence to delivery schedule                             <ul style="list-style-type: none"> <li>- customer service</li> <li>- cost</li> </ul> </li> <li>• Adherence to delivery schedule                             <ul style="list-style-type: none"> <li>- customer service</li> <li>- cost</li> </ul> </li> </ul>

<u>Incentives</u>
<p>Salary based on</p> <ul style="list-style-type: none"> <li>• Loss reduction</li> <li>• Timely delivery to customers</li> <li>• Correct shipment of products to customers</li> </ul>



## UNIT MANAGER JOB DESCRIPTION (2)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Supervise workers</li> <li>• Ship orders</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-sorting</li> <li>• Grading</li> <li>• Loading - unloading</li>   <li>• Receive orders from warehouse manager</li> <li>• Pull the orders from storage =&gt; weigh</li> <li>• Verify quantity and quality - weigh and visual inspection</li> <li>• Stage at entrance of warehouse</li> <li>• Load trucks</li> </ul>	<ul style="list-style-type: none"> <li>• Productivity</li>   <li>• Adherence to schedule</li> <li>• Productivity</li> </ul>

### Incentives

Salary based on

- Loss reduction
- Maintenance of proper conditions
- Physical inventory vs. projected inventory

## SALES DEPARTMENT JOB DESCRIPTION (1)

Job Description	Activities	Performance Measure
<ul style="list-style-type: none"> <li>• Responsible for a given set of customers</li>   <li>• Assess demand and needs of market and specific customers</li>   <li>• Keep purchasing department informed of market trends and specific customer needs</li>   <li>• Expand the customer base</li>   <li>• Negotiate contract / prices</li> </ul>	<ul style="list-style-type: none"> <li>• Daily contact by phone with existing customers to inform them of products available and take orders</li>   <li>• Visits with customers to assess their needs/problems               <ul style="list-style-type: none"> <li>- investigate which products they are buying from other suppliers</li> <li>- investigate which products/prices they want now/ near future</li> <li>- investigate which services they need/desire</li> </ul> </li>   <li>• Write daily reports based on customer interviews</li> <li>• Informal meetings with Purchasing Department</li>   <li>• Personal visits to possible customers to establish relationships</li> <li>• Promote Kirovskaya through phone calls and letters with information on products/ prices/ services</li> <li>• Advertising</li>   <li>• Negotiate and sign contracts when needed               <ul style="list-style-type: none"> <li>- negotiate prices and payment terms</li> <li>- inform Accounting Department</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Meet quotas</li> <li>• Minimum sales level/product               <ul style="list-style-type: none"> <li>- based on last years sales</li> </ul> </li>   <li>• Customer satisfaction               <ul style="list-style-type: none"> <li>- periodic phone call by the deputy director to customers</li> </ul> </li>   <li>• Timely feedback               <ul style="list-style-type: none"> <li>- generated sales opportunities</li> </ul> </li>   <li>• # of new customers added</li> <li>• # of new calls/week</li>   <li>• Payment history</li> <li>• Price regulation</li> </ul>



## PERSONALITY PROFILE AND SKILLS

Position	Skills	Profile	
<ul style="list-style-type: none"> <li>• Sales person</li> </ul>	<ul style="list-style-type: none"> <li>• Communication skills</li> <li>• Knowledge of the market (product knowledge)</li> </ul>	<ul style="list-style-type: none"> <li>• Energetic</li> <li>• Convincing</li> <li>• Articulate</li> </ul>	<ul style="list-style-type: none"> <li>• Self confident</li> <li>• Initiative</li> </ul>
<ul style="list-style-type: none"> <li>• Purchasing agent</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge of quality/ standards</li> <li>• Communication skills</li> <li>• Knowledge of contract law</li> <li>• Knowledge of the market</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiator</li> <li>• Motivated</li> </ul>	<ul style="list-style-type: none"> <li>• Team player</li> <li>• Energetic</li> </ul>
<ul style="list-style-type: none"> <li>• Warehouse Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Management skills</li> <li>• Knowledge of storage (conditions, quality testing, facility maintenance, order scheduling)</li> </ul>	<ul style="list-style-type: none"> <li>• Organized</li> <li>• Team player</li> <li>• Energetic</li> </ul>	<ul style="list-style-type: none"> <li>• Motivated</li> <li>• Common Sense</li> </ul>
<ul style="list-style-type: none"> <li>• Unit Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge of storage conditions</li> <li>• Quality testing knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Team player</li> <li>• Motivated</li> <li>• Common sense</li> </ul>	

## **Operations**

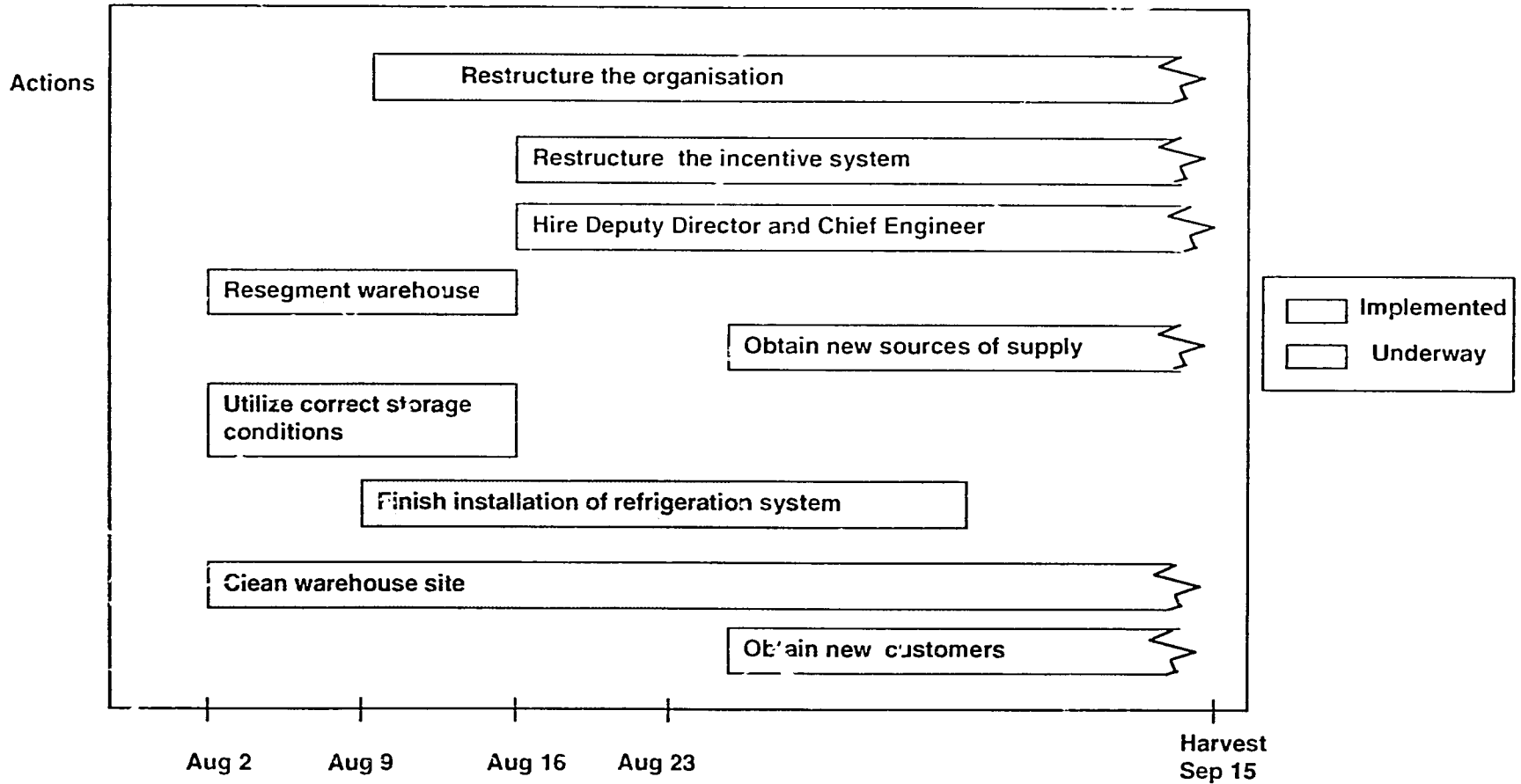
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## **Strategy**

- **Financial rescue plan**
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# AN IMLEMENTATION PLAN HAS BEEN DEVELOPED AND IS PARTIALLY UNDERWAY



# SEVERAL RECOMMENDATIONS HAVE BEEN IMPLEMENTED OR ARE UNDERWAY

<b>Organization</b>
<b>Employee suggestion scheme</b> <b>Kick off meeting, site clean up and kick off party</b> <b>Proposed job responsibilities</b> <b>Proposed organizational structure</b>
<b>Purchasing</b>
<b>Harvest window extended</b> <b>Harvest receipts leveled out over time</b>
<b>Storage</b>
<b>Warehouse resegmented by product</b> <b>Installation of refrigeration system underway</b> <b>Installation of conveyor in onion warehouse underway</b> <b>Site is being cleaned up</b>

## Operations

- Operational problems and improvements
- Organizational improvements
- Action plan and implemented results

## Strategy

- Financial rescue plan
- Market segmentation
- Pricing
- Advertising
- New products and services
- Financial management
- Financial impact of strategic and operational improvements

## **THE MAJOR ISSUE FOR KIROVSKAYA IS EXCESSIVE DEBT**

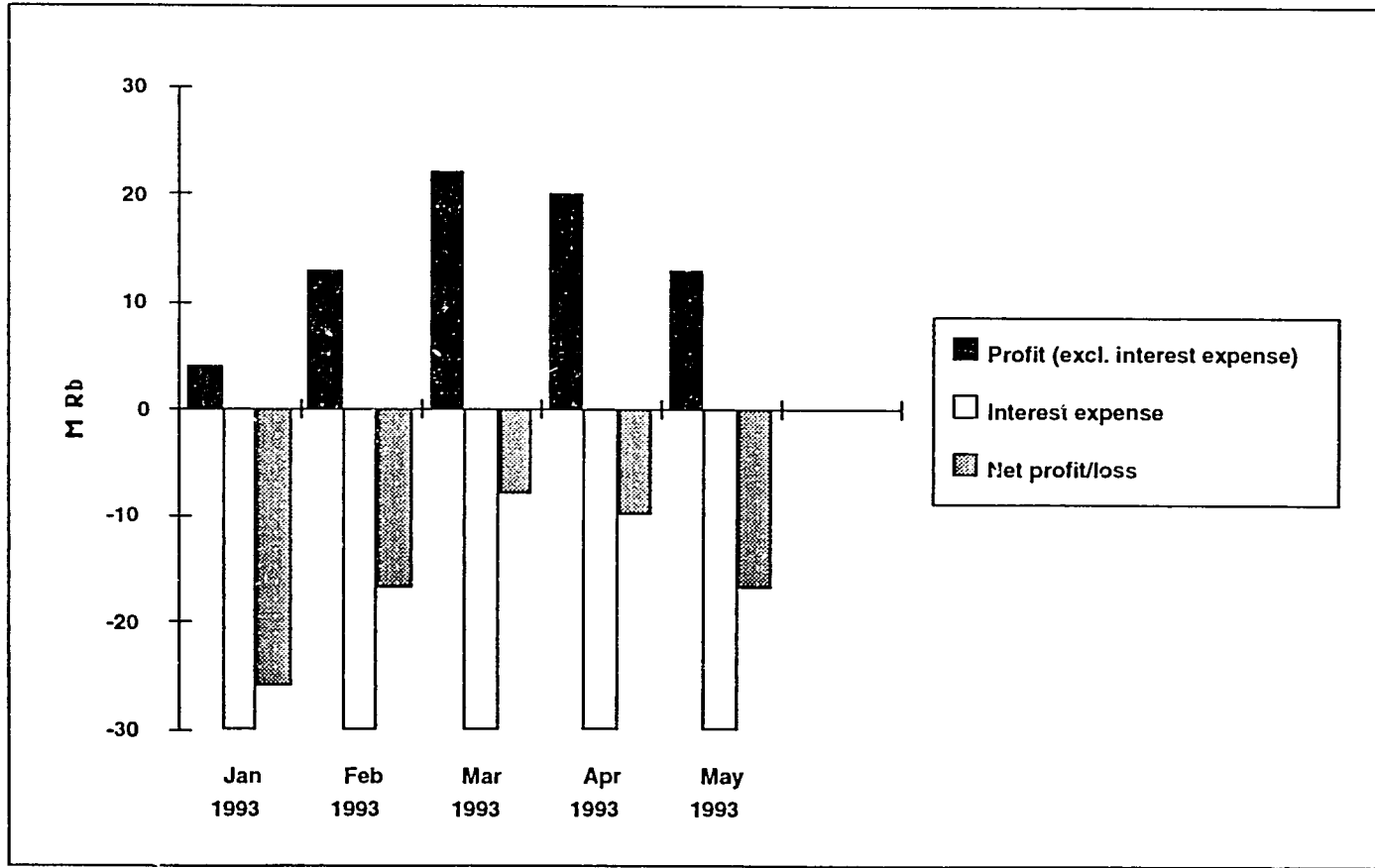
**Very high level of debt at 280 M Rb**

**Even with restructuring, operational cash flow insufficient to cover interest changes**

**Urgent need to explore drastic remedial measures to ensure survival**

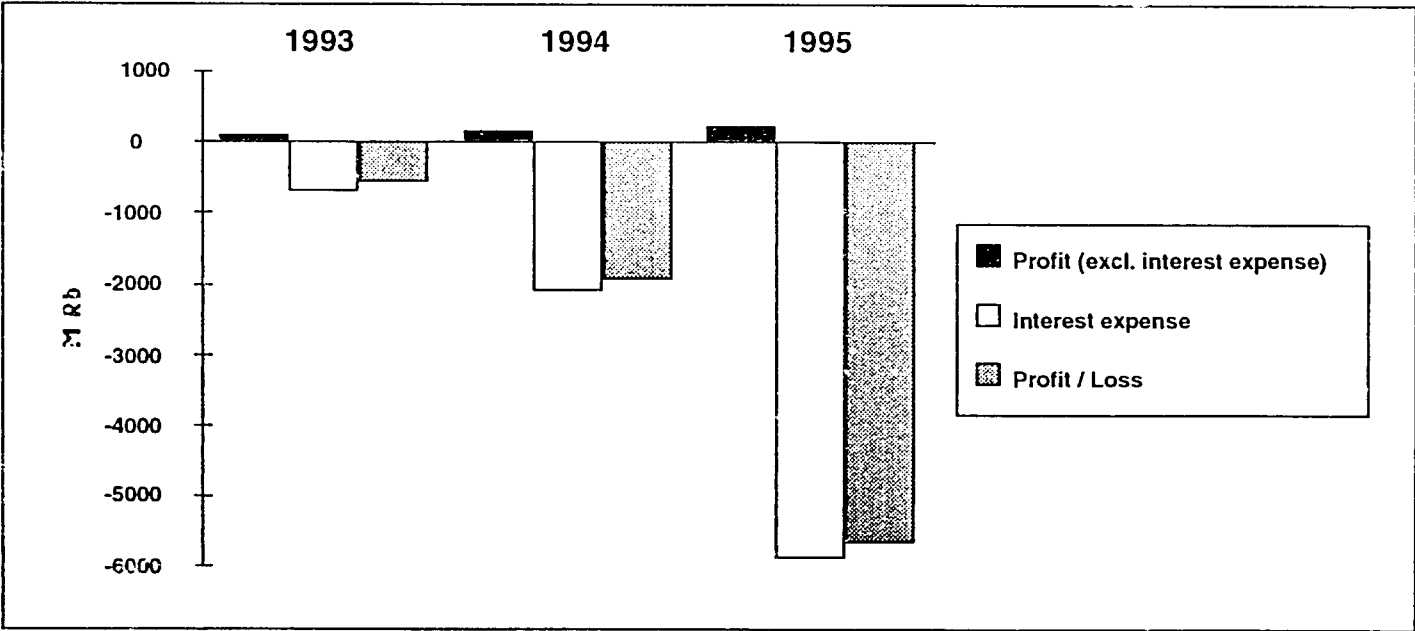
# KIROVSKAYA CANNOT PAY INTEREST ON CURRENT DEBT, MUCH LESS AMORTISE IT

- Viability threatened without resolution of the debt crisis



# WITHOUT RESTRUCTURING, FINANCIAL POSITION OF KIROVSKAYA WILL DETERIORATE RAPIDLY REGARDLESS OF OWNERSHIP STATUS

- Status Quo - 3 year projection



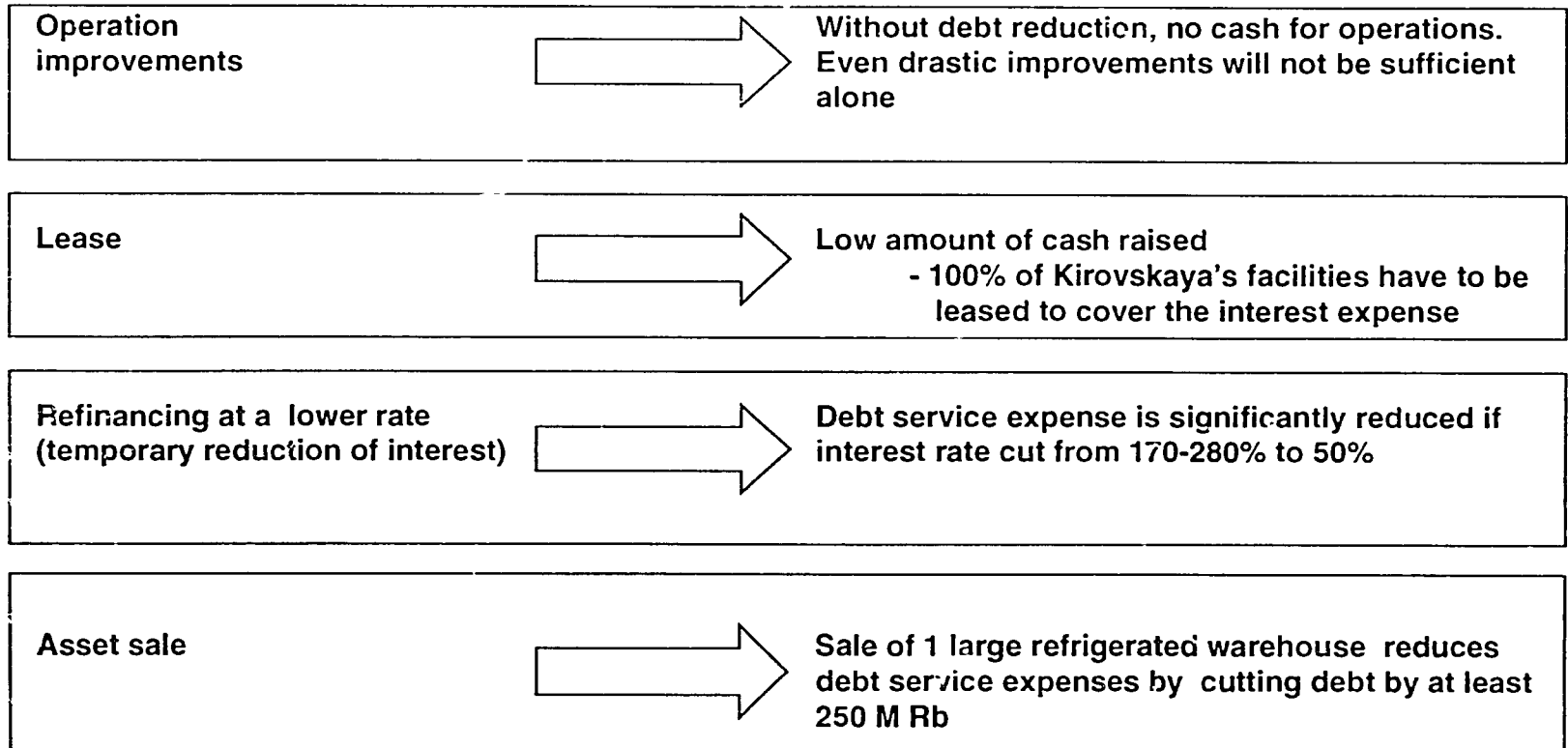
**Restructuring is impossible without debt reduction**

- Debt drains all cash needed for operations

Assumptions: 280% annual interest (penalty rate), 120 M Rb of 1992 sales, 10% gross margin before tax and interest

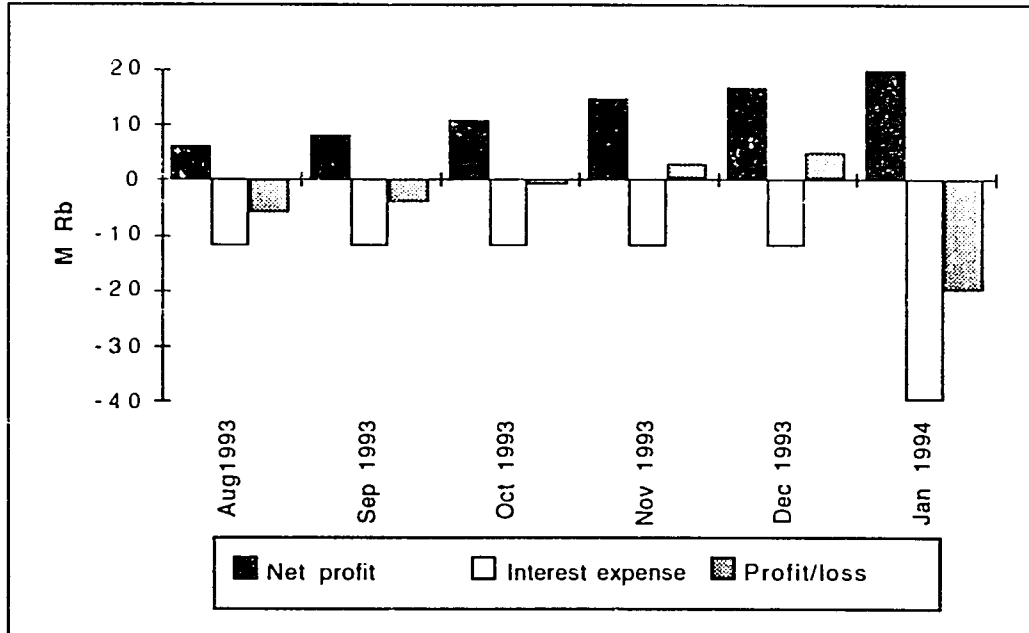
# SALE OF PROPERTY AND REFINANCING AT A SUBSIDISED RATE ARE THE ONLY POSSIBILITIES TO REDUCE INTEREST BURDEN

## 4 options



# REDUCTION OF INTEREST RATE IS ONLY A TEMPORARY SOLUTION HOWEVER

- It also generates additional negative effects



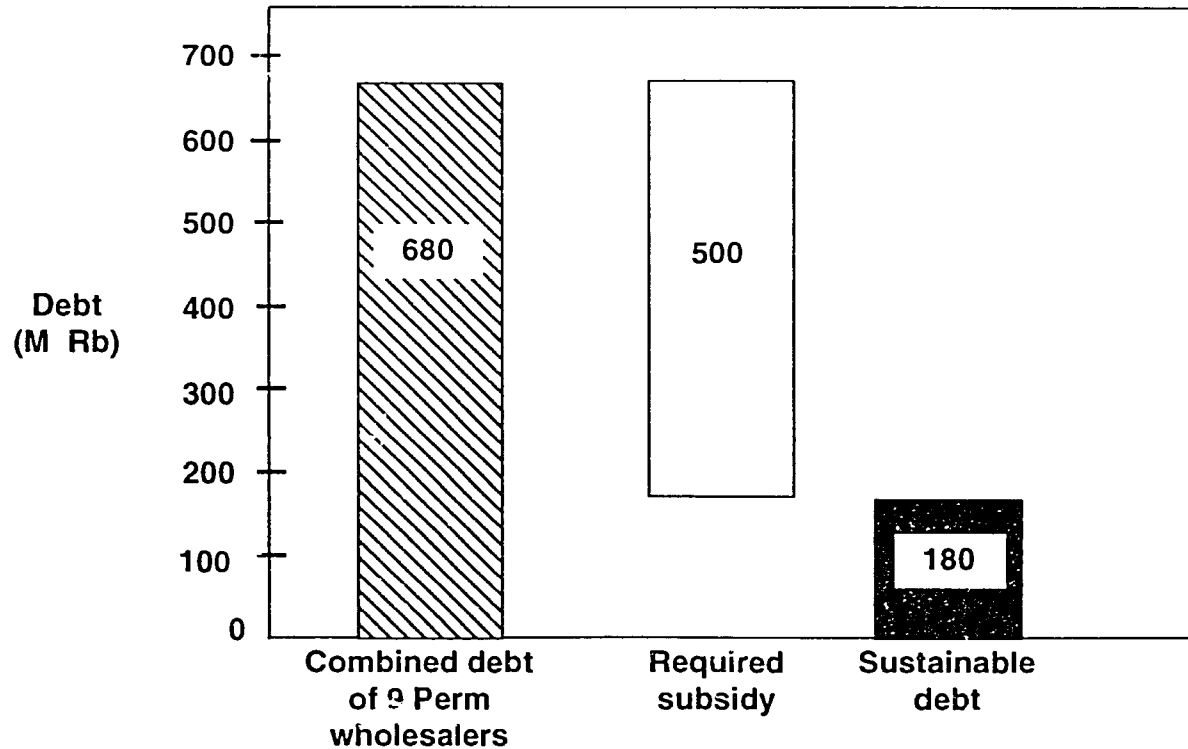
Negative effects	
•	Level of debt remains the same
•	Other wholesalers will ask for the same loan terms
•	Sets up a precedent for city administration to finance private enterprise
•	Distorts competition
•	Budget burden 140 M Rb

- Optimistic assumptions:
  - 5 months subsidised credit at 50%; then 170%
  - Very high sales projections (800 M Rb in 5 months)
  - 15% profit after all operational expenses



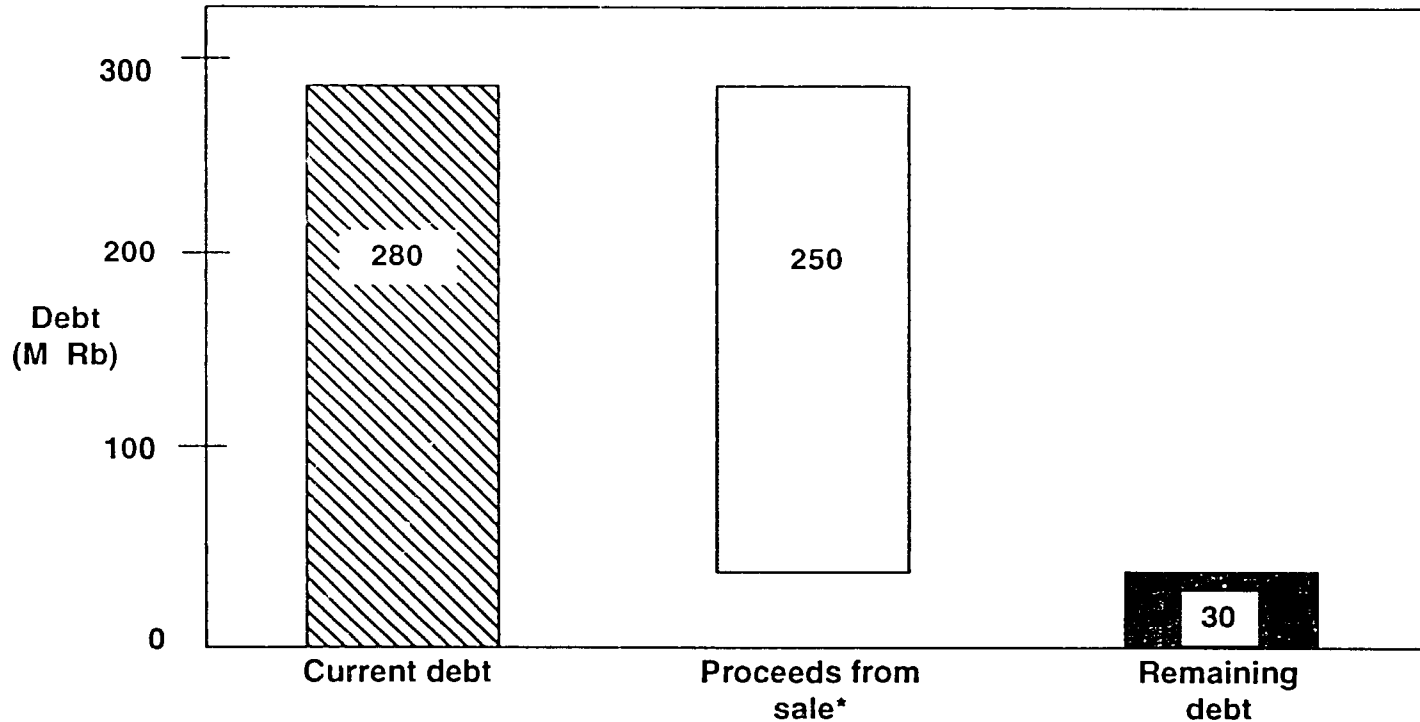
# REDUCTION OF DEBT TO SUSTAINABLE LEVEL<sup>1</sup> FOR ALL WHOLESALERS REQUIRES AT LEAST 500 M RB SUBSIDY

