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**FINAL QUALIFYING PAPER (PROJECT)**

on the topic:

**«The mechanism of attracting domestic enterprises into international  
distribution networks»**

**(based on the data of Epicentr K LLC, Kyiv, Ukraine)**

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## INTRODUCTION

Nowadays, when the consumer market is full of different goods and product, every seller should possess itself as the best chose for purchase. Its require not only big shops with the great number of commodities and intense marketing actions but a well compounded distribution strategy which includes all the necessities: financial planning, strategy positioning, advertising, suppliers negotiations, goods availability and much more. Building an effective firm as the unit of a successful economy is crucial for the government and national prosper, thus, the enterprise should apply different world's strategies of effective management and corporate policies to achieve high results.

The process of selling products through distribution channels, as well as the choice of specific channels becomes more complex and dynamic, and goes far beyond own sales, extending to many other aspects of the enterprise. In general, the business activity of any enterprise requires profit. In this matter, the main link in the enterprise is the sales activity, as the final stage brings consumers to the final products. Thus, the fact that there is a problem of using distribution channels in the sale of construction industry products in terms of transition to market relations, as well as the lack of comprehensive research on this issue indicates that it is relevant and requires the development of special models and methods for solving it.

Multiple variations of finding directions and means of expansion of markets were discussed by different domestic and foreign scientists such as Bagrova N.I., Didikivsky M.I., Dobrobabenko E.V., Nozdreva R.M., Evans J.R., Kudyrko L.P., Sevruck I.S.. Furthermore, the examination and searching for the best distribution strategy lead us to papers and data that share theoretical approaches on this issue: Didkivskyi M.I. "Foreign economic activity of enterprise", Katarzyna T. "Reasons and forms of expansion into foreign markets", Tiukha I.V "State and prospects of foreign markets distribution channels by domestic enterprise", Voichak A.V. "Marketing and supply chain, Formation of market economics", official website



page of Epicentr K LLC and its financial reports and many others.

The discussion about successful distribution strategy runs through the years, as nowadays new factors of production arise and become more important than the traditional one, research of the most appropriate and useful strategy is a task to achieve.

The purpose of this project is to evaluate the competitiveness of distribution channel of the national top retailer and propose measures for its international expansion.

The object of research is a process of enterprise competitiveness evaluation of Epicentr K LLC on domestic and foreign markets within DIY-retail and agriculture industry.

The subject of research is the theoretical and practical aspects of justification of external and internal factors that influencing distribution channels, their structure and growth.

The task of the project is to:

- analyze current trends in establishing distribution networks of the enterprise;
- research the financial and economic activity of Epicentr K LLC;
- monitoring the external environment of the company;
- assess the mechanism of attracting international distributions networks of Epicentr K LLC;
- justify measures of increasing attracting into international distribution networks;
- forecast and evaluate the effectiveness of the proposed measures.

In this work we used different scientific and economic methods and models, such as marketing modeling, dialectical approach (studying the processes of marketing activity management at the enterprise and study the relationships and dependencies that arise in doing so), the method of grouping (conducting the classification of sales promotion methods), systematic approach (studying the processes of managing the marketing activity of the enterprise), the method of structural and logical generalization (construction of structural-logical models),

comparative, economic-statistical analysis (determination of the state and efficiency of functioning of the mechanism and effective marketing policy), project analysis and others.

Research and practice originality of the study reflected in the deepening of knowledge and substantiation of the mechanism of ensuring effective management of marketing activities at Epicentr K LLC, which, unlike the conventional measures, are adapted directly to the needs of this enterprise.

The final qualifying paper consists of an introduction, three parts, general conclusions, references and appendices. The study materials are presented on 52 sheets, in 18 tables, in 6 figures and in 1 appendix. The list of used references contains 47 names.

In the first part we survey modern state and knowledge about distribution channels, its components and characteristics. Define the purpose and place of the distribution system in the company and benefits that it made.

In the second part built strategic planning technique such as SWOT and PEST analysis, to evaluate the external environment of the company and define its main features as the economic unit. Furthermore, calculate the main economic indicators of the company based on financial statement information and analyze them in correspondence to company data.

In the third part we provide the main characteristics of the company that specify its distribution network, survey two approaches for the company expansion abroad, and based on the results proposed measures and evaluate and forecast its efficiency. The conclusion and propositions part summarizes research and outlines the topic of final qualifying paper.

Approbation and utilization of research results: article “The mechanism of attracting domestic enterprises into international distribution networks” in collection of scientific articles part 2 “International economics”, KNUTE, Kyiv, 2019.

## PART 1

### RESEARCH OF MODERN STATE OF Epicentr K LLC

#### 1.1. Analysis of current trends in establishing distribution networks of enterprise

Today in the process of intensification production relations and growth of goods, the efficiency of distribution networks becomes vital for every seller. Those who have the better logistics or convenience accommodation satisfy the demand first. An important task of the enterprise in the transition to the new conditions of management to provide the effectiveness of marketing activities is the formation of a competitive organizational structure as an element of the distribution system.

For businesses of all property forms that operate in Ukraine most pressing issues is marketing management practice, as the efficiency of economic activities and financial condition of enterprises directly related to solving problems and controversial issues in the enterprise marketing management system.

Undoubtedly, that increasing demand of the real economy on efficient technologies of management and marketing activity of the enterprise actualize the need to rethink the key ones' concepts of marketing activity as an economic category and its updating methodological, theoretical and methodological basis of relatively new conditions management of Ukrainian enterprises.

Distribution is critical for any type of industry or service. The best price product, promotion and people come to nothing if the product is not available for sale at the points at which consumers can buy.

In general, the concept of "distribution" is a set of organizational technical and commercial measures for the direct sale of goods and services in the consumer market and promotion of already finished goods from manufacturer to consumer [15]. Behind the definition of distribution network stands a lot of meaning by



different national and also foreign scientist. Their approaches are represented in the following table (Table 1.1).

*Table 1.1*

Definition of the concept of "distribution activity"

<b>Author</b>	<b>Definition</b>
Kardash V. [18]	The process of organizing commodity exchange of finished products for the purpose of making profit.
Logvinenko V. [25]	The process of promoting finished products to the market and organization commodity exchange for the purpose of obtaining entrepreneurial profit.
Lyapunov AD [24]	Activity of the enterprise on bringing goods from the producer to the consumers.
Yamkova O.M. [38]	Complex of procedures of promotion of finished goods on the market (demand formation, receiving and processing of orders, picking and preparation of products for dispatch to buyers, shipment of products to a vehicle and transportation to the point of sale or destination) and organization of calculations for it
Zavolovich I. [25]	The process of organizational and economic operations containing marketing aspect (market research and analysis, determining sales volumes,) and logistic aspect (transportation, warehousing) and is carried out for the purpose of achieving economic results from sales of products to consumers and creating a positive image of the company in the market.
Turilo A.M., Sviatenko S.V. [36]	The economic component of the life of the enterprise in all its forms and manifestations during its life cycle, is carried out under the influence of exogenous and endogenous factors and is focused on achieving the goal set by the owner.

Source: Developed by the author

In a broad sense, sales are all operations since the goods were released the gate of the enterprise until the moment of transfer of the purchased goods to the consumer. In the narrow sense the sale is only a final operation, that is, the relationship between seller and buyer [40]

Analyzing all the theoretical minds from economists presented above we can compose our own opinion and describe distribution channel as — the process where, as a result of improving production and business processes and managing them, a qualitative or quantitative increase in the turnover and sales of products to the end consumer is achieved [25].

The role of distribution activity at the enterprise is:

- determined the final result of all efforts of the enterprise, aimed at developing production and maximizing profits;
- adaptation of the sales network to customer requests, the manufacturer will have much more chances to win in competition;
- during the distribution process, enterprise will explore and satisfy more effective tastes of all consumers [19];

The nonstop disruption taking place in the retail environment is challenging many of the norms of retailing, creating opportunities for new entrants, and making transformation an imperative for incumbents. Retailers should stay ahead of the changes driving the marketplace in 2019. Consumer. Consumers realize they can have it all. Today's digital consumer is increasingly connected, has more access to information, and expects businesses to react to all their needs and wants instantly. Many shoppers have an increased desire for personalized services, and they are starting to think more about privacy in the wake of high-profile corporate and social data breaches [12].

Competition. The retail market is negotiating a change in the competitive structure of the industry. A myriad of newer, smaller, and tech-enabled competitors is stealing share while players from other sectors are developing their own retail platforms. The result — the marketplace in which more brands have exposure. The global tendency of biggest retailers among the globe is presented in the following table 1.2

Table 1.2

Top 5 retailers brand among top 500 World brands in 2015-2019

Company	Rank					Brand value, billion USD		
	2015	2016	2017	2018	2019	2018	2019	Change, %
Walmart	7	8	8	9	11	61.5	67.9	10.4
Home Depot	31	28	31	27	22	33.7	47.1	39.4
Lowe's	88	88	92	94	63	16.0	23.9	49.4
IKEA	55	63	43	66	74	19.3	21.5	11.1
Costco	116	97	95	124	98	12.1	17.1	40.5

Source: Estimated by the author based on The Brand Finance's [13]



The retail industry has felt the biggest impact from the likes of Amazon, as e-commerce and mobile commerce have now become the consumer norm. Walmart, which held the top position in the Brand Finance Global 500 just 10 years ago, has dropped out of the top 10 most valuable brands for the first time. Although its brand value has grown 10% to 67.9 billion USD, the company continues to struggle with product fulfilment issues, increased transportation costs and slow gains in its online sales. Walmart – and other big box retailers – must improve its online offering and elevate the in-store customer experience or the brand will continue to lose out to its e-commerce competitors.

By the number of intermediaries distinguish exist such types of sales as:

- 1) Intense. It is characterized by a large number of wholesale and retailers, leading to increased sales, increase sales, more awareness of the target audience about the product and how as a result, to increase profits.
- 2) Selective. This kind of marketing policy implies limitations the number of wholesalers and retailers at any level that ensures proper control over sales costs for the enterprise manufacturer.
- 3) Exceptional. The kind of sales that involves limiting the number intermediaries to the absolute minimum, to the single as extraordinary West. This is most often done to maintain a high image of the company and complete control over the sales channel [7, 35].

In practice, many organizations use a mix of different channels; a direct sales force may call on larger customers may be complemented with agents to cover smaller customers and prospects. When a single organization uses a variety of different channels to reach its markets, this is known as a multi-channel distribution network. In addition, online retailing or e-commerce is leading to disintermediation, the removal of intermediaries from a supply chain. Retailing via smartphone or m-commerce is also a growth area [17].

The total value of Ukrainian retail brands is almost 1 billion USD. Among the top 100 most expensive Ukrainian brands, nearly two dozen are related to

retail. But for 2019, almost all of them have fallen sharply in price. The exceptions only confirm the rule.

As in the previous year, a significant portion of the items in the list belong to companies directly or indirectly related to the retail industry. But there is a noticeable difference: if in 2018 the brands of retailers in the vast majority were increasing in price (for example, the Citrus brand went up by 116.6%, Allo - 91.7%, Foxtrot - 82.1%), then in this the dynamics are the opposite (see table 1.3).

Table 1.3

Top 10 retailers brand among top 100 Ukrainian brands in 2015-2019

Company	Rank					Brand value, million USD		
	2015	2016	2017	2018	2019	2018	2019	Change, %
Nova Poshta	14	7	5	2	2	285	310	8.8
Rozetka	16	9	8	3	3	244	302	23.8
ATB	22	16	14	9	9	159	168	7
Silpo	21	18	19	24	27	96	77	-19.8
Epicentr	25	22	21	25	28	79.5	66	-17
Citrus	-	-	37	28	29	73	65	-11
Fora	29	29	28	31	35	62	48	-22.6
Foxtrot	38	37	43	36	36	51	48	-6.9
Allo	78	39	48	38	38	46	41	-11.3
Novus	47	42	51	50	46	24.9	28	12.3
Comfy	37	36	54	61	55	17.5	22	25.7

Source: Estimated by the author based on Ukrainian Retail Association [45]

Even successful and profitable TM such as Epicenter K LLC according to experts, cost less. The leaders of other segments of Ukrainian retail trade are similar: Silpo, Foxtrot, Citrus and so on.

However, there are also retailers who have managed to increase brand capitalization. Given the failure of colleagues in the market, it is worth paying attention to the success of Novus (TM price increased by 3.1 million USD), Comfy (+4.5 million USD), ATB (+9 million USD). They also keep the dynamics of brand value growth by the leader of online trade of Ukraine Rozetka.ua (+58 million USD).

In absolute terms, the Silpo brand lost the strongest in terms of price: 19 million USD. In the second place, the Fozzy Group (-14 million USD), the Epicenter (-13.5 million USD), is the second largest in the value chain. The pace

of opening new and upgrading existing stores in these three networks suggests that these losses are likely to be temporary, so brands will continue to rise in price in the near future.

