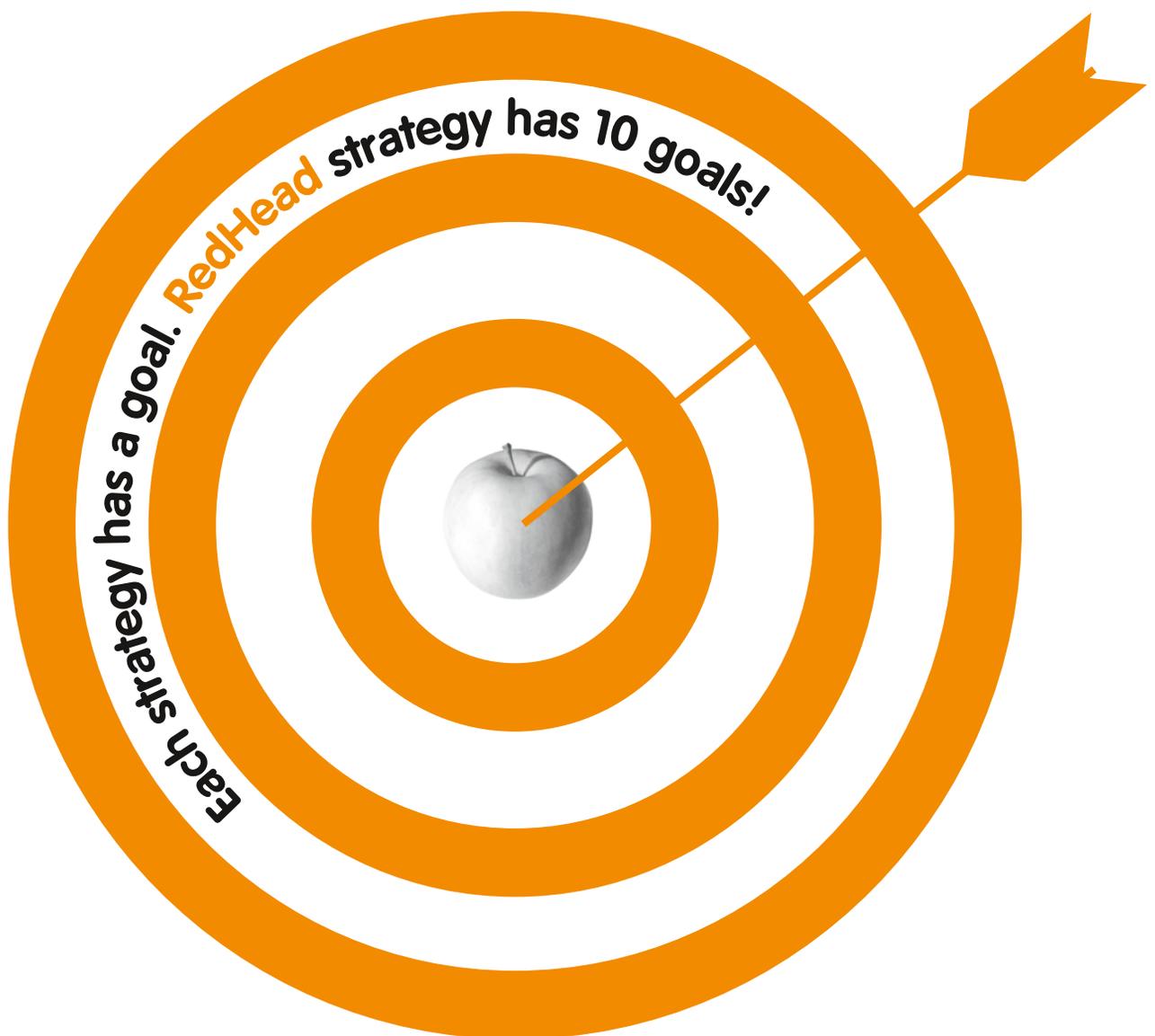


RedHead

THE CORPORATE MAGAZINE OF THE REDHEAD FAMILY CORPORATION

No. 3 / 2012



Issue devoted to the strategy for 2012

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The P factor



YOU ARE HOLDING IN YOUR HANDS THE THIRD ISSUE OF THE REDHEAD FAMILY CORPORATION CORPORATE MAGAZINE. THERE WAS A LONG BREAK BETWEEN ISSUES NUMBER TWO AND THREE BECAUSE MANY FUNDAMENTAL AND DRAMATIC EVENTS HAVE TAKEN PLACE SINCE THE RELEASE OF THE SECOND MAGAZINE — BOTH IN THE LIFE OF THE COMPANY AND WITHIN THE TEAM ITSELF. THE DEPARTURE OF NINA AND IRA LAST YEAR GREATLY ALTERED THE COMPANY’S STRUCTURE AND OUR INTERACTION. FOR THIS REASON, THE STRATEGIC SESSION WAS VERY WELL-TIMED FOR US — WE REVISED OUR GOALS AND TIED THEM TO THE REALITY IN WHICH WE LIVE TODAY.

In this issue, you may read in detail about how the organization is feeling today, the strategies we have outlined, what we are planning to implement, and how we will progress further.

Here you can read not only about RedHead’s strategies, but also about the top ten employees who were awarded for their work over this past year. Women hold nine of the top ten spots, and it is imperative to note that women have taken on an increasingly significant role at the company. Despite the fact that men make up the lion’s share of the team’s top managers, women are advancing very rapidly and the quality of their work is constantly on the rise.

These days my attention is focused on retail: the retail format, management and the quality of service. I believe that it is our retail sector, particularly Antoshka, that has the most potential for growth and the greatest opportunities that have yet to be realized.

We have adopted a rather ambitious budget and it is extremely important for us to implement it in order to understand that we have maintained our diligence despite all the changes, and have preserved the “P,” or performance results. And, despite the fact that we are training for “E,” or entrepreneurship and vision, there will be no rapid development without a good, effective “P.”

Our main strategy for this year is that we will continue to invest our core profit in repaying loans. We will continue to reduce our loan debt and credit burden. We have recovered, and now we are beginning to grow like we grew during all those pre-crisis years. Of course, much will depend on speed and precision as well as how management functions, but right now it is crucial for us to demonstrate that we are capable of generating the same kind of results we produced before so that we can move forward with greater confidence. ■

A nine year tradition

Historical circumstances of the corporation's three strategies

FOR THE ANCIENT GREEK COMMANDER, THE CONCEPT OF 'STRATEGY' HELPED TO DEFINE THE COURSE FOR WAGING WAR, NAMELY THE STYLE OF BATTLE AND THE PRINCIPLE FOR ARRANGING HIS FORCES.

NOWADAYS, THE TERM 'STRATEGY' IS MOST OFTEN USED WHEN IT COMES TO A LONG-TERM PLAN OF ACTION.

IN BUSINESS, THIS MEANS IDENTIFYING A COMPANY'S GOALS AND THE MEANS FOR ACHIEVING THEM. THIS 'PLAN OF THE FUTURE' IS UNIQUE AND CREATED SPECIFICALLY FOR EACH INDIVIDUAL COMPANY BASED ON ITS FEATURES AND THE ENVIRONMENT IN WHICH IT EXISTS.



The first selection of Europroduct (RedHead) baby food, 1994

The strategy not only determines the direction for future development but also stipulates what the company will not do, thus the strategy means refusing to engage in certain activities. It ensures the internal harmony of the company's policy, which aims to gain well-defined positions in specific sectors of the market.

While developing a strategy, the company's management obtains an idea of how to achieve a sustainable competitive advantage. As a rule, this takes place following a strategic analysis (an analysis of the market conditions, the competitive environment, internal resources, the company's strengths and weaknesses as well as its culture and history).

In the eighteen-year history of RedHead, three strategic choices have been made involving its course of development — in 1994, 2003 and 2012.

Every nine years, a road map appears on which all the previous experience is put to new use and a new path is forged. This cycle is a natural feature of the company — after all, it would be impossible for us to make plans to change the business every nine years. In the case of RedHead, this occurred naturally.



Vladislav Burda with his son Dmitry, 1994

The history of RedHead started with the baby food sales business. This segment was selected under the influence of Vladislav Burda's family circumstances (the need for additional high-quality baby food) and the market situation: a lack of quality of was a significant problem in the 1990s.

Over three years, the company's range of activities expanded to six categories of children's products, including hygiene, toys, furniture, strollers, clothes and shoes. In addition to distribution, the company successfully launched its own retail chain. These two areas secured the company's future growth.

1994



Vladislav Burda with his son Timofey,
2001



Nina Galina and Gregory Rayter,
2003

2003



Naslednik (Successor) boutique in Odessa, 2003

By 2003, RedHead had progressed far enough to develop a new business in the premium segment for children's products — clothing and shoes. This transition was largely the result of Vladislav Burda and Nina Galina having a second child. Several Naslednik (Successor) boutiques were opened over the course of the year.

Due to the company's rapid growth in the early 2000s, it became clear that a new management system was needed. In fall 2003, the RedHead owners invited Gregory Rayter, the head of Rayter Inc. consultancy, to come develop this system.

This marked the start of the first strategic session after which the company took on the traits of a formal organization and spelled out its goals in detail.



The opening of the Mega Antoshka
store in Odessa, February 2005

Some of the innovations Gregory Rayter introduced at RedHead include job descriptions, staff assessments and certification, payroll accounting regulations, the first SWOT analysis and much more.

Despite this, however, the company was unable to implement all the objectives of its strategic plan (out of six objectives, only one was implemented — the opening of the Mega Antoshka children's shopping and entertainment center).

Seeking an answer to the question of why Rayter's plan had failed, Vladislav Burda was introduced to the methodology of Dr. Ichak Adizes. Like Rayter's approach, the methodology advocated by Adizes was based on the concept of an organization's life cycles (similar to human life, from "Courtship" to "Go-Go" to "Prime," in which an organization, unlike a human, can remain for a long time).



Top company management holds strategic session with Ichak Adizes, 2007



Nebojsa Caric and Zvezdan Horvat (Adizes Business Consulting, Serbia) at Europroduct, 2004

In 2004, based on an agreement with the Adizes Institute, the company held its first diagnostic session using the new methodology. In 2005, work began to change the company's structure. Nebojsa Caric and Zvezdan Horvat from Adizes's European office were the first specialists who introduced the RedHead staff to Adizes.

The key principles of the Adizes methodology adopted by RedHead are integration and investment in management.

The company needed a common culture and language describing the business processes throughout all structural levels.



«Pursuit to Prime» – Europroduct's award for successfully introducing the Adizes methodology, 2007

The successful implementation of the Adizes methodology resulted in RedHead (still Europroduct at the time) receiving the Company of the Year award in 2007.

In subsequent years, the experience of managing business processes in accordance with the Adizes methodology was utilized by the company's leading departments, including affiliates.

RedHead trained its own Adizes methodology integrators, which has contributed to the more rigorous and regular implementation of the necessary measures in the regions.

Despite this, in late 2011 it was discovered that all the departments and affiliates were conducting their syndags (synergetic organizational diagnosis sessions) in different ways. Different divisions were setting objectives of varying complexity and depth and also had different interpretations of the same concepts (such as leadership, integration and growth).

These symptoms were compounded by several other changes.

In 2011, the Europroduct brand was replaced by the new corporate brand — RedHead. The process of the company's self-determination and search for an identity led it to understand its mission, further develop the idea of fun and entertainment, and create new businesses for the child audience.

But the company has also suffered tragic moments, the most difficult of which was the loss of RedHead vice president and Vladislav Burda's wife, Nina Galina.