- Harvest purchase financing will require additional funds



<sup>1</sup> 53% of monthly sales

# SALE OF A WAREHOUSE, HOWEVER, WILL SOLVE KIROVSKAYA'S DEBT PROBLEM EVEN UNDER CONSERVATIVE ASSUMPTIONS

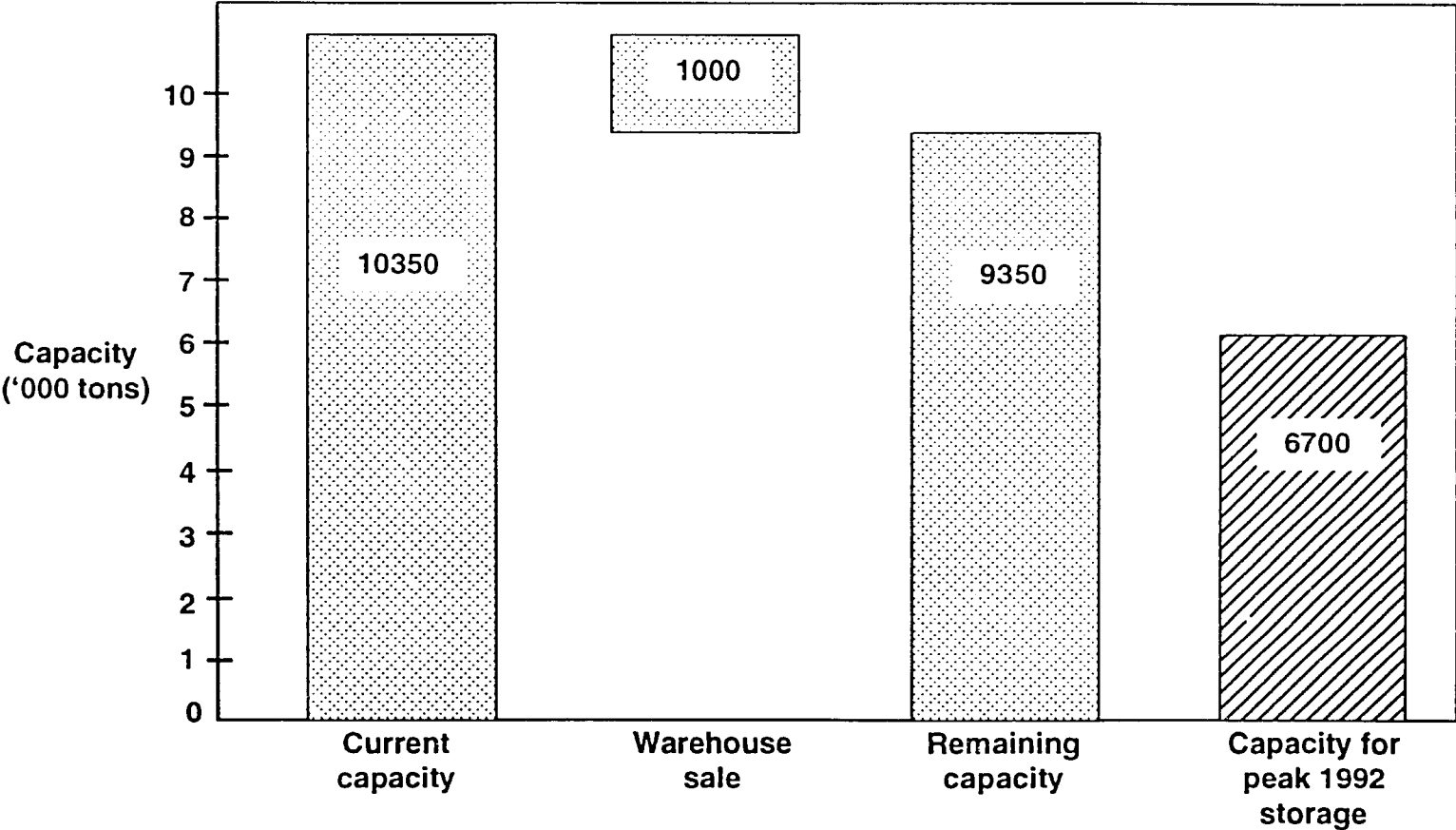


With the new debt level Kirovskaya has good chances of success

- Debt can be amortised in 6 months
- Possible to obtain further financing for purchases

\* Conservative estimate of proceeds from sale of 1,850 m<sup>2</sup> refrigerated warehouse in average condition. Proceeds are net of all sales expenses and taxes

# CAPACITY AFTER WAREHOUSE SALE FAR EXCEEDS LEVEL NEEDED EVEN TO MAINTAIN CURRENT LEVEL OF ACTIVITY



## **IRRESPECTIVE OF CHOSEN RESCUE MEASURES, KIROVSKAYA WILL HAVE TO CHANGE CURRENT SEASON PURCHASES**

- **No funds for outright purchase of usual volumes**

**Kirovskaya needs to**

- **Arrange deferred payment terms to suppliers**
- **Use consignment sales rather than outright purchases**
- **Increase the share of high margin products (eg. fruits)**
- **Speed up the turnover of inventory**
- **Become a buying commissioner for large customers**

**Kirovskaya also needs to apply for exemption from profile condition for 1 year**

# A CONSIGNMENT AGREEMENT AVOIDS BORROWING TO FINANCE PURCHASES

• Sample sale on consignment contract

I \_\_\_\_\_ as a director of Kirovskaya wholesaler will keep the below mentioned products for the maximum period of \_\_\_\_\_ months and will attempt to sell them alongside my own at the minimum price mentioned below

	Product	Quality	Price
1)	_____	_____	_____
2)	_____	_____	_____
3)	_____	_____	_____
4)	_____	_____	_____

For services rendered, and taking into account selling, handling and administrative costs, Kirovskaya will keep \_\_\_\_\_ % of the sales revenue.

Products unsold by expiration date are returned to the owner.

Loss in transportation to / from the warehouse are covered by the owner.

The contract can be terminated prior to expiration only through a mutual agreement.

\* Due to price instability, the owner reserves a right to adjust the price on the 1st of each month

Kirovskaya Director \_\_\_\_\_

Owner \_\_\_\_\_

## **Operations**

- **Operational problems and improvements**
- **Organizational improvements**
- **Action plan and implemented results**

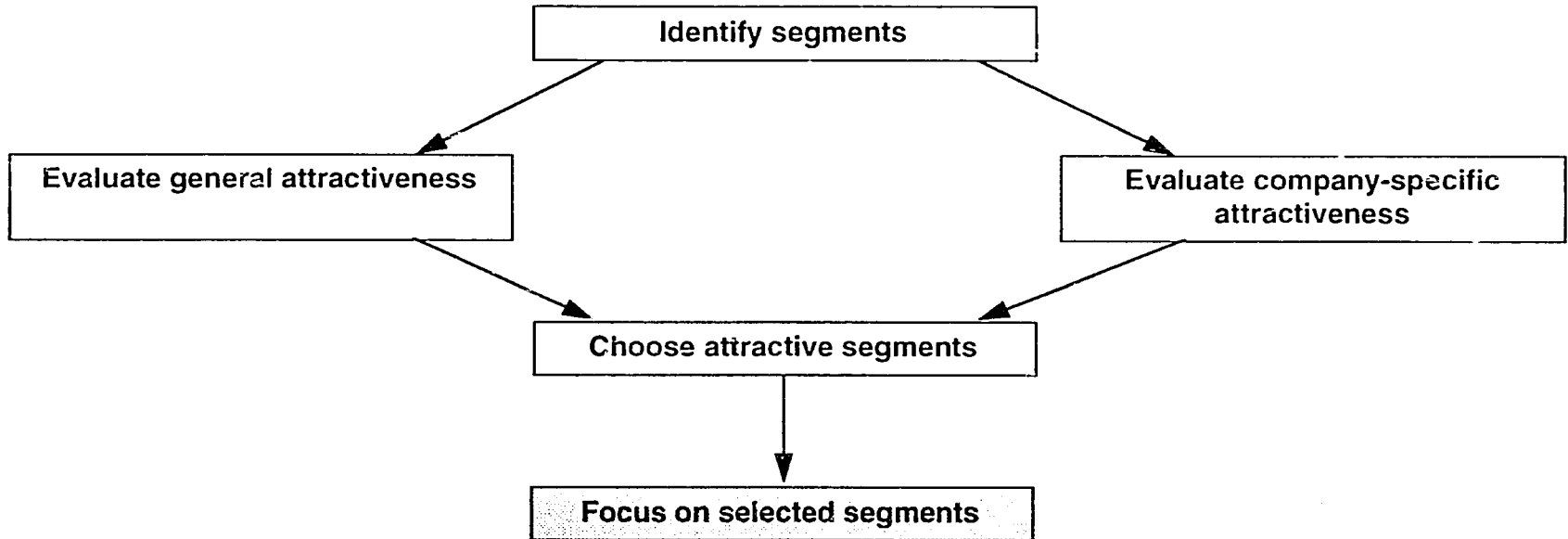
## **Strategy**

- **Financial rescue plan**
- **Market segmentation**
- **Pricing**
- **Advertising**
- **New products and services**
- **Financial management**
- **Financial impact of strategic and operational improvements**

## BY FOCUSING ON SELECTED SEGMENTS AND SERVING THEIR NEEDS KIROVSKAYA CAN INCREASE TOTAL REVENUES

Current Practice	Problem	Solution
<ul style="list-style-type: none"> <li>• All customers receive products of same quality</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of revenue               <ul style="list-style-type: none"> <li>- low end customers would buy more if they could find cheaper vegetables even of lesser quality</li> <li>- high end customers would buy more if they could find better quality even at higher price</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Subdivide market into different segments               <ul style="list-style-type: none"> <li>- group customers with similar needs</li> <li>- separate groups that have different needs</li> </ul> </li> <li>• Evaluate general attractiveness of the segments               <ul style="list-style-type: none"> <li>- size</li> <li>- growth</li> <li>- margins</li> <li>- competition</li> </ul> </li> <li>• Evaluate company - specific attractiveness of the segments               <ul style="list-style-type: none"> <li>- what is the fit with Kirovskaya's potential competitive advantages?</li> </ul> </li> <li>• Choose the most attractive segments</li> <li>• Focus on selected segments               <ul style="list-style-type: none"> <li>- how the needs of each segments can be satisfied</li> </ul> </li> </ul>

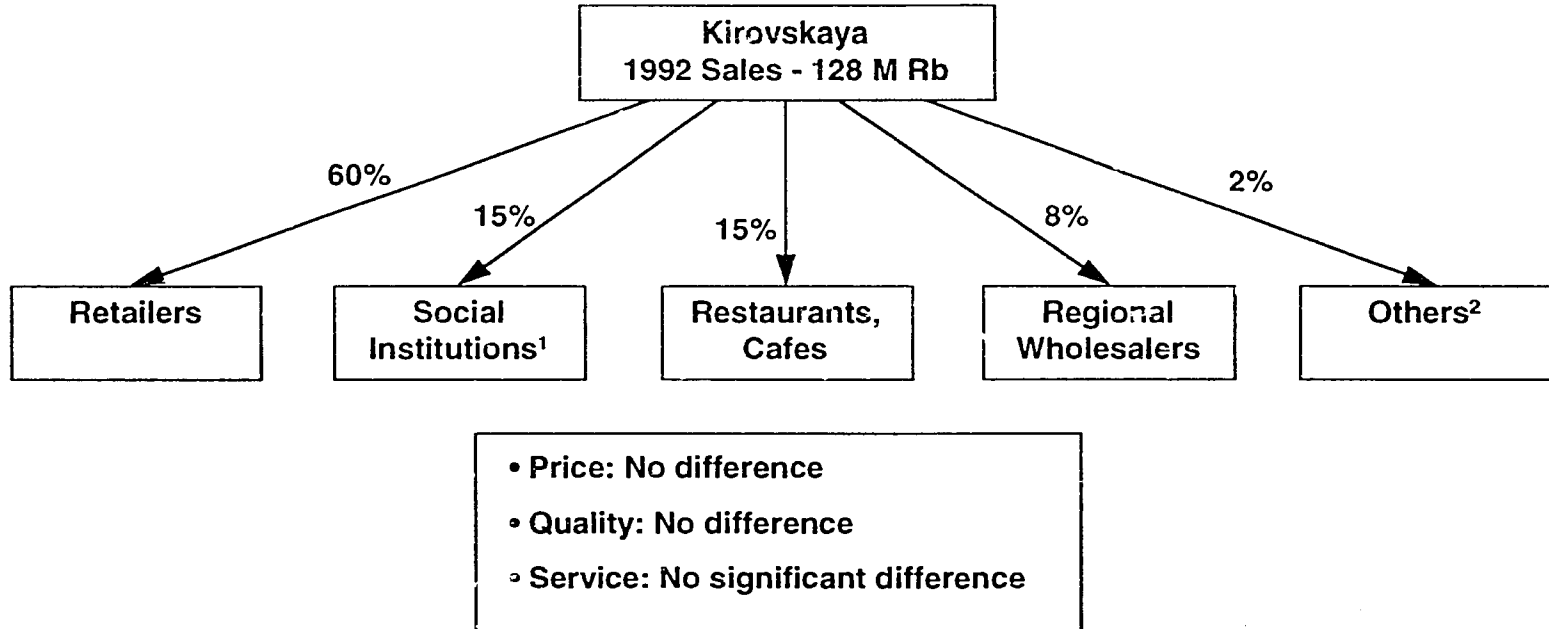
# SEGMENTATION PROCESS WILL ALLOW KIROVSKAYA TO FOCUS ON SERVING THE SELECTED SEGMENTS





# KIROVSKAYA IS CURRENTLY SELLING TO SEVERAL DIFFERENT GROUPS OF CUSTOMERS

- Without differentiating them

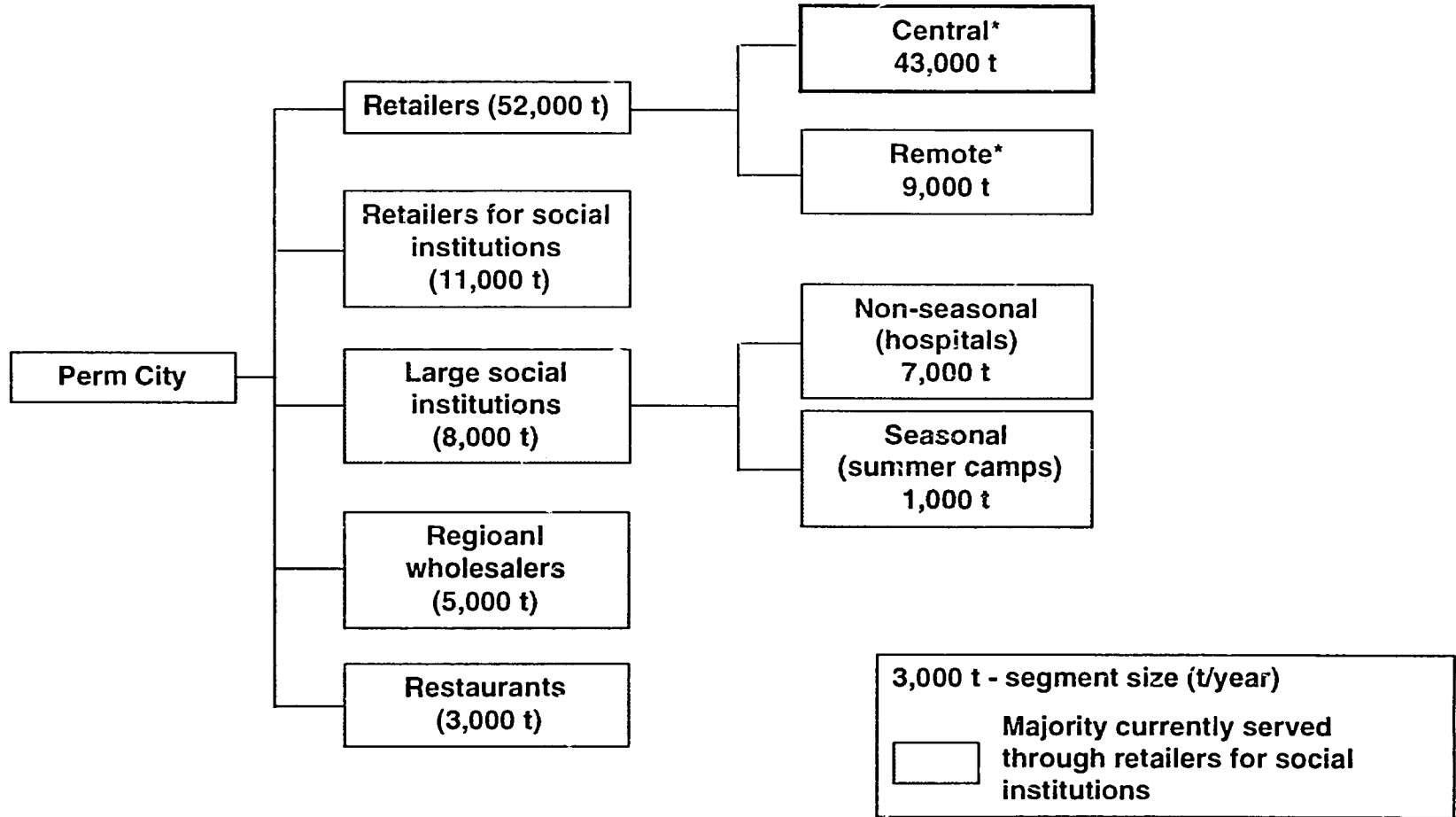


<sup>1</sup> Direct and through intermediaries

<sup>2</sup> Include sales to farms (barter for vegetables) and truck sales to consumers

Source: BCG Interviews

# CENTRAL RETAILERS SEGMENT IS THE BIGGEST IN PERM CITY



\* 60% of population lives in central part of Perm city. Central part has significantly better developed infrastructure. Population in suburbs buys vegetables either in farms or in daily commutes to work to the center

Source: BCG Analysis (estimated figures)

# FOUR FACTORS DEFINE THE SEGMENT GENERAL ATTRACTIVENESS

## • General segment attractiveness criteria

Segments (# of units)	Size (000's t/yr)	Growth (% of sales per year in constant Rb)	Margins	Competition	Segment Attractiveness
Central (41)	Big (43,000)	2-3%	Average / high (quality mix)	High (all wholesaler + direct farm supplier)	Average/high
Remote (19)	Average (9,000)	-3-5%	Low (cheap produce)	High from other channels (farms direct sales)	Low
Big Social (11) <sup>1</sup> Institutions	Average (8,000)	-2-4%	Average / high (100% prepayment, stable demand)	Low (old structure of supply through retail/wholesalers)	High
Retailers for (9) Social Institutions	Big (11,000)	-5-7%	Average / high	Low (old structures of supply)	High
Regional (5-15) Wholesalers	Small (5,000)	-4-6%	Average (use Kirovskaya as last resort, hence, price is usually high, however demand is spontaneous)	Average (from farms, other wholesalers)	Low
Restaurants <sup>2</sup> , (85) cafes,canteens	Small (3,000)	High 10-12%	High (pay high price for high quality products)	High (from private rural residents, food wholesalers that also carry some fruits)	Average/high

<sup>1</sup> Includes seasonal and non-seasonal

<sup>2</sup> There is a potential of further quality segmentation between high quality restaurants and lower quality canteens. Resulting subsegments are , however, not very significant due to small size.

## GROWING DIFFERENCES IN INCOMES WILL DRIVE DIFFERENCES IN SEGMENT GROWTH

- Demand for vegetables will stay unchanged in 1993/94

Segment	Growth Estimate <sup>1</sup> (% / year)	Rationale
Central Retailers	2-3%	<ul style="list-style-type: none"> <li>• Gaining most from quality grading due to highest diversity of clients</li> <li>• Capture some of fast growing demand of high income clients (1st quarter - 0.5% growth<sup>2</sup>)</li> </ul>
Remote Retailers	-3-5% (decline)	<ul style="list-style-type: none"> <li>• Demand from low income clients is going to decline</li> </ul>
Large Social Institutions (Non-seasonal)	-2-4% (decline)	<ul style="list-style-type: none"> <li>• Consumption is regulated by norms per person</li> <li>• Decline in budget financing</li> <li>• No increase in people served by institutions</li> </ul>
Retailers for Social Institutions	-5-7% (decline)	<ul style="list-style-type: none"> <li>• Social institutions demand is not growing</li> <li>• Increased bypassing</li> </ul>
Regional Wholesalers	-4-6% (decline)	<ul style="list-style-type: none"> <li>• Increased sales from farmers directly</li> </ul>
Restaurants, Cafes, Canteens	10-12%	<ul style="list-style-type: none"> <li>• Increase in number of restaurants and cafes (11 new private opened last year)</li> <li>• Population (especially higher income groups) is going to eat out more</li> </ul>
Overall Market	0%	<ul style="list-style-type: none"> <li>• Segmentation on quality offsets demand decline (low income population buys more cheap products, high income groups buy more expensive products since quality is good even if more expensive)</li> </ul>

<sup>1</sup> All growth estimates are in real Rbs

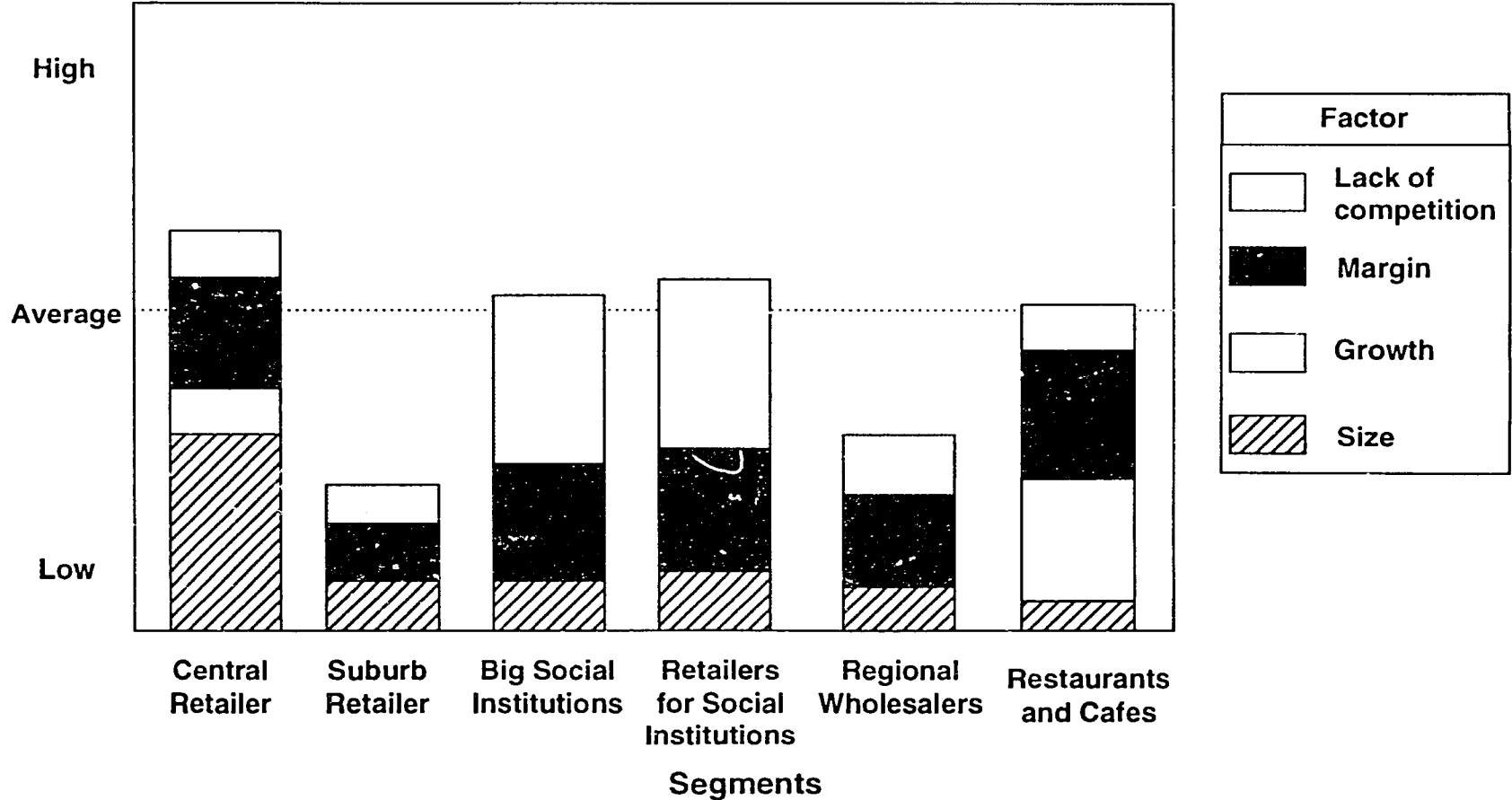
<sup>2</sup> Growth is estimated comparing weekly sales of interviewed retailers of products that were available throughout the 1st quarter

Source: BCG Interview and Analysis

# SEGMENTS OF CENTRAL RETAILERS, SOCIAL INSTITUTIONS (DIRECT AND VIA RETAILER) AND RESTAURANTS ARE MOST ATTRACTIVE

- Best combination of size, growth, margin and competition

Attractiveness



# SEGMENTS OF LARGE SOCIAL INSTITUTIONS, CENTRAL RETAILERS AND RESTAURANTS ARE MOST ATTRACTIVE

- General attractiveness

Large social institutions (direct and through retailer) attract by low competition, prepayment and long term contract purchasing practice

- This segment was buying most of its large volumes at retail prices
  - increasingly starting to buy directly from wholesalers

Central retailers attract by segment size and healthy margins

- Central retailers buy four times more produce than next largest segment

Restaurants, cafes, canteens have high margins and are fast growing

- Growth rate is 10-12% a year
- This segment is currently small - it should be viewed as an investment

Source: BCG Interview and Analysis

# KIROVSKAYA HAS A RANGE OF POTENTIAL OPERATING ADVANTAGES OVER OTHER WHOLESALERS

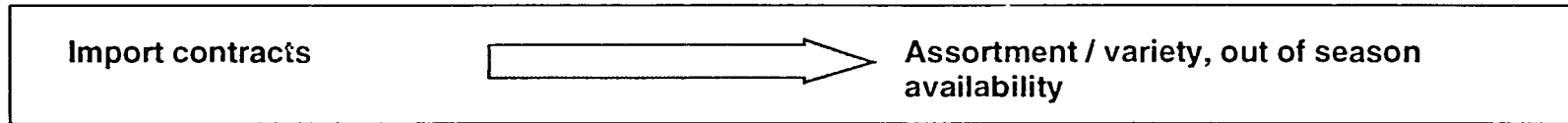
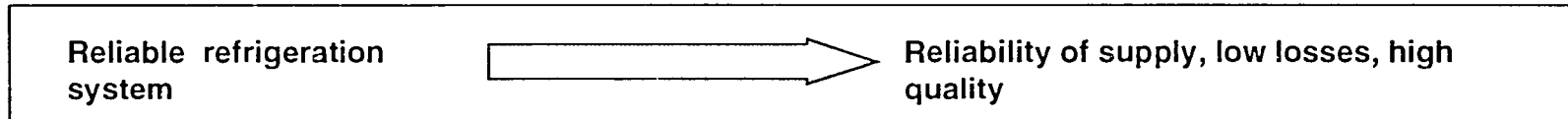
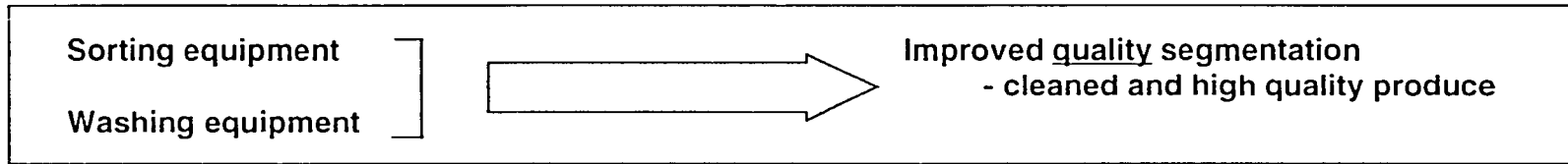
<b>Kirovskaya</b>
<b>Good/plentiful sorting equipment</b> <ul style="list-style-type: none"><li>- 10 machines in use</li><li>- 3 idle</li></ul>
<b>Washing equipment</b> <ul style="list-style-type: none"><li>- 1 machine</li></ul>
<b>Reliable refrigeration system</b> <ul style="list-style-type: none"><li>- each warehouse has own cooling equipment</li><li>- cooling equipment backups</li></ul>
<b>Existing exotic produce import contract</b> <ul style="list-style-type: none"><li>- international trade contract through Moscow</li></ul>

<b>Typical wholesaler</b>
<b>No / few sorting machines</b>
<b>No washing equipment</b>
<b>Unreliable refrigeration system</b> <ul style="list-style-type: none"><li>- one cooling apparatus for several warehouses</li><li>- no back-ups</li></ul>
<b>No import contracts</b>

# KIROVSKAYA ADVANTAGES MAY BE USED TO SERVE THE MOST DEMANDING CUSTOMERS

Potential advantage...