Despite the fact that there are only two major classification features (basics of system organization and number of intermediaries), relations between manufacturer, resellers and end users can take many types and forms. The most active role in these the relationship belongs to the manufacturer that when choosing a sales system first turn takes into account the risk factor for the movement of goods, as well as estimates the cost of sales and profit [5,3].

Distribution activity based on the conditions of receipt maximum profit and fast sale of manufactured goods that requires a common methodological basis in the process of marketing activities. Therefore, it is important to plan the marketing activities, on the base of amount of suppliers and the goods that will be sell. In the absence of those or other resources need to coordinate production and marketing plans with taking into account financial, economic and logistical priorities organization [1].

The most important cost drivers for companies in the retail and consumer goods sectors include cost minimization (95%), maximum delivery efficiency (90%); maximum flexibility in terms of deliveries and response rate (79%) and simplification of supply chains (70%). Thus, leaders are focusing on collaborating efforts with key vendors and inventory systems. And still aimed on high effective production and management of the inventories [20].

The basis for building distribution channel of the enterprise is to identify the components that provide for the formation of management impact at all stages of sales operations as a process [31]. Therefore, the management of selling activities at the enterprise should be implemented through:

1. Planning (selection, classification and preparation for use of information on the development of distribution strategy; evaluation and analysis of factors of internal and external environment; determining the strategy for the development of marketing activities).



2. Organization (creation of organizational structure of distribution at the enterprise; creation of intra-firm and intermediary systems of distribution of production).
3. Incentives (incentives for participants in the product distribution system: discounts, rewards, bonuses, staff training).
4. Monitoring and regulation (establishment of a system of indicators for evaluating the results of the efficiency of the marketing system) [38].

In the system of management of marketing activities, enterprises are isolated four levels of marketing control:

1. Global level, which takes into account the interaction of market actors under the influence of the macro environment (political, legal, economic, socio-demographic, cultural, technological and environmental factors).
2. Strategic level that allows to determine the effectiveness of the implementation of the selected marketing strategies for distribution channels, taking into account the sales potential of the company, factors of the marketing environment, as well as timely adjust the appropriate strategies.
3. Tactical level, which involves analysis of current results of strategy implementation, identification of strengths and weaknesses in the enterprise marketing policy.
4. The operational level has a regular (systematic) nature of implementation of the planned measures for managing the enterprise's sales policy [16].

Marketing planning for distribution activities goes through three levels of management:

- at the corporate level, a system of strategic marketing goals is developed taking into account the mission of the enterprise;
- at the business level, the analysis of the company's position in the market in the sphere of sales, the analysis of the effectiveness of relationships with customers;
- Implementation measures are being developed at the functional level marketing policy of the enterprise [2].

Thus, marketing policy planning is a management process to ensure that the business goals of the enterprise are consistent with its sales potential [21].

## **1.2 Analysis of the financial and economic activity of Epicentr K LLC**

Epicentr K LLC is a Ukrainian DIY retail chain of building and home improvement hypermarkets. Which is holding the leading positions on the Ukrainian market, providing customers with the best products and services with decoration and design opportunities, Epicentr K LLC operates as the “one stop store”, offering customers top quality home improvement goods, building materials, gardening goods, and other non-food products. The company was founded on December 6, 2003 by Oleksandr and Halyna Gerega. Since then Epicentr K LLC continues development and confident expansion of the market. In 2010 Epicentr K LLC has joined the European DIY Retail Association (EDRA).

As the Epicentr K LLC is number one non-food retail business in Ukraine: by the end of 2018 year the number of trade centers has 69 operating objects. During 15 years it has launched 55 Epicentr K LLC -branded and 14 trade centers under Nova Linia name.

In 2019, the enterprise starts to open relatively small expo-markets by 5000 square meters, in the case to expand their chain closely to customer. As we can observe from the 1<sup>st</sup> of January 2019 the company has already opened 4 markets mostly in small cities in regions and think to continue this tendency in future.

100% of trade centers are owned by Epicentr K GROUP. Today the total retail space is 1.5 million square meters. The assortment of non-food products exceeds 0.4 million stocks keeping units. Total employee quantity already exceeds 40,000 people. Based on non-food sales statistics, in 2017, 53% share in Ukrainian DIY-segment belongs to Epicentr K LLC. In 2017 Epicentr K LLC turnover has reached 1.55 billion USD.

Epicentr K LLC own warehouse, which is placed near Kyiv, and is the centered logistic place for all stores and hypermarkets for all Ukraine. Futhermore, distribution center that is built according to the most advanced European standards

and is one of the best in Ukraine. Its own transportation fleet has 1.000 units. Also in its construction projects Epicentr K LLC uses its own building department with its own special vehicles and equipment, which reflect company structure very organized and self-efficient.

In case to analyze efficiency and effectiveness of running business of Epicentr K LLC in the following tables 1.4-1.9 the main dynamic trends in its business activity.

Starting from the main — profitability indexes which represents the main core information for investor. What can be gain from investment of this enterprise.

On the base of calculated data from table 1.4 we can make a conclusion that impairment and losses in assets (building of hypermarkets in Crimea, Donetsk and Luhansk) and also loss of available inventories in those markets decrease the Return of Assets indicator in 2014 a lot. However, from 2015, when the company made write off of those assets and inventories all indexes goes up and show a tendency of growing.

*Table 1.4*

Profitability Indicators of Epicentr K LLC, 2014-2018, %

Ref.	Type of indicators/ratios	2014	2015	2016	2017	2018
<b>1</b>	<b>Profitability indicators</b>					
1.1	Return on Assets (ROA)	-3.61	13.09	13.95	12.66	13.28
1.2	Return on Equity (ROE)	-28.12	152.62	38.42	32.68	35.4
1.3	Return on Investment (ROI)	40.40	45.22	35.84	32.21	34.3
1.4	Return on Debt (ROD)	-11	32	32	29	28
1.5	ROR ( Net Profit Margin)	-2.62	9.31	8.89	8.49	9.02

Source: Estimated by the author based on enterprise reporting

Moreover, the high value of Return on Investment represents the good capital investment of the company, such results are based on the investment project of obtaining agricultural business, and successful opening of new shopping facilities. Moreover, as the Ukraine is at the top among others industries with cultivation agriculture products, big profits are promised.

The expansion of business also occurs due to the launch of new sub-divisions. In 2015 the company launched sporting goods under international brand



Intersport (19 sporting shops). In 2015 Epicentr K LLC has established its consumer electronics retail chain CONNECT. In 2016 Epicentr K LLC has launched its own online shopping-platform: [www.27.ua](http://www.27.ua) (200 thousand stock keeping units).

In 2014 Epicentr K LLC opened its largest trade center with total sales area of 105 thousands square meters. This hypermarket is nominated as the world largest DIY hypermarket according to «Ukrainian Guinness Book of records», partner of «Guinness World Records». According to company's statistics, Epicentr K LLC cooperates with more than 900 foreign suppliers, among which nearly 600 are Chinese manufacturers.

In 2017 annual import of Epicentr K LLC from Asia reached more than 4000 twenty-foot equivalent unit, the same year import from Europe - 670 twenty-foot equivalent unit, 415 trucks and 65 railway carriages [26].

Preferably, the success of a construction company depends on the ability and professionalism of the manufacturer's commercial service personnel to convey information to the consumer and satisfy his needs by offering a high-quality, affordable product of high quality raw materials.

Epicentr K LLC annually performs a set of marketing activities related to the expansion distribution activity of the enterprise such as price policy, market penetration and sales promotion.

As the Epicentr K LLC is the main sponsor of Weightlifting Federation of Ukraine, and in 2019 Epicentr K LLC became the title sponsor of the national football team of Ukraine. Those opportunities give company more space for marketing activities.

Under one roof in the shop buyer easily can find the one of the biggest European sportswear retailer – Intersport. In Ukraine, they operate under the license agreement with Epicentr K LLC and is a commercial department in its internal structure. There are 24 shops in total in Ukraine.

Historically Gerega's family started their business with production of tales. And they continue this tradition in Epicentr K LLC activity. In shops buyers can

easily found shelves with different types of self-produced tiles. The variety counts by hundreds of forms, types and price category.

Analyzing table 1.5 we see that company's inventory turnover is in phase from to 2 to 3 times in a financial year, which means that enterprise have a good selling strategy and can effectively merchandise and generate profit. More over starting from 2016, Epicentr K LLC acquired the big agro firm – Vinnytska Agro-Industrial Group LLC, and a few others.

*Table 1.5*

Efficiency Ratios of Epicentr K LLC, 2015-2018

Ref.	Type of indicators/ratios	2015	2016	2017	2018
2	<b>Efficiency ratios</b>				
2.1	Inventory Turnover	2.66	2.62	2.22	2.5
2.2	Accounts Receivable Trend	1.28	2.94	0.996	1.45
2.3	Current Asset Turnover	2.86	2.55	2.53	2.55
2.4	Non-current Asset Turnover	2.65	3.91	3.49	3.67
2.5	Total Assets Trend	1.16	0.98	1.28	1.31
2.6	Accounts Payable Trend	1.08	1.20	1.13	1.17

Source: Developed by the author based on enterprise reporting

The company own 2 big plants of producing tiles. Moreover, it regularly negotiates with its Italian and Spanish partner in purpose to make the best product, exchanging the samples of new styles, inviting their specialist. All of the innovation were realized in life in those two plants. One of them is a Limited Liability "Karpatska Ceramics", founded July 12, 2002. The main product of the production is: glazed ceramic tiles for internal walls ISO standards. In modern Italian equipment for the Spanish technology of imported and domestic raw materials, ceramic tiles are made different in style and designer for the decision. Today, designers of the plant developed more 100 kinds of ceramic tile that meets the most demanding requirements. Ceramic tiles for walls and floors and decorative borders (strips, decors, mosaic) meet all current ISO standards [27].

The second tile factory has been building and is forecasted to be finished in 2020. The total investment in it is accounted around 3 billion UAH. The facility

placed near Kyiv, in village Kalynovka, its area - more than 70 thousand square meters. The total production capacity of the plant will be 12-15 million square meters of tiles per year. As the raw material, factory will use 100% of Ukrainian products. As it planned by management 25% of finished goods Epicentr K LLC will through its hypermarkets, 25% will be sell to other Ukrainian entities and 50% will be exported in European Union, Asia and Middle East [29].

Considering the long-term financial sustainability, (financial strength ratios see in the table 1.6), much of the enterprise's business activity financed by long-term liabilities.

*Table 1.6*

Financial Strength Ratios of Elektrostal LLC, 2014-2018

Ref.	Type of indicators/ratios	31.12.14	31.12.15	31.12.16	31.12.17	31.12.18
<b>3</b>	<b>Financial strength ratios</b>					
3.1	Debt to Total Assets	0.11	0.06	0.04	0.08	0.09
3.2	Debt Ratio	0.82	0.92	0.64	0.61	0.63
3.3	LT Debt to Equity (MRQ)	0.48	0.45	0.04	0.11	0.13
3.4	Total Debt to Equity (MRQ)	0.86	0.28	0.11	0.20	0.21

Source: Developed by the author based on enterprise reporting

By the way, in 2017 the portion of long term-debt is increased, mostly those loans used for internal investments, renovations and modernization of markets and internal infrastructure. Despite that fact, that the amount of borrowed money increased company does not have bad liquidity, and total portion in structure is balanced.

After building successful hypermarket business, Gerega family decide not to stop and over the last three years, their agricultural business has started to grow rapidly. The family began building their agrarian empire in 2015. Over the past three years, they have managed to concentrate more than 100,000 hectares in five regions of Ukraine. And now Epicentr K LLC is the 9<sup>th</sup> in “Top 100 Latifundists of Ukraine” with a land bank at the end of 2019 of 121.4 thousand hectares [34].



The first significant asset was Vinnytsia Agro-industrial Group (VAPG) in 2016, company bought 80% of VAPG corporate rights, besides the land, there are four elevators with a total capacity of 230 thousand tons of simultaneous storage of grain. The businessmen then bought 10 agribusinesses from an international Glencore trader, ahead of Andrei Verevsky's Kernel in this deal.

After the acquisition, company started technical upgrades, improved cultivation technologies and more. Then the purchase of the agro-assets of the companies "Glencore" and "Obolon Agro" where followed [28]. Today Epicentr K LLC have formed three production clusters: "Western", "Vinnytsia" and "Central" with a land bank in Ternopol, Khmelnytsky, Vinnytsia, Kyiv and Cherkasy regions.

One of the purposes of entering agro market for Epicentr K LLC is export of agricultural which bring foreign currency inflow in the company. This cash flow will help to cover foreign exchange loss which arises in traditional business cycle with foreign suppliers.

As the Epicentr K LLC operating on the market where the main value is property, buildings, land and inventory from the purpose of assets, the company have a strong trend of increasing all of this points. Growing trade, inventory turnover on the level at 3 represent company as good at managerial, logistic and of course management skills. Even that the amount of borrowed money is increased in last years, the company invest them wisely, mostly for investment projects, and its benefit them of using own generated cash flows later still inside business.