These factors have demonstrated the critical need for creating a new strategy. To this end, a group of RedHead leaders met with the experienced moderator Mikhail Veisberg for a global strategic session in January 2012. ■



Strategic session at RedHead, January 2012



NEW15 project – the launch of Europroduct's rebranding, 2011

2012

Declaration of RedHead Family Corporation's strategic goals in 2012

REDHEAD IDENTIFIED TEN PRIORITY AREAS FOR DEVELOPMENT AT THE STRATEGIC SESSION IN EARLY 2012.

OVER THE COMPANY'S HISTORY, SUCH INITIATIVES HAVE COVERED PERIODS OF UP TO NINE YEARS IN ORDER TO THEN MAKE WAY FOR THE NEXT ROUND OF INNOVATIONS AND ENTER THE NEXT PHASE OF DEVELOPMENT.

MANY OF THE ITEMS CONTAINED IN THIS DECLARATION MAY BE IMPLEMENTED THIS YEAR.

1

THE DIVISION OF THE EXISTING RETAIL FORMAT INTO THREE INDEPENDENT SALES CHANNELS:

- A. Everything required for baby care until the age of three;
- B. Sales of toys and furniture with a fun style;
- C. Sales of clothes and shoes for young dandies and fashionistas.

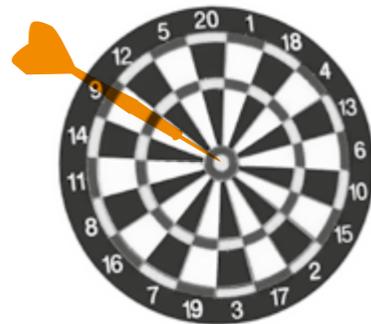


We understand that our clients form three main categories: they want to feed their newborn and provide everything it needs. They want to become immersed in a world of entertainment, gadgets and games. They want to dress their child in fashionable, modern and reasonably priced clothing. Therefore, we divide our retail format into three components in order to meet their needs as efficiently as possible: everything a child needs up to age three; sales of toys and furniture in a fun style; and the sale of clothes and shoes for young dandies and fashionistas.

2

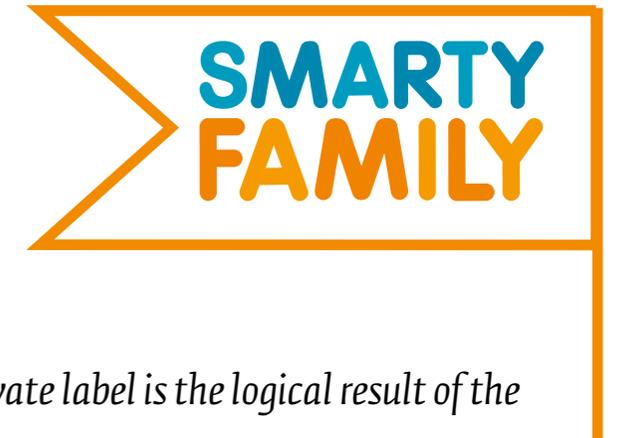
AN INTEGRATED AND SEAMLESS SYSTEM OF GOAL-SETTING, KPI AND MOTIVATION.

The group differs from the team in the sense that the people in the group are united to help the leader achieve his/her goals, while the team is comprised of like-minded thinkers who share a common goal. We are confident that we will become stronger and more successful together by moving towards our common goal as well as helping and supporting one another. An integrated system of goal-setting, KPI and motivation will provide the opportunity to merge our efforts into a single chain, clearly define our coordinates on the path to the goal, and see obstacles and areas for improvement. Together we will turn our company into a "dream company."



3

A NEW PRIVATE LABEL – SMARTY FAMILY. CREATING AND PROMOTING THE BRAND AND PRODUCTS IN THE NICHE BABY FOOD SEGMENT.



The establishment and development of a private label is the logical result of the experience gained over several years of distribution operations as well as the company's expertise on the market for children's products. By consistently expanding the range of house brand products and increasing sales, we will be able to better meet the expectations of our customers, boost the efficiency and independence of the business units, and create an additional competitive advantage for distribution and the corporation as a whole.

4

A NEW RETAIL FORMAT – “NUTRITION & PHARMACY” (MEDICINE AND DIETARY SUPPLEMENTS FOR CHILDREN AND MOTHERS, EDUCATIONAL TOYS FOR CHILDREN AGED THREE AND UNDER, HYGIENIC PRODUCTS, ACCESSORIES, ORGANIC PRODUCTS AND BABY FOOD).



We want to provide our customers with the most convenient shopping format possible for everything that a child needs in its first years of life. Consultations with a trained specialist (pharmacy technicians and pharmacists), a wide range of essential products, convenient location and individual service – this will all ensure the successful implementation of the planned project.

5

EXPANSION IN THE ASSORTMENT OF PRODUCTS AT BOUTIQUES (FROM FASHION CENTERS THAT ARE NEW TO US SUCH AS ENGLAND, BELGIUM, FRANCE AND THE UNITED STATES).



We follow global trends in high fashion and realize that the emphasis is gradually shifting away from Italy to France and Belgium. In addition, there are distinctive centers of high fashion in London and New York. We want our clients to always be on top of global fashion trends and invite them to independently choose their own style from any high fashion center.

6

MANAGING THE DEVELOPMENT OF THREE PRODUCT GROUPS (“BABY FOOD AND HYGIENE” + “PHARMACEUTICALS” (BABY CARE); “TOYS, FURNITURE AND ENTERTAINMENT” (FUN); AND “CLOTHES AND SHOES” (FASHION) AND THE DESIGNATION OF A LEADER FOR EACH GROUP.

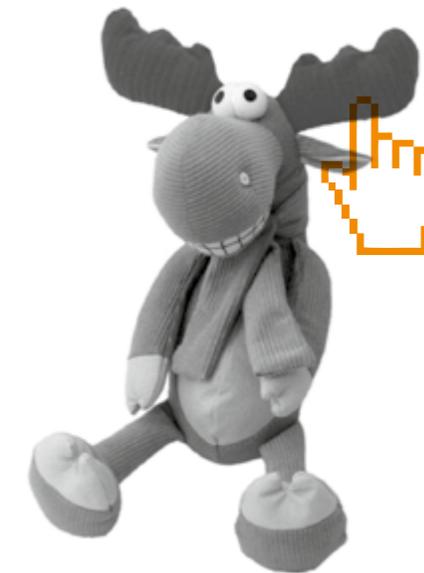


Our portfolio contains three main groups of products. Each of them requires special attention, leadership and individual care taking into account the specifics of the product range in each group. We understand that it is only possible to achieve the best results with the brightest and most progressive leaders.

7

THE DEVELOPMENT OF E-COMMERCE (AN ONLINE STORE).

We understand that today retail is already migrating to the Internet and are confident that by tomorrow this will be the standard. Children are more likely to shop online and rope in their parents there. Therefore, we are accelerating the establishment and launch of a children's online store and will design it with a festive children's atmosphere and a fun style. Our marketing activities will quickly boost the popularity of the online store and enhance the scope of our e-commerce services. We want to become a children's version of the Rozetka online store for electronic goods and have at least 25% of our products sold online within three years.



8

EXPANSION IN THE DISTRIBUTION COVERAGE — ENTERING NEW MARKETS (RUSSIA, POLAND, KAZAKHSTAN).



We know how to create value for our clients. We understand that the capacity of our country's market is limited. We are expanding our area of development and entering new markets – Russia, Poland or Kazakhstan, while offering a high quality of services to our clients. Thus, we have set the goal of broadening our distribution overage and attracting new clients to the RedHead family.

9

COMPLETION OF THE WMS PROJECT (WAREHOUSE MANAGEMENT AND PRODUCT IDENTIFICATION BY BARCODE).

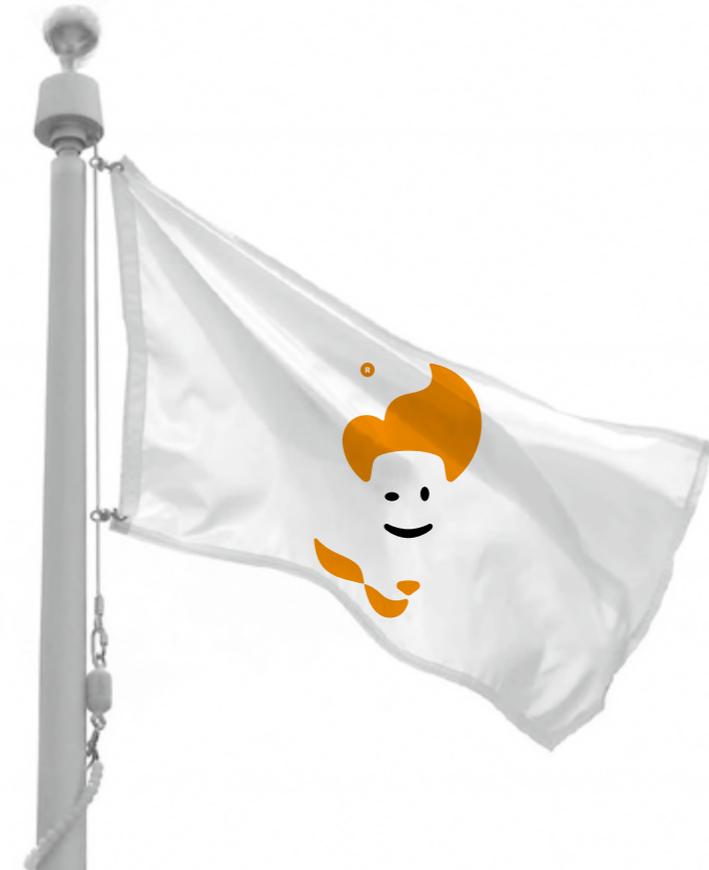
One of the main challenges in warehouse logistics management is organizing the clear and real-time accounting of the movement of products. Achieving this goal will enable us to boost the efficiency and rationality of our own logistics infrastructure and transition to a new qualitative level of customer service. We are committed to introducing the WMS project for all the corporation's product categories and warehouses in 2012.



10

**THE RESPONSIBILITY OF THE THREE
ASSORTMENT GROUP LEADERS
TO CONSTANTLY DEVELOP INNOVATIONS
IN EACH PRODUCT CATEGORY.**

Today the winners on the market are the ones who work in a faster and more coordinated manner than others. We understand that superiority in terms of developing innovations is a strategic advantage for all the divisions of our business. This is precisely why continuous tracking, the prompt delivery of innovations and their separation upon sale are priorities for us at all levels of interaction among the RedHead team.



Strategic Session 2012

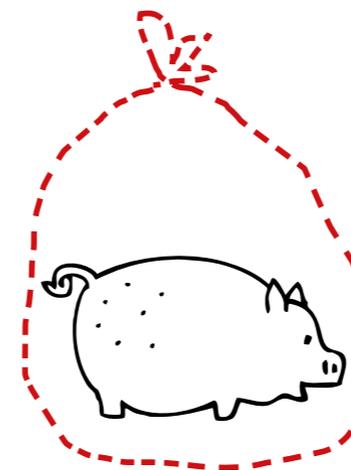


WHEN ORGANIZING A STRATEGIC PLANNING SESSION, THE BUSINESS LEADER MORE OFTEN THAN NOT HAS A CLEAR IDEA OF WHERE HE/SHE IS LEADING THE COMPANY. THESE PLANS ARE USUALLY CALCULATED FOR A YEAR OR TWO. THE MODERATOR INVITED TO CONDUCT THE STRATEGIC SESSION MUST DO THIS IN A WAY SO THAT THE TOP MANAGERS UNDERSTAND AND ADOPT THE BUSINESS LEADER'S STRATEGY.

The goal of holding a strategic session at RedHead voiced by the company's president did not go unfulfilled. Vladislav Burda decided to join his team in the search for development ideas. The only crucial criteria for the session was that the top managers jointly find a path for the company's further development and agree amongst each other on the distribution of roles along this path.