...should result in



**Kirovskaya has an advantage in serving customers interested in high quality, reliability of supply and assortment**



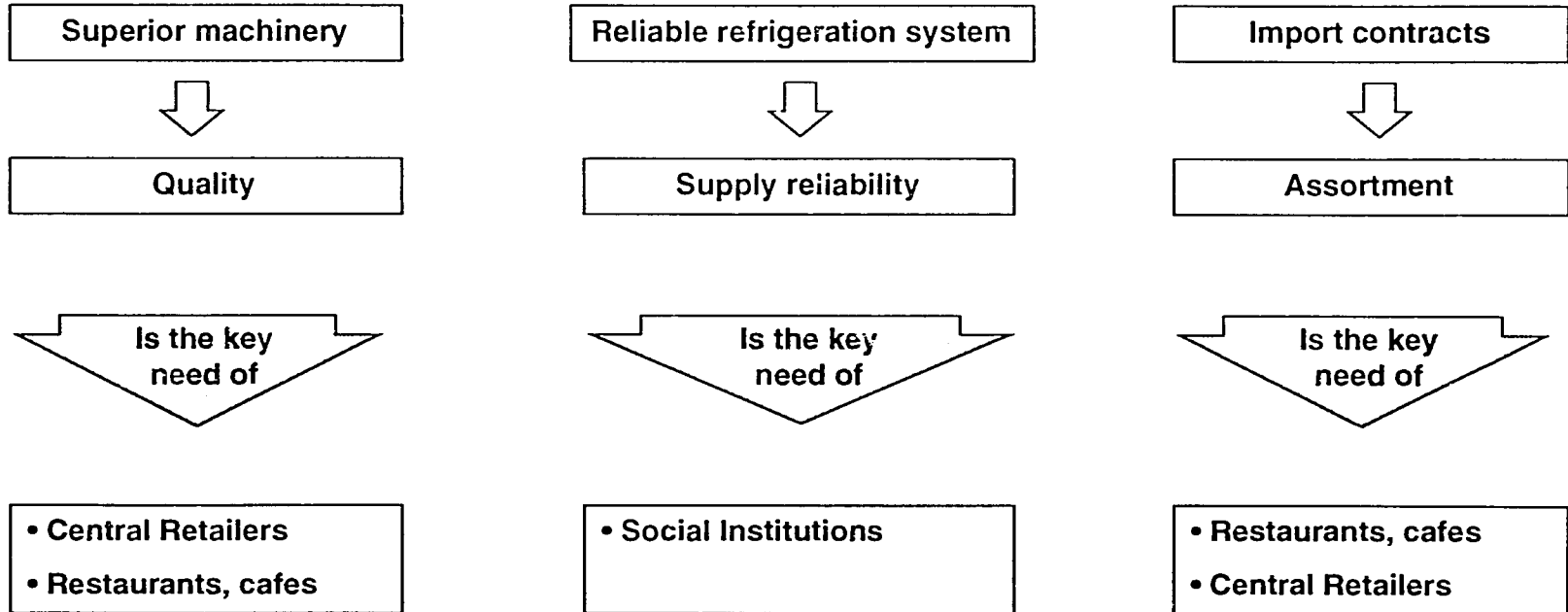
## THREE FACTORS DEFINE SPECIFIC SEGMENT ATTRACTIVENESS

- Company specific segment attractiveness criteria

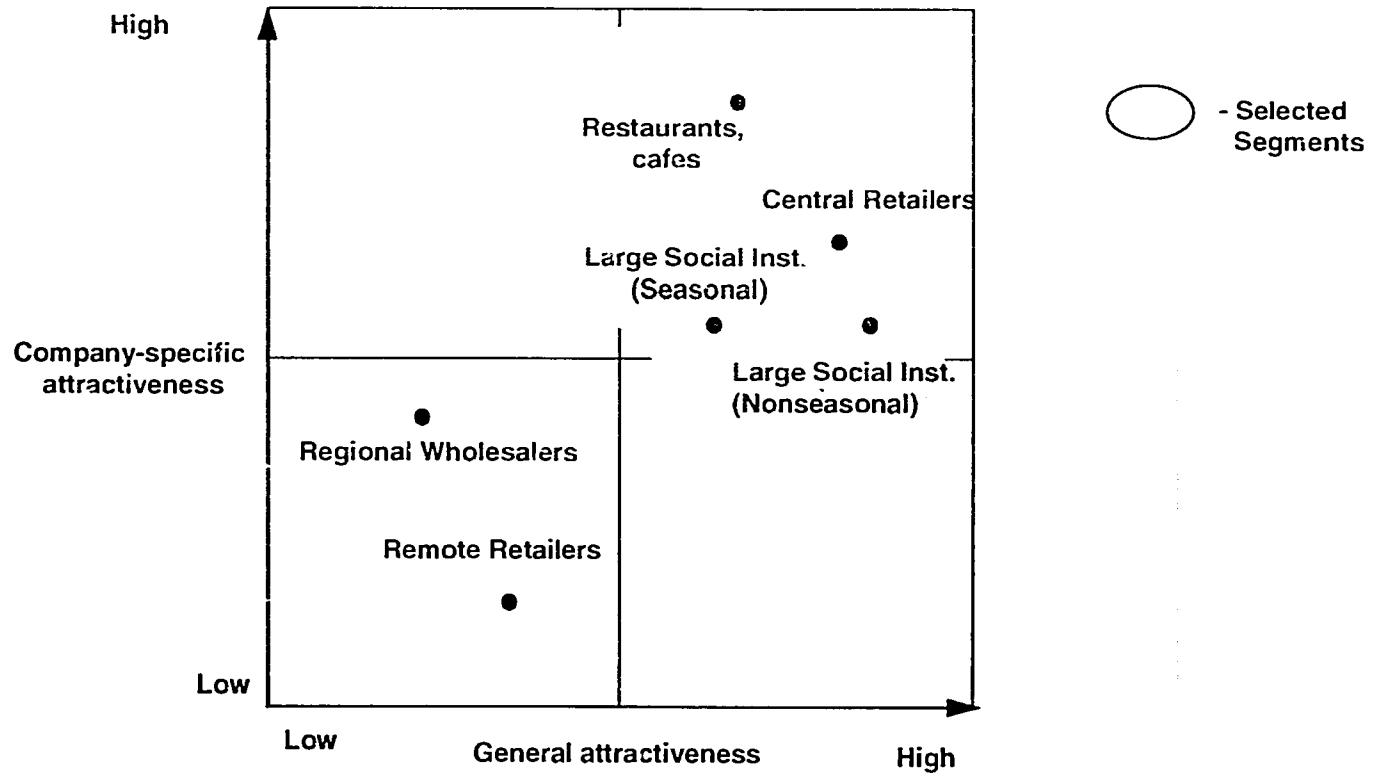
Segments	Segment Requirements			Kirovskaya fit to serve segment
	Quality	Reliability of supply	Assortment	
Central Retailers	High	Avg	Avg / high	Avg / high
Remote Retailers	Low	Low	Low	Low
Big Social Institutions	Low / avg	Very high	Avg	Avg / high
Retailers for Social Institutions	Low / avg	Very high	Avg	Avg / high
Regional Wholesalers	Avg	Avg	Low	Low / avg
Restaurants, Cafes	Very high	Avg	High	High

# NEEDS OF SOCIAL INSTITUTIONS, CENTRAL RETAILERS AND RESTAURANTS ARE MOST COMPATIBLE WITH KIROVSKAYA'S POTENTIAL CAPABILITIES

## Drivers of competitive advantage

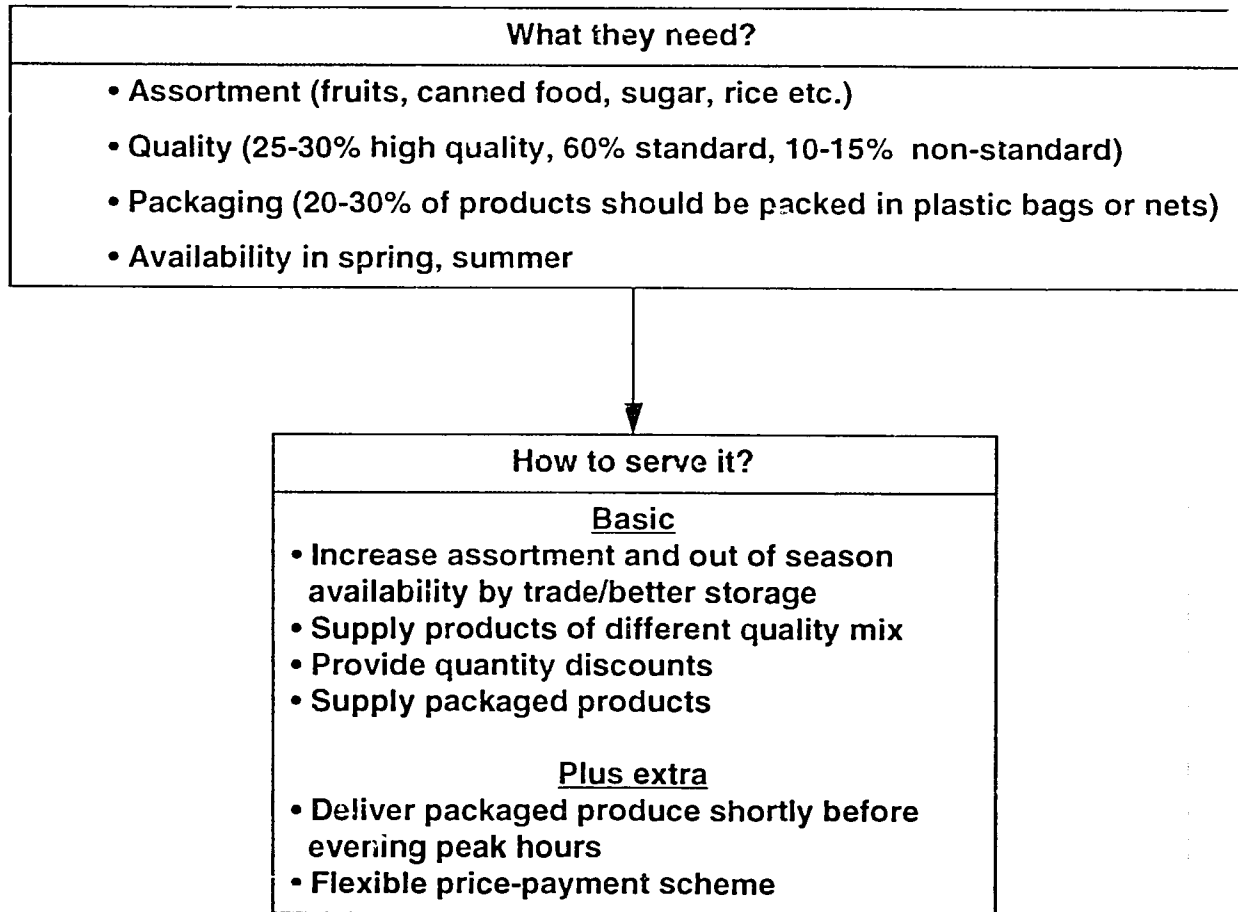


# SOCIAL INSTITUTIONS, CENTRAL RETAILERS AND RESTAURANTS HAVE BEST COMBINATION OF GENERAL AND COMPANY-SPECIFIC ATTRACTIVENESS



Source: BCG Analysis

# ASSORTMENT, QUALITY GRADING AND FLEXIBLE PRICING ARE KEY FACTORS IN SERVING CENTRAL RETAILERS



Source: BCG Analysis

# DIRECT CALLING, FLEXIBLE PRICING AND GRADING CAN INCREASE SALES TO CENTRAL RETAILERS IMMEDIATELY

<b>Plan of sales to central retailers</b>	
<b>Products:</b>	<ul style="list-style-type: none"><li>• Full range of food products</li></ul>
<b>Quality:</b>	<ul style="list-style-type: none"><li>• High, standard, non-standard</li></ul>
<b>Prices:</b>	<ul style="list-style-type: none"><li>• Flexible prices depending on order sizes and payment terms</li><li>• Rebates based on monthly sales</li></ul>
<b>Promotion:</b>	<ul style="list-style-type: none"><li>• Direct contact (visits and telephone calls of sales force)</li></ul>
<b>Order taking:</b>	<ul style="list-style-type: none"><li>• Orders are taken by sales department via visits or by phone</li></ul>
<b>Delivery:</b>	<ul style="list-style-type: none"><li>• By Kirovskaya's truck unless agreed otherwise (delivery is paid by customer)</li><li>• Weekend delivery to biggest clients</li></ul>

# LARGE SOCIAL INSTITUTIONS REQUIRE RELIABLE SUPPLY OF STANDARD QUALITY PRODUCTS

## What they need?

- Reliability of supply
- Availability
- Quality (quality requirements are high for diseases, dryness, but low for shape and size. Eg. can take produce with cuts, that is not taken as standard by retailers<sup>1</sup>)
- Price (price is a factor for parent organizations allocating money)



## How to serve it?

### Basic

- Long term contract of supply
- Reliability of supply of basic vegetables
- Contacts with parent organizations (plants, factories)

### Plus extra

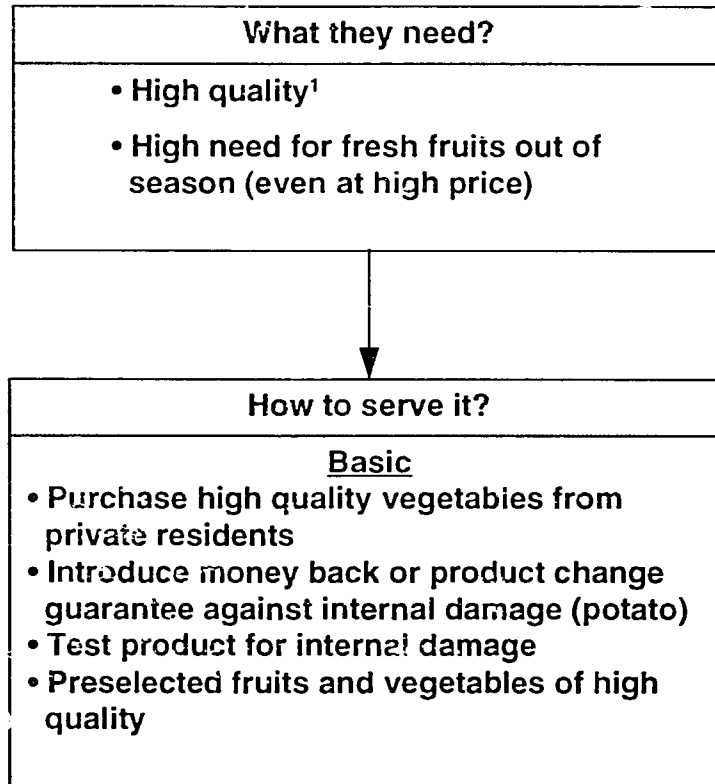
- Discounts on sales volume

<sup>1</sup> So called "firm" non-standard

# KIROVSKAYA WILL PROMOTE CONVENIENCE, RELIABILITY AND LOW PRICES TO LARGE SOCIAL INSTITUTIONS

<b>Plan of sale to large social institutions</b>	
<b>Products:</b>	<ul style="list-style-type: none"> <li>• Basic vegetables, apples</li> </ul>
<b>Quality:</b>	<ul style="list-style-type: none"> <li>• Standard, non-standard</li> </ul>
<b>Prices:</b>	<ul style="list-style-type: none"> <li>• Monthly supply agreements will lead to substantial discounts</li> </ul>
<b>Promotion:</b>	<ul style="list-style-type: none"> <li>• Management meets with city administration personnel in charge of hospitals and other social institutions                             <ul style="list-style-type: none"> <li>- discuss prices</li> <li>- long-term contracts terms</li> </ul> </li> <li>• Sales force visits social institutions weekly or biweekly and makes sales pitches emphasizing convenience and reliability</li> </ul>
<b>Order taking:</b>	<ul style="list-style-type: none"> <li>• By sales department over the phone</li> </ul>
<b>Delivery: products</b>	<ul style="list-style-type: none"> <li>• By own transport with Kirovskaya workers unloading upon delivery</li> <li>• Weekend delivery to biggest clients</li> </ul>

# RESTAURANTS AND CAFES ARE VERY KEEN ON HIGH QUALITY FRUITS AND VEGETABLES



<sup>1</sup> High quality includes the requirements of supply only from private farmers and rural residents. Restaurants do not want to buy products coming from big farms due to internal damages

Source: BCG Analysis

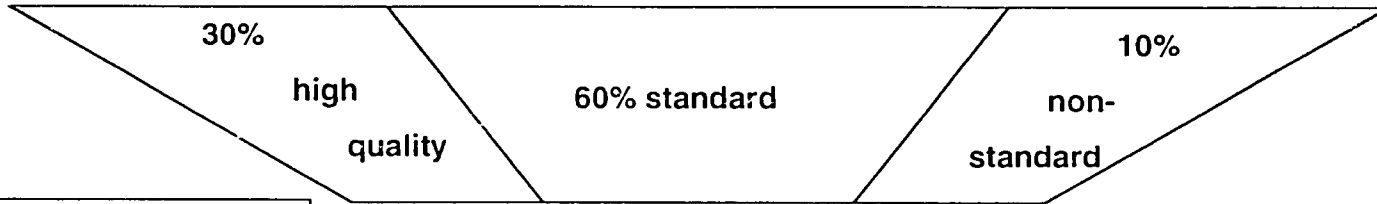


# HIGH QUALITY AND ASSORTMENT ARE THE KEY SUCCESS FACTORS IN SALES TO RESTAURANTS AND CAFES

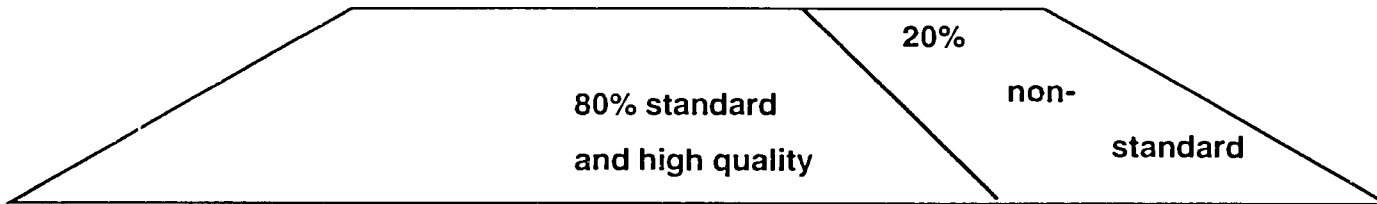
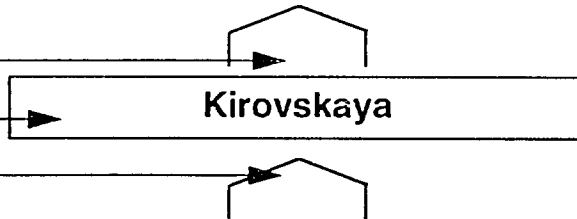
<b>Plan of sales to restaurants and cafes</b>	
<b>Products:</b>	<ul style="list-style-type: none"><li>• Vegetables out of season, exotic fruit</li></ul>
<b>Quality:</b>	<ul style="list-style-type: none"><li>• 50% standard, 50% high quality</li></ul>
<b>Promotion:</b>	<ul style="list-style-type: none"><li>• Direct calls by sales force (weekly visits)</li><li>• Provide samples of products available</li><li>• Information ( by telephone or by mail) on products coming</li></ul>
<b>Order talking:</b>	<ul style="list-style-type: none"><li>• By salesforce during visits or by phone</li></ul>
<b>Delivery:</b>	<ul style="list-style-type: none"><li>• By own customer's transport twice a week</li></ul>

# QUALITY MIX REQUIRED BY SELECTED SEGMENTS CAN BE RECEIVED FROM SUPPLIERS

Selected segments needs



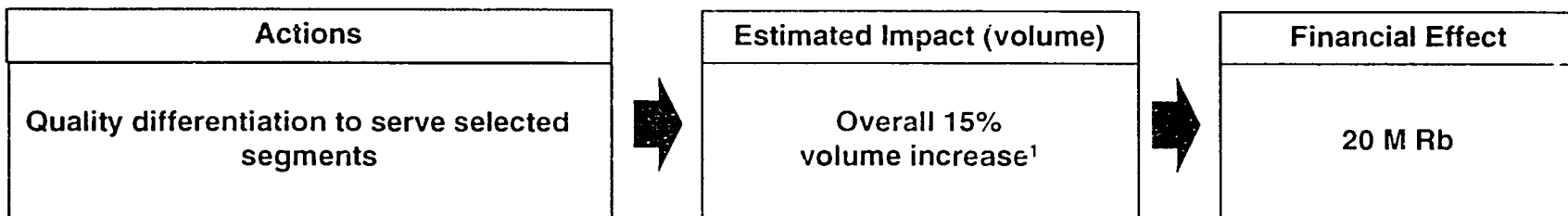
- Enabling capabilities
- Market segmentation
- Grading, sorting
- Quality driven purchasing



Historical purchase mix

# QUALITY DIFFERENTIATION WILL IMPROVE KIROVSKAYA'S REVENUES AND PROFITS

## • Potato calculation



Assumptions		
Quality	Volume	Price
High quality	<ul style="list-style-type: none"> <li>• New segment represents 30% of total (1250 tons)               <ul style="list-style-type: none"> <li>- switch from standard (850 tons)</li> <li>- additional demand - those who did not buy because of poor quality (400 tons)</li> </ul> </li> </ul>	70 % premium vs. standard
Standard	<ul style="list-style-type: none"> <li>• 30% lower than current- 60% of total (2500 tons)               <ul style="list-style-type: none"> <li>- more prosperous switch to high quality</li> <li>- less prosperous switch to non-standard</li> </ul> </li> </ul>	as is
Non-standard	<ul style="list-style-type: none"> <li>• 10% of total (400 tons)               <ul style="list-style-type: none"> <li>- switch from standard (250 tons)</li> <li>- additional demand - those who could not afford enough potatoes before (150 tons)</li> </ul> </li> </ul>	40% discount vs. standard
<b>Total</b>	<b>1250 + 2500 + 400 = 4150 vs 3,550 (current) =&gt; 15% increase</b>	

<sup>1</sup>Kirovskaya will attract a large portion of market volume increase (selected segments grow at 3-4% a year)

## QUALITY DIFFERENTIATION WILL IMPROVE PROFITS BY 20 M RB

• Potato calculation

Quality grade	Volume change (tons)	x	Profit (R / ton)	=	Net financial effect
High quality	+1250		21,000		26.2 M Rb
Standard	- 1100		7,000		-7.7 M Rb
Non-standard	+ 400		3,000		1.2 M Rb
<b>Total</b>	<b>+550</b>				<b>19.7 M Rb</b>

Profit (R/tn) (detailed calculation)				
Quality	Sales price (R/kg)	Purchase price (R/kg)	Costs (R/kg)	Profit (R/kg)
High	106	70 <sup>1</sup>	15	21,000
Standard	63	51	5	7,000
Non-standard	38	30	5	3,000

<sup>1</sup> Purchase price for high quality product will increase (from 51) as farmers realize the differences in sales price

<sup>2</sup> Costs include:

- 1 M Rb in capital expenditures (fixing washing machine)
- labour costs for washing
- electricity, water, etc.

Source: BCG Analysis, Kirovskaya and Interviews

## **Operations**

- **Operational problems and improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Financial rescue plan**
- **Market segmentation**
- **Pricing**
- **Advertising**
- **New products and services**
- **Financial management**
- **Financial impact of strategic and operational improvements**

## THE PRICE SHOULD REFLECT ORDER SIZE, ANNUAL PURCHASES AND PAYMENT TERMS

### • Pricing

Current Practice	Problem	Solution
<ul style="list-style-type: none"> <li>• Same price for all sales</li> </ul>	<ul style="list-style-type: none"> <li>• Sales volume is not stimulated</li>   <li>• Higher losses due to longer storage</li>   <li>• No stimulation of customer loyalty</li>   <li>• Delays of payments from customers</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a system of quantity based discounts                             <ul style="list-style-type: none"> <li>- order size discounts</li> <li>- rebates based on monthly, quarterly, or annual purchases</li> <li>- payment terms discounts</li> </ul> </li>   <li>• Order size discounts should be differentiated by products                             <ul style="list-style-type: none"> <li>- higher perishability - higher discount</li> </ul> </li>   <li>• Sales volume discounts (rebates) may be based on total purchases, or on purchases of certain products (eg. only fruit and vegetables sales qualify for rebates)</li>   <li>• Introduce price discounts and premiums reflecting attractiveness of payment terms</li> </ul>

Source: BCG Interviews and Analysis

## ORDER SIZE DISCOUNTS WILL STIMULATE PURCHASE VOLUME

- Example for cabbages

Order size discount	
Order size (kg)	% of basic price*
≤ 200	100
200-400	99
400-800	98
800-1,600	97
1,600-3,200	96
3,200-7,400	95
7,400-15,000	94
>15,0000	Negotiated with Deputy Director

### How to use it?

- 1-2% discount scale (discount is increased by 1-2% per every doubling of volume)<sup>1</sup>
- Basic price is set by director, deputy director, or chief of sales department
- Salesmen can not discount more than is set by the scheme
- Discount scheme should be tested on limited orders before adopting it
- Discount scheme should be periodically reviewed and adjusted for seasonal differences and other changes

\* Usual discount scale for consumer products is approximately 2%, however, it is better to start with 1% scale to check the reaction of buyers

## EXAMPLE OF QUARTERLY SALES VOLUME REBATES

<b>Rebate discount on total purchases</b>	
Rouble based <sup>1</sup>	
Customer: Retail Store N14	
Period: Jan 1, 1994 - April <sup>1</sup> 1994	
<b>Actual volume over base</b>	<b><u>Rebate</u><sup>2</sup> %</b>
< 0.2 M Rb	0.5%
0.2 - 0.5 M Rb	0.75%
0.5 - 1 M Rb	1%
1 - 2 M Rb	2%
etc.	

### How to use it

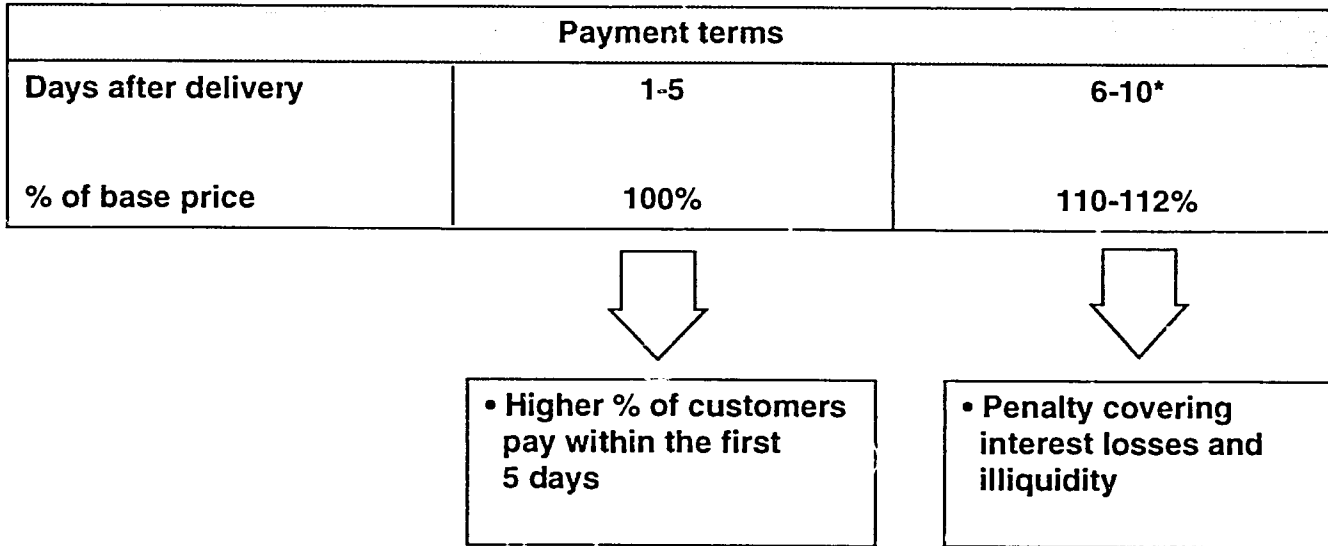
- Customer receives money back from Kirovskaya if customer's purchases exceed the agreed base volume (in roubles or tonnes) for agreed period
- Purchases of all or only certain products may be included in purchases (eg. only fruits and vegetables due to perishability)
- The rebate may be paid to customer or credited towards future purchases

<sup>1</sup> Rouble based rebate may be less useful in high inflation environment.