According to the table 1.7, the Epicentr K LLC we can observe a huge jump in revenue and profit between 2015 and 2014 years.

*Table 1.7*

### **Growth Ratios of Epicentr K LLC, 2015-2018**

<b>Ref.</b>	<b>Type of indicators/ratios</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>4</b>	<b>Growth Ratios (current year to the previous year)</b>				
4.1	Revenue Trend	1.18	1.09	1.21	1.25
4.2	Total Operational Revenue Trend	3.08	0.78	1.19	1.22
4.3	Gross Profit Trend	1.29	0.95	1.25	1.27
4.4	Net Income Trend	4.19	1.04	1.16	1.18

4.5	Accounts Payable Trend	1.08	1.20	1.13	1.16
4.6	Inventory Trend	1.24	1.14	1.61	1.72
4.7	Property, Plant and Equipment Trend	1.05	0.73	1.23	1.26

*Continuation Table 1.7*

4.8	Balance Value Trend	1.16	0.98	1.28	1.30
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Source: Estimated by the author based on enterprise reporting

In 2014 with the start of war on East of Ukraine Epicentr K LLC lost few big hypermarkets (two in Crimea and 3 in Donetsk and Lugansk region) thus lost in assets value and also in profit from selling goods there, moreover the economic crisis in those years hit the national currency exchange rate and this influence a lot the foreign exchange loss on owned loans and borrowings.

As a lot of products are imported directly from China and other foreign suppliers, jump in currency exchange rate influence company's trade payables. But as we can observe in next years the situation normalized and Epicentr K LLC started again making big profits. In plans of investment at 2018 company forecasted investment of 1.4 billion UAH in elevators construction and 665 million UAH – purchase of vehicles. In comparison in 2019 company will invest 2.5 more billion in agro business. [29].

Also as the company continue to open each year a number of new hypermarkets its amount of inventory also increased which his represented also in calculated data in the table. Vertical Analysis indicators (see table 1.8) show the part of each assets/ liability/ expenses in the total amount.

*Table 1.8*

### **Vertical Analysis Indicators of Epicentr K LLC, 2014-2018**

Ref.	Type of indicators /ratios	31.12.14	31.12.15	31.12.16	31.12.17	31.12.18
<b>5</b>	<b>Vertical Analysis Indicators</b>					
5.1	Cash/Assets	1.36	2.22	3.23	3.26	3.24
5.2	Accounts Receivables/ Assets	1.85	2.04	6.12	4.28	4.5
5.3	Inventory/Assets	32.51	40.19	46.96	45.22	46.45
5.4	Fixed Assets/Assets	52.12	51.88	39.41	42.05	43.02
5.5	Current Liabilities/	55.43	51.35	61.92	56.00	55.5

	Liabilities					
5.6	Salaries / GP	8.12	2.93	8.24	9.20	8.9
5.7	Admin. exp. / GP	2.34	2.22	1.65	1.95	1.9

*Continuation Table 1.8*

5.8	Selling exp. / GP	13.35	12.94	14.12	14.81	14.9
5.9	Other exp. / GP	8.05	0.82	0.38	0.42	0.39

Source: Developed by the author based on enterprise reporting

As main economic activity of Epicentr K LLC is trading of non-food products, thus inventories are taking place in assets structure with portion from 32 to 46. Also big value of index number 2.9 is describe by the impairment of property plant and equipment and also investment property, and by also 350 million UAH inventories in value.

Epicentr K LLC liquidity ratios indexes value increased from year to year, despite that cash and cash equivalent are around 211 million UAH in 2014 and 245 million in 2018 year which is a great amount in comparison to value of current liabilities in those years (8.6 billion UAH in 2014 and 13.9 billion UAH in 2018) its seemed a relative small number, but according to company financial policy they try to operate with low amount of cash and try to immediately reinvest gained profit into future inventories and goods. (see table 1.9).

*Table 1.9*

### **Liquidity Ratios of Epicentr K LLC, 2014-2018**

Ref.	Type of indicators/ratios	31.12.14	31.12.15	31.12.16	31.12.17	31.12.18
<b>6</b>	<b>Liquidity ratios</b>					
6.1	Cash Ratio	0.03	0.05	0.05	0.08	0.09
6.2	Current Ratio	0.22	0.94	0.98	1.03	1.05
6.3	Quick Ratio	0.10	0.15	0.22	0.21	0.3
6.4	Solvency Ratio	0.02	0.11	0.13	0.12	0.13
6.5	Working Capital	(1,951,142)	(583,100)	(234,853)	438,662	648,152

Source: Estimated by the author based on enterprise reporting

Analysis of the main financial positions of the company shows that after non-expected national crisis in 2014-2015, company thanks to its structure and strategy recover its financial indicators fast, and continue to grow and invest.



In organizing agricultural business investing in infrastructure and logistic is very important, thus Epicentr K LLC made in plans buy 3 special trains with 50-60 units in it. But what is even more important is elevators — nowadays company have 5 of them with capacity of 360 thousand tones in total, still company planned to built two more.

### **Conclusions to part 1**

A distribution channel can be defined as a set of enterprises or individuals that perform all the intermediary functions of physical movement of goods and the transfer of any ownership of the goods in the process of moving them from producer to consumer.

The main sales channels of products of Epicentr K LLC can be described as followed:

Direct sale — physical selling to clients in the stores all over Ukraine, as the scale of shops are big everyone can easily buy not only for its own consumption but also for resale and warehousing.

Indirect sale — through its subsidiary 27.ua Epicentr K LLC entered e-commerce market and now customers can buy products online and order shipping and other supported services.

In organizing agricultural business investing in infrastructure and logistic is very important, thus Epicentr K LLC made in plans buy 3 special trains with 50-60 units in it. But what is even more important is elevators — nowadays company have 5 of them with capacity of 360 thousand tones in total, still company planned to build two more. In plans of investment at 2018 company forecasted investment of 1.4 billion UAH in elevators construction and 665 million UAH – purchase of vehicles. In comparison in 2019 company will invest 2.5 more billion in agro business.

Operating in retail market Epicentr K LLC reached high positions thanks to aggressive expansion strategy and innovations, it was the first national company that launch big shopping facilities and the main trading points. Big hypermarkets

where under one roof customers find all the needed build materials, decorations, home accessories and many others things, became very popular among people and visits of Epicentr K LLC became a family trim for many Ukrainians. High penetration in all corners of the country, good advertising and availability of commodities made Epicentr K LLC all time visit shop for many buyers, and through its 16 years selling activity create a big pool of loyal customers.

The second paragraph explores the financial and economic condition of the enterprise. According to the financial results presented by the company, the economic and political crisis in 2014 2015 years damage core business a lot, company lost its main value – 5 hypermarkets with all equipment and inventories, but the biggest loss is loyal customers that live in annexed East region.

Thus the net revenue of the company was equal to -561,875 thousand UAH in 2014, but it increased to 2017 and was equal to 2,846,779 thousand UAH. Such massive jump evidence that even such big losses are short-term, and casually company run its business successfully and very profitable. Another very important index that was calculated is Return on Investment, company management possess a very effective growth strategy, thus, from year to year new markets open, new industry such as agro sector is aimed and successfully obtained. Thus investment in agro allowed company to get in top 10 biggest land bank holders in 4 years.

Epicentr K LLC liquidity ratios indexes value increased from year to year, despite that cash and cash equivalent are around 211 million UAH in 2014 and 245 million in 2018 year which is a great amount in comparison to value of current liabilities in those years (8.6 billion UAH in 2014 and 13.9 billion UAH in 2018) its seemed a relative small number, but according to company financial policy they try to operate with low amount of cash and try to immediately reinvest gained profit into future inventories and goods.



## PART 2

### RESEARCH OF THE MECHANISM OF ATTRACTING INTO INTERNATIONAL DISTRIBUTION NETWORKS OF Epicentr K LLC

#### 2.1 Monitoring of the external environment of Epicentr K LLC

Epicentr K LLC is clear leader of DIY retail market of Ukraine. The group operates 55 DIY hypermarkets with trade area exceeding 1.2 million square m and net sales in 2012 at UAH 33M, and company sells more than 200,000 description of goods through its stores, where more than 3,000 Ukrainian and thousands of foreign suppliers are involved.

First large DIY hypermarket was constructed and start running business in 2003 and almost immediately, the chain started to grow: in 2006 total number of hypermarkets were 6, in 2008 – 22 and in 2019 — 55 stores (see fig. 2.1).

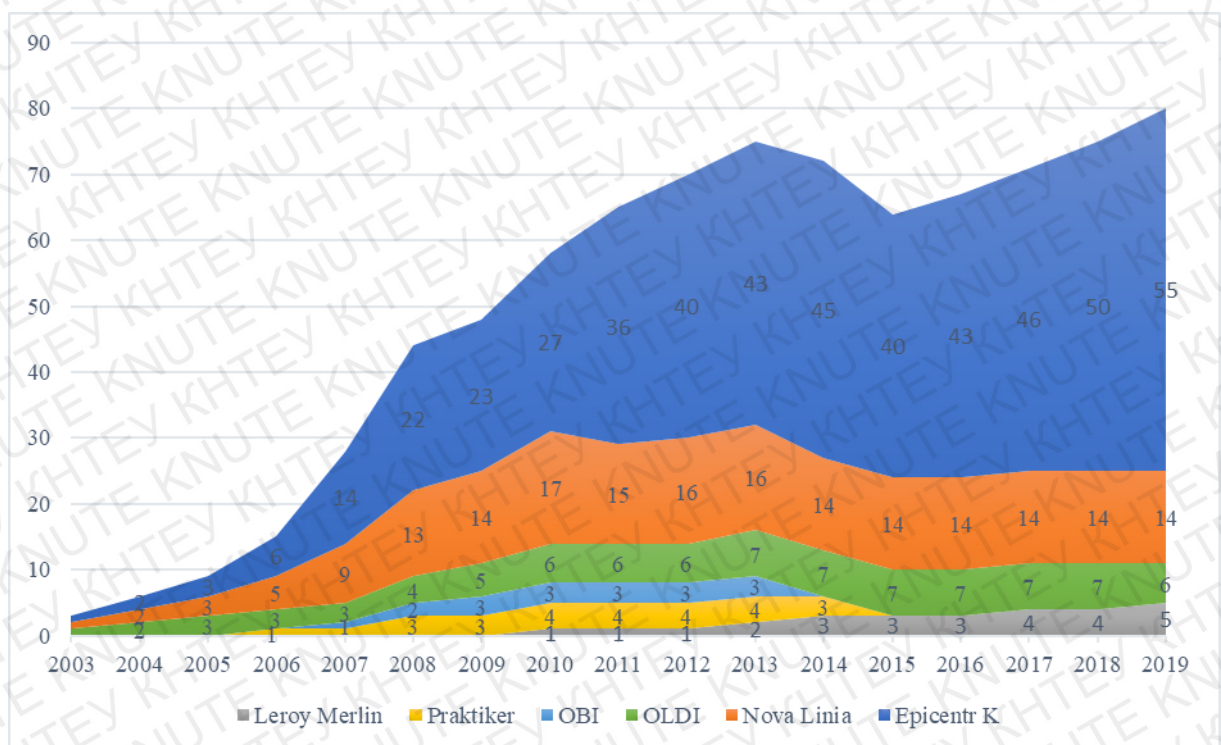


Figure 2.1 Dynamic of number of stores by different trademark  
in Ukrainian market in 2003-2019

Source: Estimated by the author based on enterprise reporting [10]

As we can observe the market competition today is not so strong in the



market, the biggest share of it belongs to Epicentr K LLC. Its operates in all big cities in regions and continue to expand chain to small cities; Leroy Merlin and OLDI just make a small influence on overall market trend.

Despite the fact that at the end of 2019 the well-known Sweden brand IKEA will enter the market, moreover they plan to open a small expo-shop with a square of 5000 meters, which cannot compete to local giants.

Since 2009, the Epicentr K LLC company is beginning to move away from purely building format. It opens new commercial hardware areas, expands product groups. This is how in February 2009 was opened the «Deco» direction - tableware, textiles, gifts, that gave customers a new opportunity to equip the house. Glass, ceramics, porcelain, cutlery, kitchenware, textiles: pillows, blankets, bedding, kitchen textiles, as well as a huge selection of gifts - all this appeared in a new product range of Epicentr K LLC. In the same year was opened the «Household chemicals» department. These two major directions became the first step in changing the format of the entire network form building to building and hardware.

The completion of the transition to the new format was marked by the opening in 2009 of a huge building and hardware hypermarket Epicentr K LLC with an area of 56 thousand square meters. It became a model for future stores and example for restructuring existing ones. Being present at the opening of this giant, head of the association EDRA John Herbert personally admitted the uniqueness of the new format of Epicentr K LLC, which combines building and hardware trends. Continuing its dynamic development in 2010 Epicentr K LLC officially entered the European Association of DIY (EDRA). Since 2012, the Epicentr K LLC company is a member of the European Business Association, joining the association of famous world networks [8].