In order to achieve this goal, the RedHead president selected a method for discussing strategic solutions that was new to everyone and, as the moderator of this discussion, he invited a specialist whose views also proved to be new for the company and whose techniques were different from the conventional ones.

Over the course of the last year, Vladislav Burda and Mikhail Veisberg, who know each other from their FBN Ukraine activities, discussed the possibility of holding a strategic session at RedHead.



The strategic session is almost always a "pig in a poke," Michael believes. Not a single moderator can guarantee for an owner that working with this company's team will produce the kind of results anticipated by the leader who ordered the strategic planning session, even if many of the details are provided in advance. The company leader and the consultant conducting the session must gain a very high level of trust. Trusting a consultant means acknowledging the possibility of total access to the company's key people and permission to do everything with them that the consultant believes is necessary to achieve the goals of the strategic session.



Vladislav agreed to use the techniques of Michael's strategic discussion, but alas this was not enough for success. The RedHead president suggested that Michael convince the top managers, future session participants and founders of the future strategy of its necessity as well as the instruments that were to be used.

Mikhail Veisberg's meeting with RedHead top officials took place in November 2011 and was followed by two months of intense training using surveys, which helped everyone find a common language and tune into a common frequency.

Mikhail Veisberg:

"Organizing the strategic session with the RedHead team presented me with both a challenge and an opportunity: to see how the strategic approach could blend in with the Adizes methodology introduced at the company."

"In my view, this union was quite successful largely thanks to the existing culture at RedHead and the fact that the people at the company view the need to study and refresh themselves as a part of their job. This has already been instilled by Vladislav. The top managers at RedHead are highly trained individuals who are open to learning and interaction with consultants. They easily express their thoughts and ideas and answer questions."

"So I can say that the people were prepared for the quest they embarked on during the session."

Mikhail Veisberg was initially educated as a journalist and founded the first business weekly in Ukraine — Galitskiye Kontrakty. Today Mikhail is a business trainer and a coach with several years of experience and more than one hundred strategic sessions under his belt. He is the co-owner and a partner at the business consulting companies Zhyvoe Delo (Kiev) and Business Media Consult (Moscow).

His methods differ from Adizes's techniques and principles. *"I ask more than I instruct. I'm more in a coaching position that helps people to articulate and walk through important things."*

Mikhail believes Adizes's methodology focuses less on strategy and more on small things, procedures and points that interfere in our daily activities and how to overcome them. But "mutual trust and respect" are not a complete recipe for achieving success. **Sometimes it is necessary to look far ahead, anticipate events and, finally, dream.** This is where strategic planning is beneficial.



Alexander Vlasov, Commercial Director of the Distribution Department

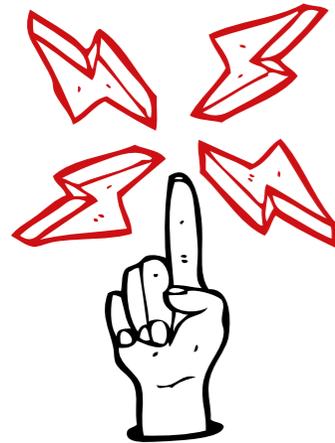
"This event has been suggested for a long time. The atmosphere and changes which Vladislav began actively introducing in the latter half of last year had to end with such strategic planning aimed at developing the company in the near future. The time has come to remember the principle: 'If you don't have time for planning, then it's time for planning.'"





Ivan Lobov,
IT Director

“The strategic session was a very interesting and significant event. It was highly unusual to meet with virtually the entire classical group of our top managers but in a new format. After the session started, I constantly caught myself thinking that something was wrong until I suddenly realized that for the first time in several years we were working in a format that was different from the methods of the Adizes Institute (for me the main clash was the presence of Sveta, who played the unusual role of an ordinary participant and not a process integrator).”



“There was nothing exotic about the format proposed by Mikhail, but his manner of managing the process and his ability to guide the work in the right direction were beyond praise. He did not dominate and he did not impose his view on anyone, but in the end almost everything turned out like he wanted ☺. In addition, he constantly had to remind us that there are numerous other methods and interpretations that may be employed besides the approach and terms of Adizes, which we have managed to do successfully.”



Svetlana Potap,
Adizes Methodology
Integrator

“RedHead can be categorized with the companies that constantly want to accelerate the pace of their growth. Growth always leads to changes, changes lead to problems, and problems lead to disintegration. The company approaches these natural processes from a practical standpoint, introducing the best management techniques and methods.

“During the session at the beginning of the year, we managed to go beyond the short-term goals and develop a strategy for the next period. In this way, we managed to resolve several important ‘models’ from the resyndag of 2010 and 2011 concerning the organization’s mission, its vision and the planning process. The specific tactical actions that we need to take before the end of the year became the goals contained in the black books of the leaders.

“Mikhail’s approach turned out to be very similar to the values that the company had adopted for itself, specifically: uninterrupted integration, which is the basis for organizational transformation.

“The style of the session can be described as ‘I’ and Mikhail took on the role of the Integrator, so we have the perfect fusion of two methods!”

Due to the “age difference” and specifics of the three businesses, RedHead considered the possibility of conducting individual strategic sessions for them. In the end, however, a unified session involving the heads of all departments produced a synergetic effect. While simultaneously discussing the use of the new strategy in different areas of RedHead’s activities, the meeting participants discovered important areas where their interests overlap, something that probably would not have been detected at individual sessions.

The search for general interaction among departments was the main focus of the strategic session. With regards to new decisions, it was also equally important to determine at which point the corporation's interests start to outweigh those *of individuals departments*



By referring time and again to the theme of strengthening the corporation as a whole and not only to its individual components, the top managers simultaneously resolved conflicts and also established the regulations needed to prevent conflicts in the future.

Over the course of the strategic session, the participants realized like never before that a timely resolution to conflicts — and even better their prevention — has a favorable effect on the entire corporation via all the departments and structural levels.



Ivanna Andrianova,
Acting Director
of the Human Resources
Department

“We have diagnosed the organizational culture in the departments. The diagnosis included four criteria:

- 1) family and the clan;
- 2) innovation;
- 3) bureaucracy, regulations, procedures;
- 4) goals, objectives, results.

“Based on the testing results, it was apparent that most units are dominated by a trusting family atmosphere along with an emphasis on innovations as well as the use of new technologies and tools. This showed that we honor our traditions and values, but are also willing to change at the same time.”

While discussing the family-like nature of relations at the company, the top managers concluded that in the future they would like to see the company not only as a family business but as an innovative organization. With this in mind, the decision was made to support and encourage innovativeness at all levels of the corporation. Company officials expect this will have an effect on the more rapid emergence of innovations in the RedHead business units.

Mikhail Veisberg:

“This session seemed to develop under its own scenario, which nobody had predetermined initially. The first of the three days was held in the style of an ordinary meeting, when the managers report on the state of affairs in their areas — we got through this kind of ‘status meeting.’ The second day brought us much more pressing issues that needed to be resolved. The cornerstone of the second day, and perhaps the entire session, was a statement on how the current Antoshka format has been exhausted. Everyone conceded that ‘we are not happy with retail in its current form,’ but nobody had a ready answer about what to do with it next.”

The company president’s main expectation from the changes at Antoshka was to find a way out of the crisis in the clothing business. After all, clothes are largely what form the store’s image. The search for a solution in this area became a key issue.



Mark Kestelboym, Director of Motto Agency

“Before changing anything at Antoshka, we must pay attention to the origins of the existing format. Given the shortages of fifteen years ago, a children’s supermarket was a truly unique phenomenon and a very successful project thanks to the formula of ‘six product categories for children of all ages.’

“But today the situation has changed dramatically — the market offers an abundance of products in various formats, and we are seeing a glut in the children’s consumer segment. The ‘one-stop shopping’ format is falling further behind specialized stores.



“The people who visit Antoshka today can conditionally be divided into three motivational groups. One group is interested in baby food, hygiene, cosmetics and everything associated with keeping the child safe during its early years. Another group consists of people who are seeking entertainment and fun and looking for bright modern toys and accessories at Antoshka. The third group buys clothes and shoes.

“In addition, there is now a price differential between these three groups, which did not exist during the first years of Antoshka’s operations when baby food, hygiene, clothes, toys and strollers were also sold in a single price segment. A single family could obtain everything it needed all at once at Antoshka.

“Now the price offers have changed considerably. The range of toys at Antoshka stores is dictated by the market. This is a must have for any children’s store. The characters and games come from the global presence — children in Ukraine play with the same things as children in America or Europe. And the cost of popular toys in Ukrainian stores is comparable to the cost in Europe.



Switching from the sale of children's clothes to 'children's fashion' means transitioning to a different model of thinking in the dialogue with consumers

“In addition, Antoshka offers its range of clothing in the ‘average’ and ‘average-minus’ segment. Customers in this category cannot afford to buy toys here and go elsewhere. And those who buy toys expect to purchase the same popular and trendy clothes, but do not find them here.

“The once integrated Antoshka format, which unites several categories, is falling apart today. People are encountering different price groups (the price electorate) in a single retail space, and this is the reason for the changes in the retail format.

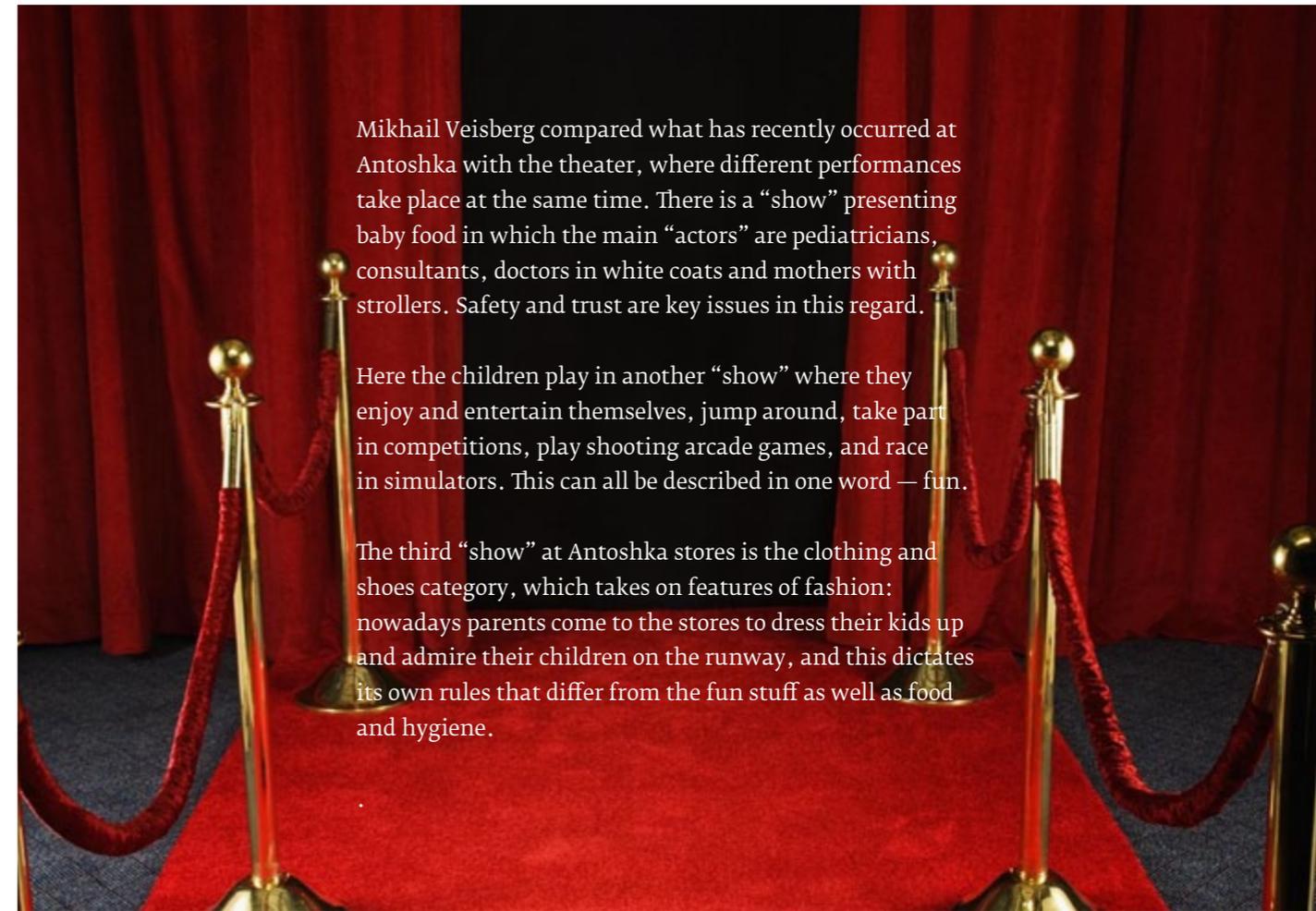
“We no longer sell children’s clothes in our retail stores – we offer children’s ‘fashion’: this was the general solution reached at the strategic session.