<sup>2</sup> All numbers are for illustrative purposes only



# PENALIZING LATE PAYMENT WILL ENCOURAGE PROMPT TRANSFER OF FUNDS AND ELIMINATE INFLATION LOSSES



\* If debt is not paid within 10 days, an additional daily change of 1.5% is applied

**DISCOUNTS SHOULD BE REGULARLY CHECKED  
AND ADJUSTED IF NECESSARY**

- **How to achieve optimal discounts**

**Determine the floor (lowest possible level of price after discounting)**

- **Floor = purchase costs + transportation costs + other variable costs**

**Start with giving small discounts to check the reaction of buyers**

**It is profitable to discount more if increase in profits due to increased sales is more than loss on margin**

## **Operations**

- **Operational problems and improvements**
- **Organizational improvements**
- **Action plan and implemented results**

## **Strategy**

- **Financial rescue plan**
- **Market segmentation**
- **Pricing**
- **Advertising**
- **New products and services**
- **Financial management**
- **Financial impact of strategic and operational improvements**

## KIROVSKAYA'S ADVERTISING HAS BEEN SUBOPTIMAL

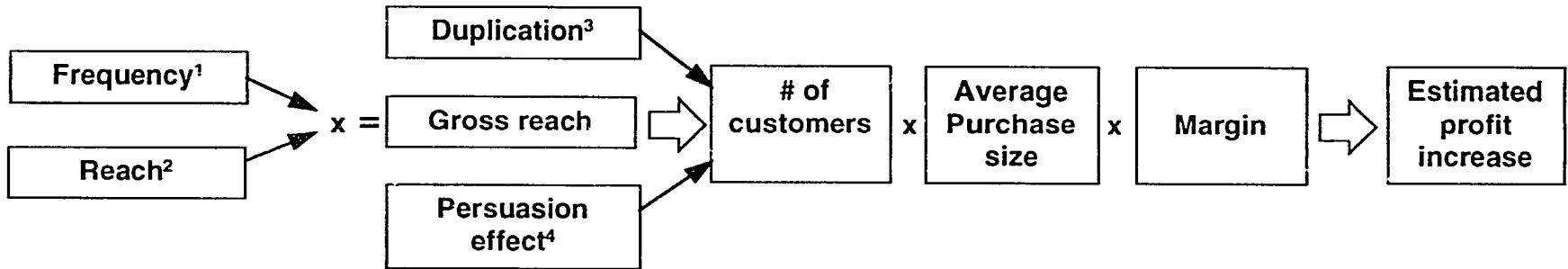
- The message and the means should be improved

Current Practice	Problem	Solution
<ul style="list-style-type: none"> <li>• Radio and TV advertising of “extraordinary product” availability</li> </ul>	<ul style="list-style-type: none"> <li>• Advertising is not targeted to specific segments =&gt; low cost effectiveness</li> <li>• “Fire sale” ads stimulate sporadic rather than continuous demand</li> <li>• Stock-outs* during and after advertising</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare a cost analysis of advertising campaign</li> <li>• Develop custom-made promotional brochures for selected segments</li> <li>• Regular advertising of branded high quality, everyday value and service</li> </ul>

\* Customer complaints - since advertised product is sold out within hours/days of the announcement

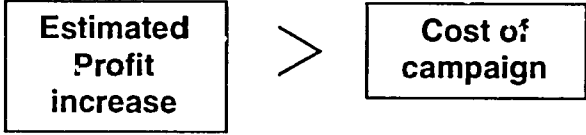
# FINANCIAL VIABILITY OF EVERY ADVERTISING CAMPAIGN MUST BE EVALUATED (1)

## Step 1: Estimate profit impact



## Step 2: Dismiss non-cost effective campaigns /medium

Increase in profits must be greater than expenditures



## Step 3: Select the best

Maximizing ratio of  $\frac{\text{profit increase}}{\text{cost of campaign}}$

<sup>1</sup> How many total times an ad is placed/shown

<sup>2</sup> How many potential retail decision makers see/read/hear each ad (depending on day and time)

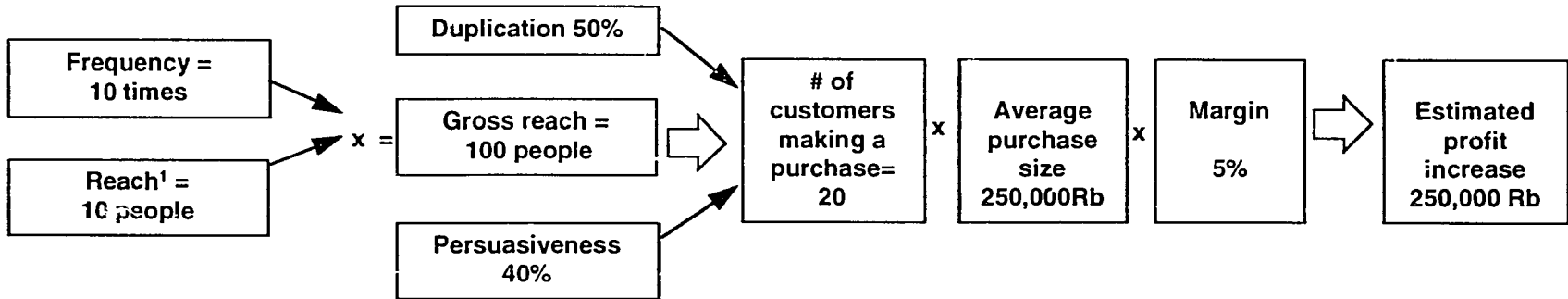
<sup>3</sup> % of audience that sees the ad more than once (repeated at same or different time)

<sup>4</sup> Quality of the ad - What % of audience is persuaded to buy (estimation and historical experience)

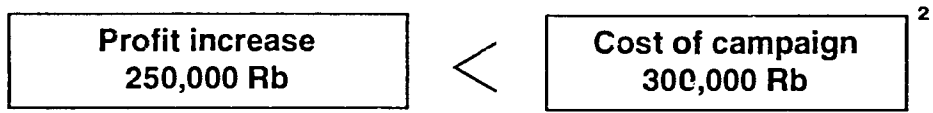
# FINANCIAL VIABILITY OF EVERY ADVERTISING CAMPAIGN AND MEDIUM MUST BE EVALUATED (2)

- Radio advertising example weekend mornings

## Step 1: Estimate profit impact



## Step 2: Dismiss non-cost effective campaigns/mediums



So, do not advertise

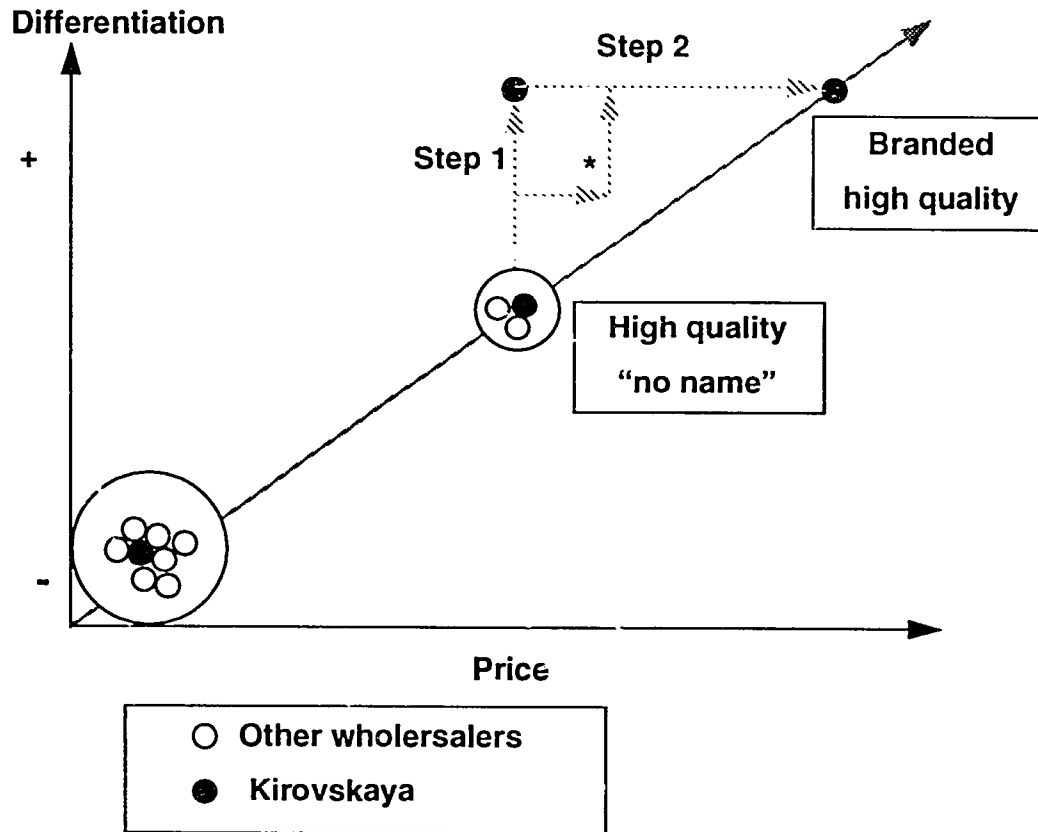
Search for alternative advertising sources

<sup>1</sup> 300 potential customers in Perm (100 retailers x 3 decision makers in each)

<sup>2</sup> 300 Rb/word X 100 words X 10 times = 300,000 Rb

# BRANDING HIGH QUALITY PRODUCTS COULD RESULT IN DIFFERENTIATION, ALLOW HIGHER PRICING AND IMPROVE PROFITABILITY

- Branding could bring 10 M Rb additional profit



- Step 1 - put brand name sticker on high-quality product and start promotional activities
  - continue advertising and promotional activities mentioning brand name
- Step 2 - (1/2 year later) increase price

- Alternative path to avoid abrupt increase in prices

## **Operations**

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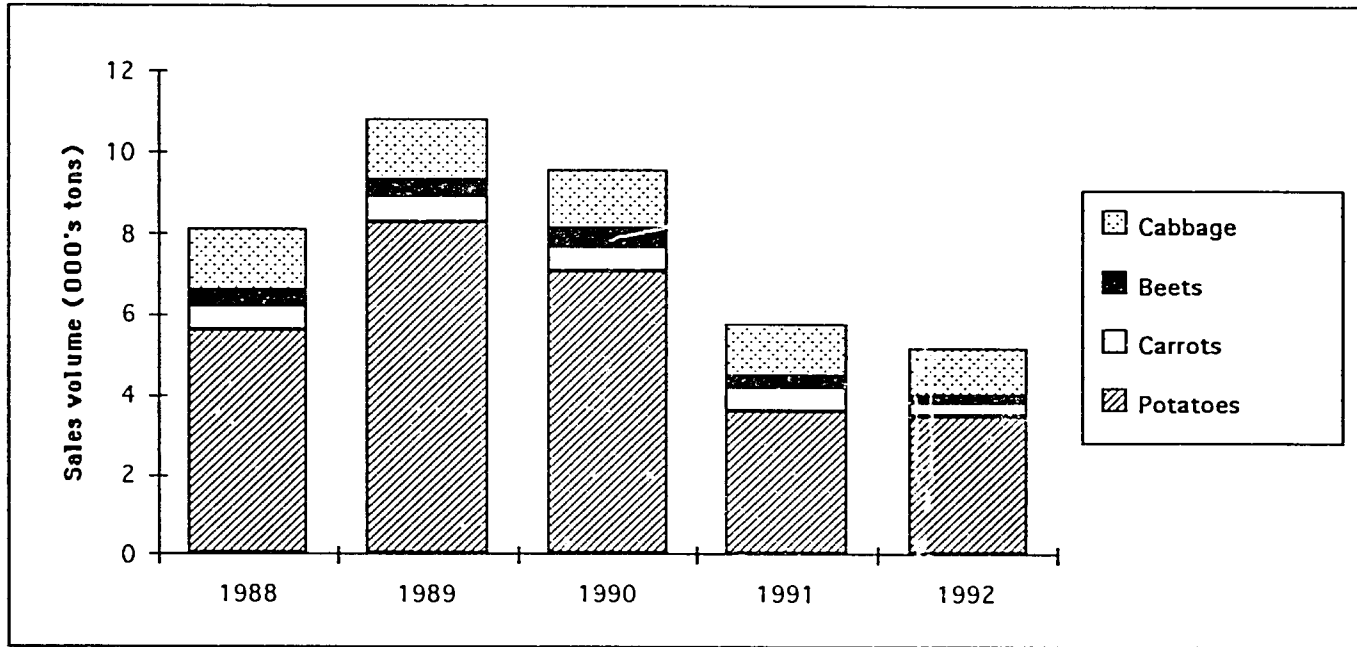


**IN ORDER TO SURVIVE IN THE LONG RUN, WHOLESALERS MUST PROVIDE  
ADDITIONAL CUSTOMER BENEFITS**

- New value added services

Current practice	Problems	Solutions
<ul style="list-style-type: none"> <li>• Wholesalers increase price, but provide few added benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Retailers have an incentive to skip the wholesaling step altogether</li> </ul>	<ul style="list-style-type: none"> <li>• Add value at wholesaling level               <ul style="list-style-type: none"> <li>- provide transportation</li> <li>- urgent orders</li> <li>- weekend delivery</li> <li>- store unripe product</li> </ul> </li> <li>• Diversify away from the role of passive storers               <ul style="list-style-type: none"> <li>- import produce not grown in the region</li> <li>- import out of season</li> </ul> </li> <li>• Exploit economies of scale to lower costs</li> </ul>

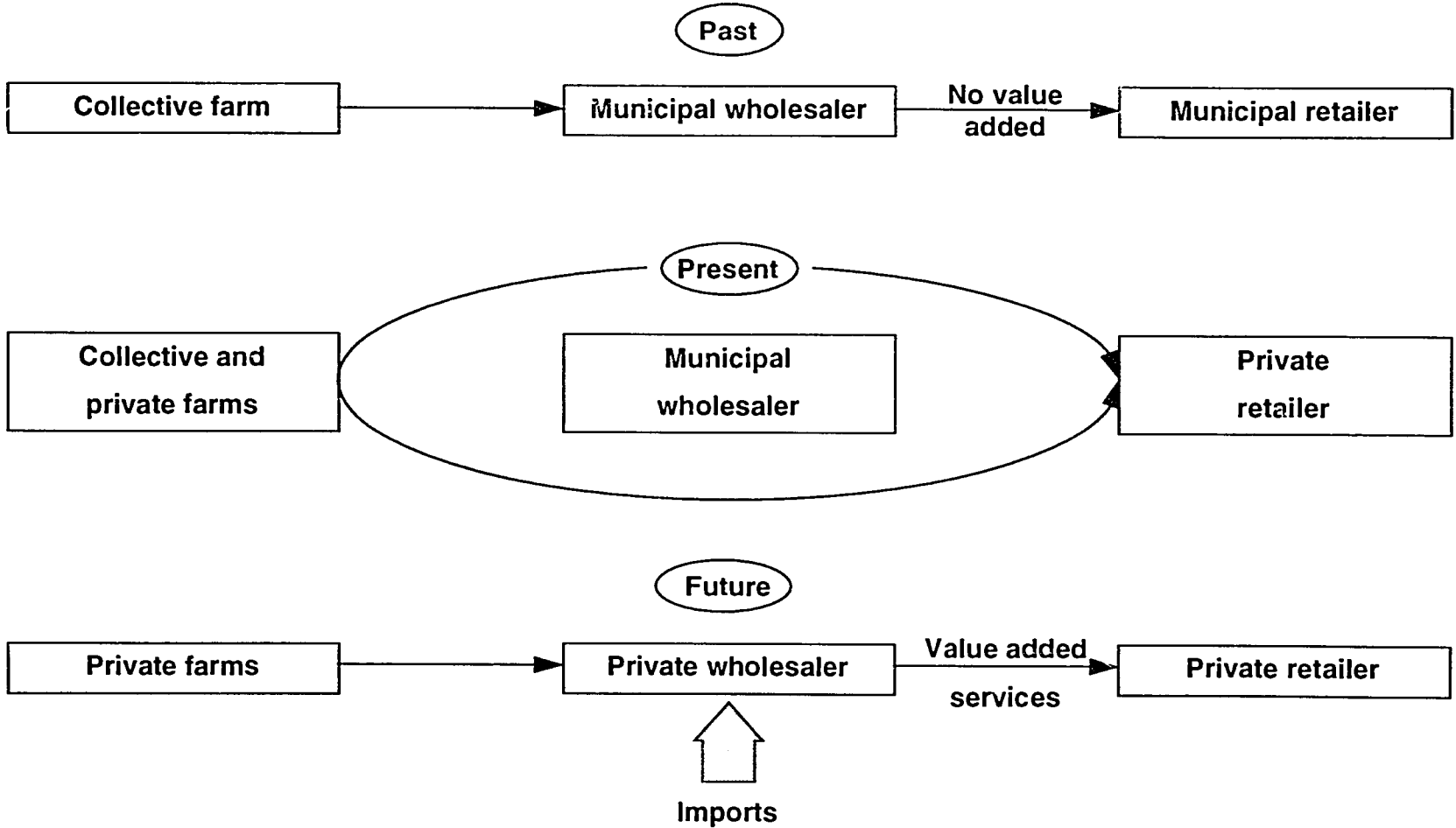
# DIRECT FARMER - RETAILER LINKS HAVE BEEN DETRIMENTAL TO KIROVSKAYA'S SALES\*



**1992 sales of 4 basic vegetables were 55% of 1989**

\* Includes sales to humans

# IN THE MARKET ECONOMY, THE WHOLESALER MUST PROVIDE ADDITIONAL VALUE



## **Operations**

- **Operational problems and improvements**
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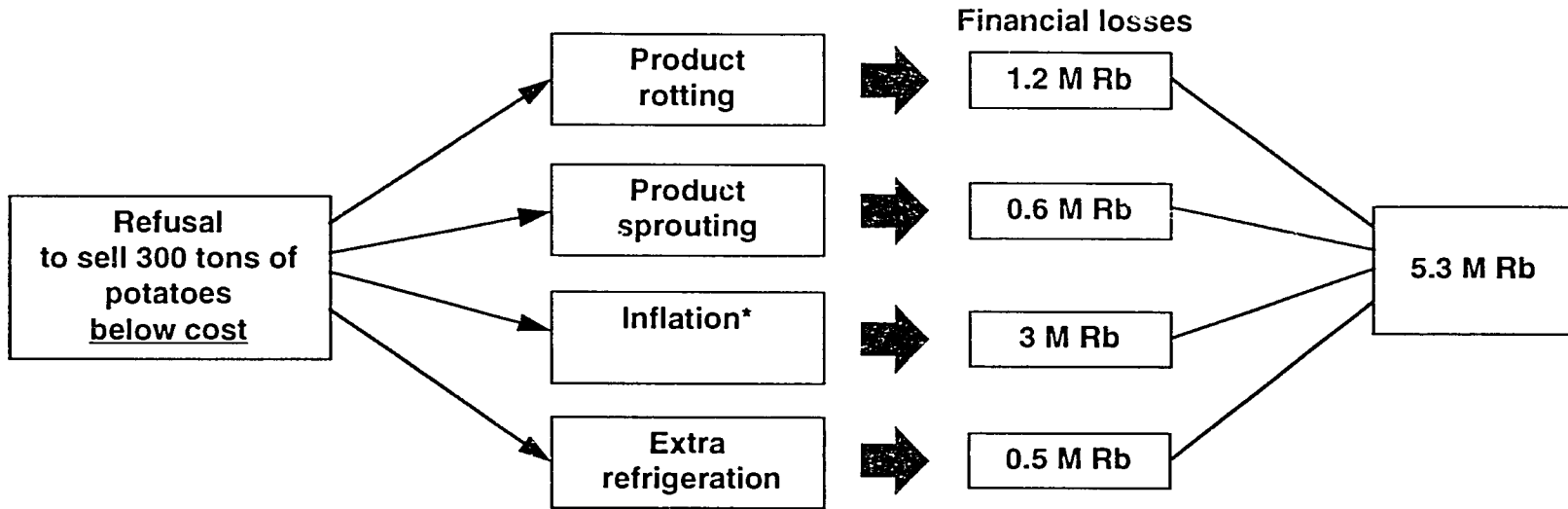
## MANY OF KIROVSKAYA'S PROBLEMS COME FROM IMPRUDENT FINANCIAL MANAGEMENT

### • Finance

Current practice	Problems	Solutions
<ul style="list-style-type: none"> <li>• <b>Misunderstanding of basic financial principles</b> <ul style="list-style-type: none"> <li>- fixed vs. variable costs</li> <li>- allocation of funds etc.</li> </ul> </li>   <li>• <b>No mechanism for evaluating financial decisions</b></li>   <li>• <b>No planning of overall cash flow</b> <ul style="list-style-type: none"> <li>- only separate purchases are analysed</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Excessive purchasing</b></li> <li>• <b>Unjustified investments</b></li> <li>• <b>Unnecessary losses</b></li>            <li>• <b>Defaults on debt, payments</b> <ul style="list-style-type: none"> <li>- higher than necessary interest costs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Educate the management about principles of financial decision making</b> <ul style="list-style-type: none"> <li>- irrelevance of sunk costs</li> <li>- fixed vs. variable costs</li> <li>- rationing of fund allocation by profitability of options</li> <li>- other principles</li> </ul> </li>   <li>• <b>Create a model for evaluating purchasing and borrowing decisions</b></li>            <li>• <b>Introduce quarterly and annual financial plans</b></li> </ul>

# SELLING DECISIONS SHOULD NOT BE AFFECTED BY ORIGINAL PURCHASING COSTS

- Misunderstanding of sunk costs could have been sold in October



300 tons of potatoes which could have been sold in October were not sold until June

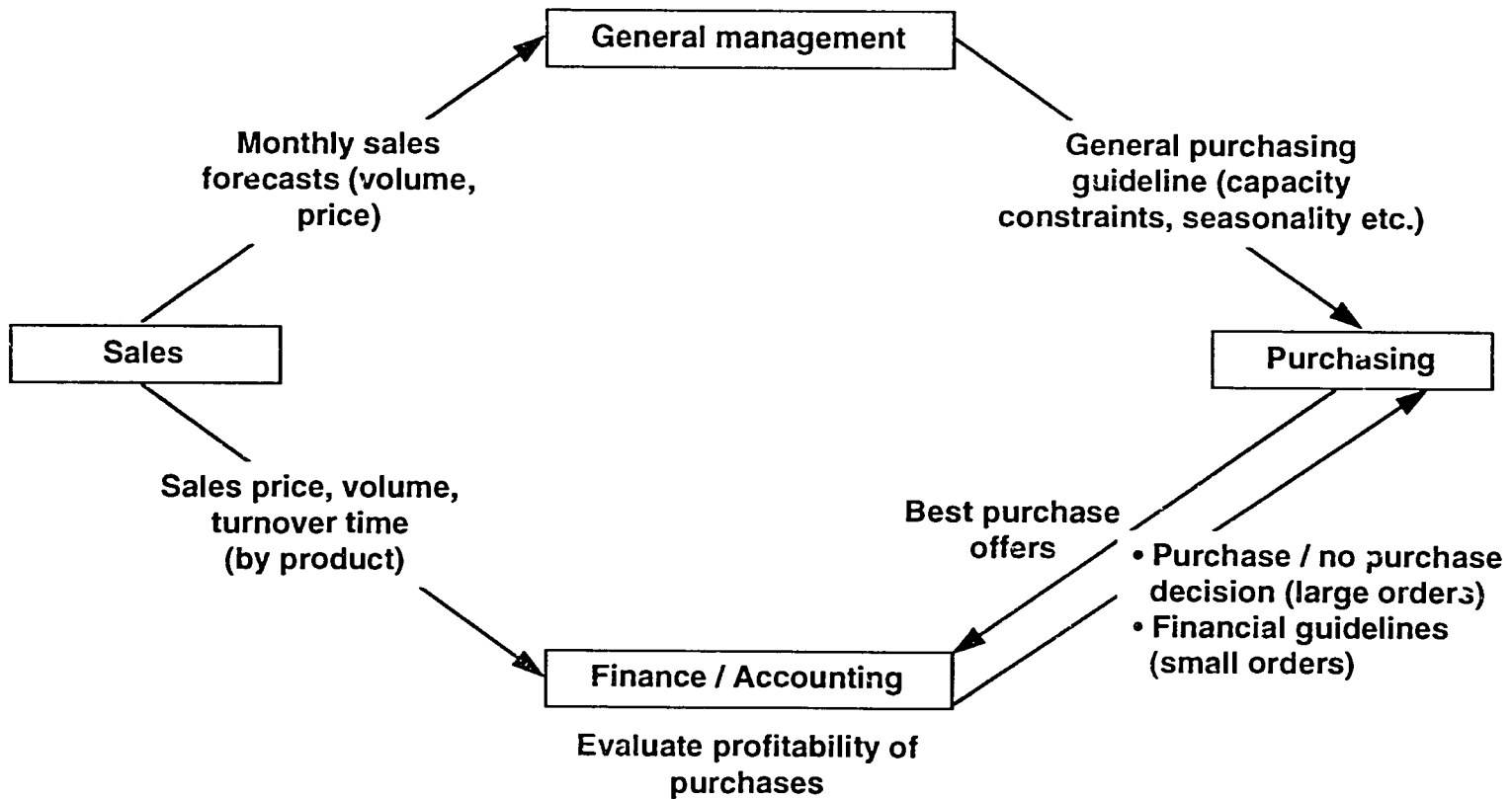
Kirovskaya should not base its selling decisions on costs of already purchased products  
- to avoid product deterioration, inflation losses and extra refrigeration costs

→ Sales price should be based on scarcity, competitor pricing, perishability, etc.