To understand the scale and magnificent of this Ukrainian giant retailer chain we can mention that the Book of Records of Ukraine on 6 December 2014 nominated one of the new-opened Kyiv hypermarkets as the “The world’s largest trading center of DIY format” and this record is still not beaten.

During 2006-2018 years the company Epicentr K LLC was awarded in the category «Choice of the Year», which clearly demonstrates a high level of confidence in the company and recognition of customers [8].

One of the methods of external factors evaluation on enterprise international business activity is PEST-analysis, which is based on listing of all possible influences on the company for the following group of factors in the table 2.1 [14]:

*Table 2.1*

**PEST analysis of Epicentr K LLC**

<b>Factor</b>	<b>Influence (Weighting factor)</b>	<b>Grade (1-5)</b>	<b>Grade considering influence</b>
<b>Political</b>			
Possibility of escalation of war conflict in East of Ukraine	3	4	0,16
Change in trading legislative, and trading policies	2	2	0,08
Restricted anti-monopoly regulation from the state	1	1	0,04
<b>Economic</b>			
The economic situation in the Ukraine	2	3	0,12
Currency exchange rate	2	3	0,12
The level of income of the citizens	2	2	0,08
<b>Social</b>			
Requirements for product quality and level of service	2	3	0,12
Demographic structure	2	2	0,08
Attitude towards imported goods and services	1	2	0,08
<b>Technological</b>			
Production efficiency	3	3	0,12
Technology research and development	3	2	0,08
Network coverage	2	2	0,08
<b>Total:</b>	25	-	1.160

Source: Estimated by the author based on enterprise reporting

All factors are rated by author in the table 2.1 on the level by their influence on the Epicentr K LLC business activity.

Political factors:

1. Possibility of escalation of war conflict in East of Ukraine — considered as one

of the main macro factor which can painfully influence the company business activity if happened. As in 2014, when company lost 5 big hypermarkets without any payback, future threats of the same situation is considerable, but still company visualized the prosper and recover of East region of Ukraine and in 2019 even opened a new market in Kramatorsk. But uncertainty in geopolitics still is big and such danger should be considered by the management.

2. Change in trading legislative, and trading policies — for one of the biggest national retailer change in legislative and laws can create new unexpected losses and decrease in profit. Thus change in some fiscal policies, taxes are crucial to be consider by management, especially when company resell millions of goods and VAT credit and VAT liabilities are counted also in millions.
3. Restricted anti-monopoly regulation from the state — as it was mention above (see figure 2.1) Epicentr K LLC is the biggest player on DIY retail market in Ukraine. Therefore, represented by the Antimonopoly Committee look after closely on merge and questions by company.

Economic factors:

1. The level of income of the citizens – As the GDP per capita was 3,095 USD in 2018 (grew 3.3 in 2018 compared to last year) [11]. Which is low compared to closest European neighbor, as well as the minimal wages and standards of life, thus ability to make purchase is very important for every seller, especially for non-food store. Still Epicentr K LLC, made a good loyalty system, usually making sales and discounts to attract buyers, and in 2018 the hypermarkets were visited by 56 million happy customers [9].
2. Currency exchange rate – in scale of Epicentr K LLC, where a hundreds of suppliers are foreign, where loans are taken in euro and dollars sum, company policy of avoiding foreign exchange loss should be applied. Thus it's a transaction risk — this is the risk that a company faces when it's buying a product from a company located in another country. The price of the product will be denominated in the selling company's currency. If the selling company's currency were to appreciate versus the buying company's currency, then the



company doing the buying will have to make a larger payment in its base currency to meet the contracted price. In 2014 rapidly jump in value of foreign currencies made big losses for company, thus future unexpected change in rate should be well considered (see figure 3.2).

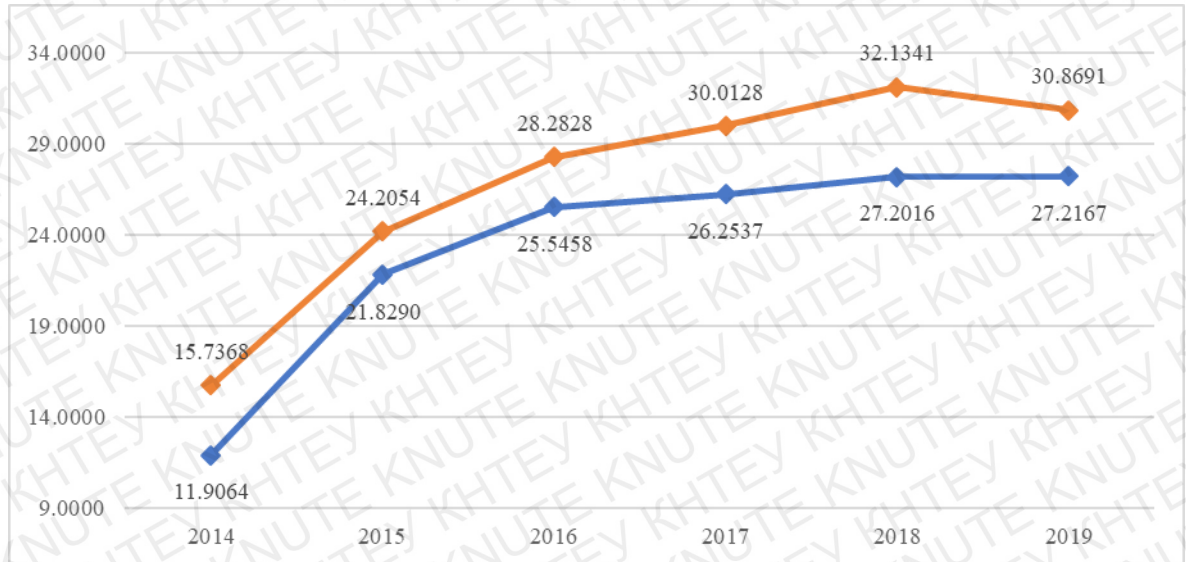


Figure 3.2. The currency exchange rate dynamics of 1 UAH in 2014-2019

Source: Estimated by the author based on the NBU information [29]

3. The economic situation in the Ukraine — reflect general trend in national economic. The fiscal policy, banking systems, foreign trade policies and so on. Usually economic policy is described by government for years but according some un-forecasted situation it can change, and as business is very big in scale and a lot of suppliers, manufactures and so on are engaged and some new laws can be effect the business in different ways.

Social factors:

1. Requirements for product quality and level of service – nowadays when the rule “customer is always right” business became more adaptive to needs and tastes of buyers. Still the DIY store business concept is more about standardization, moreover Epicentr K LLC possess a lot of customize solution for its customers. Company offer delivery and assemble services and with the open of its internet market place 27.ua Epicentr K LLC entered e-commerce sector and became available for new potential buyers.
2. Demographic structure — according data gathered by Epicentr K LLC, the

biggest share of customers is at the age of 25 to 45 years (63), second one group is people at the age from 46 to 60 years (24), children and youth (till 25 years) and elders (60+ years) are only 13 in total structure (see figure 3.3). This number leads us to the conclusion that the main part of economic active people are target customers, those who usually have fixed source of income and like to use one type of store where they can find most of needed goods, perfect example of loyal customers.

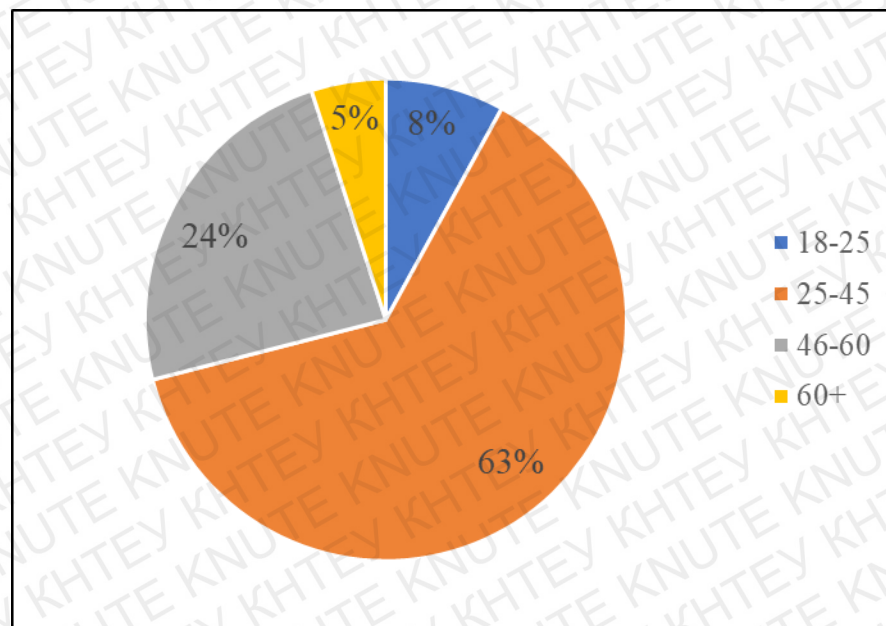


Figure 3.3. The demographical structure of customers on 01.11.2019

Source: Estimated by the author, based on the source [9]

Moreover 51 of customers are have families and children and 46 have their own car. Thus understanding the demographic structure and forecasting its change, company should adjust marketing campaigns, create target sales [10].

3. Attitude towards imported goods and services – today customer again start buy domestic goods and trust their quality, in Epicentr K LLC, buyers can easily choose the best from domestic and from foreign manufactures.

Technological factors:

1. Production efficiency — efficiency is crucial for any business, how fast it takes to produce finished goods, how many times inventory are turnover in a period. As the company has two own tile plants, thus time of production cycle, efficiency of using raw materials, well planned logistics and warehouses, all



steps are very important to bring the needed product to the customer.

2. Technology research and development – the progress is unstoppable and the company drive into it. In 2018 company opened a new modern Head Office in Kyiv. The top hypermarkets are not only the biggest but also well planned and used the newest technologies in case to provide best services. Moreover, in recent years company started entering the agro sector in Ukraine, and start not only with land lease and agriculture growing but also bought the best equipment such as industrial elevators, vehicles and so on.
3. Network coverage — as today is a communication era and we are victims how every business became electronic, creation and spread of internet forced e-commerce, and now every shop has its own e-shop version. This trend of remote shopping became very convenient for buyers. Thus with launching 27.ua. Epicentr K LLC cover more customers and became available even in regions where hypermarket is far from personal visiting.

Strategic management at Epicentr K LLC includes: defining the mission, formulating strategic goals and objectives, assessing existing and prospective areas of business activity, studying the environment, identifying prospective areas of business, developing strategic plans and specific tasks

To evaluate the sales activity of the enterprise requires a comparative analysis of the external and internal environment with close look on pros and cons of the enterprise, thus for better understanding of an organization we use the SWOT analysis method. (see table 2.2).

*Table 2.2.*

SWOT analysis of the activity of Epicentr K LLC

<b>Strength:</b>	<b>Weakness:</b>
<ul style="list-style-type: none"> <li>• popularity and leadership in the B2B market;</li> <li>• taking into account national and regional features of the market;</li> <li>• close and convenient location for suppliers and potential customers;</li> <li>• a large and diverse range with a high proportion (up to 90) of products of domestic manufacturers;</li> </ul>	<ul style="list-style-type: none"> <li>• lag in the development of the level of service of regional offices</li> <li>• insufficient turnover of part of the assortment</li> <li>• competition between joint positions of own and purchasing products</li> </ul>



Continuation Table 2.2

<p><b>Strength:</b></p> <ul style="list-style-type: none"> <li>• production of own trademarks of competitive price category and quality;</li> <li>• availability of a system of uninterrupted supply and updating of the range;</li> <li>• automated warehouse accounting and electronic payment systems; active market and advertising policies.</li> </ul>	<p><b>Weakness:</b></p> <ul style="list-style-type: none"> <li>• lack of qualified service personnel in the supermarkets of the network</li> <li>• staff turnover among junior sales staff</li> </ul>
<p><b>Opportunity:</b></p> <ul style="list-style-type: none"> <li>• direct contacts with manufacturers, lack of intermediaries are positive for pricing</li> <li>• creation of new jobs contributes to the growth of citizens' incomes, which, accordingly, revitalizes the market</li> <li>• high turnover of most of the inventories</li> <li>• the ability to carry out high-level logistics processes</li> <li>• cooperation with company divisions in other regions allows to exchange technological and service experience</li> <li>• Advertising opportunities help attract new customers</li> <li>• lower prices for raw materials for production of own products will reduce its cost price and will allow to increase profitability</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• lowering prices to competitors will attract a significant portion of customers and to maintain market share, there will be a need to reduce prices unplanned</li> <li>• inappropriate advertising will cause that advertising costs be ineffective</li> <li>• the worsening socio-political situation may adversely affect the development of solvent demand</li> <li>• instability of economic, tax, banking and other legislation in Ukraine and the global financial crisis complicate the national situation</li> <li>• exchange rate volatility may reduce the profitability of the company's foreign units as well as create FOREX losses</li> </ul>

Source: Estimated by the author based on enterprise reporting

The strengths of an enterprise are what it has succeeded in or some feature that will provide additional opportunities. Strength can consist in experience, access to unique resources, availability of advanced technology and advanced equipment, high qualification of personnel, high quality of products, popularity, etc [32].