“Switching from the sale of children’s clothes to ‘children’s fashion’ means transitioning to a different model of thinking in the dialogue with consumers. That does not mean increasing the cost of this category — this is above all a change in how it is displayed in the retail space, which invariably leads to a change in the store’s overall image.

“Children’s fashion goes beyond shopping for necessary items. The transition from ‘simply clothes’ to the ‘fashion’ category involves altering one’s attitude and demands. For ‘fashion’ this demand consists of diversity — models, occasions and trends. Children want to look differently following the example of their parents, and parents are ready for such an offering at children’s stores.

“Here the systemization of the product range is extremely important, as is preparing targeted offers and collections as well as changing the layout and emphasis. Not only children’s fashion should have its own sales philosophy, but all product lines — food, hygiene and toys. This is above all convenient for the customer, who finds it easier to navigate the process of selecting a product.

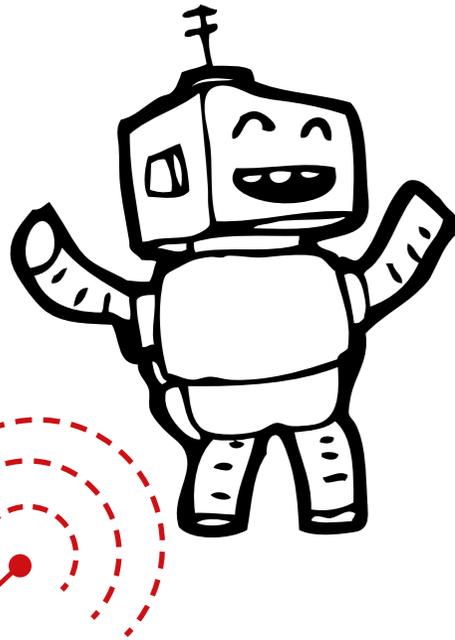
“The understanding of the need for change at Antoshka led to the decision to divide retail into three different formats. Each of them – with their own audiences and rules of the game — needs their own special image. The fact that three different groups of customers exist at Antoshka requires the emergence of different shopping conditions as well as a different approach to communication with the customer and the display of the product range in the store.”



Mikhail Veisberg compared what has recently occurred at Antoshka with the theater, where different performances take place at the same time. There is a “show” presenting baby food in which the main “actors” are pediatricians, consultants, doctors in white coats and mothers with strollers. Safety and trust are key issues in this regard.

Here the children play in another “show” where they enjoy and entertain themselves, jump around, take part in competitions, play shooting arcade games, and race in simulators. This can all be described in one word — fun.

The third “show” at Antoshka stores is the clothing and shoes category, which takes on features of fashion: nowadays parents come to the stores to dress their kids up and admire their children on the runway, and this dictates its own rules that differ from the fun stuff as well as food and hygiene.



Customers expect leadership in innovations from a market leader. Antoshka must remain ahead of its competitors and be the first to present any children's innovations. We may be talking about a temporary monopoly, for example, on such technological and fun groups of products like gadgets and accessories.

Electronic toys and digital devices are a trend that is becoming increasingly popular among children, and the age threshold when children become interested in them is declining. Little attention continues to be paid to this trend at Antoshka — this was also acknowledged during the discussion.

Splitting Antoshka customers into three different groups led the session participants to conclude that it is necessary to change the format of the children's supermarket as well, divide it into targeted zones and potentially establish new retail formats.

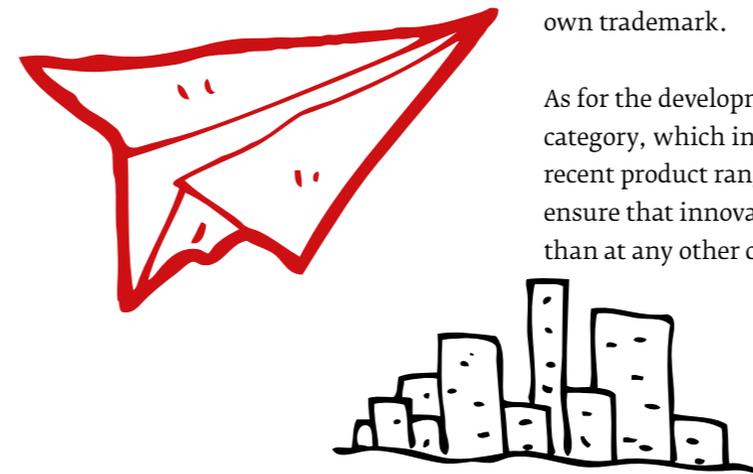
Redefining the essence of Antoshka in the modern context will lead to the transformation of the brand itself.

In the very first days after the strategic session, work began on the specific goals adopted jointly by the group leaders and recorded in the declaration for 2012. POCs were appointed for the product ranges as a means of control. They determine and make key decisions on each product category.

As part of the product range POC on the strategic development of the Fashion category, a RedHead delegation took a trip to Southeast Asia. The delegation included members of each income-generating ('green') division. **The main purpose of the expedition was to find a factory that produces high-quality clothes and shoes.**

They visited roughly twenty enterprises and were at factories where orders are placed by such famous global clothing brands as Nike, Reebok, Columbia, Dockers, Levi's, Lee and Tommy Hilfiger as well as representatives of the international retailers Wal-mart, Target and Carter's. Initial agreements with some of these factories will enable to make purchases under conditions that are more interesting. In the future, RedHead will be able to place orders for the production of clothing collections and perhaps shoes under our own trademark.

As for the development of the product range in the Fun category, which includes toys, furniture and services, at the recent product range POCs the team made it a priority to ensure that innovations appear more quickly at Antoshka than at any other chain.



Antoshka is partially transitioning to the direct import of toys from the manufacturers in order to increase its profit margin. Over the course of this year Antoshka's managers want to increase the share of imports in their orders from 10% to 30%. They will also actively expand the entertainment category, include new services, and allocate more space for this project.

Another strategic initiative currently taking place in retail is the joint development with the company Motto of an updated Antoshka brand. Working groups have held several meetings at which they identified the main areas of this work, which include visual changes to the actual logo and POS materials, the reorganization of the store interior, merchandising in product categories and much more. It's possible that the opening of new stores in the near future will already be presented in the new integrated brand.

The division of the three areas in retail was the crowing decision made at the strategic session. This was followed by the need to select leaders for these three areas — Baby Care, Fun and Fashion.



Sergei Filyanin,
Director of National
Distribution

What is crucial for a child and its par- ents when they are selecting a certain product?

“The assignment of responsible people, or leaders, for the three product groups is a breakthrough. Such a switch from a strict hierarchal, vertical structure to a system of matrix interaction opens great opportunities for us to gain leading positions on the market.

“The three leaders who will be in charge of developing the Baby Care, Fun and Fashion groups will try to make it so that the corporation feels more confident in each of these categories regardless of the business unit in which sales are taking place.

“This division is associated with the three features that consumers are seeking in our stores. We found this by thinking: ‘What is crucial for a child and its parents when they are selecting a certain product?’

“The first feature is the ability to obtain products for baby care as comfortably as possible and in a safe environment. This includes food, hygiene and child care products. Creating such an environment is a must so that the customer can come to the store and shop comfortably and very confidently. There should be a recommendation and a person nearby who can offer advice and help make a selection. Everything should be very clean and clear. The choice should be as deliberate as possible. The customer should feel confident that this product has been stored properly, that it meets expiration and quality standards, and that it will not harm the child under any circumstances. This is crucial when selecting a product.

“The second category in which our audience is interested involves everything that has to do with fun, games as well as entertainment and educational toys. When a customer comes to buy a toy, he/she should be in a cheerful mood. Accordingly, if we were to apply the standards that we want to employ in the Baby Care zone to this segment, this would be incorrect since the person isn't looking for safety and

Our goal in changing our retail formats is to adapt to the customer as much as possible

confidence, the person seeks entertainment, diversity and opportunities to play with every toy and take part in games. Sales in this group should be distinguished by their color and design, the arrangement of equipment, the layout and the personnel who should accompany this purchase.

“The third feature is fashion: we have concluded that the customer is not only searching for the clothing a child needs, the customer is seeking fashionable clothing. Parents not only want their child to be protected against bad weather but to look good as well and to also stand apart from others. Accordingly, we need to make it clear to customers in this group that in our store they may see the new trends and developments in children’s fashion. In designing this segment, it is crucial to emphasize in great detail whether the product is fashionable in England, France, Milan or other cities, and also important to demonstrate our expertise on such issues.

“Our goal in changing our retail formats is to adapt to the customer as much as possible. If we present these groups properly so that they conform with the vision of our customers on how to shop more comfortably in any of these three categories, the clients will choose our sales outlets to do their shopping next time.

“Since these three formats we are speaking about are different, we selected three different leaders, each of whom must develop this format through all the corporation’s business units. In retail, distribution, boutiques, everywhere. If this happens, it will be another one of our long-term competitive advantages. No other company in Ukraine employs such an approach.”



Vyacheslav Bich,
Director of the Boutique
Chain Department

“The fact that the three groups were divided under the product principle at the strategic session and three leaders emerged is very logical, natural and correct. This will provide the companies with an understanding of unity. We discussed this subject for quite a long time, but were unable to find the proper solutions.

“In terms of fashion, clothes and shoes: what did we have prior to this? There were clothes and shoes in retail, there were clothes and shoes at the luxury boutiques, and there was some development in this area in distribution as well. Everything was uncoordinated, completely unconnected and there was no information exchange at all.

“Now that we have begun thinking things through and taking the first steps to launch our own production of clothes and shoes on the mass market and to create our own brands, our unity here provides enormous opportunities thanks to the emerging matrix structure. At the boutiques, we keep our finger on the pulse of all fashion trends. After all, the trends first appear in the luxury segment and are then copied in other segments within a season or two. Retail has vast experience and an understanding of the demands of the mass market. Distribution has knowledge and an understanding of what is presented in other networks and specialized children’s stores. By uniting all of this, we are obtaining a very good result.”

As part of the strategic discussion method suggested by Mikhail Veisberg, the top managers considered global trends in consumer behavior and assessed the possibility of utilizing them in RedHead’s business. Mark Kestelboym, the head of the Motto branding agency, presented an analysis of existing trends.

The session participants were once again able to devote attention to the issue of how our everyday realities have changed over the last ten years.