\* 18% monthly inflation

# FINANCE / ACCOUNTING DEPARTMENT SHOULD EVALUATE FINANCIAL IMPACT OF DECISIONS

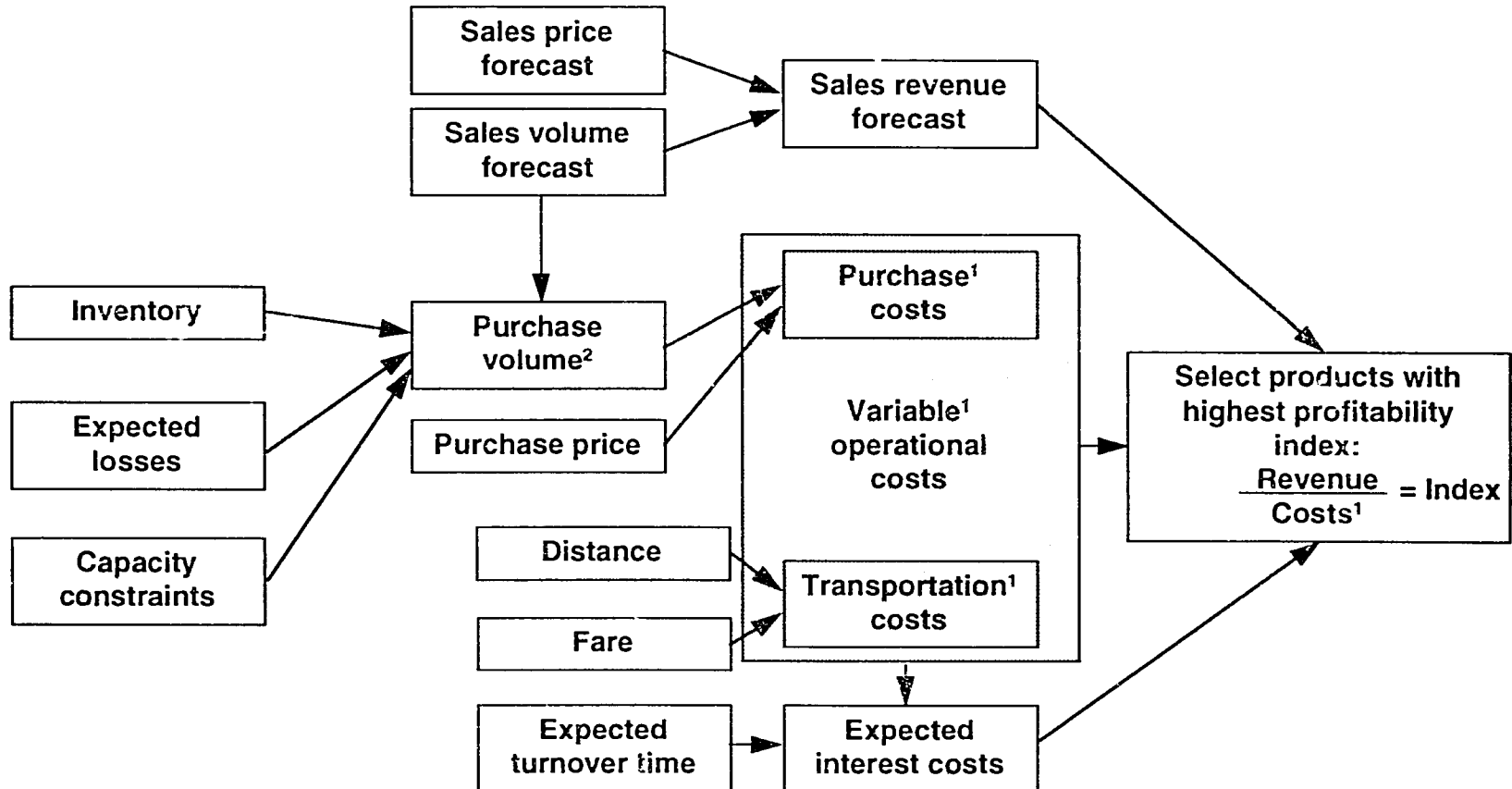
- Eg. purchasing decision



<sup>1</sup> Finance department evaluates only purchases of new products, large purchases or other non-typical purchases. For other purchases financial department formulates guidelines that are used by purchasing department

# HOW TO SELECT MOST PROFITABLE PRODUCTS FOR PURCHASE

## • Evaluation of product profitability index



<sup>1</sup> Only variable costs directly resulting from purchases of product are to be included into calculation. Labour, electricity and other costs are fixed with respect to single purchases

<sup>2</sup> Purchase volume = Sales forecast + Expected losses - Existing inventory



# HOW TO SELECT MOST PROFITABLE PRODUCTS FOR PURCHASE

## • Cabbage purchase example

Sales department estimates that 150 t of standard quality cabbages can be sold at 250 Rb/kg from Jan 1 to Jan 14



Purchase department solicits best offers and reports that the required purchase volume of 165 t can be purchased at 150 Rb/kg

- source: Uzbekistan
- transportation costs: 4.35 M Rb (725,000 Rb per wagon, 27 t max load)

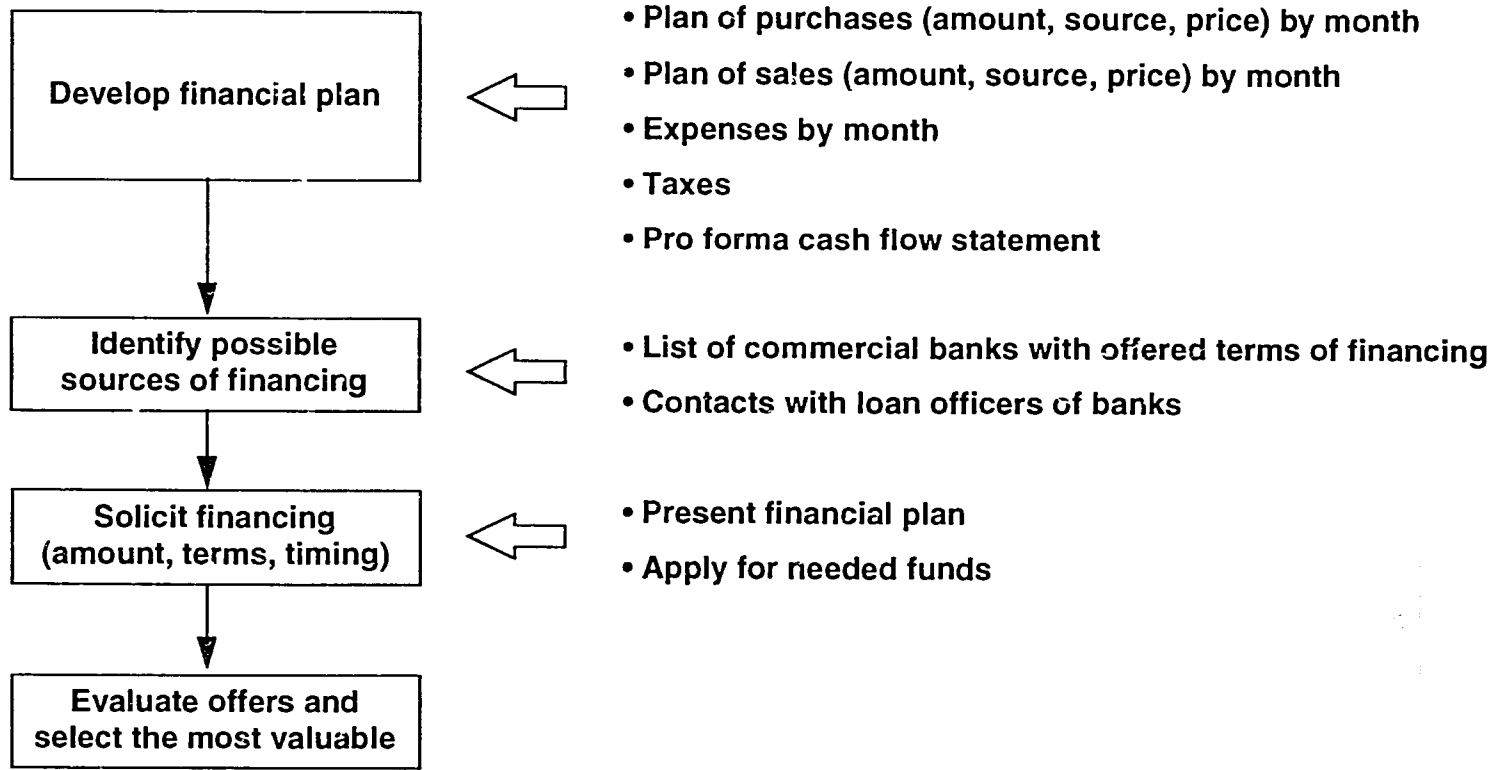


Expected interest costs: 1.2 M Rb (@ 250% rate over 1 week of average turnover)



Profitability Index:  $\frac{37.5 \text{ M Rb}}{24.8 \text{ M Rb}} = 1.51$  (compare with other products)

# DEVELOPING A BASE FOR PRIVATE FINANCING WILL PROVIDE ACCESS TO CAPITAL AND REDUCE FINANCING COSTS



# PRO FORMA CASH FLOW STATEMENT IS A VITAL PLANNING TOOL THAT WILL ASSIST IN SOLICITING FINANCING FROM BANKS

	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
<b>Cash flow from operations</b>				
Inflow:				
Cash from sales				
Returns from suppliers				
<u>Cash from other activities</u>				
Total inflow				
Outflow:				
Purchases				
Transportation				
Labour				
Utilities				
Returns to customers				
<u>Other (eg. replacement reserves)</u>				
Total outflow				
<b>Net cash from operations</b>				
<b>Cash flow from financing</b>				
Inflow:				
Interest received				
<u>Loans received</u>				
Total inflow				
Outflow				
Interest paid				
<u>Loans paid</u>				
Total outflow				
<b>Net cash from financing</b>				
<b>Cash flow from investments</b>				
Inflow - disposition of assets				
Outflow - acquisition of assets				
<b>Net cash from investments</b>				
<b>Total cash flow</b>				

## Major indicators

Positive net cash flow from operations shows that company is generally healthy and can grow using internally generated funds

Growing company may usually have negative cash flow from investments

Cash from financing should be a function of target growth and cash from operations

- Financing provides cash that is needed for growth if operations cash flow is not sufficient

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# ASSET SALE FOLLOWED BY PRIVITAZATION AND RESTRUCTURING WILL MAKE KIROVSKAYA PROFITABLE

## • Pro forma income statement for next 12 month

	Status Quo	Rescue plan+ Operational quick fixes	Rescue plan+ operational+ strategic improv.	Drivers of change
Sales	640	704	880	- Volume boosted by targeting rebates - higher average pricing (segmentation) - direct purchasing benefits partially offset by higher purchased quality
Purchasing costs	(465)	(512)	(607)	
VAT	(39)	(42)	(60)	- debt reduction - lower interest rate } Major factors - reduction of idle capacity - reduction of losses - fixed costs spread over higher volume
Operational expenses	(100)	(95)	(120)	
Interest expenses	(780)	(60)	(60)	
Profit (loss)	(744)	(5)	33	
Profit tax	0	0	(11)	
Net profit (loss)	(744)	(5)	(22)	
Effect		741 (105% sales)	extra 27 (6% of sales)	

Under assumption of 15% per month general inflation. Interest rate of 280% per year (current) and 200% after restructuring. Estimates are conservative.

# APPENDIX

- Project working documents

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# APPENDIX

- Project working documents

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**ДОКУМЕНТЫ, НЕОБХОДИМЫЕ ДЛЯ ПРИВАТИЗАЦИИ  
ПРЕДПРИЯТИЯ  
Овощная база  
Аукцион/ Конкурс**

Список документов	Отметка	Дата
<b>А</b>		
1. Заявка на приватизацию	<input type="checkbox"/>	
2. Выписка из протокола	<input type="checkbox"/>	
3. Подписной лист	<input type="checkbox"/>	
4. Квитанция об оплате сбора	<input type="checkbox"/>	
<b>Б</b>		
1. Технические паспорта (БТИ)	<input type="checkbox"/>	
2. Баланс + 2-ю форму (Отчет о финансовых результатах)	<input type="checkbox"/>	
3. Инвентаризационная опись основ. средств	<input type="checkbox"/>	
4. Инвентаризационная опись МБП, материалов, тары, товаров	<input type="checkbox"/>	
5. Акт снятия кассы	<input type="checkbox"/>	
6. Выписка из банка о средствах, находящихся на счете	<input type="checkbox"/>	
7. Расшифровка кредиторской и дебиторской задолженности	<input type="checkbox"/>	
8. Справка о кредитах	<input type="checkbox"/>	
9. Штатное расписание	<input type="checkbox"/>	
10. Устав муниц. пред-тия, договор.	<input type="checkbox"/>	



- 11. Краткосрочные финансовые вложения
- 12. Долгосрочные финансовые вложения
- 13. Незавершенные капитальные вложения
- 14. Оборудование к установке
- 15. Договор аренды на занимаемые помещения
- 16. Доверенность (2шт.)
- 17. Протокол о решении создания фонда
- В** Акты по оценке стоимости объекта приватизации
  - Приложение 1-9
  - Бланк определения величины приватизационного фонда (Гос. программа по приватизации, п.5.2)

**АУКЦИОН / КОНКУРС****Замечания по заполнению документов**

- А**
1. Заверяется подписью Заявителя. Направляется в ГКИ ( ул. К. Маркса, 14)
  2. Для принятия решения необходимо 2/3 голосов при голосовании
  3. Необходимое число подписей больше, чем 50% работников
  4. Оплата наличными (квитанция об оплате), безналичными (платежка)(500руб.) на р/сч 000609803 РКЦ г. Пермь МФО 185011 ГКИ г. Пермь

Ответ в письменной форме (обычно указывается дата составления отчетности)

- Б**
1. Заявка в БТИ - ул. Островского, 27; или Кировский район, БТИ тел: 55 85 03  
Технические паспорта заполняются на занимаемые помещения (аренда и т.д.) службой БТИ
  2. Необходим баланс за прошлый год и баланс, составленный на дату, определенную 1 Заседанием Комиссии, и соответствующие "Отчеты о финансовых результатах"
  - 3 - 8 Согласно инструкции "Об основных положениях по инвентаризации" от 30.12.82
  9. Обязательные разделы (должность;ставка)
  10. Копия Устава, копия договора.
  - 11-15. По фин. документам.
  16. Доверенность заполняется на 2 лица(один представитель от трудового коллектива и один представитель от администрации)
  17. Собрание коллектива.
- В** Акты по оценке

Приложения 1-9 заполняются совместно с экономистами ГКИ ( К. Маркса,14)

Приложение 1 заполняется согласно данным БТИ

- Прим: Документы раздела А отдаются в ГКИ (К. Маркса, 14) вместе с заявкой  
Документы раздела Б подготавливаются предприятием к 1 Заседанию Комиссии  
Документы раздела В составляются совместно с экономистом ГКИ

Российская федерация  
Администрация г. Перми  
Комитет по управлению  
имуществом  
(с правами территориального  
агенства)

3973 от 05.08.93.

Заявитель:

Телекиной Найамов  
ф. и. о.

Александровне  
должность

БЧОП г. Пермь  
наименование организации, юридического лица,  
трудоого коллектива предприятия

ул. Стурганова, 29-60  
адрес гражданина, юридического лица, коллектива

Комитет по управлению имуществом г. Перми, рассмотрев Вашу заявку на приватизацию от

4 августа 1993 г., регистрационный № 511/93 принял решение о приватизации

заявленного объекта (предприятия) с передачей заявки в комиссию по приватизации.

117 опт - ОЭП ГАП БЗГА (ул. Васильева, 30)

118 опт ОЭП Общешей (ул. Маршурганова, 19)

Начальник отдела приватизации В. А. СЕДИНИНА

*Седина*

## ИНФОРМАЦИОННЫЙ БЮЛЛЕТЕНЬ

## ФОНДА ИМУЩЕСТВА г. ПЕРМИ

## Продажа объектов муниципальной собственности (19 августа 1993 г.)

№ п/п	Наименование объекта, адрес	Сведения о помещении и земельном участке	Условия продажи	Экономические показатели					
				Оборудование и кап. вложения (тыс. р.)	Запасы материальных ценностей (тыс. р.)	Денежные средства, расчеты и прочие акты (тыс. р.)	Численность работников	Нормативная цена (тыс. р.)	Объемы продаж предприятия (тыс. р.)
1.	МКП «Пермиплодоовощпром», ул. Коммунистическая, 101, Дзержинский р-н.	Встроенное помещение под офис по адресу: ул. Коммунистическая, 101, общей площадью 482,2 кв. м. Аренда на 15 лет. База по адресу: ул. Пожарная, 18, включает в себя 6 ж/д овощехранилищ, служебный корпус и сооружения. Отрядная заборона. Подъезд, автомобильный транспорт. Земельный участок площадью 3200,0 кв. м.	Сохранение профиля предприятия в течение 10 лет, в т. ч. сохранение уровня реализации картофеля, капусты не менее 80% (по тоннажу) от уровня продажи 1992 г., свеклы не менее 300 т ежегодно. Данные условия должны быть сохранены не менее 3-х лет. Вышеперечисленные овощи должны реализовываться в количестве не менее 50% объемов реализации в 1 полугодии в течение 3-х лет.	8651,9	97883,0	152287,0	112	7487,0	288576,0
2.	МПРТ фирменный магазин «Одежда», ул. Куйбышева, 67/1, Свердловский р-н.	Встроенное, общей площадью 1478,3 кв. м, в т. ч. подвальное помещение общей площадью 569,1 кв. м, аренда на 15 лет.	Сохранение профиля предприятия в течение 10 лет (торговля швейными изделиями, в т. ч. обеспечение швейными товарами на льготных условиях детских и интернатов города, продаже товаров в кредит многодетным семьям Свердловского района, обеспечение швейными товарами на льготных условиях участников ВОВ Свердловского района, подгонка швейных изделий, купленных в магазине) при ежегодном согласовании режима работы, ассортимента товаров и объема продаж с администрацией района. Сохранение числа рабочих мест (25) в течение 1 года. Обеспечить обязан обеспечить беспрепятственный доступ к узлам управления и инженерной коммуникации жилого дома для проведения аварийных и ремонтно-восстановительных работ.	9,8	24403,0	5885,0	28	8603,8	23678,0
3.	МПРТ «Вербена», ул. Революция, 58а, Свердловский р-н.	Встроенное, общей площадью 586,3 кв. м, в т. ч. подвальное помещение общей площадью 148,2 кв. м. Аренда на 15 лет.	Сохранение профиля предприятия (реализация продовольственных товаров с обязательным сохранением реализации любительских изделий) в течение 15 лет при ежегодном согласовании ассортимента, объема товаров и режима работы с администрацией района. Сохранение числа рабочих мест (37) в течение 1 года.	347,3	12106,0	5483,0	37	4228,4	7263,0
4.	МП ресторан «Ураль», ул. К. Маркса, 8, Ленинский р-н.	Встроенное, на 1-м этаже 7-этажной гостиницы «Центральная», общей площадью 534,1 кв. м. Общая стоимость 180,0 тыс. р. Имеется 2-этажный склад общей площадью 271,2 кв. м. Общая стоимость 38,4 тыс. р., имеется решение ИК горсовета депутатов трудящихся № 865 от 29.08.83 о строительстве пристройки. Есть акт бессрочного пользования земельным участком.	Сохранение профиля предприятия в течение 10 лет с согласованием режима, объема и режима работы с администрацией района. Сохранение числа рабочих мест (49) в течение 1 года.	132,1	985,3	686,4	49	818,0	1886,5
5.	МПРТ магазин № 38 «Продукты», ул. Вятская, 1, Орджоникидзевский р-н.	Встроенное, общей площадью 75,2 кв. м. Общая стоимость 15,7 тыс. р.	Сохранение профиля предприятия в течение 3 лет с обязательным ежегодным согласованием ассортимента и режима работы с администрацией района.	0,4	318,2	0,0	3	318,4	13,9
6.	МП БОН «Вертикаль», ул. Чердынская, 20, Индустриальный р-н.	Встроенное, общей площадью 73,1 кв. м. Общая стоимость 185,7 тыс. р.	Сохранение профиля предприятия в течение 10 лет, в т. ч. перечень услуг и режима работы ежегодно в течение этого срока согласовывать с администрацией района.						

МАЛЫЙ СОВЕТ  
РЕШЕНИЕ

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23.03.93г.

56

О перечне предприятий торговли, общественного питания и бытового обслуживания, не подлежащих приватизации в 1993г.

*Г. Дмитриев Г.С.*  
*[Signature]*

Учитывая социальное значение для жителей г.Перми сохранение сети предприятий торговли, общественного питания и бытового обслуживания, в целях обеспечения социально-бытовых учреждений, школьного и студенческого питания, льготных категорий населения продуктами питания, а также сказания незащищенным группам населения комплекса бытовых услуг, малый Совет городского Совета народных депутатов РЕШИЛ:

1. Комитету по управлению имуществом города (Дмитриев Г.С.) не включать в программу приватизации на 1993 год предприятия торговли, общественного питания и бытового обслуживания населения согласно приложению.

2. Поручить администрации города (Филь В.Е.), районным Советам народных депутатов согласовать с руководителями предприятий дальнейшие взаимоотношения по обслуживанию льготных категорий населения и обеспечения социальных учреждений на основе их льготного налогообложения и выделения целевых ресурсов из городского фонда, при необходимости внести эти вопросы на рассмотрение малого Совета.

3. Обязать фонд имущества города (Ступников Ю.Ф.) осуществлять контроль за исполнением условий, указанных в договорах купли-продажи приватизированных предприятий.

4. Контроль за выполнением данного решения возложить на члена малого Совета Кондратовича А.Н., комиссию городского Совета народных депутатов по торговле (Сергеев А.С.).

Председатель Совета



В.П.Хлебников

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от 23.03.93г. № 56

## П Е Р Е Ч Е Н Ъ

предприятий торговли, общественного питания и бытового обслуживания, не подлежащих приватизации и обеспечивающих льготные категории населения, социально-бытовые учреждения, школьное и студенческое питание, а также оказывающих услуги малоимущим.

### Дзержинский район

1. МП магазин № 3 "Гастроном", ул. Пожарского, 13а
2. МП магазин "Вишенка", ул. Голера, 5а
3. Столовая госуниверситета, ул. Генделя, 7
4. МП "Коло-фото", ул. Пожарского, 13
5. Пункт проката "-----"
6. МП "Фотография № 4", ул. Ленина, 45
7. МКП "Пермплodoвощпром", ул. Коммунистическая, 101 ←

### Индустриальный район

1. Оптово-заготовительное предприятие "Деметра", ул. Карпинского, 97.
2. Комбинат школьного питания столовая № 5, ул. Мира, 100
3. МП "Автотранспорт службы быта", ул. Связьева, 37
4. МП "Рик" по пошиву и ремонту обуви, ул. Мира, 23
5. МП "Красота" - дамьямажерская, ул. Карпинского, 36
6. Ателье-проката № 5, ул. Сов. Армии, 11
7. МП "Вишенка" магазин № 22, ул. Мира, 114

### Кировский район

1. МП магазин № 40 "Соцбаза", ул. Скольская, 5
2. МП магазин № 33 "Ветеран", ул. Автозаводская, 2
3. МП магазин № 16 "Гастроном", ул. Закамская, 35
4. МП магазин № 71, ул. Ласьвинская, 38
5. МП магазин № 59, ул. Воронежская, 29
6. МП магазин № 3, ул. Панфилова, 3
7. МП магазин № 6, ул. Рыбалко, 106
8. Комбинат школьного питания кафе "Золотой рог", ул. Автозаводская, 14
9. Оптово-розничное предприятие, 105 участок
10. ТКЦ "Кировский", ул. Федосеева, 27.
11. Ателье проката, ул. Ушакова, 18
12. МП "Башмачок" по ремонту обуви, ул. Ушакова, 55

### Ленинский район

1. Магазин "Ветеран", Топольный пер., 6
2. МП фирма "Юность", ул. Ленина, 37
3. МП Столовая № 5 мединститута", ул. Попова, 18
4. Производственно-торговое предприятие кондитерский цех с магазином "Кулинария", ул. К. Маркса, 9, ул. Коммунистическая, 17
5. МП Кафе "Спутник", ул. Комсомольский пр., 36

5. Столовая технического университета, Комсомольский пр., 29а
6. Городской комбинат студенческого питания, ул. Крисанова, 18а
7. МП "Горсправка", ул. Кирова, 61
8. МП "Алма", ул. Куйбышева, 37 - парикмахерская
9. Ателье проката, ул. Куйбышева, 37
10. МП "Золушка" по пошиву обуви, ул. Куйбышева, 37
11. МП "Алмаз" по ремонту обуви -"-
12. МП по срочной чистке одежды "Алмаз" -"-
13. Фирма "Быткомф", ул. Большевитская, 55
14. МП парикмахерская "Счастье", ул. Луначарского, 51

#### Мотовилихинский район

1. База "Солдружество", Балмошная
2. МП магазин № 9, ул. Халтурина, 14
3. МП специализированный комбинат школьного питания "Лада", ул. Ким, 93.
4. МП кафе "Охотник", ул. Крупской, 50а
5. МП "Дружба", ул. Крупской, 49
6. МП "Агат" парикмахерская, ул. Тургенева, 21
7. МП "Фотография № 8"
8. МП "Агидель" по ремонту обуви -"
9. МП по срочной химчистке одежды "Агат", ул. Тургенева, 21
10. Ателье проката № 4, ул. Крупской, 42а

#### Орджоникидзевский район

1. МП продовольственный магазин № 10 "Радуга", ул. Коспашокая, 12
2. МП продовольственный магазин № 42, ул. Дзугацоров, 6
3. МП продовольственный магазин № 56, ул. Чеховского, 76
4. МП продовольственный магазин № 38, ул. Вильямса, 45
5. МП продовольственный магазин № 8, ул. Менжинского, 49а
6. МП продовольственный магазин № 20, ул. Толбухина, 18
7. МП магазин № 17 "Гастроном", ул. Карбышева, 43
8. МП магазин № 24 "Гастроном", ул. Веденеева, 8
9. Торгово-коммерческий центр "Орджоникидзевский", ул. Менжинского, 40
10. МП Торгово-оптово-заготовительная база, ул. Менжинского, 40
11. МП по срочной химической чистке одежды "Топаз", ул. Веденеева, 29
12. МП "Надежда" по ремонту обуви, ул. Веденеева, 29
13. МП "Фотография" № 25 -"-
14. МП "Топаз" - парикмахерская -"-
15. МП магазин № 52 "Овощи", ул. Васильева, 5

#### Свердловский район

1. МП магазин № 3 "Забота", ул. Балхашская, 224
2. МП продовольственный магазин по ул. Елькина, 47
3. Фруктохранилище по ул. Чкалова, 27а
4. Продовольственный склад по ул. Седова, 8
5. Торгово-производственный коммерческий центр школьного питания, ул. Краснофлотская, 18
6. МП магазин "Файна", Комсомольский пр., 90
7. МП магазин № 53 "Меркурий", ул. Солдатова, 32
8. Магазин "Продукты", ул. Самаркандская, 96
9. Муниципальное оптово-розничное предприятие "База", ул. Васильева, 3
10. Оптово-заготовительная база, ул. Васильева, 3а
11. Кафе "Диетическое" - МП, ул. Куйбышева, 51.

12. МП Кафе "Эллада", ул. Пионерская, 12
13. МП "Городской ломбард", ул. Е. Ярославского, 34
14. МП "Прокат-сервис", ул. Пионерская, 4
15. Государственное учебно-производственное предприятие "Альтер", ул. Чернышевского, 11
16. Пункты проката, ул. Холмогорская, 23
17. МП "Сапожок" по пошиву обуви, ул. Серпуховская, 4
18. МП "Сага" по ремонту обуви, ул. Гусарова, 5
19. МП "Парикмахерская № 78", ул. Гусарова, 5
21. МП головная фабрика химчистки "Снежинка"
22. МП магазин № 20 "Ренет", ул. Белинского, 42



Председателю городского  
Совета народных депутатов  
Хлебникову В.П.

28.06.93 № 41-02-931

На Ваш № 05/327 от 18.06.93 г. сообщаем, что согласно решения малого Совета городского Совета народных депутатов № 56 от 23.03.93 г. предприятия торговли, общественного питания и бытового обслуживания по указанному перечню не были включены в список обязательных к приватизации объектов в 1993 году.

Но в этот список попали ряд МП, которые были в программе обязательных к приватизации объектов в 1992 году и на них есть заявители. На данные предприятия основать процесс приватизации противозаконно.

Кроме того, согласно п.2.4. "Государственной программы приватизации" ограничения на приватизацию, устанавливаемые программой, являются обязательными для всех органов государственной власти и управления и органов местного самоуправления. Введение указанными органами дополнительных ограничений на приватизацию не допускается. Объекты и предприятия оптовой и розничной торговли, общественного питания и бытового обслуживания подлежат обязательной приватизации. (п.2.5. "Государственной программы приватизации").

Требования, установленные Программой обязательны для исполнения органами государственной власти и управления республик..., краев, областей..., органами местного самоуправления. Программа утверждена постановлением Верховного Совета РФ 11.06.1992 № 2980-1.

Ваше постановление № 56 от 23.03.93 г. противоречит вышеуказанной программе. Просим отменить данное постановление или привести его в соответствие с требованиями программы.

Председатель комитета  
по управлению имуществом  
г.Перми



Г.С.Дмитриев

ПЕРМСКИЙ ГОРОДСКОЙ СОВЕТ НАРОДНЫХ ДЕПУТАТОВ  
МАЛЫЙ СОВЕТ  
РЕШЕНИЕ

к 5

1016

от 16.07.92г

09.07.92г. № 96

17.06. Сегенкина В.А.  
г. Пермь

О приватизации коммерческих структур, включающих складские помещения, обслуживающие муниципальные предприятия

16.07.92

В процессе коммерциализации в г.Перми создан ряд коммерческих структур, включающих складские помещения, обслуживающие муниципальные предприятия торговли, бытового обслуживания и общественного питания. На основании вышеизложенного и руководствуясь инструктивными указаниями Государственного Комитета Российской Федерации по управлению государственным имуществом (письмо № ОК-И6/1882 от 10.04.92г. "О разграничении уровней собственности, порядка коммерциализации и приватизации государственных (муниципальных) предприятий оптовой торговли товарами народного потребления) Малый Совет Р Е Ш И Л:

1. Приватизацию указанных коммерческих структур осуществлять вслед за приватизацией не менее 60% муниципальных предприятий торговли, бытового обслуживания и общественного питания, пользующихся их услугами.

2. Контроль за выполнением данного решения возложить на городскую комитет по управлению имуществом (Дмитриев Г.С.) и члена малого Совета Потапова О.П.

3. Решение вступает в силу с момента принятия.