The weaknesses of an enterprise are the absence of something important for the functioning of the enterprise or something that does not succeed in comparison with other companies and puts it at a disadvantage.

SWOT analysis involves first identifying strengths, weaknesses, opportunities, and threats, and then establishing relationships between them that can be used to formulate an organization's strategy.

Currently, SWOT analysis is widely used in various fields of economics and management. Its versatility allows used it at different levels and for different objects: analysis of products, enterprises, competitors, city, region, etc. This method, as a management analysis tool, can be used for any enterprise to prevent it from getting into a crisis.

## **2.2 Assessment of the mechanism of attracting international distributions networks of Epicentr K LLC**

According to the successful expansion strategy by the last years there is no strong competitors to Epicentr K LLC in Ukraine on the market of DIY retail. In sector agro, where just 4 years ago Epicentr K LLC entered, there much more possibilities, as their different agricultural cultures which you can successfully grow and sell domestically and also abroad.

Thus there definitely two main directions that we can see from this point to the company. One is still entering all the regions around Ukraine and prepare ground for expansion abroad or leave just national leader on retail market and force the domestic agricultural sector.

As nowadays in all neighborhoods countries can be already created their own strong market of DIY retailers, we should choose the big countries where company can still find its own niche and potential customers. Thus we will try to target three big countries that place near Ukraine and have a little of common.

The chosen countries will be: Poland, Romania and Bulgaria. All of three countries are relatively big, they have a big portion of economic active population that can be a target customer, and as they all placed near Ukraine and historically we know each other tradition tastes and so on. Thus it will be a possibility to enter their markets.

The characteristic of the countries is following:

1. Romania: a EU member, the GDP per capita is 12,301 USD, 9,508 millions of habitants and is possess as high developed economy and great buyers bargain power.

The situation on the market is following: the biggest share is holding mostly by “Arabesque” (19 shopping centers), by “Leroy Merlin” share of 12 chopping centers and a lot of smaller retailer chains. Furthermore, from 2006 was a period when “Arabesque” hold Ukrainian retailer chain “Budmax”, which at those time was the third biggest in Ukraine.

2. Poland: the EU member, high developed country with population of almost 38 million people, GDP per capita in 2018 was 15,424 USD, country with high standards of living and love to national brands. According to the statistic the DIY retailers market in Poland is highly saturated by the local and foreign brands. And number of stores are a greatly bigger than we have in Ukraine in total. Detailed information showed on the figure 2.2.

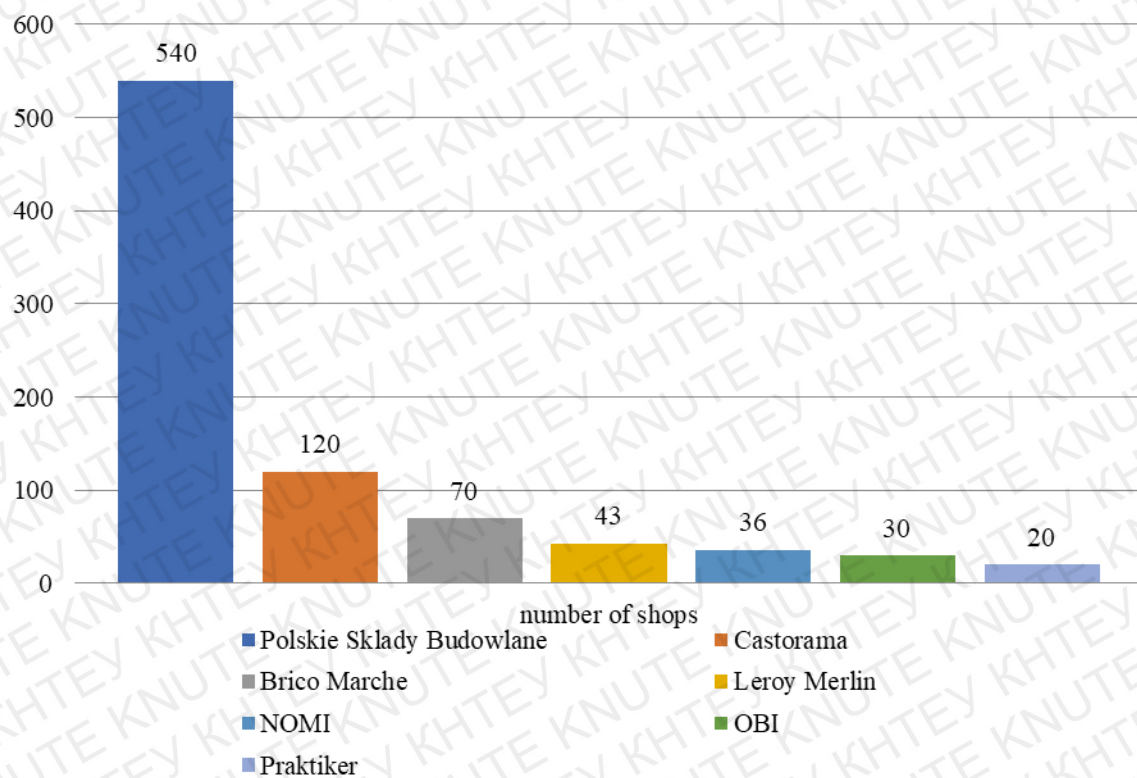


Figure 2.4. Number of DIY retailer’s shops in Poland at 2019

Sourced: Estimated by the author based on the source [35].



As we can observe, as the country has a strong well developed economy, member of EU, and population have a high purchase power market is branch of competitors. Thus in Ukraine there are 5 hypermarkets of Leroy Marlin, and in Poland 43. The difference is amazing and mean that its more favorable and profitable palace situation in Poland rather than in Ukraine.

3. Bulgaria: EU member, the GDP per capita is 9,222 USD, population is around 2 million habitants. Bulgaria has undergone a significant transformation over the past three decades. It has changed from a highly centralized, planned economy to an open, market-based, upper-middle-income economy securely anchored in the European Union [25].

On the local market the situation with DIY retailers is the following, top companies among the market are: “Praktiker” with its twelfth shopping centers among the country, “Mr. Bricolage” with eleventh shops, “Home Max” with eight stores,”Praktis” with seventh stores and Bauhaus with only one shopping facility.

Among other countries in Bulgaria market divided more proportionally, and every company still have place to grow.

In total the situation of penetrating foreign markets of DIY-retail in Poland, Romania and Bulgaria looks complicated for Ukrainian Epicentr K LLC. From geographical point, all countries are close to Ukraine and could be used for expansion of commercial activity, but Ukraine has no direct border with Bulgaria, thus exporting goods there needed bigger traveling costs in comparison to export to Poland and Romania. It will increase costs of sales of selling goods and Epicentr K LLC could have disadvantage of higher prices for commodities. Starting business in Poland also could face some problems, as Epicentr K LLC import a lot from its China suppliers, and all of the goods are came through the sea by FOB contracts, importing in such way directly to Poland shopping facilities will be more expensive because Poland have access only to Baltic sea which mean longer travel time and also costs. Moreover, despite the fact that Poland has bigger population than Romania and Bulgaria, the amount of rivals shops and intensity of competitiveness, love of domestic population to their national brands rather than

foreigners opening facilities in scale that is made in Ukraine there will be very costly. Moreover, all of three countries are EU members, and opening hypermarkets will require big investment: salaries should be competitive, stores built accordingly to national and EU standards and requirements. Thus, starting opening own stores and creating the same shops chain in the following countries could be very expensive for Epicentr K LLC and the expected revenues from this expansion can't cover all the risks that arise.

But, in case of Romania which Epicentr K LLC has a great possibilities entering that market by in-direct distribution channels.

Epicentr K LLC is a trading company, so the production, promotion and marketing of its products should be considered as a comprehensive system of its activities.

The basic principles of evaluation of distribution activities at Epicentr K LLC include:

- 1) purposefulness and continuity;
- 2) systematic, integrated approach to strategy development and strategic management system as a whole;
- 3) using the uncertainty of the future as a strategic opportunity;
- 4) flexible adequacy of systems of strategic management of changes and conditions of functioning of organizations;
- 5) efficiency and effectiveness.

Thus starting from 2016 financial year in company's financial statement start generating new source of income —revenue from sales of agricultural produce and the amount was 798,129 thousand UAH in 2016 and increased to 2,058,630 thousand UAH in 2018 (see table 2.3).

*Table 2.3*

Epicentr K LLC export of agriculture products in total sales in 2016-2018,  
thousand UAH

<b>Net sales / Year</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Total sales of agriculture produce	798,129	1,486,425	2,058,630
Cost of agriculture produce	967,580	1,457,074	1 833 340
Export	147,828	1,010,050	1,441,041
Internal market	650,301	476,375	617,589
Export in total sales	19%	68%	70%

Source: Estimated by the author based on enterprise reporting

Obviously, that in first year of dealing with agriculture produce the amount of export was low at equal to 19% from total sales, but we observe strong jump in volume already in 2017, which reflect perfect managerial negation skill and logistic campaign. Almost double increase in revenue reflect aggressive expansion strategy of the company into agricultural domestic market.

To evaluate the Epicentr K LLC products' price competitiveness we analyzed the dynamics of contract price change during the first years of activity on agricultural market. Thus, after entering this segment in 2016, company's costs for producing was much higher than in following years, this example shows the adapting period where the company made its way of increasing efficiency, building new business internal connection, facing new difficulties with constantly new type of products, their manufacturing process and so on. Moreover, we observe strong tendency of increase of export share and following increase of revenue from export operations (see table 2.4)

*Table 2.4*

Indicators of export efficiency Epicentr K LLC in 2016-2018, thousand

UAH

<b>Indicator</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>UAH</b>	<b>UAH</b>	<b>UAH</b>
Net profit from export	147,828	1,010,050	1,441,041
Cost of finished products	131,870	894,217	1,160,979
Cost of export (FOB Odessa)	13,975	95,487	122,359
Total cost of finished products	145,845	989,704	1,283,338
Effect from export	1,983	20,346	157,703
Coefficient of export efficiency	0.013	0.129	1.00



Source: Estimated by the author based on export reporting of Epicentr K LLC in 2016-2018

To evaluate the Epicentr K LLC products' price competitiveness we analyzed the dynamics of price changes both for export and internal market for the last three years, where company entered agro market. Under analyzed three-year period the prices on exported wheat vary from 4,371 UAH in 2016 to 6,771 UAH in 2018, maize from 4,352 UAH in 2016 to 5,145 UAH in 2018 and sunflower prices vary from 10,050 UAH in 2014 to 11,100 UAH in 2018 (see table 2.5).

*Table 2.5*

Prices on agricultural produce of Epicentr K LLC for Export and Sales in Internal Market 2016-2018, UAH to tones

Year	Export			Internal Market		
	UAH/tones			UAH/tones		
	Wheat 2 <sup>nd</sup> class	Maize	Sunflower	Wheat 2 <sup>nd</sup> class	Maize	Sunflower
2016	4,371	4,352	10,050	4,233	4,050	9,646
2017	5,088	4,386	10,267	4,714	4,320	10,350
2018	6,771	5,145	11,100	5,850	4,500	9,900

Source: Estimated by the author based on the data from Grain Trade stock [6]

Comparing to the prices on the same Epicentr K LLC agriculture produce on internal market export prices were higher, and this tendency proceeds through all analyzed period. Moreover, in 2018 the difference between export and internal prices grow and was equal to 14%, 13% and 11% on wheat, maize and sunflower respectively, in comparison difference in 2016 was 3%, 7% and 4% respectively.

## Conclusions to part 2

Whatever the size of the company is, it operates in complex environment where its activity under impact of different external and internal factors. In a way of mitigate them and operate efficiency on the market company first of all should analyze its own structure, factors that have influence on it be flexible.

The basic principles of evaluation of distribution activities at Epicentr K LLC include:

- 1) purposefulness and continuity;
- 2) systematic, integrated approach to strategy development and strategic management system as a whole;
- 3) using the uncertainty of the future as a strategic opportunity;
- 4) efficiency and effectiveness.

Epicentr K LLC is national scale business and operate among whole country, thus its operating activity highly correlated to changes in country policy or crises, or to political and economic macro factors. For this purposes we create PEST analysis and define the main challenging factors that can rapidly and significantly change running business model.

As the situation on East of Ukraine is still not solved the main risk that can effect business fast is the escalation of conflict between Ukraine and Russia. As almost all the value is in hypermarkets and its goods, rapidly changes and continue of war can again negatively influence company and its assets list. Thus, company builds its expectation on the optimistic course of solving this issue and even open new hypermarket in Kramators in 2019. Effects of economic factors take second place of importance, as the millions of people annually shopping in Epicenter hypermarkets. Therefore, economic stagnation and crisis issues painfully affect national buyers finance and it will lead to decrease of sold commodities. Thus new parliament and coming changes have very challenging impact on business of Epicentr K LLC.