2000:

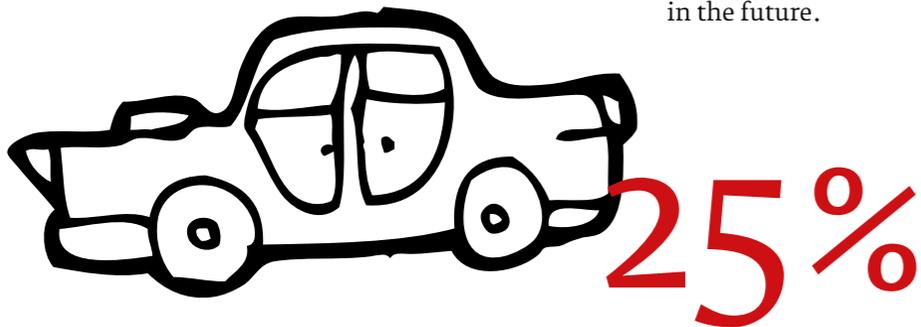


From 2000 to 2011, the number of mobile device users skyrocketed from 2% to 90%, while the number of Internet users soared from 8% to 60%. CDs, photos, correspondence, books, newspapers, music, films and even television have all switched over to the virtual world. The leading companies devote just as much attention to their positioning on the Internet as they do to the packaging of their products or their commercial services. And their customers are willing to reciprocate by promoting interesting and often fun web content for their preferred brands on social networks.

Ten years ago, only 5% of Ukrainians owned an imported car and only 2% traveled abroad. Today the proportion of car owners has grown to 43% compared to 25% in 2000. Most people associate the availability of a personal vehicle with a sense of freedom and comfort.

Shopping has become one of the most popular forms of entertainment. Today 37% of consumers go shopping not only for the sake of buying things but to also improve their moods. In 2002, this figure stood at 29%. The consumer audience has become more demanding with respect to the shopping process itself, product layouts and service on the sales floor. People are not only interested in a high-quality purchase but also in having it accompanied by pleasant support.

Whereas the period prior to 1990 was typified by a lack of quality, the 2000s are characterized by a lack of impressions. Poor service can serve as a reason why 77% of customers refuse to buy something and avoid that store in the future.



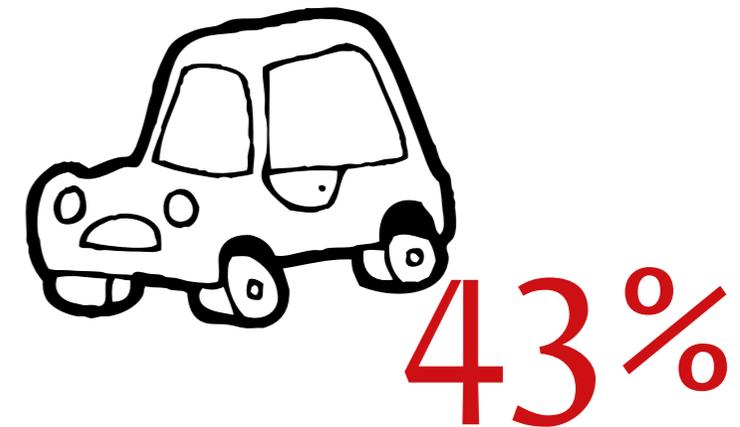
2011:



Today almost every second woman believes it is important to dress fancy every day. Over the last ten years, women have had the opportunity to update their wardrobes more frequently. Whereas 39% of women dressed more modestly than flamboyantly or originally in 2002, this figure declined to 20% in 2011. In addition, the proportion of women who only buy clothes that they need decreased from 51% in 2002 to 27% in 2011. Mothers happily share the desire to be fashionable and look nice with their children: "kid's fashion" has become more relevant and popular than ever before.

The basic features of modern society's lifestyle involve mobility, speed, a desire to live without commitments, a reduction in geographic barriers, virtual communication, the widespread infiltration of electronics, overall "childishness," a carefree attitude towards money and young people's early experience in earning money.

In a business that targets children and parents, it is essential to take these changes into account.



Mikhail Veisberg:

“Mark’s presentation was the exclamation point. After this, everyone became more actively involved in the joint work. Some of the decisions at the session were considered and adopted thanks to this presentation and the subsequent discussion.”

Mark Kestelboym,
Director of the Motto Agency

“Defining trends consists of having a broad perspective on business processes, so if you are able to sense them, many market observations and concepts will become much clearer to you. The ability to make conclusions about new trends and ones that are gaining steam provides market participants with a great competitive advantage in attracting the consumer’s attention. The goal of forecasting consumer trends is to inspire market participants to create new business concepts, new products or services, and new approaches to consumers.”

Following the division of the three retail formats and the selection of leaders for the product groups, the company’s top managers adopted several decisions on specific product categories and business processes.

One of them was Sergei Filyanin’s suggestion to set up a specialized retail network in a format that was called “child care stores for ages three and under.”



The new format will make it possible to achieve maximum efficiency in store shelf turnover in this segment. For Ukraine, this format is innovative. The company plans to begin developing it in small cities where there are no Antoshka stores.

Sergei Filyanin,
Director of National Distribution

“We are planning to open at least 150 outlets over the next four years. This will provide Ukrainian customers with the opportunity to obtain the necessary products for their children in a comfortable environment with the expertise of pharmacy technicians and pharmacists, and I hope will enable us to acquire a greater share of the market and increase sales.”

Seeking to attract new audiences and increase the profitability of boutiques, the RedHead team has concluded that the product range must be expanded, both in terms of price and manufacturers. Italy and France are not the only ones dictating fashion these days. Opting for the “new fashion centers” and the introduction of new trends at Daniel are a strategic phase of development for the boutique chain.

Vyacheslav Bich,
Director of the Boutique Chain
Department



Petit Nord
Copenhagen

“The main criteria used to search for new fashion centers consist of expanding opportunities for the audience and attempting to move away somewhat from our traditional offerings in the luxury segment, which is mainly comprised of Italian and French brands.

“London, Brussels, Berlin and New York – we are now starting to expand the geography of our product range.

“Immediately following the strategic session in late January, we visited a French exhibition and found several interesting niche brands. Among them was Norway’s Petit Nord, which consists of excellent fur products. We will already be introducing them in the next seasons – we immediately placed an order for them on the spot.

“Another brand is Frilo. This is a real ‘Swiss made’ brand that has both an office and production facilities on the territory of Switzerland. The company has a rich history and has worked on the market since 1927.

“These are only the first steps. We still have room to grow.”



Another important criterion for retaining market leadership is the development of online sales. A rather large percentage of consumers prefers the displays of an online store to ordinary retail and chooses the convenience of delivery offered by global network sellers. This is especially true for moms who stay at home with kids.

Ivan Lobov,
IT Director

“An important point for me was the discussion concerning the development of online retail. The participants came to the understanding that online commerce is a separate sales channel with its own rules and peculiarities. Or, in other words, ‘store’ is the key word in the phrase ‘online store.’”

Alexander Vlasov,
Commercial Director
of the Distribution Department

“Our strategic plan has been designed not only to remain cohesive for a long time but also to be sufficiently flexible so that it can be modified or refocused if necessary. The decisions adopted at the strategic session cannot be overestimated.

“The word ‘strategy’ originates from the Greek word ‘strategos,’ or ‘skill of a general.’ It was strategos that enabled Alexander the Great to conquer the world.”



Larisa Vikhrenko,
Financial Director

“This work enabled me to take a fresh look at the company and our place on the market for children’s products.

“As defined at the strategic session, the financial division should act as an assistant and not an aggressor in achieving the company’s strategic goals.

”To this end, it was decided to create simple reports for the operational management of business, a new accounting policy and a balanced scorecard system for the whole corporation that can be easily monitored.

“We plan to reduce the loan portfolio by \$4 million as well as set up a cash reserve.”



Vadim Orlov,
Director of Supply Chain
Management

“One of the most important things was the decision to introduce the Warehouse Management System (WMS) project, which is designed for the comprehensive solution of warehouse problems.

“WMS is more than just software. It is an addressed storage system for goods: each item is assigned a specific place and a ‘cell’ for storage. Thanks to WMS, it is always possible to say exactly at which ‘cell’ (branch, store or warehouse) a specific product is located and who sent it there.

“Introducing WMS at the corporation’s warehouses will enable us to monitor the movement of product flows, simplify the inventory process, and increase profit due to a reduction in expenses and losses from warehouse operations.

“Today we already have positive experience in implementing this decision with the Toys and Hygiene product groups.”

The strategic session provided a powerful impetus and a new breakthrough in the development of RedHead. Daily systematic work using regular, familiar procedures will help the company effectively implement its strategic plan and acquire stronger positions.

Mikhail Veisberg:

“Some companies, after capturing the ‘strategic window,’ can remain on the wave of success for several years. But at some point their domination becomes more inertial than innovative, and they may miss out on new trends emerging both around the globe and on local markets.

“In the children’s business, changes in emphasis occur very quickly. The children of today have a different attitude towards clothing (it has transitioned from a necessity to a matter of image), toys are switching to electronics, everything is becoming specialized, and people don’t want to buy everything in one place anymore.

“Perhaps, due to the crisis, which has lasted almost three years, these changes went unnoticed by the company. All the session participants admitted that missing out on these trends would be a disaster for the company in the near future because new companies emerge that are ‘hungrier,’ more ambitious, follow the trends, and seize upon them. One could say that the RedHead team still managed to jump aboard this train that is picking up speed. At the very least, the session participants are already there mentally. RedHead still has sufficient resources to carry out large-scale projects. The goal now is to implement the strategic plan created at the January session.”

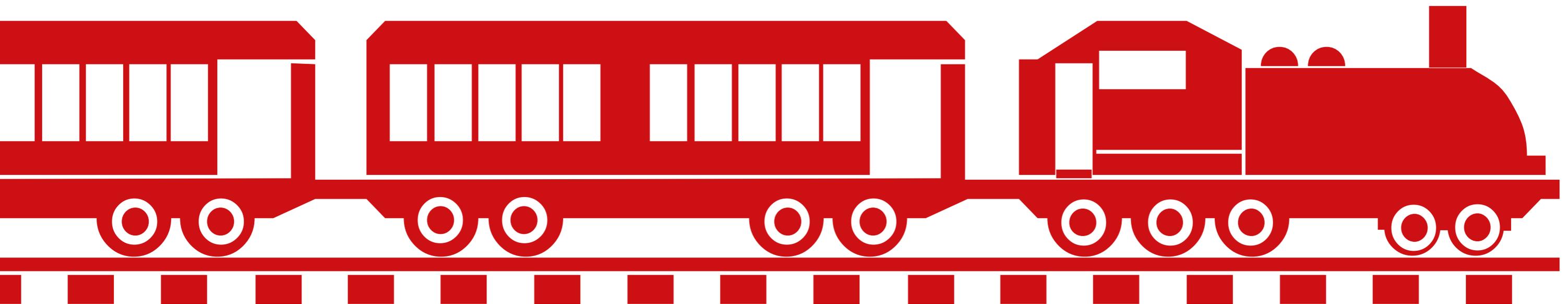


Vladislav Burda,
RedHead President

“For a long time I believed that no man is a prophet in his own land and that consultants must be foreign until I met Mikhail. His moderation was very flexible and not the same as the Adizes consultants with their black and white models in the spirit of “this is how it has to be!” Mikhail kept a close eye on what was happening with us and built a model according to our requirements and needs. What we ultimately received can be considered a finished strategy for the near term. This consists of two documents — the Declaration of Strategic Goals and the Result Arrow, which clearly indicate in specific time intervals who is doing what and who is responsible for what.

“Historically, we have had such strategic sessions once every nine years. But since now the cycle of change has picked up speed, our strategy must also be revised more rapidly.