Председатель горсовета



В.П.Хлебников

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DRAFTMEMORANDUM

June 29, 1993

To: Mr. Edward Kaufman

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You have asked us to review the following two decisions of the Perm Maly Soviet and consider the application of Russian privatization law to such decisions:

1. Decision No. 56 of the Perm Maly Soviet of March 23, 1993 "On a list of enterprises of trade, societal nutrition and service not subject to privatization in 1993" ("Decision No. 56").
2. Decision No. 96 of the Perm Maly Soviet of July 9, 1992 "On privatization of commercial structures, including warehouses, serving municipal enterprises" ("Decision No. 96").

Discussion of Decision No. 56

Section 1 of Decision No. 56 provides:

The City Property Committee (Dmitriev G.S.) is not to include in the program of privatization for 1993 enterprises engaged in trade, societal nutrition and everyday service of the population as listed in the attachment.

The above provision appears to be inconsistent with Article 2.5.1 of the State Privatization Program for State and Municipal Enterprises for 1992 (the "State Program"), which was adopted by the Supreme Soviet on June 6, 1992. In accordance with Article 2.5.1 of the State Program, the following categories of enterprises are subject to mandatory privatization: "objects and enterprises of wholesale and retail trade (including the sale of products of productive-technical definition), societal nutrition and everyday service."

To the extent that Decision No. 56 represents a local program of privatization, which local governments are authorized to adopt in accordance with Article 11 of the State Program, Section 11.2. expressly prohibits local privatization programs from contradicting provisions of the State Program, such as

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### Section 2.5.1.

In addition, a recent decree of the President, Decree No. 640, date May 8, 1993, "On government guarantees of the right of citizens of Russia to participation in privatization," specifies a timetable by which enterprises engaged in trade and subject to mandatory privatization in accordance with the State Program must be privatized before August 1, 1993. Section 15 of such Decree imposes personal responsibility on government officials acting in violation of such Decree.

### Discussion of Decision No. 96

Decision No. 96 states that privatization of warehouses in Perm will take place only after completion of privatization of not less than 60 percent of the municipal retail trade enterprises using their services, based on Instructional Letter No. OK-16/18 of the State Property Committee of April 10, 1992 "On the division of levels of property, the order of commercialization and the privatization of state (municipal) enterprises of wholesale trade of people's demand" (the "Letter").

The Letter sets forth a procedure for privatizing certain wholesale warehouses. This procedure is only activated, however, after several findings of fact have been made. These findings and the results triggered are set forth as follows in points 6 and 7 of the Letter:

6. Wholesale trade enterprises (associations), considered property of the district (region, republic in composition of the Russian Federation), or city and consisting of several warehouse complexes, territorially separate from one another, are subject to division into several (according to the number of such complexes) independent wholesale-warehouse enterprises with the status of legal entity.
7. If one wholesale enterprise has at its disposal more than 50 percent of the area of product warehouses (volume of specialized warehouses) on the territory of a district (city) and cannot be divided into several independent wholesale-warehouse enterprises for technical reasons, its privatization will follow the privatization of not fewer than 60 percent of the retail trade enterprises using the services of the given wholesale enterprise. In this event, the wholesale enterprise is privatized as a joint stock company. Shares are to be sold by tender under the condition that each of the participants in the tender is an owner of a retail trade store (enterprises of societal nutrition).

Hence, the provisions of Decision No. 96 would appear to be consistent with the Letter, only to the extent that a single

wholesale enterprise in Perm controls at least 50 percent of the city's warehouse capacity and that such wholesale enterprise operates in a unitary location and is not subject to mandatory division pursuant to Section 6 of the Letter.

TRANSLATION

## MEMORANDUM

July 7, 1993

To: Boston Consulting Group

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You have asked us to consider those provisions of Russian privatization laws that concern terms on which enterprises subject to privatization may be sold via commercial tender. Specifically, you have asked us to examine the legitimacy of laying down commercial tender terms for the sale of farm produce wholesalers with regard to: (1) preserving the sales volume of certain produce for three years, (2) maintaining a minimum sales volume of certain produce for the first six months annually, and (3) mandatory purchases of produce from certain agricultural organizations and its sales to certain retailers and other parties.

Analysis

The commercial tender procedure for the sale of enterprises to be privatized is regulated by the Interim Regulations "On Privatization via Tender of State and Municipal Enterprises in the Russian Federation," approved by Presidential Decree #66 of January 29, 1992. Article 2.8 of said Regulations stipulates, among other things, continued "obligations to produce specific types of products, goods and services and retention of the enterprise's specialization for a period defined in the privatization plan." The laying down of any terms not listed in Article 2.8 is "not allowed."

The procedure established by said Regulations is supplemented by Presidential Decree #640 "On State Guarantees of Russian Citizens' Right to Take Part in Privatization" of May 8,

1993 and by State Property Management Committee Order #837-r of May 17, 1993, issued with a view to implementing said Decree. Under Article 6 of Decree #640, terms "on preserving, for three years, the production (sales) level of specific types of products ... with due regard for existing demand" shall apply, except in certain cases, to sales via commercial tender of enterprises subject to privatization. Imposition of terms not stipulated under Decree #640 or Russian laws on privatization is deemed inadmissible pursuant to Article 7 of State Property Management Committee Order #837.

### CONCLUSION

In accordance with the above standards of applicable law it appears that the commercial tender terms requiring preservation of the sales volume of certain farm produce for three years is legitimate, provided this term is reflected in the enterprise's privatization plan and takes the demand for the produce thus sold into account. At the same time, the terms that regulate the schedule of produce sales on an annual basis and those that determine the sellers and buyers of produce are not provided for under the laws currently in force and appear to have no legal validity.

White & Case

10/31/93

DRAFTMEMORANDUM

July 7, 1993

To: Mr. Edward Kaufman

This memorandum addresses two issues raised in our prior discussions and correspondence. These issues are the status of the Perm wholesaler's office and the potential limitations on privatization of an entity serving social institutions.

Status of enterprise office

You have asked us about the status of certain office space used by, but not located on the balance sheet of, the entity to be privatized.

Privatization regulations issued by the State Committee on Property Administration (the "GKI") and confirmed as attachments to the President's Decree N. 66 suggest that not all property of an enterprise undergoing privatization need appear on such enterprise's balance sheet. Attachment N. 2 to Decree N. 66 describes the method of valuation of assets of an entity undergoing privatization. Such assets after privatization become the property of the private enterprise. This valuation method is to be used exclusively, according to Article 17 of the Law on Privatization. Attachment N. 2 envisions that property uncovered during an enterprise's inventory check but not included on its balance sheet may nevertheless be subject to privatization. We do not, however, believe that office space is subject to such "uncovering" and inclusion on the balance sheet.

The State Privatization Program of 1992, however, does make provision for municipal, non-residential property occupied by an entity undergoing privatization by tender or auction but not located on its balance sheet. Section 5.7 of the Privatization Program states that natural and legal persons, having become property owners after privatization, have "the right to conclude a long-term (not less than 15 years) lease agreement for non-residential state or municipal property occupied by the enterprises but not part of the property acquired [by privatization]." Section 5.7 continues that any changes in the terms of a lease agreement in comparison with earlier concluded lease agreements is permitted only by mutual agreement of the

7/93



parties. Further, this section provides that these property owners have the right to acquire such property not earlier than one year after the execution of sale of the enterprise.

#### Service of social institutions

You have also asked about the existence of legal regulation of the privatization of enterprises serving social institutions. Our research has uncovered one such regulation. The President's Decree N. 8 (January 10, 1993 "On the use of objects of social-cultural and communal-common function of privatizing enterprises") attempts to address the future of certain institutions of social welfare located on the balance sheet of a privatizing entity. Soviet enterprises (especially large ones) often founded and operated clinics, schools, bathhouses, etc. Decree N. 8, however, does not address the issue of supplying outside social welfare institutions, as we understand to be the case for the Perm wholesaler.

Leonid Rozhetskin  
Richard Kaplan

MEMORANDUM

July 19, 1993

TO: Mr. Edward Kaufman  
(The Boston Consulting Group)

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You have asked us to review the proposed conditions to be placed on Permplodovoshchprom (the "Enterprise") in light of our previous memoranda on conditions that may be placed on future operations of an enterprise undergoing privatization by commercial tender. You have also asked us to describe the enforcement mechanism for such conditions.

Analysis of imposed conditions

We understand that the following conditions have been placed on the Enterprise:

- Condition 1. For three years, the annual sales volume in tons for four vegetables (potatoes, carrots, cabbage, beets) must not fall below 80 percent of the 1992 sales volume.
- Condition 2. For three years, one half of the above 80 percent sales volume must be achieved between January 1 and July 1.
- Condition 3. For five years, at least 50 percent of the Enterprise's revenue must be generated from the sale of fruits and vegetables or fruit and vegetable products.

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Condition 1

Condition 1 appears to be based upon the legal concept of maintenance of profile. As we have discussed in previous memoranda, profile is not defined in the law. That profile does include a volume of production may be inferred from Presidential Decree N. 640 ("On state guarantees of the right of Russian citizens to participate in privatization" of May 8, 1993), which requires a three-year maintenance of level of production for enterprises privatized by tender. This decree requires that current demand (a concept also not defined by law) be taken into account. For these reasons, it would appear that Condition 1 is consistent with the law, to the extent that an allowance is made to take into account the current demand.

Condition 2

Maintenance of profile appears to be the justification of Condition 2 as well. As noted above, profile is not defined in Russian law. We believe that the body of Russian privatization law, however, favors a narrow interpretation of conditions which may be imposed on future operations of a privatized enterprise. We base this interpretation in part on certain provisions of privatization law cited in prior memoranda forbidding imposition of conditions not specifically allowed and more generally on the policy goals of privatization. We believe that restrictive operating conditions which have the effect of subjecting a privatized enterprise to de facto administrative control by the selling property fund are contrary to privatization legislation. Monthly, quarterly or semi-annual sales requirements in our view exceed the boundaries of profile maintenance and act as restrictive operating conditions which undermine the autonomy of the privatized enterprise.

Condition 3

Condition 3 also seems to rest upon the legal foundation of profile maintenance. In our view, although the substance of this condition is consistent with the law as a maintenance of profile, the condition's term exceeds that which is permitted by privatization legislation. In our previous memoranda, we have

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stated that, according to the Temporary Regulation "On privatization by tender of state and municipal enterprises" (confirmed by Decree N. 66), maintenance of profile extends for a term to be determined by the privatization plan. Decree N. 640, however, states that in privatizations by commercial tender (with certain exceptions detailed in prior memoranda), the terms of tender must stipulate the obligation of the buyer to preserve for three years the level of production of specific goods or services, taking into account the existing level of demand. We believe that Decree N. 640 establishes a mandatory three-year term for a profile maintenance condition which is not subject to either an increase or a decrease. Therefore, we conclude that a five-year profile condition contradicts Decree N. 640. We note, however, that Decree N. 640 refers to requirements related to a level of production and not profile maintenance. While we believe that these terms are used interchangeably, such inconsistency in the legislative language does provide ground for interpretation.

Also, we note that Condition 3, as we understand it, does not prevent the Enterprise from establishing a wholly owned subsidiary to engage in a business not related to fruit or vegetable products. Such subsidiary's revenues would not be considered revenue of the Enterprise for purposes of Condition 3.

#### Summary

The three conditions imposed on the Enterprise all relate to maintenance of profile. Given that profile is not defined in privatization law, the determination of the legality of any specific conditions is subject to interpretation. We also note that the GKI is solely authorized to issue dispositive clarifications on the legality of any specific conditions or a category of conditions.

#### Condition enforcement mechanism

Section 7.1 of the Temporary Regulation "On privatization by tender of state and municipal enterprises of the Russian Federation" specifically empowers the selling property fund to enforce the purchaser's compliance with the conditions.

We also note that the Law "On privatization of state and municipal enterprises of the Russian Federation" (July 3, 1991) authorizes numerous parties, including local councils of people's deputies, to appeal to a court to annul a privatization by tender on the grounds of failure by the purchaser to adhere to conditions. Article 30 of this law states that a deal for the acquisition of a privatized enterprise will be declared void if conditions under which an enterprise was sold by tender are violated.

Leonid Rozhetskin  
Richard Kaplan

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## MEMORANDUM

July 19, 1993

TO: Mr. Edward Kaufman  
(The Boston Consulting Group)

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You have asked us to review the legality of discrimination in the awarding of government credits and subsidies at the non-federal<sup>1</sup> level. Credit discrimination against private enterprises by non-federal state organs appears to be in contradiction to Russian law.

This conclusion is based upon provisions of the following laws: the Law "On Enterprises and Entrepreneurial Activity" (adopted December 25, 1990) (the "Law on Enterprises"); the Law "On Property" (adopted December 24, 1990 and amended June 24, 1992 and May 14, 1993) (the "Law on Property"); and the Law "On competition and restriction of monopolistic activity on product markets" (adopted March 22, 1991 and amended June 24, 1992) (the "Anti-Monopoly Law").

### The Law on Enterprises

Article 20 of the Law on Enterprises forbids discrimination against enterprises by the state, its organs and its officials. This article further guarantees to all subjects of entrepreneurial activity the right of equal access to financial resources regardless of the form of ownership or organization.

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<sup>1</sup> We previously sent you a copy of Presidential Decree N. 1483 of November 27, 1992 ("On the impermissibility of discrimination against privatized enterprises in the giving of state financial support"), which forbids credit discrimination against privatized enterprises by federal organs.

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### The Anti-Monopoly Law

The Anti-Monopoly Law, which applies to state organs<sup>2</sup> at all levels, also forbids certain types of discrimination. Article 7 states in part, "[State organs] are forbidden to [pass acts] or take actions that limit the independence of economic entities<sup>3</sup> and create discriminatory or preferential conditions on the activities of distinct economic entities, if such acts or actions would have as their result either the material restriction of competition or the impairment of the interests of the economic entities ... ." This article continues that state organs may not unjustifiably give tax or other privileges to certain economic entities, thus placing them in a favored position in relation to other economic entities working in the same product market. Thus, the Anti-Monopoly Law would forbid the discriminatory extension of credit in circumstances where such action may lead to a restriction of competition or the impairment of the interests of certain enterprises.

### The Law on Property

The Law on Property also includes an anti-discrimination provision. Article 2 states in part, "The establishment by the state of any kind of restriction or privilege on the exercise of the right of property [based] upon the status of the property as private, state or municipal ... is not permitted."

Leonid Rozhetskin  
Richard Kaplan

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<sup>2</sup> The Anti-Monopoly Law defines state organs as organs of state authority or administration of the RSFSR, republics thereof, autonomous oblasts, autonomous circles, oblasts and cities.

<sup>3</sup> The Anti-Monopoly Law defines economic entities as private, state, municipal or other enterprises, joint-stock companies, partnerships, unions, associations, concerns, regional and other associations of enterprises, organizations and institutions operating as legal persons and citizens engaged in independent entrepreneurial activity that are engaged in the production, realization or acquisition of products.

## MEMORANDUM

July 19, 1993

To: Mr. Edward Kaufman  
(The Boston Consulting Group)

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You have asked us to consider the treatment under Russian law of certain issues concerning monopolies, collusion and holding companies. In addition, you have described several possible scenarios of monopolistic or collusive practices and asked for our legal views thereon.

The legal frameworkMonopoly

The Law of the RSFSR "On competition and restriction of monopolistic activity on product markets" (adopted March 22, 1991 and amended June 24, 1992) (the "Anti-Monopoly Law") creates the framework for state policy toward monopolies. The law restricts monopolistic activities and unfair competition. Article 3 of the Anti-Monopoly Law states that there shall be created an Anti-Monopoly Committee of the RSFSR whose purpose shall be implementation of the government's anti-monopoly policies. The Anti-Monopoly Committee shall form territorial administrations. Among other functions, the Anti-Monopoly Committee is empowered to order enterprises to cease monopoly activities, to break themselves up, or to cancel or amend agreements contrary to the Anti-Monopoly Law. The Committee also is empowered to issue mandatory instructions to organs of authority. The Anti-Monopoly Committee may impose fines on enterprises, their managers, organs of authority and their officials for failure to obey such mandatory instructions. The Committee may also appeal to a court or the procurator.

Article 4 of the Anti-Monopoly Law defines monopolistic activity as action or inaction in violation of such law by enterprises or organs of government authority with the effect of prohibiting, restricting or eliminating competition or impairing consumers' interests.

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Article 5 of the Anti-Monopoly Law states that, except in certain cases, action by an enterprise occupying a dominant market position<sup>1</sup> is forbidden if such action has or might have as its result material restriction of competition and/or damage to the interests of other enterprises or individuals.

Specifically, Article 6 states that any agreement in any form between competing economic subjects (or potential competitors), occupying in the aggregate a dominant market position is forbidden and void if such agreement (or cooperative actions) has or might have as its result a material restriction of competition. Such agreements include those aimed at:

1. establishment (support) of a price, discount, surcharge, or price increase;
2. raising, lowering or support of price at auctions;
3. division of a market territorially, by volume of sales or purchases, by range of realized products, or by circle of sellers or buyers;
4. restriction of access to the market or elimination from it of other enterprises working as sellers or buyers;
5. refusal to conclude an agreement with certain sellers or buyers.

The Anti-Monopoly Law in addition limits actions of government bodies tending to restrain competition or interfere with free trade.

Article 18 of the Anti-Monopoly Law states that certain purchases of ownership interests in an enterprise must receive prior approval of the Anti-Monopoly Committee. An enterprise controlling more than 35 percent of a product market may not acquire an ownership interest in the equity of another enterprise in the same product market without the prior approval of the Anti-Monopoly Committee. Furthermore, such prior approval is also required for a purchase by any legal entity or citizen of

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<sup>1</sup> The Anti-Monopoly Law defines a dominant market position as an exclusive position of an economic entity in a market for a certain product, giving it the opportunity to exert decisive influence on competition, to complicate access to the market of other economic entities or in any form to restrict the freedom of their economic activities. The position of an economic entity is considered dominant when the market share for a certain product exceeds the boundary established annually by the Anti-Monopoly Committee of the RSFSR except in those cases when the economic entity proves that, in spite of exceeding the boundary, its position on the market is not dominant. A market position may not be considered dominant if the market share does not exceed 35 percent.

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a controlling equity stake in an enterprise that has a dominant market position.

In addition, Articles 49, 50 and 51 of Government Regulation No. 78 (adopted December 28, 1991, "On confirmation of the regulation on issuance and circulation of shares") ("Regulation 78") address issues of monopoly practices in the context of joint-stock company share acquisitions. According to Article 49, "Acquisition by a legal or natural person or group of such people linked by agreement or controlling property of one another of more than 15 percent of the shares of any issuer requires notification of the Ministry of Finance ... within 5 days." Article 50 adds that "acquisition [by such persons or linked groups referred to in Article 50] of 35 percent or more of the shares of an issuer or acquisition of [shares creating a majority voting bloc] requires the permission of the State Anti-Monopoly Committee." Article 51 states that any transaction made in violation of Article 49 or 50 is void.

Finally, the State Program of Privatization of State and Municipal Enterprises of the Russian Federation of 1992 (the "State Program") provides that local privatization programs must contain concrete measures for de-monopolization.

#### Holding companies

Holding companies are regulated by the Interim Regulation "On holding companies created during the transformation of state enterprises into joint-stock companies" (the "Regulation on Holding Companies") confirmed by Decree of the President N. 1392 of November 16, 1992 "On measures toward the realization of industrial policy during the privatization of state enterprises."

The Regulation on Holding Companies applies only to holding companies created during the transformation of state enterprises into joint-stock companies. Section 2.4 states that holding companies may not be created in certain fields of economic activity, such as trade in consumer goods and in the field of general nutrition and everyday service of the population. This section suggests that holding companies of food wholesalers may not be created.

Section 2.2 of the Regulation states that holding companies are created with the agreement of the State Anti-Monopoly Committee. Holding companies may not be created if such creation would lead to the monopolization of production of a certain type of product or service.

#### Analysis of certain scenarios

You have described five scenarios involving the Perm wholesaler and have asked for a legal analysis of each.

### Scenario 1

Scenario 1 postulates that a deal is struck by which the workers of an enterprise undergoing privatization sell their shares in such enterprise to a party that has loaned them money for the purchase of such shares. According to Russian law, worker-shareholders may re-sell their shares freely. At the same time, acquisition of shares is generally regulated by both the Anti-Monopoly Law and Regulation 78.

To the extent that (i) the privatized enterprise occupies a dominant market position or (ii) the acquiring lender controls more than 35 percent of such enterprise's product market, such postulated acquisition of shares would require the prior approval of the Anti-Monopoly Committee according to the Anti-Monopoly Law.

Furthermore, to the extent that the acquired enterprise is a joint-stock company, an acquisition of more than 15 percent of the shares of such issuer would require notice to the Ministry of Finance according to Regulation 78. Acquisition of 35 percent or more of the shares or acquisition creating a majority voting bloc would require the prior permission of the Anti-Monopoly Committee according to the same regulation.

### Scenario 2

In scenario 2, several wholesale enterprises agree to bid low for the privatizing wholesale enterprise. First, Article 6 of the Anti-Monopoly Law appears to forbid an agreement whose purpose is to set a low price at an auction. Second, Article 9 of the Law on Privatization states that an enterprise must be no more than 25 percent state-owned in order to qualify as an eligible purchaser of an enterprise undergoing privatization in a privatization auction or tender.

Third, to the extent that (i) the privatized enterprise occupies a dominant market position or (ii) the acquiring enterprise controls more than 35 percent of such enterprise's product market, such postulated acquisition would require the prior approval of the Anti-Monopoly Committee according to the Anti-Monopoly Law.

Fourth, to the extent that the auction was one of shares of a joint-stock company, share acquisition would be governed by Regulation 78. Thus, as noted above, an acquisition of more than 15 percent of the shares of the issuer would require notice to the Ministry of Finance. Acquisition of 35 percent or more of the shares or acquisition creating a majority voting bloc would require the prior permission of the Anti-Monopoly Committee according to this same regulation.

Scenario 3

Scenario 3 envisions all the Perm wholesalers forming a holding company controlling the Perm fruit and vegetable market. The Regulation on Holding Companies allows the creation of holding companies on the basis of existing state enterprises with the approval of the Anti-Monopoly Committee only in certain industries. The Regulation on Holding Companies forbids creation of a holding company in the retail and food sectors. Furthermore, creation of such a holding company by share acquisition would have to adhere to the reporting and approval requirements of Regulation 78.

Scenario 4

In scenario 4, the Perm wholesalers agree to divide the wholesale market. Such an agreement would violate the provisions of Article 6 of the Anti-Monopoly Law.

Scenario 5

Scenario 5 postulates that advertising of the privatization is limited to discourage participation. Advertising of a privatization by commercial tender is the responsibility of the tender commission, according to Section 2.3 of the Interim Regulation on Privatization by Tender of Government and Municipal Enterprises in the Russian Federation (confirmed by the Decree of the President of January 29, 1992 N. 66). Such commission must arrange publication of information about the tender in the local press and special bulletins not later than one month before the announced date of the tender.

Leonid Rozhetskin  
Richard Kaplan

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## MEMORANDUM

August 9, 1993

To: Mr. Edward Kaufman  
(The Boston Consulting Group)

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You have asked us to consider in light of Russian law the circumstances under which conditions may be placed on the future operations of an enterprise undergoing privatization by transformation of such enterprise (the "Enterprise") into an open joint-stock company ("corporatization"). Pursuant to the State Program for Privatization and Decree of the President N. 721 ("On organizational measures for the transformation of state enterprises and voluntary associations of state enterprises into joint-stock companies," adopted July 1, 1992) ("Decree 721"), large enterprises must and medium enterprises may transform themselves into open joint-stock companies.<sup>1</sup>

Conditions imposed through privatization documents

The documents necessary to privatize an Enterprise by corporatization are the privatization plan (including a valuation of the Enterprise) and the charter of the joint-stock company.

The first issue is whether conditions on future operations of the Enterprise may be imposed through provisions of the joint-stock company's charter. Section 3 of Decree 721 states that all state and municipal enterprises undergoing corporatization must use the model charter included as an attachment to the decree. We note that this model charter contains no restrictions or conditions on future operations of

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<sup>1</sup> Generally, a large enterprise is one with more than 1,000 workers or a balance of more than 50 million rubles as of January 1, 1992. A medium enterprise is one that is not large and has either 200 or more workers or a charter capital of one or more million rubles as of January 1, 1992.

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the Enterprise. Article 3 of the model charter states that the goal of the Enterprise is the receipt of profit and that the Enterprise may engage in any lawful pursuit in accordance with such goal. Therefore, conditions on future operations may not be imposed on the Enterprise in its charter.

The second issue is whether conditions on future operations of the Enterprise may be imposed through provisions of the privatization plan. Government Resolution N. 547 ("Resolution 547")<sup>2</sup> requires that all state and municipal enterprises undergoing corporatization adopt the model privatization plan included as an attachment to the resolution. The model privatization plan contains among other things a description of the Enterprise, its valuation and a description of the disposition of its shares. The model plan does not contain any provisions for the imposition of conditions on future operations of the Enterprise. According to Resolution 547, any deviation from the model privatization plan must be approved by the federal State Property Committee (GKI). Therefore, conditions on future operations may not be imposed on the Enterprise in its privatization plan.

#### Conditions placed on shares of the Enterprise

The final issue is whether conditions on future operations of an Enterprise undergoing corporatization may be imposed during the distribution of its shares.

In the course of corporatization, we note that some shares are necessarily distributed in a closed subscription to the workers of the Enterprise. The law makes no provision for the imposition of future operating conditions during such subscription.

Decree of the President N. 1108 ("On additional measures for the defense of the right of citizens of Russia to participate in privatization," adopted July 26, 1993) provides that at least 29 percent of the shares of an Enterprise undergoing corporatization be sold by voucher auction. No conditions may be imposed on a purchaser by auction according to Article 21 of the Law on Privatization.

The remaining shares (typically less than 20 percent) may be sold by any means provided for in Russian legislation, including auction, commercial tender and investment tender. As noted above, no conditions may be imposed upon a purchaser by auction.

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<sup>2</sup> "On measures for the fulfilment of Russian Federation's Decree of the President 'On organizational measures for the transformation of state enterprises and voluntary associations of state enterprises into joint stock companies,'" adopted August 4, 1992, and amended July 12, 1993.

Conditions may be imposed in the course of both commercial and investment tender. Those conditions that may be imposed during a commercial tender have been discussed in prior memoranda. In an investment tender, a somewhat broader range of conditions may be imposed, including conditions on the nature of future investments in the Enterprise. We note that in practice it would be unreasonable and futile to impose conditions on an investor who will at most obtain 20 percent of the shares of the Enterprise. As a practical matter, no likely purchaser would agree to conditions that such investor would be incapable of imposing on the enterprise as a minority shareholder. Were such a purchaser to agree to any conditions, he would nevertheless be incapable of imposing them.

### Conclusion

Based on the foregoing, no restrictions on future operations may be imposed on an Enterprise undergoing corporatization in its charter or privatization plan. Furthermore, conditions may not be placed on shares of such Enterprise distributed to workers or sold at auction. The placing of conditions on shares sold by commercial or investment tender would be both unreasonable and futile.

Leonid Rozhetskin  
Richard Kaplan

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## MEMORANDUM

July 29, 1993

To: Mr. Edward Kaufman  
(The Boston Consulting Group)

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You have asked us to consider in light of Russian law the method by which a municipal enterprise undergoing privatization may be reorganized. We understand that certain Perm wholesalers have on their balance sheets school cafeterias and would like to privatize separately from such cafeterias.

Analysis

First, Article 14, section 6 of the Law "On Privatization of State and Municipal Enterprises in the Russian Federation," dated July 3, 1991 (the "Law on Privatization"), provides that the privatization plan of an enterprise may incorporate a plan of reorganization. Such plan of reorganization is prepared by the enterprise privatization commission and confirmed by the local committee on property administration in the same manner as the plan of privatization, of which it forms a subpart. Pursuant to Article 16 of the Law on Privatization, enterprise reorganization is carried out as a preparatory step to privatization.

Second, pursuant to Article 14, section 6 of the Law on Privatization, a plan of enterprise reorganization may include, among others, the following elements: (i) the separate privatization of a division of the enterprise, or (ii) the sale of certain assets of the enterprise. In addition, Article 16 of the Law on Privatization requires that in preparation for privatization the future status and use of the objects of social infrastructure be determined. (It must be understood that Article 16 refers to objects of social infrastructure included on the enterprise balance sheet.) Article 16 further implicitly provides that the objects of social infrastructure may but need not be privatized together with the enterprise.



Finally, the treatment of objects of social infrastructure is specifically regulated by Decree of the President No. 8, dated January 10, 1993, "On the use of objects of social-cultural and communal-common function of enterprises undergoing privatization" ("Decree No. 8"). With one exception<sup>1</sup>, Decree No. 8 is directly applicable only to federal enterprises undergoing privatization and, in the case of municipal enterprises, acts as a recommendation. In accordance with Decree No. 8, the workers' collective shall decide whether to privatize an object of social infrastructure together with the enterprise by including such object on the balance sheet of the enterprise, or to exclude such object. In the case of exclusion, the object of social infrastructure is subject to separate privatization in accordance with applicable legislation. Decree No. 8 further advises that, in the case of exclusion, the privatized enterprise and the local administration may enter into an agreement for the joint operation and financing of such object.