To continue be a leader on the market company should analyze its strength and weak side as much as opportunities and threats, SWOT analysis represent company from different sides and can make great impact on management decisions in following future.

In paragraph 2, our survey checked foreign market state, analyze the openness of nearest foreign markets and chances of export activity for the company. As the most suitable markets appeared saturated with national brands and retail chains, I became clear that now company can face many expenses and losses in process of expanding its operating activity abroad. Furthermore,

calculated financial indicators shows that company is perfect reseller and turnover of its inventory happens almost three times in a year, and despite that company borrow money, liquidity ration going better from year to year. Moreover, almost all loans are taken for investment purposes, as company leave its own money inside the company turnover.

### **PART 3**

## **WAYS FOR INCREASING ATTRACTING INTO INTERNATIONAL DISTRIBUTION NETWORKS Epicentr K LLC**

### **3.1 Justification of measures of increasing attracting into international distribution networks of Epicentr K LLC**

In previous part survey of Epicentr K LLC we define that two main competitive segment of the company's business model — are retail business and agro sector. According to the research made in part 2.2 for retail expansion, company can target Romania market with remote sales through its website and warehouses in Romania.

This expansion plan requires a lot of expenses but at the same time allows company to become international trader. Moreover, the in-direct sales mitigate most of risks that can arise when company think about trade expansion.

This expansion business model requires the following steps:

- 1) rent of warehouse which will be main logistic center for goods delivery;
- 2) built new web-site especially for Romania market;
- 3) delivery of goods will be provided by national post system and logistic companies;
- 4) strong promotion campaign will introduce Epicenter K goods to new buyers;

The benefits from applying its type of distribution system are following:

- Epicentr K LLC will avoid big investment in built new hypermarkets store chain around new country, where no customer loyalty to new brand;



- Rent of warehouse near big city will benefit of storage place and minimize delivery costs to buyer;
- The cost of hired staff will be minimal because such distribution channel require employment only of packaging staff, small marketing department, security and so on;

At the beginning its recommend to rent storage facility near Bucharest, as the capital of the country always mean big amount of potential buyers, and thus delivery cost will be lower. In case of transporting all of the commodity and goods from Ukraine to Romania warehouse Epicentr K LLC can easily use its own transport department, and few TIRs to make sure that transporting risks to warehouse destination will be mitigating by own vehicles.

The estimating costs for expansion on Romania market are calculated on the following table 3.1

*Table 3.1*

Expensess on export into Romania

<b>Cost item</b>	<b>Price, UAH</b>
Rent of warehouse storage	250,000
Marketing campaign	300,000
Staff salaries	150,000
Transportation to warehouse	80,000
Creation of website	75,000
<b>Total</b>	<b>855,000</b>

Source: Estimated by the author based on enterprise reporting

According to the table the main expenses will arise from rent and marketing, and marketing impact is very crucial for expansion. The main aim of marketing strategy here is built awareness among potential customers about new e-commerce platform, about high quality of selling goods, built an image for Ukrainian retailer. The cost of creation of website expecting to be not so high in case of adaptation of 27.ua site to Romanian market, language and specifications.

The preparation for starting selling is expected to proceed few month, its time needed for establishment storage equipment, hiring personal and negotiation with local post office and delivery services.

As it was mentioned in second part another option for the company develop its new business division, which specialize on agriculture cultivating and export of agriculture produce.

Now, let's look closer on agro capacity of Epicentr K LLC, in the sphere of agricultural business company have already reached big success, not only accumulate big square of farming land but also obtain big elevators, farming building and so on. Though few big deals recent years Epicentr K LLC became in top 10<sup>th</sup> vital players on agriculture market, and if still its amount of grow product are not compared to national apicultural giants, company making its way very persistently.

But company not only grow with lands, it also regularly buys heavy machinery, vehicles building elevators all of this is a serious steps witch show interest in this sphere [11].

Looking at the political situation in Ukraine, and new government that bringing changes in economic life question of land trading rise again. The situation of future opening of the land market increase interest to land right especially for agro companies. In 2018 the 12 of total Ukrainian GDP was made by agro business of Ukraine, from year to year its capacity rise, Ukraine export to 10 countries and the amounts are only growing. All of the factors aimed successful future for agricultural business in Ukraine and Epicentr K LLC can easily find its own place in this system and also benefit a lot.

As agricultural business model is relatively new for Epicentr K LLC, and at the beginning it uses the capacity and knowledge which came into company from acquisition of agro companies, so now it need to impulse the business with innovation and measures that will help company grow faster and become more successful. The main culture that Epicecntr K LLC cultivate are: maze, sunflower seeds, soybeans, wheat and others. Nowadays market is full of innovations and the

best option which can be used by Epucentr K LLC to improve its agro activity is AgDNA.

AgDNA is a data integration, mapping and analytics system that enables farmers and agribusinesses to integrate a wide range of data from multiple sources into a single platform for accelerated decision making.

This can be agricultural data or agronomic data, including crop prices and weather information, since this open platform works with different data sources and brands; it standardizes all input to allow owners to view data in one place.

Company can easily benefit from buying this software and applying it, as the land bank of the company is huge and equal to 121.4 thousand hectares. AgDNA Precision delivers agronomic data in near real-time for all seeding, application and yield activities. The software then analyzes this data spatially with weather, elevation, soil and imagery on every acre to deliver unparalleled insights.

Unlike other software providers, AgDNA Precision is able to combine precision data from company's equipment with other independent sources (like using of drones to make 3D models of field). AgDNA Precision includes spatial layers for:

- Agronomic - seeding, application, yield
- Topographic - soil, elevation, slope, CLU
- Weather - rainfall, temp, wind, humidity, GDD
- Equipment - fuel, speed, location, setup
- Prescriptions - seeding, application, irrigation
- Other - management zones, profitability, benchmarking

The platform also provides financial reporting system, where fuel consumption, operating costs and other overheads are also automatically calculated and assigned to each field. Then generate income and expense reports and know the financial break-even for every field. This statistical harvest information could be very useful for management for planning future culture to grow, or what fertilizers is need to add or was already added.



Moreover, as the platform works online and 24/7 with customer service, there will be no problems of different arising issues. Applying of this platform will pioneer a company far along other rivals, as nobody in Ukraine doesn't use it in their business.

Expecting that increase in efficiency of implemented software and debugging of seeding and production processes in addition to increase in elevators capacity could bring a company to a higher level of management and revenues.

Moreover, on the market there are a plenty of other high productive and modern software programs and tools that can be useful in agribusiness management. One of them, the main competitor to AgDNA is aWhere. aWhere operates a global-scale agronomic modeling environment with immense processing capacity that collects over seven billions points of data every day to create unprecedented visibility and insight across the agricultural earth. aWhere is helping to transform how agricultural decisions are made by providing a level of visibility and insight that has never existed before. Where the AgDNA is more concern about agriculture cultivating, information about harvest, fertilizers the aWhere offer biggest possibilities and platform options related to the weather. Thus, a company has four main platforms:

- 1) In-Time Weather;
- 2) Maps4ER;
- 3) Weather Insights;
- 4) Bundled Solutions [32].

Where the main and similar features among products are: pest and disease prediction which shows where are pests and plant diseases occurring, environmental trend analysis — how changes of climate can influence farming area, irrigation management how is the water supply impacted by weather variability.

Thus, in comparison aWhere will allow to observe more detailed information about climate factors, and weather changes, how this natural aspect can influence on your harvest and much more. In the opposite side AgDNA provide less data with weather and natural options which can have impact on field

but more about management, data inflow and supervising of the field, modelling the ground and how efficiency your vehicles operates on this fields and with agricultural produce.

### 3.2 Forecast evaluation of the effectiveness of proposed measures for Epicentr K LLC

Efficiency of marketing activity of the enterprise directly related to the productivity and efficiency of realization of its products.

As we made a survey in parts above the business structure and possibilities of the company are great and now company need a strategy for further intense growth. According to the research the main prosper company should have expected from export in Romania and growth of agro business unit.

Taking into account information presented in previous paragraph for the expansion strategy the best option will be in-direct export, where company will efficiency organize its work, earned experience of building international distribution channel. In the absence of early expansion strategies, or forecast is based on estimated profits, and actual prices for rent and logistic costs

The expected revenue and costs are presented on following graph (see fig. 3.1)

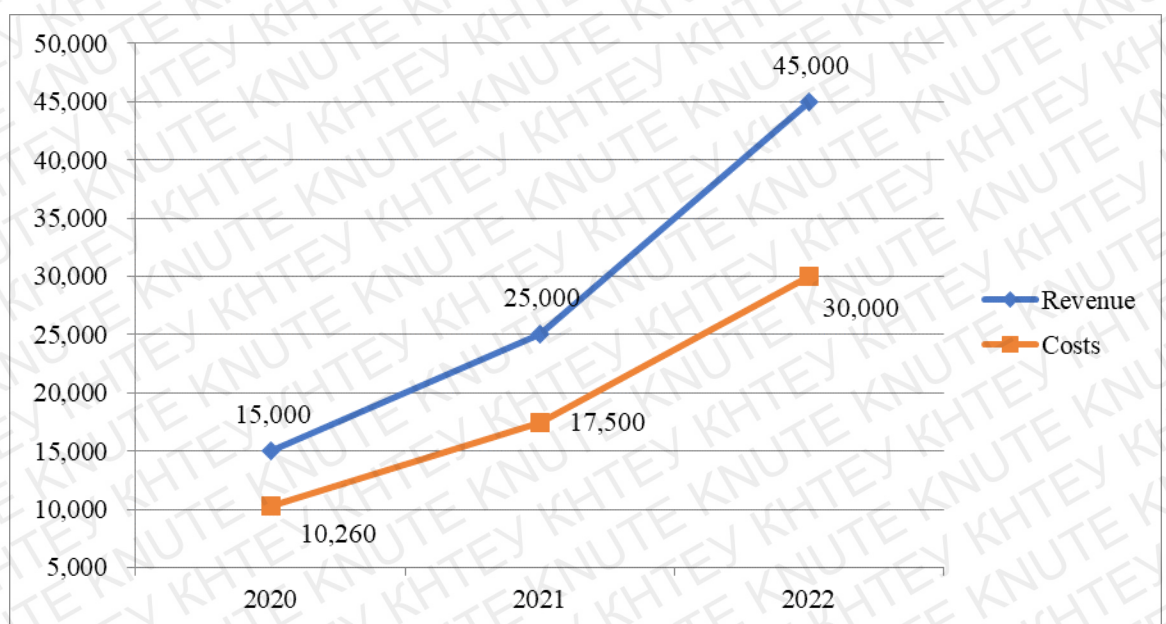


Figure 3.1 Expected revenue and selling costs of export in Romania



in 2020-2022, in thousand UAH

Source: Estimated by the author based on enterprise reporting

Firstly, analyzing the strategy of in-direct sales on Romania market we expect revenues from expansion activity be 15 million UAH in first year, in comparison to expected costs of this selling activity of 10.3 million UAH, where net income from foreign trade is 1,740 thousand UAH.

Thus, well planned and good advertised campaign of export in Romania could bring a valuable cash inflow in the company and built image of Epicentr K LLC on the international arena. As the revenue expect to increase from 15 million UAH to 45 million UAH in two years where the net income counted as 15 million UAH.

In part 1 we have evaluated the efficiency of company activity, operations and the marketing strategies of the enterprise; however, we consider it necessary to evaluate the forecasted efficiency of the enterprise.

In the conditions interdependence of production factors and intensification of market relations between market players, the effectiveness of financial and economic activity of the enterprise depends on the financial planning and strategy of development, thus, the direct role is given to forecasting the financial results of the enterprise. In the world where changes are engine of progress good management strategy and year to year financial planning could improve financial performance, mitigate the risks of operating activities. Thus creation of competitive forecasting model is important.

Without good supervising financial plans as long as un-planning of future investment project could bring company to loss of financial funds, competitive disadvantages to the rivals and increase in working capital. Thus, examination of future years data of revenue sources, cost items, its past performance, successful marketing strategies would benefit for future economic activity.

In paragraph 3.1. We offered marketing recommendations to focus on further domestic expansion and intensification of investment in agricultural



business. It is now necessary to forecast the performance of the enterprise, considering those proposed marketing measures.

Implementing the platform will effectively increase farming capacity of the company. In addition, in 2012 the total export of agricultural products was equal to 400,000 tones, in 2018 season export was 550,000 tones, and in 2019 was 620,000 tones where the structure of selling culture changed. Calculated the estimate costs required for the proposed marketing activities are in the table 3.2 below.