“Of course, much will still depend on implementation — the more quickly we do this, the sooner it will make sense to create a new strategy.” ■



Source of inspiration

Meeting on the results
of 2011



THE MEETING ON THE RESULTS OF 2011 AT REDHEAD WAS AN EVENT WITH A WIDE RANGE OF CONTRASTS: FROM THE INSPIRING SENSE OF INVOLVEMENT AND PARTICIPATION IN A COMMON CAUSE TO THE FEELINGS OF VICTORY, BREAKTHROUGH AND TEAM SPIRIT DEMONSTRATED BY THE COMPANY LEADERS.

Awards were handed out at the final meeting to the company's best employees as determined by the managers following a thorough screening of all the corporation's departments.



The "veterans" of the company also received individual awards. Insignias with the new corporate logo were made for employees who have worked at the company for ten years.

Special distinction was given to employees who came to work for the company in 1996 and celebrated 15 years with the corporation in 2011.

One of them, Vyacheslav Bich, who has risen from a wholesale manager to director of the boutique chain, cited the example of the recent film *Margin Call*, which tells the story of a team of Wall Street financiers just before the 2008 global financial crisis. *"You must make a decision based on the fact that you have worked at this company for 34 years,"* Vyacheslav quoted one of the characters in the film as saying, noting that 15 years is not such a long time.

Two employees with 15 years of experience, Lyudmila Sosyukina and Oksana Yankovskaya, work at the company's very first retail store — Antoshka (prior to the opening of the store they worked at separate retail outlets owned by the company).

The meeting on the results of 2011 culminated with the announcement of the Dream Team of top managers headed by Vladislav Burda.

The president once again spoke to all employees and admitted that the team is what provides him with the greatest incentive to come to work each day.



“In the morning, before I switch on the computer, sit down or make a call, I look at the picture of our top managers and my energy level rises. Looking at them, I am absolutely confident that we will achieve everything we want.

“Look at this team, be inspired by it, and find your own source of inspiration. Find out what it is that makes you come to work every day and accomplish everything you do. Find the cause of what brings you joy and find a way to be organic and authentic in this life.”

The commemoration of the results of 2011 ended with meetings at all the corporation's branches.

Summaries were also made of the internal meetings of the company's departments, where the best employees of divisions and stores were awarded with diplomas and certificates. ■



The 15-year veterans of 2011: Vera Kinzerskaya, Oksana Yankovskaya, Lyudmila Sosyukina and Vyacheslav Bich



Final meeting of the Kiev branch



Final meeting of the Lvov branch



Final meeting of the Dnepropetrovsk branch

10

Top awards for leaders

Best RedHead employees of 2011



THE REDHEAD CORPORATION'S HIGHEST AWARD, A SUN FIGURINE, WAS GIVEN TO THOSE WHO PERFORMED THE BEST OVER THE PREVIOUS YEAR WITH THE MAXIMUM BENEFIT FOR THE ENTIRE COMPANY.

THEY ARE UNITED BY THE SAME HIGH LEVEL OF ENERGY AND PROFESSIONALISM IN THEIR FIELDS. THEY ARE AN EXAMPLE AND A MODEL THAT INSPIRES THE WHOLE TEAM TO CONTINUOUSLY DEVELOP AND SET LOFTY GOALS.

THIS TIME THE PRESENTATION OF THE TEN AWARDS WAS ACCOMPANIED BY A DESCRIPTION OF THE STRONGEST LEADERSHIP QUALITY OF EACH NOMINEE. USING THEM AS AN EXAMPLE, THE REDHEAD PRESIDENT NOTED THE INFLUENCE OF THE IRREFUTABLE LAWS OF LEADERSHIP SET FORTH BY JOHN MAXWELL.



Tatyana Sotskaya

Marketing and Advertising Director
Retail Department

For creating the most magical New Year's images for our Antoshka stores. For involving our younger customers in the world of Creativity, Fantasy and Celebration. For inspiring people towards great feats and infusing the entire retail team with positive energy. For optimism and the ability to look on the bright side during difficult times as well as influence people's attitude towards what is happening. For being the muse of the services category.

Law of Intuition. A leader should always use his/her intuition in order to evaluate the situation.



Svetlana Levchenko

Head of Brand Development for Baby Food and Hygiene
Distribution Department

For raising the work of the Brand Development Department for Baby Food and Hygiene to a new level. For the first major successes in promoting such a challenging baby food segment as breast milk substitute. For leadership in the key partner brands Bübchen and Bebi.

Law of Priorities. A real leader can instantly switch an audience's focus to what is truly important and always find the necessary criteria on which to rely in order to move ahead.



Vladimir Vikol

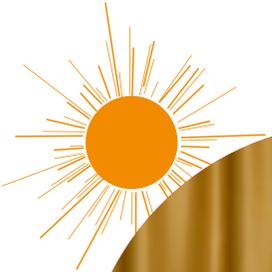
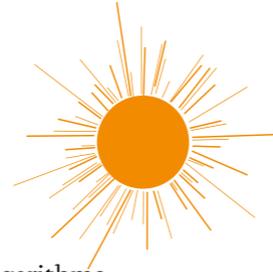
Software Engineer
IT Department

For the ability to turn vague wishes into efficient algorithms.

For the ability to transform tension into a constructive partnership with his knowledge and humor.

For calmness and dedication while maintaining the company's vital information under enormous external pressure. The classic author of the RedHead Family Corporation's automated business.

Law of Influence. Vladimir has tremendous credibility and uses his influence for all departments, which is a true measure of leadership.



Lyudmila Sapozhnikova

Deputy Director of National Distribution for Sales

For ensuring financial stability in distribution and innovation in developing the budget for 2012. For magically transforming the company's goals into real objectives for the distribution team.

For skillfully combining the roles of the creator of an effective sales department team and a caring mother. For the unique ability to work anywhere under any circumstances.

Law of E. F. Hutton: "When a real leader speaks, everyone listens."

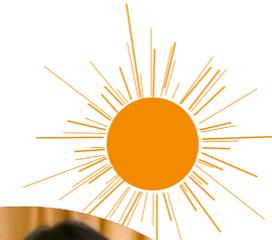
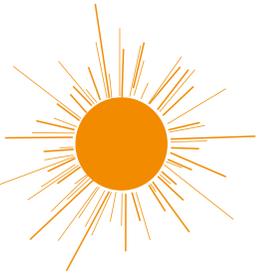


Ruslana Savchenko

Chief Accountant

For outstanding flexibility and a fighter's mentality. For the ability to think calmly and testify before the executive bodies with unconditional love and devotion to the company. For the ability to quickly disappear and return at the right time. For the ability to endure some of life's most difficult situations while simultaneously maintaining extraordinary humanity.

Law of the Moment, Law of Timeliness. Ruslana knows what to say, when to say it, how to act and where she is.



Irina Balashova

Chief of Purchasing and Supply
Supply Chain Management Department

For leadership in integrating the retail, distribution, financial and SCM divisions. For harmonizing the areas of procurements and supplies for the main product groups. For the foundry of young mothers — our loyal customers, and her talent in nurturing the new professional team. For her significant personal and professional growth and serving as an excellent example of a leader.

Law of Magnetism — attracting good people.

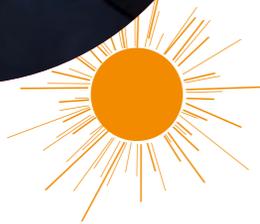


Larisa Rudeva

Director of the Antoshka children's supermarket
(Antoshka-Center, Dnepropetrovsk)
Retail Department

For leadership charisma. For her love towards people. For the great and wise "Heart of the Dnepr." For the ability to multitask during the birth of new stores. For her many years of devotion to the Antoshka stores of the Dnepropetrovsk branch. For the best mentoring results in the company's retail department.

Law of Reproduction. "It takes a leader to raise up a leader, but not every leader can create leaders."

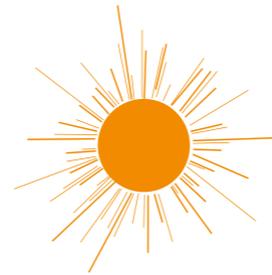


Irina Semyonova

Chief of Hygiene Business Development
Retail Department

For the ability to employ innovation while maintaining traditional motherly care about the most important thing - the health of children. For creating a sustainable path for the future success of the business according to the principles and values of children's retail. For the successful transformation of the Hygiene category from an underperformer into a leader. For her general love of the team.

Law of Navigation. Anyone can steer the wheel, but only a true leader can lead the way.



Irina Klimenko

Executive Director of the Kiev branch,
Director of the Kiev branch retail chain

For her combination of superior intelligence and iron business acumen. For her art of diplomacy in negotiations when implementing the project to boost the profit margins of floor space at the Kiev branch stores. For her active influence on the company's other retail stores.

Law of Complete Trust. People initially believe in the leader, then the vision and then the ideas.



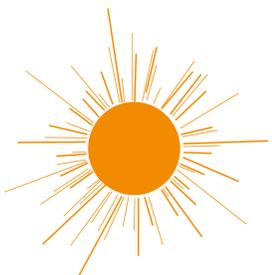
Larisa Vikhrenko

Financial Director

For absolute leadership in the beleaguered company, round-the-clock combat readiness, her commitment over the duration of the assault, taking the hit herself, and skillfully holding off the enemy.

Also for creating the warmest corporate evening in the company's history - Hipsters, which fit perfectly with the fun spirit of the RedHead Family Corporation.

The law which Larisa has mastered and administers very easily is the Law of Connection: a leader first touches your heart and then asks for a hand.



RedHead's "win-win" distribution strategy:

The introduction of category management for baby food on the Ukrainian market

Text: Inna Dimura (RedHead)

In March 2012, the Kyiv Mohyla Business School played host to a unique event at which over 100 Ukrainian representatives of retail, distributors and manufacturers gathered for the first time.

This open discussion was called "Retail vs. the Supplier: Who Are We Making Friends Against?" Ninel Yenkina, the RedHead director for distribution development, was one of four experts from the "business ring" to speak at the event.

"Each member of the distribution chain tries to resolve its problems at the expense of another," Ninel Yenkina said during her speech. "But who wins as a result? There are no winners in this 'battle.' We are all in the same boat. The weakening of one link will lead to the destruction of the entire chain."

As of April 2012, there were 1,138 item names, 51 trademarks, 37 manufacturers and 10 product groups represented on the Ukrainian baby food market. If this enormous offering were to be placed in one store using a minimum of one

facing, this would require 94 running meters of equipment, or 15 wall-mounted racks.

It must be taken into account that the children's category is important in terms of attracting customers and loyalty. According to studies, 70% of customers who are unable to find a particular range of baby food go to other stores to search for it and 17% leave the store without making a purchase. So what will leave the customer feeling satisfied? Only when the components of the manufacturer-distributor-retailer chain can offer the desired products in a suf-

ficient range, at a convenient location, at the right time and at a fair price.

The solution to the deeply rooted conflict of "Retail vs. the Supplier" is a transition from the "win-loss" model to a "win-win" model under which everyone involved is working for common goals — to satisfy the demands of end users and to ultimately increase profit.

The category management project developed by RedHead is an example of a "win-win" strategy.

Category Management is an approach aimed at improving the work of retail companies and key suppliers that was developed in the early 1990s by the international consultancy The Partnering Group (TPG).

The approach is based on the separation of a commercial enterprise's product range into groups that are called categories. The goal of category management is to make the aggregate offering of all the retail chain's categories attractive for the targeted customers.



Debates with Ukrainian suppliers and retailers, March 2012

RedHead Family Corporation came up with the idea of introducing the Category Management project to the market in August 2010. When the distribution team shared this idea with the managers of Eko Market, our partners enthusiastically embraced this project and said they were willing to provide five stores for the pilot project.