### Conclusion

The privatization legislation generally permits objects of social infrastructure to be separated from the enterprise in the course of privatization, but a definitive answer in the case of the Perm wholesalers will depend on the following factors: (i) are the school cafeterias formally established as subdivisions of the enterprise (подразделения), which would provide the clearest basis for their separation; (ii) are the cafeterias located on the grounds of the enterprise; (iii) are the cafeterias serving an orphanage or a "boarding school"; and (iv) is the Perm administration or the local committee on property administration prepared to follow the recommendations of Decree No. 8.

Leonid Rozhetskin  
Richard Kaplan

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<sup>1</sup> In accordance with section 1 of Decree No. 8, buildings and premises occupied, among others, by entities supplying meals to orphanages, "boarding schools," hospitals and certain other institutions shall be: (i) barred from privatization, (ii) considered federal property, until formally transferred to municipal or oblast ownership, and (iii) administered by the local administration. With respect to these entities, Decree No. 8 appears to be obligatory in cases where such entities are included on the balance sheet of federal or municipal enterprises.

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## MEMORANDUM

August 20, 1993

To: Mr. Edward Kaufman  
(The Boston Consulting Group)

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In connection with the privatization of vegetable wholesalers and retailers in Perm, you have asked us to consider the application of Russian law to the questions discussed below.

1. Leased buy-outs

We understand that a number of warehouses were leased to their workers' collectives pursuant to lease agreements, concluded in 1990 and 1991, which include lease-to-own or buy-out provisions. You inquire whether these warehouses may be privatized by any method other than one that will result in their transfer to the workers' collectives.

Privatization of leased property is governed by the Law on Privatization, the Decree of the President No. 1230<sup>1</sup> ("Decree No. 1230") and GKI Letter N. A4-2\586 ("Letter No. 2586").

Decree No. 1230 and Letter No. 2586 create several distinct procedures for the privatization of leased enterprises depending on (i) the date of lease execution, (ii) the book value of the enterprise on such date, (iii) the enterprise's connection to retail trade, and (iv) the inclusion of a buy-out option in the lease agreement. Generally, the workers' collective is entitled to acquire the enterprise by following the procedures specified in Decree No. 1230 and Letter No. 2\586, unless (i) the relevant lease agreement was executed after July 3, 1991 (the date of the adoption of the Law on Privatization), or (ii) the relevant

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<sup>1</sup> "On regulation of lease relations and the privatization of leased property of state and municipal enterprises," dated October 14, 1992.

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lease agreement (x) was executed prior to July 3, 1991, (y) valued the leased property at above one million roubles, and (z) did not include a buy-out provision. In the two exceptional cases described in the preceding sentence, the enterprise is privatized as a state enterprise in accordance with generally applicable rules upon the expiration or termination of the lease agreement.

In view of the complexity of the treatment of leased enterprises under Russian privatization law, we must analyze the specific circumstances of the leased enterprise in question in order to give a definitive view on the privatization regime applicable to such enterprise.

## 2. Lease buy-out and conditions on future operations

You also asked what conditions, if any, may be placed on the future operations of an enterprise undergoing privatization by lease buy-out.

As noted above, three acts govern lease buy-outs. These acts provide for certain conditions that might be placed on an enterprise

Provisions in the original lease agreement may include conditions as one of the terms of the buy-out. In theory, such conditions might include conditions on future operations of the property. The law provides that such conditions would be incorporated into the buy-out of the property.

The law also provides for the relevant property committee to enter into a supplemental agreement with the lessor in the event that the buy-out provision lacks a necessary term. It is unclear whether a property committee could in a supplemental agreement include conditions on future operations of the property.

A privatization by lease buy-out may also occur by corporatization. We refer you to our previous memorandum on conditions that may be imposed on an enterprise undergoing privatization by corporatization. We concluded therein that in practice, no effective future operating conditions could be imposed on such an enterprise.

## 3. Warehouses and shops privatized together

You have asked us about the legal procedure for breaking up shops and warehouses privatized together as one entity.

This issue is governed by Decree of the President N. 232 ("Decree 232")<sup>2</sup>, the Interim Regulation on holding companies (the "Regulation on Holding Companies"),<sup>3</sup> GKI Instructive Letter N. OK-16/18 (the "Instructive Letter")<sup>4</sup> and the Anti-Monopoly Law.<sup>5</sup>

Decree 232 required administrative bodies at every level to reorganize before January 1, 1992 state and municipal enterprises of retail trade and social catering by separating them into structural units organized as legal entities (ie., individual stores, cafes, cafeterias, etc.).

The Regulation on Holding Companies, as discussed in a July 19 memorandum, allows for the creation of holding companies only during the transformation of state enterprises into joint-stock companies. Section 2.4 states that holding companies may not be created in certain fields of economic activity, such as trade in consumer goods and in the fields of social catering and everyday service of the population.

Section 2.2 of the Regulation on Holding Companies states that holding companies may be created only with the agreement of the State Anti-Monopoly Committee. Holding companies may not be created if such creation would lead to the monopolization of production of a certain type of product or service.

The Anti-Monopoly Law provides a means for breaking-up entities engaged in monopolistic activities. This law authorizes the Anti-Monopoly Committee to break up enterprises occupying a dominant market position (as defined by the Anti-Monopoly Committee) and engaged in monopolistic activities.

It would appear that the failure to subdivide the warehouses and stores prior to January 1, 1992 violated the provisions of Decree 232 requiring the division of such enterprises into their structural units. To the extent that

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<sup>2</sup> "On the commercialization of the activity of trade enterprises in the RSFSR," dated November 25, 1991.

<sup>3</sup> The Interim Regulation "On holding companies created during the transformation of state enterprises into joint-stock companies," confirmed by Decree of the President N. 1392, dated November 16, 1992 "On measures toward the realization of industrial policy during the privatization of state enterprises."

<sup>4</sup> "On the division of levels of property and on the procedure for the commercialization and privatization of state (municipal) enterprises of wholesale trade in consumer goods," adopted April 16, 1992.

<sup>5</sup> The Law of the RSFSR "On competition and restriction of monopolistic activity on product markets," adopted March 22, 1991 and amended June 2., 1992 (the "Anti-Monopoly Law").

the enterprise occupies a dominant market position and is engaged in monopolistic activities, the Anti-Monopoly Committee is empowered, among other remedies, to take steps to break it up.

#### 4. Privatization of warehouse on multiple sites

You have asked about the corrective procedures available in the case of a warehouse privatization in contradiction of GKI Instructional Letter N. OK-16/18 (the "Instructional Letter")<sup>6</sup>. We understand that the warehouse in question is located on multiple sites and operates more than 50 percent of storage space of the city.

Our memorandum of June 29 set out the provisions of the Instructional Letter. In brief, this enterprise should have been divided prior to privatization unless for technical reasons such division was not possible. To the extent that such division was not technically possible, the enterprise should have been privatized by corporatization only after the privatization of 60 percent of the retail outlets served by such enterprise.

Given that the enterprise was comprised of warehouses on multiple sites, it would appear that division of the enterprise would have been technically possible according to the terms of the Instructional Letter.

If the privatization process is not yet complete, the relevant state property committee could amend the privatization plan to bring it into conformance with the Instructional Letter.

Also, to the extent that the resulting enterprise occupies a dominant market position (as defined by the Anti-Monopoly Committee) and engages in monopolistic activities, such enterprise would be subject to sanction, including forced break-up, by the Anti-Monopoly Committee.

#### 5. Enterprise restructuring and debt

You have asked us several questions concerning the reorganization of an enterprise undergoing privatization.

As a general matter, an enterprise may be restructured along divisional lines only. Pursuant to Article 14, section 6 of the Law on Privatization, a plan of enterprise reorganization may include, among other things, the

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<sup>6</sup> "On the division of levels of property and on the procedure for the commercialization and privatization of state (municipal) enterprises of wholesale trade in consumer goods," adopted April 16, 1992.

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following elements: (i) the separate privatization of a division of the enterprise, or (ii) the sale of certain assets of the enterprise.<sup>7</sup> Section 5.1 of the State Privatization Program and a Regulation confirmed by Decree N. 721<sup>8</sup> reaffirm the general principle that only divisions of an enterprise may be "spun off" in the course of privatization.

Divisions are created by the enterprise and have separate management and usually separate balance sheets and employee rolls. The fact that divisions generally have separate balance sheets prevents the privatization commission from arbitrarily shifting assets and debts among divisions of the enterprise.

Likewise, the fact that divisions generally have separate employee rolls prevents the commissions from arbitrarily shifting employees among divisions.

Given that enterprises can generally be separately privatized by divisions, each of which having its own balance sheet of assets and debts, it would appear unlikely that the privatization commission is authorized to gather all the debt of an enterprise and attach it to one asset. Notwithstanding the general rules discussed above, we must consider the specific circumstances of each enterprise, including its organizational structure, in order to give a definitive response.

In all cases, the property committee must approve the privatization plan, including any reorganization, developed by the commission.

## 6. Negative value

You have inquired whether the law restricts the creation of an enterprise with negative value.

Valuation of enterprises undergoing privatization is governed by Article 17 of the Law on Privatization and the Interim Methodological Instruction (the "Interim Instruction").<sup>9</sup> Pursuant to the Law on Privatization, the

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<sup>7</sup> In practice, we know of only one instance of such an asset sale. This instance occurred in the trucking sector.

<sup>8</sup> Decree of the President N. 721 "On organizational measures for the transformation of state enterprises and voluntary associations of state enterprises into joint-stock companies," dated July 1, 1992.

<sup>9</sup> The Interim Methodological Instruction for the Valuation of Objects of Privatization, confirmed as Attachment N. 2 to Decree of the President N. 66, "On the acceleration of privatization of state and municipal enterprises," adopted

determination of a starting price for the sale of an enterprise by tender or auction or the determination of the charter capital of an enterprise to be privatized by corporatization is to made exclusively in accordance with the Interim Instruction. This instruction provides that debts of an enterprise are to be subtracted from its assets in order to determine a starting price for auction or tender or the size of the enterprise's charter capital. The Interim Instruction would not appear to restrict the creation of an enterprise with negative value.

We note that two decrees of the President make provisions for heavily debt laden enterprises. Both Decree 640<sup>10</sup> and Decree 1108<sup>11</sup> provide that in the event the debt of an enterprise exceeds 50 percent of the value of its assets, such enterprise may be privatized only by commercial tender in which one of the conditions of sale shall be the assumption by the purchaser of the debts of the enterprise.<sup>12</sup>

#### 7. Consequences of no-sale

You have asked us to consider the case of an enterprise not sold in a commercial tender due to heavy debt.

Commercial tenders are governed generally by the Law on Privatization and Attachment N. 5<sup>13</sup> to Decree 66. Pursuant to Article 20 of the Law on Privatization, the privatization commission shall remove from a tender and review the privatization plan of any enterprise not sold during a commercial tender. Section 4 of Attachment N. 5 states that the tender commission shall declare a tender void if the sale price of the enterprise is more than 30 percent below the

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January 29, 1992.

<sup>10</sup> Decree of the President N. 640 "On state guarantees of the right of citizens of Russia to participate in privatization," dated May 8, 1993.

<sup>11</sup> Decree of the President N. 1108 "On supplementary measures for the defense of the right of citizens of Russia to participate in privatization," dated July 26, 1993.

<sup>12</sup> We note that each of these decrees has been suspended by the Supreme Soviet pending review by the Constitutional Court. Similar provisions, however, are expected to be adopted soon by government resolution. We also note that merely the requirements that debt laden enterprises be sold by commercial tender and that such tender include the condition that the purchaser assume the debt have been suspended.

<sup>13</sup> The Interim Regulation "On privatization by tender of state and municipal enterprises of the Russian Federation."

starting price. In such case, the committee shall review the enterprise's privatization plan.

Both the Law on Privatization and Attachment N. 5 provide for the review of the enterprise's privatization plan, albeit by different bodies. Such review would presumably include a review of the starting price of the enterprise. Such review might also include review of conditions placed on the future operations of the enterprise.

#### 8. Resale of enterprise with operating conditions

You have asked us about the legal consequences of the resale of an enterprise privatized by commercial tender in which certain operating conditions were placed on the enterprise.

Russian privatization law does not address this issue directly. Therefore, one must look for guidance to general sources of Russian law. The Fundamentals of Civil Legislation of the USSR (the "Fundamentals") operates in Russia and provides such guidance on matters of contract law.

Russian law does not precisely distinguish property rights from contractual rights. As a general matter, a primary purchaser of an enterprise on which operating conditions are placed takes that enterprise subject to the conditions. His rights are limited by the operating conditions, and as we discussed in a prior memorandum, failure to fulfil the conditions may result in the declaration of the sale of the enterprise void.

Pursuant to Article 78 of the Fundamentals, a seller is obligated to transfer property to a purchaser free of any third party rights to such property about which the seller should have known. A buyer can of course agree to assume such obligations. In the event the purchaser is not informed of such burdens on the property, he may sue the seller for damages or cancel the contract of sale.

Whether a subsequent purchaser of the enterprise would be bound by the conditions or have his possession disturbed depends upon his knowledge of such conditions. To the extent that a person purchases in good faith property in which the seller's rights are limited, such good faith purchaser as a general matter<sup>14</sup> may not be deprived of the property and would take the property fully, not bound by any conditions (Article 54 of the Fundamentals).

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<sup>14</sup> Article 54 of the Fundamentals does allow an original owner to recover stolen or lost property from a good faith purchaser.

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The property fund's remedies in such a case would appear to be limited to suit against the primary purchaser for damages.

Leonid Rozhetskin  
Richard Kaplan

## [Бланк Малого Совета]

О приватизации в 1993 г.  
предприятий оптовой и розничной  
торговли, общественного питания  
и бытового обслуживания населения

Руководствуясь Указом Президента № 640 «О государственных гарантиях права граждан России на участие в приватизации» от 8 мая 1993 г. и принимая во внимание сложившуюся в г. Перми обстановку, малый Совет городского Совета народных депутатов РЕШИЛ:

1. Согласно п. 5 вышеуказанного Указа Комитету по управлению имуществом города (Дмитриеву Г.С.) в месячный срок подготовить и опубликовать в средствах массовой информации перечень предприятий оптовой и розничной торговли, общественного питания и бытового обслуживания населения, подлежащих обязательной приватизации в 1993 г. В соответствии с действующим законодательством включить в планы приватизации указанных предприятий и в договоры по их купле-продаже условия, предусматривающие сохранение профиля предприятий и обеспечивающие бесперебойное обеспечение населения товарами и комплексом бытовых услуг.
2. Признать утратившим силу п. 1 Решения малого Совета городского Совета народных депутатов № 56 от 23.03.93 г.

[подпись]

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## RIDER 9A

Footnotes

- 1 Privatization of enterprises engaged in wholesale trade is mandatory in accordance with section 2.5.1 of the State Program of Privatization of State and Municipal Enterprises for 1992 (which remains in effect in 1993).
- 2 Investment in the enterprise in the form of debt repayment is a permissible condition of commercial tender in accordance with section 2.8 of the Provisional Regulation "On the Privatization of State and Municipal Enterprises by Tender."
- 3 Sale of assets of the enterprise before privatization is carried out, in the case of federally-owned enterprises, in accordance with Directive No. 73 of the State Committee on State Property Administration, dated 12 March 1992. In the case of municipally-owned enterprises, the relevant committee on property administration may follow the recommendation of the federal regulation.
- 4 Privatization plan of an enterprise may incorporate a plan of its reorganization, including the separate privatization of divisions of an enterprise or the separate sale of certain assets in accordance with Article 14, section 6 of the Law on Privatization.
- 5 Liquidation of an enterprise followed by an auction sale of its assets is a lawful method of privatization in accordance with Article 21 of the Law on Privatization.

RIDER 15A

<sup>1</sup> Directive No. 73 of the State Committee on State Property Administration, dated 12 March 1992.

<sup>2</sup> Municipal committees on property administration are authorized to administer municipal property generally and the property managed by municipal enterprises specifically, in accordance with Resolution of the Supreme Soviet No. 3020-1, dated 27 December 1991. Pursuant to such resolution and Directive of the State Committee on State Property Administration No. 73, municipal committees on property administration would be authorized to promulgate regulations on the disposition of assets by financially-distressed municipal enterprises prior to privatization.

## RIDER 22A

<sup>1</sup> The debt-absorbing entity can represent a division of the enterprise, in which case it will be registered as a separate legal entity in the course of privatization, or a specific asset of the enterprise, such as a warehouse, which will be separated from the enterprise in the course of privatization and sold in a commercial tender, subject to the condition that the purchaser shall repay the debt associated therewith, in accordance with Article 14, section 6 of the Law on Privatization.

[Instructional Letter of the State Committee on  
State Property Administration]

In response to inquiries concerning the application of provisions of legislation relating to the privatization of vegetable wholesalers and conditions that may be imposed in connection with the privatization thereof by tender, the State Committee on State Property Administration, acting on the basis of Article 4 of the Law "On Privatization of State and Municipal Enterprises in the Russian Federation" and section 5 of Decree of the President No. 322, dated 2 April 1992, and implementing Articles 2 and 11 of the State Program of Privatization of State and Municipal Enterprises for 1992, section 5 of Goskomimushchestvo Directive No. 837, dated 17 May 1993, and Goskomimushchestvo Instructional Letter No. OK-16/18, dated 16 April 1992, instructs as follows:

1. TO ESTABLISH that state and municipal enterprises engaged in the wholesale trade of vegetables ("vegetable wholesalers") are subject to mandatory privatization in 1993 pursuant to Section 2.5.1 of the State Program of Privatization of State and Municipal Enterprises for 1992, the application of which in 1993 was extended by section 3 of Resolution of the Supreme Soviet No. 4831-1, dated 28 April 1993.

2. TO RECOMMEND that vegetable wholesalers are to be privatized by means of sale in a commercial tender. Pursuant to section 5 of Goskomimushchestvo Directive No. 837, dated 17 May 1993, as amended ("Order No. 837-R"), regional and municipal state property committees are advised to adopt model plans of privatization and reorganization applicable to the privatization of vegetable wholesalers; such plans shall provide for privatization by means of sale in a commercial tender and shall include other provisions consistent with this Instructional Letter and Instructional Letter No. OK-16/18, dated 16 April 1992.

3. TO RECOMMEND that vegetable wholesalers not undergo privatization by means of transformation into a joint-stock company.

4. TO ESTABLISH that, in accordance with Provisional Regulation "On Privatization of State and Municipal Enterprises by Tender," adopted by Decree of the President No. 66, dated 29 January 1992, and Decree of the President No. 1108, dated 26 July 1993, conditions of a commercial tender relating to the obligations of the purchaser to maintain a specified level of production (sales) of certain goods or services or to maintain the "profile" of the enterprise, may be established for a term not to exceed three years. Other allowable conditions may be established for a term not to exceed one year.

For purposes of this Instructional Letter, the maintenance of the "profile" of a vegetable wholesaler shall mean the following: the maintenance of sales of not more than four specified vegetables, which were regularly sold by the enterprise prior to privatization, at a level not exceeding 60 percent of the 1992 volume of sales for human consumption (excluding animal feed) in tons of each such vegetable, subject to existing demand during the effective term of the purchaser's obligation. Such level shall be expressed in the form of an annual volume of sales in tons. Any such condition, the term of which exceeds one year, shall be reviewed by the relevant property fund annually in order to review the level of existing demand for the relevant vegetable; such property fund, in light of existing demand or a showing of economic hardship by the enterprise, may reduce volume sale requirements, but may not increase them.

5. TO CONSIDER unlawful the imposition of any conditions regulating the business operations of a vegetable wholesaler other than as provided in this Instructional Letter. Conditions which may not be imposed include, but are not limited to, the following:

- sales requirements computed as a percentage of the total sales of the enterprise;
- seasonal, quarterly, monthly or any other non-annual sales requirements;
- sales requirements measured by the value of vegetables sold or in roubles;
- sales requirements measured as a percentage of value of prior sales;
- restrictions on the manner of use of productive assets, including warehouses;
- restrictions on the amounts of vegetables bought or stored measured in volume or value;
- restrictions on the allocation of warehouse capacity; and
- obligation to sell to, or purchase from, specified entities.

6. TO RECOMMEND that conditions relating to the maintenance of specified levels of employment not be imposed.

7. TO RECOMMEND that highly-leveraged vegetable wholesalers which are important to the local vegetable supply (as defined below) be privatized by means of sale in a commercial tender, a mandatory condition of which shall be the assumption of the total indebtedness of the enterprise by the

purchaser and the repayment thereof by him prior to, or at the time of, execution of the purchase and sale agreement for the acquisition of the enterprise.

For the purposes of this Instructional Letter, a highly-leveraged vegetable wholesaler is an enterprise, for which total value of its debts exceeds 125 percent of its monthly sales revenues measured in roubles. An enterprise shall be considered important to the local vegetable supply if such enterprise possesses a share greater than 35 percent of the local market for (a) vegetables (in sales volume), or (b) general warehouse capacity (in square meters), or (c) refrigerated or other specialized warehouse capacity (in square meters). For the purposes of this section, the local market shall have the meaning assigned to it in the Law "On Competition and the Restriction of Monopolistic Activities." In view of the definition of the "local market" provided in the Resolution of the Supreme Soviet No. 5207-1, dated 17 July 1993, for the purposes of this Instructional Letter, "local market" shall correspond as a rule to the district in which the relevant enterprise is located.

8. TO CLARIFY that the sale of an enterprise in a commercial tender shall be made in the form of a purchase and sale agreement. In accordance with Article 27 of the Law on Privatization, such agreement shall incorporate the conditions of the tender and may incorporate such additional conditions upon which the parties thereto may agree. In the absence of agreement between the parties on the incorporation of additional conditions, the seller of the object of privatization and the winning bidder in the tender shall enter into a purchase and sale agreement incorporating the conditions of the tender and additional information provided for in Article 27.

[Signature]



Dear Mr., Mrs. \_\_\_\_\_

I am pleased to announce that PPOP is in the process of big changes. The purpose of this letter is to describe how you can benefit from these changes.

PPOP is going to become a private company August 19, 1993. Being private for us means that we care to please you with our products and services. We are going to work hard to satisfy your needs offering you :

1. quality based discounts (order size discounts and monthly rebates).
2. a personalized service by our sale force (that will help you if any questions arise).
3. an additional extra quality grade for certain fruits and vegetables.
4. a better assortment of products (including fruits, vegetables, canned products, sugar, rice etc.)

Part of our new approach is to make contacts with our customers an exclusive responsibility of our new Sales Department. Our Sales Department headed by Mrs. Suetina N.I. is ready to inform you about our products, to take your orders, to arrange delivery, and to help with quality related issues. No order will be accepted and no sales made directly by warehouses starting from October 1, 1993. Please take a note of this important change .

If you have any questions, please, call our Sales Department at # 33-40-62, we are ready to help you.

Thank you.

Kasimov A.V.  
Director "PPOP"

Attachments: Order Size Discounts and Rebate Forms.

25/8

## Rebate Calculation of "Permplodovosheprom"

"Permplodovosheprom" will pay the amount stated in line "Rebate to be paid" within 5 banking days to

\_\_\_\_\_ (company/retailer)

**Product:**

\_\_\_\_\_

**Actual purchases of fresh fruits and vegetables from PPOP in August 1993 (Rb):**

\_\_\_\_\_ [1]

**Base Purchases (Rb) (1):**

\_\_\_\_\_ [2]

**Excess of actual purchases over base purchases (Rb):**

\_\_\_\_\_ [3]

[line 2 minus line 1]

**% discount applied:**

\_\_\_\_\_ [4]

[from table]

**Rebate to be paid (Rb):**

\_\_\_\_\_ [5]

[line 3 times line 4]

**Table of discounts**

Excess of amount purchased over base tonnage	% of average price to be paid back	Excess of amount purchased over base tonnage	% of average price to be paid back
<1 M Rb	1%	15-17 M Rb	9%
1-3 M Rb	2%	17-19 M Rb	10%
3-5 M Rb	3%	19-21 M Rb	11%
5-7 M Rb	4%	21-23 M Rb	12%
7-9 M Rb	5%	23-25 M Rb	13%
9-11 M Rb	6%	25-27 M Rb	14%
11-13 M Rb	7%	27-30 M Rb	15%
13-15 M b	8%	>30 M Rb	17%

**Director of "Permplodovosheprom"**

**Kasimov A.V.**

(1)Base purchase numbers should be changed every month to account for inflation and seasonality.

# Price List of "Permplodovoshprom"

Effective 27 July 1993.

All quotes are subject to product availability.

**Product:** \_\_\_\_\_

**Packaging:** \_\_\_\_\_

**Base Price(Rb/kg) (1):** \_\_\_\_\_

	Order Size	Payment Terms	% of Base Price	Unit Price	Payment Terms	% of Base Price	Unit Price
	< 200 kg	3 days	101%	_____	8 days	111%	_____
iii	201 kg - 2,000 kg	3 days	100%	_____	8 days	110%	_____
	2,000 kg - 3,000 kg	3 days	99%	_____	8 days	109%	_____
	3,000 kg - 5,000kg	3 days	97%	_____	8 days	107%	_____
	5,000 kg	3 days	Negotiable	_____	8 days	Negotiable	_____

If payment is not made within time specified in column "Payment Terms" additional charge of 1.5 % of total payment per day is applied.

**Director of "Permplodovoshprom"**

**Kasimov A.V.**

(1) Base price is different for every quality grade.

**Municipal Trade Enterprise  
Permplodovoshprom**

Perm

Order 60

28.07.93

**Subject: Regulation of product  
shipments from the warehouses**

In order to improve the quality of products to increase PPOP's competitiveness and to prevent disruption of shipments from the warehouses during the period of restructuring I order:

1 In accordance with new positions of duties to make sales from warehouses the responsibility of the sales department (the head of the department is Suetina N.I.), taking into account the transition period of two months until 1.10.1993

2 The managers of warehouses #1-2 Alikina E.T., #3-4 Melikov I.K., #5-6 Ivanova N.I. are to deliver the products by orders of sales departments. Managers of warehouses can make sales directly until expiration of the transition period. They must inform the sales department about each sale

3 The sales department is

- to contact customers on a regular basis to research the city and regional market and to work to increase the number of customers;
- to accept and process orders according to approved new order form taking into account the order size, payment terms and unit sale price to send processed orders to the warehouses
- to control if actual quality of delivered products complies with the quality specifications in the attached bill of lading;
- to make the final decision on quality of the shipped products in case of customer complaints;
- to advertise products available
- to inform customers about changes in the work of the sales department within a week

4 Chief accountant Korovina T.S. is to adjust transactions with customers in accordance with quality certificates of sold products unit sale price and rebates on total month sales

5 Commercial director Zosimov M.K. is to control the fulfilment of this order.

Director of Permplodovoshprom

Kasimov A.V.

**CONTRACT ON SUPPLY OF VEGETABLES TO SOCIAL INSTITUTION**

" \_\_\_\_\_ " \_\_\_\_\_ 1993 \_\_\_\_\_  
 \_\_\_\_\_ (city, village, settlement)  
 \_\_\_\_\_ OZP "Permplodovoshprom" \_\_\_\_\_ in the person of  
 \_\_\_\_\_ (name of enterprise)  
 \_\_\_\_\_ director Kasimov A.V. \_\_\_\_\_ officiating on the grounds of The Charter \_\_\_\_\_  
 further titled as Seller from one party, and

\_\_\_\_\_ (name of enterprise)  
 in the person of \_\_\_\_\_ officiating on the grounds  
 of \_\_\_\_\_, further titled as Buyer from the  
 other party, concluded this contract on the following:

Seller is obliged to supply Buyer with basic vegetables (potato, cabbage, carrot, and beets) at wholesale price that are not higher than the prices quoted to retailers.

The volumes and schedule of shipments are to be agreed upon between the chief of trade department of Seller and \_\_\_\_\_ of Buyer.  
 \_\_\_\_\_ (responsible officer title, name)

Buyer is obliged to purchase all of its purchases of basic vegetables (potato, cabbage, carrot, and beets) exclusively from Seller.

Basic vegetables are supplied by Seller in quantities specified in purchase orders issued by Buyer.

Seller is obliged to give Buyer's purchase orders for fruit, canned products, other food products beside basic vegetables a priority over orders from customers that do not have contract with seller.

Payment for shipments is to be transferred by Buyer to Seller's account # 00441 123 in Dzerzhinski Commercial Bank MFO 185583.

The contract is effective immediately as signed and is valid for 12 months.