*Table 3.2*

Expenses on Farming Activities of Epicentr K LLC

Cost item	Price, UAH
Expenses on implementing the farming software (AgDNA)	2,500,000
Expenses on supported IT specialists	100,000
Total:	2,600,000

Source: Developed by the author based on enterprise reporting

The company understand that the sunflower seeds and oil market is highly saturated with competitors and their finished products, and company decide to reoriented with production of 2<sup>nd</sup> class wheat and maize growth. Where the graphical structure of export is following (see figure 3.2):

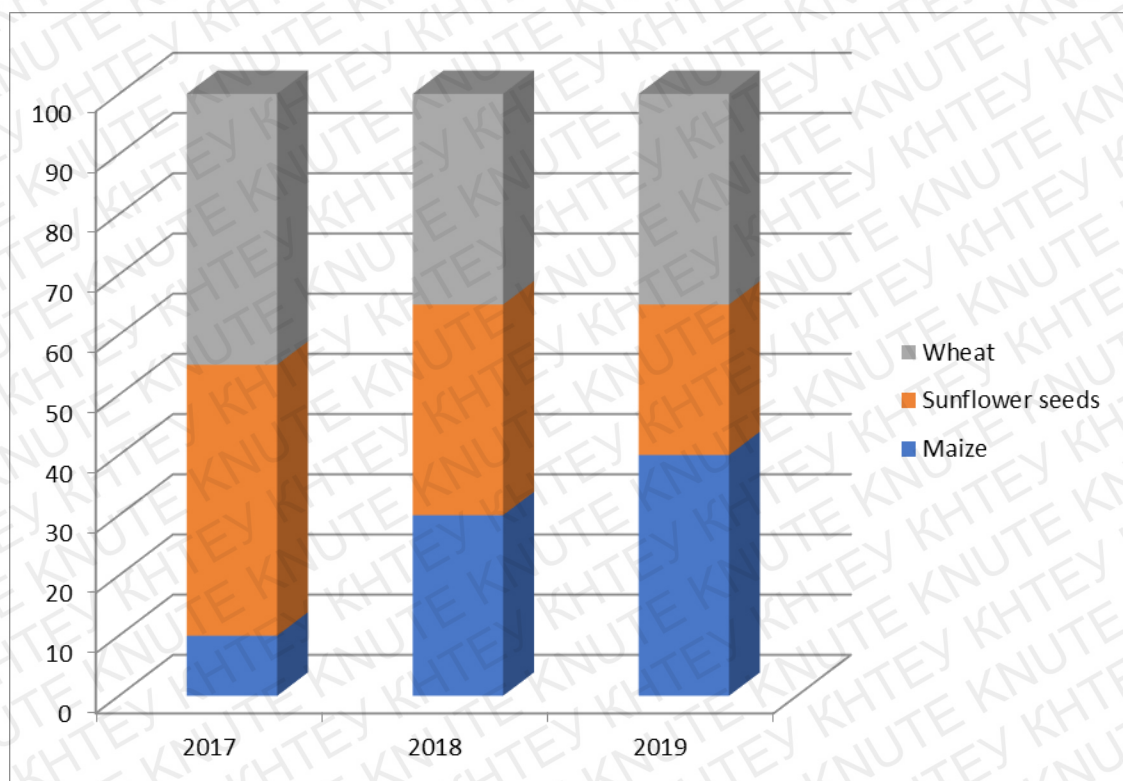


Figure 3.2 The corn structure of export agriculture in 2017-2019, %

Source: Developed by the author based on enterprise reporting

As the company implements the platform it will lead to more effective management of corn growth, fertilizer added, moreover fields will be sowed and harvest will gather in time. All the reasons will increase future yield from agricultural activity and it will lead to growth of export capacity of the company (see table 3.3).

Table 3.3

**Yield capacity tone per hectare in Epicentr K LLC tons per hectare**

<b>Culture</b>	<b>2018</b>	<b>2019</b>	<b>2020f</b>	<b>2021f</b>
Maize	12.16	13.1	13.6	14.0
Wheat	6.04	6.9	2.3	2.8
Sunflower	3.42	4.02	4.5	4.93

Source: Estimated by the author based on enterprise reporting

The company sell grain mostly on the FOB-basis in the ports of Black Sea to big international traders like Cefetra (19 of Epicentr K LLC grain export volumes in 2018), COFCO (12) and Glencore (11), as well as OLAM, Cargill, ADM and others. Traders then deliver grain to key export destinations, being Europe (30 of total grain export volumes in 2018), Asia (30), and Middle East (40). According to company strategy the share of export to Middle East and Asia will grow with the Europe share will decrease simultaneously.

In paragraph 2.2. we analyzed the efficiency indicators of Epicentr K LLC on three previous years, the tendency represents increased of export volume through the years, as well as decrease of manufacturing costs, efficiency trade through Odessa sea port on the basis FOB allow company mitigate most of the risk and easily trade with the countries.

As the measures are concerned future periods, its crucial to predict unexpected fares and taxes. As the sale is conducted on the FOB base of Incoterms 2010, and starting from 2020 year the new Incoterms 2020 base will be implemented. Where the no new changes to FOB basis will be applied and thus, the costs of FOB will be influenced only by inflation rate, amount of seeds trade.

The next step is to forecast export indicators of Epicentr K LLC for 2019-2021 (see table 3.4).

*Table 3.4*

**Export Efficiency Indicators of Epicentr K LLC (FOB Odessa) for  
2019-2021, in thousand UAH**

Indicator	Previous data	Forecast			Absolute deviation		
	2018	2019	2020	2021	2019-2018	2020-2019	2021-2020
Net profit from export	1,441,041	1,853,947	2,309,428	2,707,983	412,906	455,481	398,555
Cost of finished products	1,160,979	1,501,356	1,818,880	1,914,293	340,377	317,524	95,413
Cost of export (FOB Odessa)	122,359	160,194	198,104	202,952	37,835	37,910	4,848
Total cost of finished products	1,283,338	1,661,550	2,016,984	2,117,245	378,212	355,434	100,261
Effect from export	157,703	192,398	292,444	590,738	34,695	100,047	298,293
Coefficient of export efficiency	1	1.22	1.52	2.02	0.22	0.30	0.50

Source: Estimated by the author based on enterprise reporting

Concerning the export performance indicators of agricultural export of Epicentr K LLC in 2019 - 2021, the export efficiency ratio will increase from 1.00 in 2018 to 2.02 in 2021. This numbers would be the results from increased export volume by effective management decisions based on platform information and big investment in 2018/2020 in elevators capacity. Therefore, the proposed measures will benefit Epicentr K LLC activity and should be taking into consideration of the company's supervisors.

### Conclusions to part 3.

“Epicentr K” LLC is a big Ukrainian company, which have, diversify business model. Main and well-known activity is retail of non-food products, for building, decor, furniture, home electronic, garden staff and so on. But in recent



years new industry was target by company and in few years Epicentr K LLC became a vital player on Ukrainian agricultural market.

Despite the capacity of retail chain, and its leadership in Ukrainian market, expansion abroad could be very costly and risky for company. Thus in 3 chapter of our research we analyze nearest markets for expansion: Poland, Romania and Bulgaria. All of the countries already have highly developed DIY-market, and lower population than in Ukraine, thus price and brand war in these countries already tense, and expansion campaign of domestic brand will require big human and financial funds, marketing and logistic support and so on. But therefore in our research we found that built of remote distribution channel in Romania could be profitable and inflow of net income equal to 1,740 thousand UAH only in first year.

Therefore, our vision aimed agricultural sector where company still have a big opportunity. The effectiveness of agricultural company is highly dependent from its resources and way of how management operate with them. In case of Epicentr K LLC first steps was built big land bank, to company now is on the 9th place among Ukrainian agro businesses, starting from 2018 company began big investments projects of renovation and building new highly effective elevators, and now when company has a big scale it needed the source of effective management information. Implementing of “AgDNA” platform will generate a flow of useful data, that will help management to establish all the business processes in new industry for the company and lead CEO’s to right strategic steps.

Despite that recommended measures of purchasing needed software is costly for the company at the beginning. Changes in internal structure and field management will lead to increase of harvest growth volumes, export expansion and increase of foreign currency inflow, which will cover exchange losses from import operations.

Despite the implementing measures, with new geopolitical situation in Ukraine agricultural sector became in focus of parliament, which one aimed to open land market, which will lead big investments and expectations to this

industry. Thus now is the best time for the company to optimize its business structure and increase its growing capacity.

According to our forecast — not only the yield capacity per hectare will increase but also company's export effectiveness indicators will increase and in 3 years from 2019 to 2021 coefficient of export efficiency will grow to 2.02 value, which mean that company have a possibility to double its revenue from export activities.

## CONCLUSIONS AND PROPOSALS

In a rapidly changing world, information and adaptation possibilities of the enterprise are crucial for its prosper. As the scale of the company have a direct correlation to the speed of changes in it, big business such as Epicentr K LLC needs to adopt for future challenges now. Distribution activity based on the conditions of receipt maximum profit and fast sale of manufactured goods that requires a common methodological basis in the process of marketing activities. Therefore, it is important to plan the marketing activities, on the base of the amount of suppliers and the goods that will be sell. In the absence of those or other resources need to coordinate production and marketing plans with taking into account financial, economic and logistical priorities organization

Operating in retail market Epicentr K LLC reached high positions thanks to aggressive expansion strategy and innovations, it was the first national company that launch big shopping facilities and the main trading points. Big hypermarkets where under one roof customers find all the needed build materials, decorations, home accessories and many others things, became very popular among people and visits of Epicentr K LLC became a family trim for many Ukrainians. High penetration in all corners of the country, good advertising and availability of commodities made Epicentr K LLC all time visit shop for many buyers, and through its 16 years selling activity create a big pool of loyal customers.

In Ukrainian realities where the new government came, and big changes are on the horizon. It is important to adjust to them, and do not lose the comparative advantage among rivals. As there are big expectations and changes in the agricultural industry in near future, Epicentr K LLC could face obstacles and challenges on its already successful way, but implementation of “AgDNA” software system could impulse the enterprise for needed internal changes and give it advantages among strong competitors. As well as the strategy of trade expansion into Romania market will increase the image of Epicentr K LLC on international



arena, and will be the first step of its multinational growth.

On its modeled distribution channel in Romania, Epicentr K LLC use a similar business model as “Walmart Inc.: use, big warehouse storage, logistic, internet trade. This model allows to mitigate most of risks that can company face when its trade abroad. As well as the traditional way of trading for Epicentr K LLC is hypermarkets chain, in Romania, building new stores will be very costly and take a lot of time, thus rent of property and active marketing campaign could adjust market for entering only in few months.

In the research, we analyze the enterprise and its external environment and factors that define it as the leader on domestic market, to analysis of financial indicators which represent more detailed analysis of what company have and how successfully and efficiently operate. The survey shows that company phase is rapid growth where capacity grows from year to year, as well as its revenue and future investment. The main measures on this stage are to build strong business connections among divisions and avoid losses from bad hierarchy and coordination.

In the second part, analysis shows that export expansion of the Epicentr K LLC would lead company to big expenses and and possibility of failure on international arena. Thus survey make close look on very promising agro activity of the enterprise. Less than five years company easily entered world commodity market and yearly sell abroad more than 500,000 tones. Reoriented on the Middle East and Asia (40 and 30 from total export respectively) countries as the counterparty for export operation rather that Europe, brings company many successful deals, and promise further growth for the company. The analysis showed that just in a year of operating with agro, the revenue from agricultural produce doubled, and the cost of its cultivating decrease. At the same time costs margin in finished agricultural produce is high and bout 70 and effective measures that will organize all new business structure will at the same time decrease production expenses. The basic principles of evaluation of distribution activities at Epicentr K LLC include:

- 1) purposefulness and continuity;
- 2) systematic, integrated approach to strategy development and strategic management system as a whole;
- 3) using the uncertainty of the future as a strategic opportunity;
- 4) flexible adequacy of systems of strategic management of changes and conditions of functioning of organizations;
- 5) efficiency and effectiveness.

In the third part, we developed measures to improve the efficiency of agricultural sector and thus increase export capacity of the company. As the past years company invested in elevators, the infrastructure of the company will be on a high level after renovation projects. At this time, implementing of software system “AgDNA” will manage production issues and allowed company to increase grain volumes and quality of corns. As well as built detailed strategy of market penetration of Romania, in a in-direct sale distribution channel.

Thus, the implementation of all the suggested recommendations for Epicentr K LLC will increase the efficiency of managing the sales activity of the enterprise, increase the export of agricultural produce, expand the customer base and establish more business deals in growing market of Middle East and Asia. As well establish ground for market penetration in Romania and later in other favorable countries.