Less than a year was spent on the preparatory phase involving the development of a new software product. **In March 2011, five Eko Market stores became the first pioneers in this project. The results were reviewed in July 2011.** Over the four-month experiment, 95% of the product mix at two Eko Market stores was altered with the full understanding and agreement of the parties. Planograms were drawn up for the display categories. Changes were made to quotas in the baby food category, while the shelf space and pricing policy were brought into compliance with

market standards. As a result, sales grew 28% from March to July 2011, the margin increased 26%, and inventory turnover improved by 15% in the category.

The main prerequisite for the successful launch of this project was the RedHead Distribution Department's availability of a large amount of information about the market and about consumers in the baby food category, the willingness of the Eko Market chain for long-term cooperation, and the constant exchange of information between the partners.

The company's experience in building its own retail chain (Antoshka) was also a key to the project's success. The development of specialized software and the allocation of the professional human resources in charge of this project also played an important role in the launch of category management.

The project knowhow came from the development of the unique Odyssey software, which has no analogues on the market. There was previously a problem with consolidating the databases of the supplier and retailer as well as various indicators and statistics. Taking into account all these challenges, the division in charge of the category management project compiled performance specifications to create and further improve the Odyssey program.

Within the system there is a unique catalogue of baby food products that is the most up-to-date on the Ukrainian market. There is no second catalogue. This is not an Antoshka catalogue or the catalogue of some other chain. This is a list of all products available on the Ukrainian market. RedHead employees ensure it is updated once every two months.

Another functional feature of this software is that the system may be adapted specifically to each customer. This means that the recommended orders are uploaded with the internal customer code. Odyssey coordinates the analytical data of Nielsen, the project's financial indicators and planograms. This software allows one to see how well shelf space is being utilized.

The software is constantly being improved. The latest advances include the introduction of a forecasting module and the continued introduction of product mix visualization. Thus, this software includes all the units needed to manage shelf space, the product range and inventory.



The RedHead team is strongly committed to the further development and introduction of category management. Why is this project beneficial for both partners? For the supplier, it above all means growth in the category and brands on the whole. It involves information exchange with a major retail player and a deeper analysis of the market. And, of course, it is an opportunity to search for new development prospects.

For a commercial chain, the effect from such cooperation involves reducing costs, minimizing expenses in work with the store shelves, additional expertise in the category and, most importantly, an increase in sales and profit.

The findings of experts in this field are clear: category management is not just another promotional tool, but, rather, an investment in the future of entire product categories that provides a significant return in a few years. ■

The rules of life according to Adizes

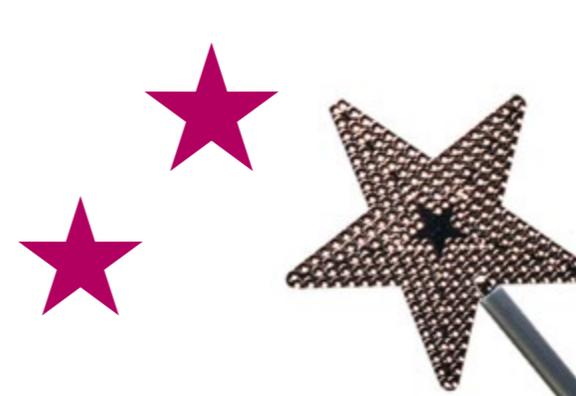


Text: Svetlana Ivanova, Svetlana Potap (MIRS)



EACH SPRING YOU READ IN THE CORPORATE PUBLICATION ABOUT THE RESULTS OF THE ADIZES METHODOLOGY FOR THE PREVIOUS YEAR, ABOUT THE RE-SYNDAGS (REPEAT SYNERGETIC ORGANIZATIONAL DIAGNOSIS SESSIONS) AT THE CORPORATE LEVEL AS WELL AS DEPARTMENTS AND BRANCHES, AND ABOUT HOW TEAM MEETINGS ARE GOING. USUALLY, THIS ASPECT INVOLVES THE IMPRESSIONS AND OPINIONS OF THE INTEGRATORS. THIS YEAR WE WANTED TO REFLECT THE THOUGHTS OF THE MAIN CHARACTERS – THE TEAM MEMBERS. BASED ON THE RE-SYNDAGS HELD IN RETAIL AND DISTRIBUTION, WE RECEIVED A WIDE RANGE OF FEEDBACK.

IN ADDITION, WORK WAS LAUNCHED BY THE PRODUCT LINE POCs (ORGANIZATIONAL COUNCILS), WHICH ARE ALSO CONDUCTED IN ACCORDANCE WITH ADIZES METHODOLOGY. IT WAS A MUST TO TALK ABOUT THIS TOO.



Often the importance of what is happening cannot be measured directly with an actual result. Integration, an understanding of common goals and common interests, and the importance of diversity among one another for common success are all a part of the culture of mutual respect and trust, which Adizes makes it his goal to form.

When we asked RedHead employees to present the Adizes methodology as a kind of “magic wand,” this is what we hoped to receive with the help of such “magic.”

DISTRIBUTION DEPARTMENT EMPLOYEES:

“A culture of transparency and inclusiveness that is inherent in a small company, but within the framework of a large one. Integration within the company as a whole.”

“Greater feedback from the upper level: the acceptance or rejection of decisions that are proposed. For the innovations that are introduced to not only have support on the level of ‘bravo’ and a publication in the journal, but to actually be implemented within the corporation. I don’t want to build ‘a state within

a state’ as may be the case in the absence of mutual understanding between departments.”

“I would like synergy in the distribution POC with everyone else so that this mass of energy and effort is not wasted. We don’t view our ideas as the only correct ones. We are prepared to discuss and substantiate our point of view.”

“I would like to speak the same language with our clients and introduce integration to the external environment as well.”

RETAIL DEPARTMENT EMPLOYEES:

“Frequently the internal business units pull the blanket over themselves. I want there to be a process of interaction and work for the overall result. Take one another’s interests into account when adopting decisions. We talk a lot, but this is not enough in our daily actions.”

“I would like more transparency from the top down. There are times when 100% visibility is impossible, but I would like to have more information to adopt management decisions.”

“Unity and trust. This is feasible if each division understands that it is economically dependent on how the division next door is developing. We have been properly divided, now we have to learn to live together.”

“I want the team to always remain in Prime (Flourishing) so that the involvement is 100% and so that my family and I are in Prime. A lot of work is needed to make the magic real. Dreams only come true for those who understand that they truly need this and those who have motivation.”

DISTRIBUTION – INNOVATION AT EVERY STEP

The Distribution Department can easily be called an innovator in its Adizes activities. This is the place where new ideas constantly arise, various approaches are combined, and a desire is clearly expressed to eliminate root causes – the prerequisites for surface problems.

Each year when preparing the distribution re-syndag, we expect something new in the overall plan for conducting the event. Distribution is largely indebted to its director, Sergei Filyanin, for its unexpected twists and technologies.

The Distribution Department ended last year with 90% of its PIPs (potential improvement points) fulfilled and an improved situation for 6%.

While working on a solution to the improvement points over the course of the year, distribution paid special attention to exploring the model of “a lack of efficiency in distribution.” As part of this, work was carried out to increase the margin ratio, reduce operating costs and forge cooperation with the SCM department.

The Distribution Department’s mission was updated and targets for 2012 were identified at the re-syndag. The strategy, which was determined based on a SWOT analysis, calls for the implementation of such opportunities as sales on other markets, the development of new sales channels and the expansion of the baby food and hygiene category. The re-syndag members generated PIPs based on the main areas for development.

At the subsequent POC, which was held in a narrower format, problems were defined using the theory of constraint with cause and effect chains in order to identify their root causes. With the help of this tool, the team analyzed the group of PIPs in the “reward system” and “flow of management information” categories and began identifying ways to eliminate adverse effects in these categories. The Distribution Department decided not to focus on all the areas at once and to transition from the root causes to the effects over the course of the next year.

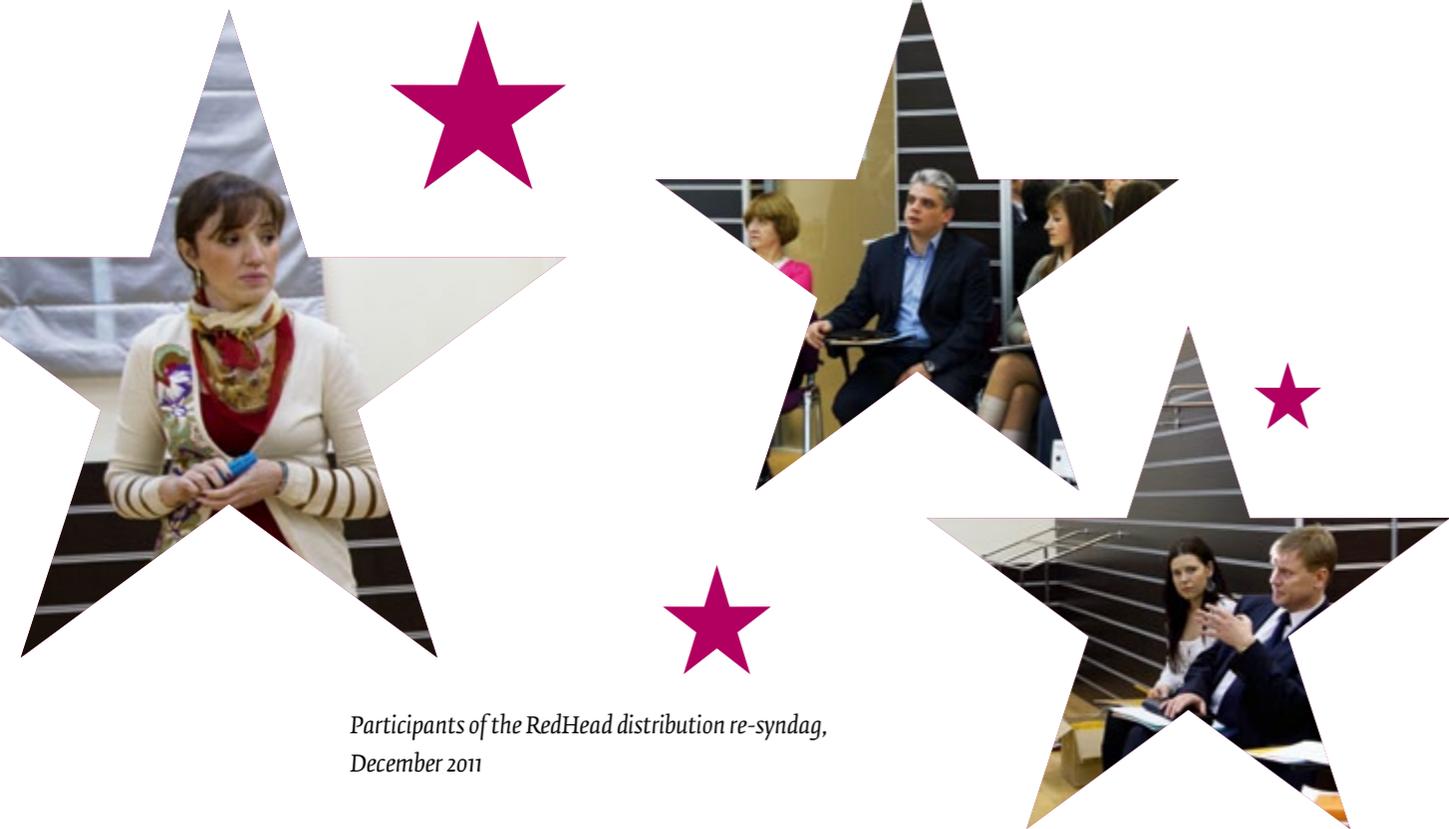
“At the last re-syndag, we used a combination of the Adizes methodology and a SWOT analysis (identification of strengths, weaknesses, opportunities and threats) and the Goldratt Theory of Constraints (identifying root causes and the cause and effect chains). The Adizes methodology is perfect as a skeleton on which you can thread the tools that are needed like muscles and tissue.”