For Seller  
 Director of  
 "Permplodovoshprom"

For Buyer  
 \_\_\_\_\_  
 \_\_\_\_\_

Kasimov A.V.

\_\_\_\_\_

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Storage disbursements before the time when the products are delivered to the Purveyor, shall be covered by

(Producer, Purveyor or jointly in the following percentage: Producer - \_\_\_\_\_%, Purveyor \_\_\_\_\_%) at the price of \_\_\_\_\_ (rate of payment for a week, month, the whole period)

2.2. The obligation to provide the Producer with containers for transportation of picked up products under the terms of p.3.1. lies on

(Producer, Purveyor; at his own expense, at the expense of the other Party under the Contract or joint payment in the following percentage: Producer - \_\_\_\_\_%, Purveyor-\_\_\_\_\_%)

2.3. The obligation to provide means of transportation to deliver picked up products to the receiving point under p.3.1. lies on

(Producer, Purveyor; at his own expense; at the expense of the other Party under the Contract or joint payment in the following percentage: Producer - \_\_\_\_\_%, Purveyor - \_\_\_\_\_%)

2.4. Producer shall duly notify the Purveyor that the products were dispatched and of other aspects (quantity, availability and types of containers, the time when the products are expected to arrive to the Firm's warehouse, the required quantity and tonnage of transport means and etc.). Purveyor requires such an information to take necessary measures to accept the products.

2.5. Purveyor shall undertake an obligation to accept the products delivered by the Producer under the terms of the present Contract in conformity with the range and quality of the supplied products and the terms and volume of their delivery.

2.6. The place of acceptance by the Purveyor of the products supplied is \_\_\_\_\_ regarded (storage of the Producer; storage of the Purveyor; other place)

2.7. The date of products' acceptance by the Purveyor is considered to be \_\_\_\_\_

(the acceptance of the products by the Purveyor's representative at the Producer's storage, finishing of loading at Producer's storage to the means of transportation by the Purveyor, the delivery of the production by the Producer to the Purveyors' storage, the finishing of unloading of the products provided by the Producer at the Purveyors' storage; other date; In each case the date is specified in a relevant document (waybill, consignment note).

2.8. All risks of loss and damage of the products supplied under p.2.7. of the present Contract before their accepting by the Purveyor shall be carried by the Producer; after this - by the Purveyor.

2.9. Producer shall notify the Purveyor of possible latent defects of

the products delivered.

2.10. The Producer's representative shall enjoy the right to be present when the products are being weighed, sorted and graded. The results shall be put down in the written form by the both Parties representatives and relevant documents shall be valid when signed by the both Parties only.

When the Parties cannot agree upon the quality of products delivered, they submit it for consideration of the State Inspector of Perm evaluating quality and the decision rendered by him is final binding for the both Parties.

When a Representative of one of the Parties is absent when the products are being accepted then a Representative of the other Party who is present performs this operation in cooperation with the State Inspector of Perm evaluating quality and the relevant documents are valid when signed by both a Representative of one of the Parties and by a State Inspector.

2.8. Purveyor shall submit to the Producer copies of all formal documents (weight receipts, certificates of quality, sanitary inspection, faulty production receipts and etc.) with regard to the picked up Contacting products.

3. TERMS OF DELIVERY AND PAYMENT UNDER CONTRACT

3.1. Producer shall undertake the obligation to sell Purveyor \_\_\_\_\_ tons of picked up products including: 1. \_\_\_\_\_:

GOST \_\_\_\_\_ grade \_\_\_\_\_ tons \_\_\_\_\_ price  
for one ton of the standard quantity of the products  
\_\_\_\_\_ sum of delivery \_\_\_\_\_ container  
type \_\_\_\_\_  
(containers, crates, pallets, fabric and string sacks, without  
packing) time of delivery \_\_\_\_\_

(from \_\_\_\_\_ to \_\_\_\_\_ quantity/tons  
daily, monthly, quarterly and etc.: if necessary a more detailed  
schedule of delivery is made out in each particular case; is signed  
by Representative of both Parties and is regarded as an integral part  
of the Contract).

2. \_\_\_\_\_:

GOST \_\_\_\_\_ grade \_\_\_\_\_ tons \_\_\_\_\_ price  
for one ton of the standard quantity of the products  
\_\_\_\_\_ sum of delivery \_\_\_\_\_ container  
type \_\_\_\_\_ time of  
delivery \_\_\_\_\_

3. \_\_\_\_\_:

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GOST \_\_\_\_\_ grade \_\_\_\_\_ tons \_\_\_\_\_  
 price for one ton of the standard quantity of the products  
 \_\_\_\_\_ sum of delivery \_\_\_\_\_ container  
 type \_\_\_\_\_ time of  
 delivery \_\_\_\_\_

4. \_\_\_\_\_:  
 GOST \_\_\_\_\_ grade \_\_\_\_\_ tons \_\_\_\_\_  
 price for one ton of the standard quantity of the products  
 \_\_\_\_\_ sum of delivery \_\_\_\_\_ container  
 type \_\_\_\_\_ time of  
 delivery \_\_\_\_\_

5. \_\_\_\_\_:  
 GOST \_\_\_\_\_ grade \_\_\_\_\_ tons \_\_\_\_\_  
 price for one ton of the standard quantity of the products  
 \_\_\_\_\_ sum of delivery \_\_\_\_\_ container  
 type \_\_\_\_\_ time of  
 delivery \_\_\_\_\_

6. \_\_\_\_\_:  
 GOST \_\_\_\_\_ grade \_\_\_\_\_ tons \_\_\_\_\_  
 price for one ton of the standard quantity of the products  
 \_\_\_\_\_ sum of delivery \_\_\_\_\_ container  
 type \_\_\_\_\_ time of  
 delivery \_\_\_\_\_

3.2 The Parties have agreed that the price for contracting products depending on their quality shall amount to:  
 - 100% of the stipulated amount when \_\_\_% quality level is observed in conformity with the State Standard;  
 - when the quantity level is decreased by each \_\_\_\_, the price of the products delivered automatically decreases by \_\_\_\_\_.  
 In such cases the products are valued without taking into consideration the GOST's allowances.

Non-standard products shall be paid for on the basis of \_\_\_\_% of the standard products. When the quantity level of the products delivered is below \_\_\_\_, the production shall not be accepted and considered as non-delivered.

When the packing/container terms are not observed by the Producer, the Purveyor shall be entitled to refuse to accept the products delivered. In this case the products shall be deemed as non-delivered.

3.3. When the Purveyor's representative accepts products with latent defects, the Purveyor shall ensure that the value of damage is defined by the State Inspector on Quality or by any other competent body within the period of one month from the date of acceptance of the products. The Parties have agreed that the losses arising thereof shall be carried by them jointly on the basis: Producer - \_\_\_\_\_%, Purveyor - \_\_\_\_\_.

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After the total sum of damage has been defined, the Producer shall transfer to the Purveyor's account a due sum to cover his part of damages within \_\_\_\_\_ from the moment of his being notified of the results of Quantity Test of the products.

(Pattern: "3.3. In case of the Producer delivering the products being infected, the damage caused as a result of a disease developed within one month from the last delivery of the products shall be reimbursed in full by the Producer. Similar damage cases as a result of a disease developed after the expiry of this period shall be reimbursed in full by the Purveyor".)

3.4. The Purveyor shall pay the Producer for the Contracting products by \_\_\_\_\_ means of \_\_\_\_\_ (bank transfer, transfer with bank confirmation, L/C opening and etc) as follows: \_\_\_\_\_ % of the sum shall be paid for the period of \_\_\_\_\_ days till the delivery in advance of future delivery and further, as far as the delivery is accepted at the rate of \_\_\_\_\_ % of the stipulated amount during the period of \_\_\_\_\_ days from the date of products' acceptance, \_\_\_\_\_ % during the period of \_\_\_\_\_ from the date of acceptance. The date of payment stated in the stamp of the agency's bank on the accounting document shall be considered the date of payment of the Purveyor.

3.5. The sum of payment for the Contracting production shall be calculated basing on weight and sorting acts and the contractual prices of Contracting products (pp.3.1.-3.2.). agreed upon by the Parties.

#### 4. LIABILITIES OF PARTIES

In the case of non-fulfilment or undue fulfilment of the obligations provided by the present Contract, the Parties shall be liable:

4.1. In case of delayed delivery or underdelivery of products within the established terms, the Producer shall pay to the Purveyor a penalty of \_\_\_\_\_ % of the value of non-delivered (underdelivered) products for each day of a delay. (Possible ammendment: "When the delay in delivery exceeds \_\_\_\_\_ days the calculation of a penalty shall be ceased and in addition to the calculated penalty the Producer shall pay to the Purveyor a fine at the rate of \_\_\_\_\_ % of the value of non-delivered (underdelivered) products".)

4.1.1. Despite the paid penalty (fine) the Producer shall reimburse to the Purveyor the damage caused by violation of the terms of the present Contract (due to underloading of warehouse, in case the Purveyor does not keep its obligations before other counterparts and due to penalty payment for the violations made and etc.).

4.1.2. Penalty (and fine) at the stated above rates shall be recovered from the Producer for non-delivery (underdelivery) of separate items of products of the range provided by the Contract.

4.1.3. The Producer shall not bear the responsibility for non-fulfilment of any of its respective obligations provided by this Contract if this non-fulfilment is due to force-Majeure (such circumstances include Acts of God, social disturbances, military actions, Acts of State bodies and etc.) or through the fault of the Purveyor. Should any of the above-listed circumstances exist, local authorities or any other competent body shall officially confirm the same.

4.2. In case the Purveyor refuses to accept the products offered for by the Producer that was in conformity with the terms of the present Contract with regard to quantity, quality and date of delivery or for the delay in its acceptance, the Purveyor shall pay to the Producer a penalty at the rate of \_\_\_\_ % of value of non-accepted or accepted with a delay products and shall reimburse the costs for delivery in the both ends and the expenses incurred by the Producer (deterioration of the products' quality, idle time of means of transportation when awaiting delivery and ect.).

4.3. In case of delayed payment of accepted products the Purveyor shall pay to the Producer a penalty of \_\_\_\_ % of non-paid sum for each delayed day.

(In case under the terms of the present Contract containers are to be provided by the Purveyor it is possible to make an addition: "4.4. If the Purveyor does not provide proper containers to the Producer, then the Purveyor shall pay to the Producer a penalty of \_\_\_\_ % of the value of non-delivered containers".).

## 5. TERMS OF UNILATERAL DISSOLUTION OF CONTRACT

5.1. The Purveyor shall enjoy the right to terminate the Contract unilaterally in case the Producer more than once violates the terms of the Contract agreed upon by the Parties concerned (does not observe assortment of products, its quality, quantity, types of containers, terms and volume of delivery).

In this case the Producer shall recover the damage caused to the Purveyor by violation of the present Contract (in conformity with p.4.1.1. of the present Contract).

5.2. The Producer shall enjoy the right to terminate the present Contract in case the Purveyor violates more than once the order of acceptance and appraisal of the delivered products and the date of payment. In this case the Purveyor shall undertake the obligation to reimburse the Producer the damage caused by non-fulfilment (undue fulfilment) of his obligations under this Contract.

## 6. ADDITIONAL CONDITIONS

6.1. All alterations and supplements to the present Contract are valid only if made in written form and signed by the both Parties.

6.2. All disputes which may arise out of the present Contract and

cannot be solved amicably, shall be subject to settlement in the Arbitration.

6.3. \_\_\_\_\_

7.LEGAL ADDRESSES AND BANK REQUISITIES OF PARTIES

7.1. Purveyor: \_\_\_\_\_  
settlement account No. \_\_\_\_\_ with \_\_\_\_\_ Bank

7.2. Producer: \_\_\_\_\_  
settlement account No. \_\_\_\_\_ with \_\_\_\_\_ Bank

The Contract is signed:

For the Purveyor: \_\_\_\_\_

For the Producer: \_\_\_\_\_

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Д О Г О В О Р  
КОНТРАКТАЦИИ СЕЛЬСКОХОЗЯЙСТВЕННОЙ ПРОДУКЦИИ

" 11 " августа 1993 года

г. Тереек  
(наименование населенного пункта)

МКБ "Тереекское хозяйство" в лице  
(название предприятия, организации)

камер-директора Зосенцова Э.И., действующего на  
(должность, Ф.И.О.)

основании индивидуально, именуемое в дальнейшем "Фирма",  
с одной стороны, и

Тереекское хозяйство "Заря"  
(название кооператива, фермерского хозяйства,  
колхоза, совхоза, ф.и.о. физического лица)

в лице глав. инженера Николаева Вячеслава  
(должность, Ф.И.О.) действующего

на основании Индивидуально, именуемый в дальнейшем  
"Поставщик", с другой стороны, заключили настоящий договор, в даль-  
нейшем Договор, о нижеследующем:

1. Предмет Договора.

1.1. Поставщик реализует Фирме произведенную продукцию (Контрактуемая продукция), количество, качество и ассортимент которой определены в п.3.1. настоящего Договора, а Фирма принимает продукцию, поставленную в соответствии с условиями настоящего Договора, и уплачивает Поставщику сумму в соответствии с ценой, согласованной сторонами (п.3.2.). Поставленная продукция оценивается по количеству и качеству в соответствии с условиями настоящего Договора и существующими правилами.

1.2. Срок действия Договора длится с даты его подписания сторонами до выполнения сторонами своих обязательств по настоящему Договору.

2. Права и обязанности сторон

2.1. Поставщик обязан обеспечить сбор выращенной продукции, а также ее надлежащее хранение на срок до \_\_\_\_\_, имея в виду, что продукция сохранит свои потребительские свойства в соответствии с условиями настоящего Договора.

Оплата расходов по хранению продукции до его передачи Фирме производится

(Поставщиком, Фирмой либо солидарно в процентном отношении:  
Поставщик - \_\_\_\_\_%, Фирма - \_\_\_\_\_%)

по цене \_\_\_\_\_  
(размер платы за неделю, месяц, за весь период)

2.2. Обеспечение Поставщика тарой для транспортировки собранной продукции в соответствии с условиями п.3.1. лежит на \_\_\_\_\_

(Поставщике, Фирме; за свой счет, за счет другой стороны по Договору либо оплата солидарная, составляющая в процентном отношении: Поставщик - \_\_\_\_\_%, Фирма - \_\_\_\_\_%).

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2.3. Обеспечение транспорта для вывоза собранной продукции на приемный пункт в соответствии с условиями п.3.1. лежит на \_\_\_\_\_

поставщик  
(Поставщике, Фирме, за свой счет, за счет другой стороны по Договору либо оплата солидарная, составляющая в процентном отношении Поставщик - \_\_\_\_\_%, Фирма - 100 %).

2.4. Поставщик обязан надлежащим образом уведомить Фирму об отправке продукции и прочих аспектах (количество, наличие и характер тары, предлагаемое время поступления продукции на склад Фирмы, необходимое количество и тоннаж автотранспортных средств и т.п.), информация о которых необходима Фирме для принятия соответствующих мер по приемке продукции.

2.5. Фирма обязуется принимать продукцию, поставляемую Поставщиком в соответствии с условиями настоящего Договора по ассортименту, качеству поставляемой продукции, а также срокам и объемам поставок.

Моментом принятия Фирмой продукции считается \_\_\_\_\_

Склад Поставщика  
(склад Поставщика, склад Фирмы, иное)

2.7. Моментом принятия Фирмой продукции считается автоматическое  
время нахождение и размещение продукции

(прием представителем Фирмы продукции на складе Поставщика, окончание погрузки продукции на складе Поставщика на представленные Фирмой автотранспортные средства, доставка продукции Поставщиком на склад Фирмы, окончание разгрузки Поставщиком продукции на складе Фирмы, иное; дата определяется в составляемом в каждом случае соответствующем документе - приемо-сдаточном документе, товарно-транспортной накладной)

2.8. Риск утраты и порчи поставляемой продукции до момента принятия Фирмой продукции, определенного в п.2.7. настоящего Договора, несет Поставщик, после наступления данного момента - Фирма.

2.9. Поставщик обязан предупредить Фирму о возможных скрытых дефектах поставляемой продукции.

2.10. Представитель Поставщика имеет право присутствовать при проведении взвешивания, сортировки и отбраковки продукции. Результаты данных операций фиксируются в письменном виде представителями обеих сторон, и соответствующие документы действительны только при наличии подписей обеих сторон.

При невозможности прийти к единому решению относительно качества поставленной продукции стороны оставляют решение данного вопроса за Пермским городским государственным инспектором по качеству, чье решение считают для себя окончательным.

В случае отсутствия при приемке продукции представителя одной из сторон представитель другой стороны производит данную операцию совместно с Пермским городским государственным инспектором по качеству, и соответствующие документы действительны только при наличии подписей присутствующего представителя одной из сторон и государственного инспектора.

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2.11. Фирма обязана передать Поставщику копии всех официальных документов (весовых квитанций, сертификатов по качеству, сертификатов санитарной инспекции, квитанций о проценте отхода и брака и т.д.), касающихся собранной Контрактуемой продукции.

### 3. Условия поставки и расчетов по Договору

3.1. Поставщик обязуется продать фирме 100 тонн собранной продукции, в том числе:

1. Фармацевты:  
 ГОСТ \_\_\_\_\_ сорт Стандарт тонн 100  
 цена за 1 тонну стандартной части продукции \_\_\_\_\_  
 сумма поставки \_\_\_\_\_ вид тары навал

(контейнеры, ящики, лотки, тканевые и сетчатые мешки, без упаковки)  
 сроки поставки \_\_\_\_\_

по 15 сентября по 30 сентября в количестве 100 тонн  
 ежедневно, ежемесячно, ежеквартально и т.п.

Если дополнительный график поставки в случае необходимости составляется отдельно, подписывается представителями обеих сторон и является неотъемлемой частью настоящего Договора)

2. Цена определяется на основе поставки по цене  
наличествующей цене  
 ГОСТ \_\_\_\_\_ сорт \_\_\_\_\_ тонн \_\_\_\_\_  
 цена за 1 тонну стандартной части продукции \_\_\_\_\_  
 сумма поставки \_\_\_\_\_ вид тары \_\_\_\_\_

сроки поставки \_\_\_\_\_

3. \_\_\_\_\_ :  
 ГОСТ \_\_\_\_\_ сорт \_\_\_\_\_ тонн \_\_\_\_\_  
 цена за 1 тонну стандартной части продукции \_\_\_\_\_  
 сумма поставки \_\_\_\_\_ вид тары \_\_\_\_\_

сроки поставки \_\_\_\_\_

4. \_\_\_\_\_ :  
 ГОСТ \_\_\_\_\_ сорт \_\_\_\_\_ тонн \_\_\_\_\_  
 цена за 1 тонну стандартной части продукции \_\_\_\_\_  
 сумма поставки \_\_\_\_\_ вид тары \_\_\_\_\_

сроки поставки \_\_\_\_\_

5. \_\_\_\_\_ :  
 ГОСТ \_\_\_\_\_ сорт \_\_\_\_\_ тонн \_\_\_\_\_  
 цена за 1 тонну стандартной части продукции \_\_\_\_\_  
 сумма поставки \_\_\_\_\_ вид тары \_\_\_\_\_

сроки поставки \_\_\_\_\_



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## 4. Ответственность сторон.

За неисполнение или ненадлежащее исполнение обязательств, предусмотренных настоящим Договором, стороны несут следующую ответственность:

4.1. За просрочку или несдачу продукции в установленные Договором сроки Поставщик уплачивает Фирме пеню в размере 1 % стоимости непоставленной (недопоставленной) продукции за каждый день просрочки. (Возможно дополнение: "При просрочке свыше \_\_\_\_\_ дней начисление пени прекращается, и Поставщик уплачивает Фирме помимо начисленной пени штраф в размере \_\_\_\_\_ % стоимости непоставленной (недопоставленной) продукции.")

4.1.1. Независимо от уплаты пени (штрафа) Поставщик возмещает Фирме причиненный в результате нарушения условий настоящего Договора ущерб (по причине неполной загрузки складских помещений, нарушения Фирмой своих обязательств перед иными контрагентами и уплаты штрафных санкций за допущенные нарушения и т.п.).

4.1.2. Пеня (и штраф) в указанных размерах взыскиваются с Поставщика и за непоставку (недопоставку) продукции по отдельным наименованиям предусмотренного договором ассортимента.

4.1.3. Поставщик освобождается от ответственности за невыполнение обязательств по настоящему Договору, если они не были выполнены вследствие обстоятельств непреодолимой силы (стихийные бедствия, социальные волнения, военные действия, акты или действия государственной власти и т.п.) или по вине Фирмы. Существование подобных обстоятельств должно быть официально подтверждено органами местной власти или иным компетентным ведомством.

4.2. За отказ от приемки продукции, предъявленной Поставщиком Фирме в соответствии с условиями настоящего Договора по количеству, качеству, срокам поставки, либо за просрочку ее приемки Фирма уплачивает Поставщику штраф в размере 3 % стоимости непринятой или принятой с просрочкой продукции и возмещает расходы по доставке продукции в оба конца, а также убытки, понесенные Фермером (снижение качества продукции, простой транспортных средств в ожидании приемки и т.п.).

4.3. За несвоевременную оплату принятой продукции Фирма уплачивает Поставщику пеню в размере 0,1 % невыплаченной суммы за каждый день просрочки оплаты.

(В случае, если по условиям настоящего Договора тару обеспечивает Фирма, возможно дополнение: "4.4. За необеспечение Поставщика надлежащей тарой Фирма уплачивает Поставщику штраф в размере \_\_\_\_\_ % стоимости непоставленной тары.")

## 5. Условия одностороннего расторжения Договора.

5.1. Фирма имеет право расторгнуть Договор в одностороннем порядке, если Поставщик неоднократно, то есть более одного раза нарушает условия настоящего Договора, согласованные сторонами (допускает нарушения ассортимента, качества, количества продукции, условий по таре, срокам и объемам поставок).

В этом случае Поставщик возмещает Фирме причиненный в результате нарушения условий настоящего Договора ущерб (в соответствии с п.4.1.1 настоящего Договора).



5.2. Поставщик вправе в любой момент расторгнуть настоящий Договор в случае неоднократного нарушения фирмой порядка приемки и оценки поставляемой продукции, а также сроков оплаты за продукцию. В этом случае фирма обязуется возместить Поставщику причиненные ему неисполнением (ненадлежащим исполнением) своих обязательств по Договору убытки.

6. Дополнительные условия

6.1. Все изменения и дополнения к Договору действительны, если они составлены в письменной форме и подписаны обеими сторонами.

6.2. Все споры по Договору, по которым сторонам не удалось прийти к единому решению, разрешаются в органах арбитражного суда.

6.3 \_\_\_\_\_

7. Юридические адреса и банковские реквизиты сторон


7.1. ФИРМА  
адрес: 514600 г. Тольятти Кооперативное предприятие "Сол"  
расчетный счет № 000447123 в Азербайджанском банке

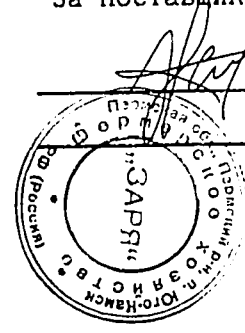
7.2. ПОСТАВЩИК  
адрес: Тельмановский р-н п. Ново-Камское Ф/х "Заря"  
расчетный счет № 001643581 в Вятко-Волжском с/схб банке

Договор подписали:

За фирму:

За Поставщика:

 \_\_\_\_\_  
( Д.И. Зосманов )

 \_\_\_\_\_  
( В.А. Зосманов )

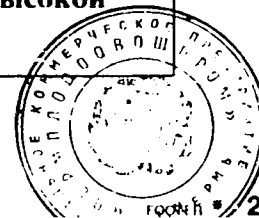


## ТАБЛИЦА, ОПИСЫВАЮЩАЯ НАДЛЕЖАЩИЕ УСЛОВИЯ ЛЕЧЕБНОГО ПЕРИОДА ДЛЯ КАРТОФЕЛЯ И ИСПОЛЬЗУЕМАЯ КЛАДОВЩИКАМИ

Качество	Температура (влажность) лечебного периода	Срок лечебного периода
• Сухой, созревший картофель, хранимый 5-7 дней после уборки	12-18°C (90-95%)	7-10 дней
• Только что убранный сухой, созревший картофель	12-18°C (90-95%)	10-12 дней
• Недозревший или сильно поврежденный (до 50%) картофель	12-18°C (90-95%)	до 15 дней
• Картофель с клубнями, поврежденными кольцевой гнилью	10-12°C (85-90%)	до 15 дней
• Картофель, пораженный фитофторой	охлаждение до 1-2°C (85-90%)	лечебного периода нет, т.к. болезнь быстро прогрессирует при высокой температуре

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Источник: Управление сельского хозяйства РФ



НОМЕРА ТЕЛЕФОНОВ  
РАЙОННЫХ АССОЦИАЦИЙ ПЕРМСКОЙ ОБЛАСТИ

№ п/п	РАЙОН (ГОРОД)	Ф.И.О	КОД	№ телефона	Примеч.
1.	Бардымский	Чугалаев Равхат Гусманович	292	2-06-44	
2.	Б.Сосновский	Бурмин Юрий Тимофеевич	257	2-03-36	
3.	Березовский	Мясников	251	2-78-53	
4.	Верещагинский	Бурдин	254	2-13-31	
5.	Добрянский	Чаш		5-75	
6.	Еловский	Телегин	296	2-19-34	
7.	Ильинский	Можаев Черняховский Василий Григорьевич	273	9-12-74 9-18-84 9-11-74	{ д }
8.	Кудринский	Закирянов	262	2-13-73	
9.	Кунгурский	Ковляев	271	3-41-41	
10.	Куртамышский	Скалович	297	2-12-31	
11.	Краснокамский	Зорин	273	3-29-91	
12.	Лысьвенский	Зелотов	249	2-50-48	
13.	Нытвенский	Вожак Дмитрий Иванович	272	3-18-32	
14.	Очерский	Белобородов	278	2-27-30	
15.	Осинский	Голдобин Михаил Егорович	291	2-09-30	
16.	Октябрьский	Житников	266	9-29-37	
17.	Ординский	Ишков Станислав Петрович	258	2-41-50 2-15-34	{ д } { р }
18.	Пермский	Порошин Юрий Иванович		99-24-47	
19.	Сивинский	Батин Валерий Андронович Петухов Анатолий Александрович	277	2-15-53 2-13-98	{ д } { р }

**«ЗВЕЗДА» ● 4****20 августа 1993 года**

Торговое предприятие закупит от частных лиц и фермерских хозяйств:  
**КАРТОФЕЛЬ, МОРКОВЬ, СВЕКЛУ, КАПУСТУ.**  
Минимальная партия картофеля не менее 1 т, овощей — не менее 100 кг.  
По всем вопросам звонить с 8-00 до 17-00 по телефонам: 38-18-44, 38-55-54.

## Employee Participation Initiative

**Concept:** Employee Suggestion Program is centred around suggestion forms that will be filled out by employees. The suggestion forms and the suggestion box will be located in the canteen. The initial period will last until Tuesday when the suggestions will be evaluated and prizes or money will be awarded to the top three suggestions. The program should continue on a monthly basis with the top suggestion of the month receiving some type of recognition and a prize.

**Procedure:** Initial Period

1. Hold employee information session and kick-off meeting.
2. Employees are to make suggestions for a period of five days after which the box will be collected by Mr. Kasimov or a designee.
3. The suggestion box will be opened and all suggestions will be evaluated.
4. The evaluation criteria are:
  - Implementability
  - Financial Impact
  - Cost of Implementation
5. The top three suggestions will be chosen and prizes will be awarded based on the impact of the solution.
6. The top suggestions should be implemented immediately (as quickly as possible) to illustrate to the workers that management is serious about the program and values their suggestions.

Continuing Period

1. Employees are to make suggestions for a period of one month after which the box will be collected by Mr. Kasimov or a designee.
2. The suggestion box will be opened and all suggestions will be evaluated.
3. The evaluation criteria are:
  - Implementability
  - Financial Impact
  - Cost of Implementation
4. The top three suggestions will be chosen and prizes will be awarded based on the impact of the solution.
5. The top suggestions should be implemented immediately (as quickly as possible) to illustrate to the workers that management is serious about the program and values their suggestions.

**Evaluation Committee** The evaluation committee will be composed of Mr. Kasimov, Mr. Zsirimov, warehouse managers, the sales manager, the purchasing manager, and a representative from accounting.

**Motivation** The motivation of the work force to fill out the employee suggestion forms will be a financial reward based on the impact of the solution. Also it is proposed that the employee with the top suggestion for each month will be designated as "Employee of the Month".

**Feedback Mechanism** A meeting should be held at lunch time once a month to announce the winner of the employee participation program. This meeting will also be useful to provide any feedback to the employees regarding quality or any other issues that are important.