“It can be noted that this wasn’t easy for the integrators, the two Svetlanas. This was also something new and a kind of withdrawal syndrome.”

“Most of all, I enjoyed searching for root problems and arranging the tree that clearly demonstrates at which stage you must start resolving the issue so that all subsequent issues can also be resolved.”

“The first re-syndag (2010) resembled a game-like setting, but the latest one was lively and unpredictable. Nobody could guess or predict what would happen over the next hour, and this was interesting.”

“The contrast in the level of the issues raised was absolutely clear: previously they were tactical, but now they are more strategic. The re-syndag of 2010 was the



Participants of the RedHead distribution re-syndag, December 2011

team's first experience in this format and the initial stage of infancy, but now we are at the stage of developed Adolescence."

"The core value of Adizes is that it ensures transparency and inclusiveness and also raises the level of communication."

"Thanks to Adizes, I learned how to easily take on new things. This had always been difficult before."

"In order to achieve a result, you have to speak the same language. The advantage of Adizes is that we see where we are going and why we are doing this. We all speak the same language. A common language provides a unified vector for motion."

"Almost everything I use in business, I use in my personal life as well. That's the way it should be, otherwise you have a split: you talk about this here, but forget about it upon leaving. The most interesting thing about Adizes to me is his concept of life cycles for any systems: from companies to families."

"I have long had an intuitive understanding of his remarkable theory about mutual respect and trust, but could not articulate it. I really like Adizes's definition of 'respect' — he says that this is simply your acknowledgment of another person's right to think differently."

RETAIL – THE BEARER OF THE ADIZES TRADITION AT REDHEAD

Retail is the department where the Adizes methodology first appeared and has continuously been used the longest. At present, retail has ensured the deep penetration of the Adizes methodology in the work of its divisions, including at the regional level.

In 2011, retail implemented its plan for the fifth time in accordance with the Adizes methodology despite the fact that it was a difficult year for the department.

At the re-syndag, 80% of the potential improvement points from 2011 were categorized as “no longer a PIP” and “improved.”

Over the course of the year, solutions were found for PIPs related to the product range, customer service standards, store navigation and various store efficiency indicators. The team worked in synerteams (synergetic teams) to promote the chain and monitor the prices of competitors.

The re-syndag in January 2012 was held in the classical format: there were individual and team-based collections of PIPs, classification based on the Adizes analysis boxes, grouping into a model, prioritization and the assignment of tasks.



A retail syndag for the southern region – one of the innovations in the department



“The events of last year were reflected at the re-syndag. As we know, any fall triggers a rise. All the participants generated PIPs concerning prospects for development – the development of brands, product categories and business.”

“We all took on a different attitude towards the PIPs and strived to make each PIP clear and not simply some sort of complaint. We did not conceal the problems, but each person thought how to articulate this in a good manner.”

“At the re-syndag, people were a little stiff at the beginning – it’s not every day that the owner attends such events. Then, after generating the PIPs, lively work began during the classification. Vladislav even gave suggestions frequently – he has a much more global view: we see some sort of cell, while he sees everything as if from above and also spells it out in detail.”

“The structure and systemic nature of the events held under the Adizes methodology – POCs, syndags and synerteams – provide the opportunity not only to learn about the cooperation and interaction that occurs on its own, but also to see the specific result of the adopted decisions.”

“I see very good changes in the team. I see changes in people’s behavior and thinking. This is probably the most important thing. That is to say, this involves long-term work.”

“The positive changes are particularly being seen at the branches: after introduc-

ing Adizes, the branches began to resolve problems on their own whereas before they waited for decisions from the head office.”

“Honestly, when the methodology was initially introduced, I was skeptical but now I have no doubts whatsoever that this is a mechanism that works.”

“This is a tool that allows for voicing all problems. Anything that may have been hushed up, pushed into the background or concealed by something nice is brought out into the open. This is correct and welcomed.”

“At present, the level of involvement is truly changing for the better. And it is imperative for us to draw the regions into this and involve the leaders of all levels.”

“This is a system with which we are already living. Our families live with it. The word ‘synerteam’ was even offered in a game of charades and nobody could guess what it was besides my wife.”

“My Black book has two sections: business goals and personal goals. Each year, I evaluate this Black book and track how these goals are being fulfilled.”

“A problem is an opportunity. I began to look at this through different eyes and speak about this to my son and husband. We clearly identify dates for fulfilling agreements in the family: you set a date and can’t wriggle out of it.”

PRODUCT RANGE POCs

During a strategic session held by the corporation’s senior management early this year, one of the ten main objectives was the maximum focus on the development of product lines. The team decided to utilize the Adizes methodology by introducing product line POCs to develop the three key categories. Starting from February 2012, POCs have been launched for the areas of life sustenance (Baby Care), toys, furniture and services (Fun), and clothes and shoes (Fashion).

The product line POCs are collective bodies that adopt and implement decisions: they bring together a wide range of teams from the retail, distribution and SCM departments. Each participant possesses the necessary knowledge and experience in his/her area to reach a collaborative outcome. However, the joint efforts must be organized to achieve results.

“We need to create the habit of carrying out the decisions made by product line POCs at all levels. A time must come when the implementation of these decisions is natural and organic,” says Sergei Filyanin, the Executive of the Baby Care POC.

Sergei Filyanin,
POC Executive
for the Baby Care product line

During their first meeting, the participants in the Baby Care POC identified the strengths, weaknesses, opportunities and threats of this division. Based on the SWOT analysis, a strategy was drawn up and a picture was painted of what the POC participants want by the end of 2012.

At the orientation POC for the Fun division, which unites the categories of toys, furniture and services, the participants identified the main features of this division. It was also important for them to clearly define the strategic functions of the POC and this collective body, specifically what it will and will not do. For example, it was decided that the POC will not get involved in minor tactical details. The goals of the POC are divided into long-term objectives such as “the company’s main advantage is fun” and short-term objectives. **The goals for the near future include developing a concept to demonstrate toys and emphasize work with the range of new products.** The global “gadget mania” trend was not overlooked either.



POC of the Fun product line

The first POC for the Fashion (clothes and shoes) division, with Vyacheslav Bich as the Executive, focused on improvements to this category at Antoshka stores. The participants determined that they want Antoshka to be perceived as a fashionable store. In addition, they want the quality, price and trendiness of our collections to be number one in Ukraine and for our customers to be able to satisfy all their needs for clothes and shoes at Antoshka. This POC was charged with implementing decisions on the product range, merchandizing, promotion, price policy, manufacturing and collaborative actions in sales.

We have already seen the results of the objectives set at the first Fashion POC: Antoshka stores are offering a new merchandise collection of clothes and shoes for the 2012 spring and summer season. The stores are already changing based on the feedback of retail employees.

Another equally important result for us involves improvements to integration and the climate of cooperation at the company — both in individual departments as well as in collaborative work at product line POCs. As you can see, this isn’t solely our observation but the opinion of the actual participants involved in the processes using the Adizes methodology.

FAMILY HISTORIES

ALEXANDER AND INNA NEDELKO (MEGA ANTOSHKA, KHARKOV)



BOGDAN NEDELKO IS AN AVID VISITOR AND HUGE FAN OF MEGA ANTOSHKA.

HIS DAD SAYS THAT BOGDAN IS CALM BY NATURE AND IS RARELY SEEN RUNNING AROUND THE HALLS OR CLIMBING THE FAMOUS CASTLE AT MEGA ANTOSHKA. BOGDAN VERY MUCH ENJOYS TAKING PART IN CHESS BATTLES, AND AT HOME HE PREFERS READING A BOOK OVER PLAYING OUTSIDE.

BUT MEGA ANTOSHKA IS A SPECIAL PLACE FOR BOGDAN: HIS MOM AND DAD HAVE ALREADY BEEN WORKING AT THE “TOY PALACE” FOR SEVERAL YEARS.

*Inna and Alexander Nedelko
with their son Bogdan*



Inna and Alexander Nedelko have already known each other for eight years. *“I met a person with whom I enjoyed communicating and who would support me at work — with a word, action or simply a look,”* Inna says as she recalls meeting her future husband. The young couple fell in love and built a strong family. A few years after getting married, Inna went on maternity leave during which she earned a second degree at the National Academy of Public Administration under the Ukrainian President. *“In general, I really love to learn — it doesn’t matter if it’s at the institute, at work or simply in life,”* she says.

Two years later, when little Bogdan was a bit older, Inna returned to work. This was in December 2008. The city was implementing a new large-scale project — the construction of a five-story Mega Antoshka children’s center. Immediately caught up in the action, Inna acquired all the skills she needed to be a merchandise expert as part of opera-

tions. She recalls how the night before Mega Antoshka opened trucks were coming in and out continuously and there was a constant flow of goods. *“The entire staff worked as a single team, helping, supporting and teaching one another. I wouldn’t have managed without this support!”*

Over time, her responsibilities increased and she built on the practical skills she had acquired in legal and accounting matters at the Academy of Municipal Economy and the Academy of Public Administration.

During her three years of working at Mega Antoshka, Inna has received two awards: for her high level of professionalism, desire to develop and ability to rapidly and efficiently fulfill tasks as well as for her effective organization of trade turnover processes at the store.

Alexander, who was trained as a cook for public catering, gladly took on the job



Mega Antoshka (Kharkov)

of setting up a café at Mega Antoshka. His duties included developing a menu, designing the buffets and selecting a schedule of shows. The café mainly hosts children's holidays and birthdays. Sometimes up to eight parties can be held in a single day. Alexander is also in charge of a confectionary shop, where orders are assembled from all Antoshka stores in Kharkov. Both cakes with special recipes and main dishes require a special presentation, Alexander believes. Not only should it be beneficial for a child to eat what is prepared at the café, it should also be interesting and sometimes even fun.

There is a McDonald's store located across from Mega Antoshka, but Alexander is confident that it does not present any competition either in terms of the quality of food or entertainment. The Mega Antoshka café offers hot and cold dishes as well as various cold cuts not to mention an abundance of desserts.

Alexander speaks enthusiastically about the development of the café at Mega Antoshka and the prospects he sees. "In this work, you cannot stop. You always have to find something new. Preparing and serving food



Vegetable cream soup and Stuffed sturgeon (from the menu of the café in the Mega Antoshka shopping center)

is an art form in which there is no limit to perfection. The design of the dishes and the choice of a color scheme all require training like an artist. I was recently in Kiev at the amazing workshop of Ilya Lazerson, an event organized by the Restaurateur magazine. I returned from there with a ton of new ideas. Such people open up new horizons in the profession. And if you don't have goals and prospects, there is no development and work loses all meaning," he said.

In 2011, Alexander Nedelko earned a diploma for the "Best Children's Café Chef" among the retail chain's employees.



The actual Children's Kitchen in the Mega Antoshka shopping center (Kharkov)

Answering the predictable question about whether he does the cooking at home, Alexander replies, "Rarely."

Two years ago, they moved from an apartment in the city to their own home, and now Alexander has taken on additional chores as the man of the house. But having a garden and clean air at home makes up for everything. Inna and Alexander are raising their son here, preparing him for school, and expecting another addition to their family this fall. ■

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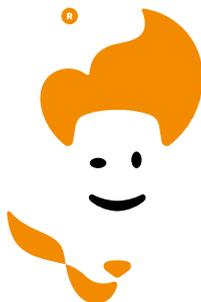
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This issue also contains photos from the private archives of employees and images provided by the HR Department, the Distribution Department’s marketing division, the Retail Department’s marketing division and the administration of Mega-Antoshka shopping and entertainment center (Kharkov).

RedHead Family Corporation (Europroduct until 2011) corporate magazine, Issue No. 3 (39), 2012.
Published since 2001

Univest PrePress Printing House