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## APPENDIXES

## Appendix A

## Epicentr Group

COMBINED STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 December 2015

	Notes	2015 UAH 000	2014 UAH 000
Revenues	10	25,315,624	21,417,267
Cost of sales	11	(17,373,123)	(15,254,938)
<b>Gross profit</b>		<b>7,942,501</b>	<b>6,162,329</b>
Other income	14	62,964	138,202
Selling costs	12	(3,207,531)	(2,808,701)
General and administrative expenses	13	(551,305)	(491,447)
Other expenses	15	(214,901)	(1,693,325)
<b>Operating profit</b>		<b>4,031,728</b>	<b>1,307,058</b>
Finance income	16	31,790	5,394
Finance costs	17	(230,986)	(145,439)
Foreign exchange loss, net	18	(906,800)	(1,565,125)
Share of (loss) / profit of an associate	22	(1,066)	250
<b>Profit / (loss) before tax</b>		<b>2,924,666</b>	<b>(397,862)</b>
Income tax expense	23	(568,210)	(164,013)
<b>Profit / (loss) for the year</b>		<b>2,356,456</b>	<b>(561,875)</b>
<b>Total comprehensive income / (loss) for the year</b>		<b>2,356,456</b>	<b>(561,875)</b>
<b>Attributable to controlling participants</b>		<b>2,356,456</b>	<b>(561,875)</b>

Signed and authorised for release on behalf of "Epicentr K" LLC, "Epicentr N" LLC, PSC "Offerent" and Seldimor Overseas Limited on 30 November 2016:

General Director, "Epicentr K" LLC

Chief Accountant, "Epicentr K" LLC

General Director, "Epicentr N" LLC

Chief Accountant, "Epicentr N" LLC

Director of "Athena Group" LLC on behalf of PSC "Offerent"

Representative acting pursuant to the Power of Attorney,  
Seldimor Overseas Limited

Ishyryn

Kharkiv

Petro Kovtun

Olga Zgoba

Yuriy Symonenko

Dmytro Baydyuk

The accompanying notes form an integral part of these combined financial statements

## Epicentr Group

COMBINED STATEMENT OF FINANCIAL POSITION  
as at 31 December 2015

	Notes	2015 UAH 000	2014 UAH 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	8,826,433	8,428,967
Investment property	20	98,144	55,460
Intangible assets	21	249,530	259,261
Investment in an associate	22	32,766	33,832
Prepaid land lease		17,201	21,309
Other non-current financial assets	28	116,957	81,254
		<u>9,341,031</u>	<u>8,880,083</u>
<b>Current assets</b>			
Inventories	24	7,234,699	5,831,449
Trade and other receivables	25	366,795	287,399
Prepayments and other current assets	26	257,050	172,456
Prepaid income tax		33,893	16,548
Taxes recoverable, other than income tax	27	61,158	113,972
Other current financial assets	28	29,856	33,176
Short-term deposits	29	280,000	-
Cash and cash equivalents	30	398,858	211,995
		<u>8,662,309</u>	<u>6,666,995</u>
<b>Total assets</b>		<u>18,003,340</u>	<u>15,547,078</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued capital	31	3,111	3,122
Share premium		10,087	112,317
Retained earnings		1,481,833	1,879,215
<b>Total equity</b>		<u>1,495,031</u>	<u>1,994,654</u>
<b>Non-current liabilities</b>			
Net assets attributable to controlling participants		6,270,512	3,766,450
Interest-bearing loans and borrowings	32	679,914	961,296
Liability to non-controlling interests		66	76
Deferred tax liability	23	312,408	206,460
		<u>7,262,900</u>	<u>4,934,282</u>
<b>Current liabilities</b>			
Trade and other payables	33	8,167,613	7,558,189
Interest-bearing loans and borrowings	32	488,760	751,035
Advances received		95,846	56,462
Income tax payable		310,493	163,624
Taxes payable, other than income tax	34	182,697	88,832
		<u>9,245,409</u>	<u>8,618,142</u>
<b>Total liabilities</b>		<u>16,508,309</u>	<u>13,552,424</u>
<b>Total equity and liabilities</b>		<u>18,003,340</u>	<u>15,547,078</u>

The accompanying notes form an integral part of these combined financial statements



## Epicentr Group

COMBINED STATEMENT OF CHANGES IN EQUITY  
for the year ended 31 December 2015

	<i>Issued capital</i> UAH 000	<i>Share premium</i> UAH 000	<i>Retained earnings</i> UAH 000	<i>Total</i> UAH 000
At 1 January 2014	3,122	112,317	2,106,834	2,222,273
Loss for the year	-	-	(219,920)	(219,920)
<b>Total comprehensive loss</b>	-	-	(219,920)	(219,920)
Other capital distributions (Note 28)	-	-	(7,699)	(7,699)
At 31 December 2014	3,122	112,317	1,879,215	1,994,654
Loss for the year	-	-	(167,873)	(167,873)
<b>Total comprehensive loss</b>	-	-	(167,873)	(167,873)
Other capital contributions (Note 33)	-	-	8,085	8,085
Disposal of combining entity (Note 9)	(11)	(102,230)	(237,594)	(339,835)
At 31 December 2015	3,111	10,087	1,481,833	1,495,031

The accompanying notes form an integral part of these combined financial statements

## Epicentr Group

COMBINED STATEMENT OF CASH FLOWS  
for the year ended 31 December 2015

	Notes	2015 UAH 000	2014 UAH 000
<b>Operating activities</b>			
Profit / (loss) before tax		2,924,666	(397,862)
<i>Non-cash adjustments to reconcile profit / (loss) before tax to net cash flows</i>			
Depreciation and amortisation		394,064	384,867
Amortisation of prepaid land lease		3,218	4,099
Impairment of goodwill	15	-	7,255
Write-off of prepaid land lease	15	-	39,002
Impairment of property, plant and equipment	15, 19	156,620	886,477
Write-off of inventories	24	-	356,190
Impairment of investment property	20	-	280,770
Loss on disposal of property, plant and equipment	15	4,630	57,027
Finance income	16	(31,790)	(5,394)
Finance costs	17	230,966	145,439
Share of loss / (profit) of an associate	22	1,066	(250)
Foreign exchange loss		906,800	1,565,125
Release of tax liabilities	14	(37,861)	(117,729)
<b>Change in:</b>			
Inventories		(1,384,399)	(1,514,413)
Trade and other receivables		1,889	(94,373)
Prepayments and other current assets		(88,414)	(39,794)
Taxes recoverable, other than income tax		36,877	(102,249)
Trade and other payables		727,667	1,188,859
Advances received		55,321	25,276
Taxes payable, other than income tax		38,388	(86,232)
		<u>3,939,728</u>	<u>2,582,090</u>
Interest received		19,125	988
Income tax paid		(329,670)	(222,385)
<b>Net cash flows from operating activities</b>		<u>3,629,183</u>	<u>2,360,693</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(1,005,735)	(1,263,637)
Capitalised interest paid		(14,235)	-
Purchase of intangible assets		(4,039)	(1,721)
Proceeds from sale of property, plant and equipment		4,882	36,494
Granting loans to related parties		(66,367)	(63,965)
Granting loans to employees		(5,392)	(6,487)
Proceeds from collection of loans provided to employees		11,070	13,158
Proceeds from collection of loans to controlling participants	35	1,494	3,333
Acquisition of subsidiaries, net of cash acquired	33	(453,465)	(290,799)
Short-term deposits placed	29	(280,000)	-
Net cash disposed	9	(3)	-
<b>Net cash flows used in investing activities</b>		<u>(1,811,790)</u>	<u>(1,573,624)</u>
<b>Financing activities</b>			
Proceeds from loans and borrowings		224,800	302,304
Repayment of loans and borrowings		(1,712,255)	(862,143)
Interest paid		(122,808)	(131,451)
Dividends paid to controlling participants	31	(20,119)	(35,409)
Dividends paid to non-controlling participants	31	(148)	(260)
Payment of finance lease liabilities		-	(43,837)
<b>Net cash flows used in financing activities</b>		<u>(1,630,530)</u>	<u>(770,796)</u>
<b>Net increase in cash and cash equivalents</b>		<u>186,863</u>	<u>16,273</u>
Cash and cash equivalents at 1 January	30	211,995	195,722
<b>Cash and cash equivalents at 31 December</b>	30	<u>398,858</u>	<u>211,995</u>

The accompanying notes form an integral part of these combined financial statements



## "Epicentr K" LLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 December 2017

	Notes	2017 UAH 000	2016 UAH 000
Revenues	10	33,541,248	27,641,778
Net change in fair value of biological assets and agricultural produce	24	318,669	238,871
Cost of sales	11	(24,445,354)	(20,348,463)
<b>Gross profit</b>		<b>9,414,563</b>	<b>7,532,186</b>
Selling costs	12	(4,887,617)	(3,836,215)
General and administrative expenses	13	(644,222)	(448,497)
Other expenses	15	(153,951)	(104,624)
Other income	14	30,621	12,718
<b>Operating profit</b>		<b>3,759,394</b>	<b>3,155,568</b>
Finance income	16	59,844	8,835
Finance costs	17	(149,166)	(91,570)
Foreign exchange loss, net	18	(156,516)	(85,551)
Share of profit / (loss) of associates	22	9,622	(710)
<b>Profit before tax</b>		<b>3,523,178</b>	<b>2,986,572</b>
Income tax expense	23	(676,399)	(529,855)
<b>Profit for the year</b>		<b>2,846,779</b>	<b>2,456,717</b>
Attributable to:			
Equity holders of the parent		2,830,684	2,441,951
Non-controlling interests		16,095	14,766
		<b>2,846,779</b>	<b>2,456,717</b>

Signed and authorised for release on behalf of "Epicentr K" LLC on 12 November 2018:

General Director

Chief Accountant




Petro Mykhailiushyn

Taras Zakharkiv

The accompanying notes form an integral part of these consolidated financial statements



## "Epicentr K" LLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
as at 31 December 2017

	Notes	2017 UAH 000	2016 UAH 000	1 January 2016 UAH 000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	19	7,879,922	6,410,032	4,708,171
Investment property	21	38,774	39,825	39,956
Intangible assets		7,712	29,676	32,215
Investment in associates	22	584,321	30,138	30,848
Prepayments and other non-current assets	27	264,569	391,603	6,985
Other financial assets	29	678,055	41,540	33,405
		<u>9,453,353</u>	<u>6,942,814</u>	<u>4,851,580</u>
<b>Current assets</b>				
Inventories	25	10,288,254	8,272,800	6,184,051
Biological assets	24	57,375	43,429	—
Trade and other receivables	26	1,073,964	1,078,387	694,841
Prepayments and other current assets	27	584,890	667,693	256,589
Prepaid income tax		—	199	19,861
Taxes recoverable, other than income tax	28	37,063	24,359	81,891
Other financial assets	29	252,049	18,290	11,197
Cash and short-term deposits	30	733,206	568,299	421,811
		<u>13,026,801</u>	<u>10,673,456</u>	<u>7,670,241</u>
<b>Total assets</b>		<u>22,480,154</u>	<u>17,616,270</u>	<u>12,521,821</u>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Net assets attributable to controlling participants		8,870,664	6,393,790	3,910,759
Non-controlling interest		58,116	44,623	30,634
Interest-bearing loans and borrowings	32	961,623	256,742	372,934
Deferred tax liability	24	1,617	12,806	42,974
		<u>9,892,020</u>	<u>6,707,961</u>	<u>4,357,301</u>
<b>Current liabilities</b>				
Trade and other payables	34	11,101,484	9,803,540	7,305,126
Interest-bearing loans and borrowings	32	752,530	467,602	471,984
Other current liabilities	33	412,072	289,601	142,380
Income tax payable		148,468	53,213	645
Taxes payable, other than income tax	35	173,580	294,353	244,385
		<u>12,588,134</u>	<u>10,908,309</u>	<u>8,164,520</u>
<b>Total liabilities</b>		<u>22,480,154</u>	<u>17,616,270</u>	<u>12,521,821</u>

The accompanying notes form an integral part of these consolidated financial statements

## "Epicentr K" LLC

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2017**

	Notes	2017	2016
		UAH 000	UAH 000
<b>Operating activities</b>			
Profit before tax		3,523,178	2,986,572
<b>Adjustments to reconcile profit before tax to net cash flows:</b>			
Depreciation and amortization	11,12,13	476,084	431,423
Net change in fair value of biological assets and agricultural produce	24	(318,669)	(238,871)
Impairment of goodwill	20	27,167	-
Amortisation of lease rights		141,103	115,414
Loss on disposal of property, plant and equipment		(10,875)	494
Finance income	16	(59,844)	(8,835)
Finance costs	17	149,166	91,570
Share of (profit) / loss of associates	22	(9,622)	710
Foreign exchange loss, net		149,033	86,447
<b>Working capital adjustments:</b>			
Inventories		(1,710,731)	(1,600,136)
Trade and other receivables		53,122	(132,002)
Prepayments and other current assets		68,734	(239,746)
Taxes recoverable, other than income tax		(12,704)	87,261
Trade and other payables		2,080,393	2,038,017
Advances received		-	(47,502)
Taxes payable, other than income tax		(120,773)	39,550
		<u>4,424,762</u>	<u>3,608,366</u>
Interest received		76	506
Income tax paid		(555,896)	(461,711)
<b>Net cash flows from operating activities</b>		<u>3,868,942</u>	<u>3,147,161</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(2,454,512)	(1,711,536)
Proceeds from sale of property, plant and equipment		13,094	1,315
Granting loans to related parties	36	(1,006,673)	(29,776)
Proceeds from collection of loans to related parties	36	15,550	-
Granting loans to employees		(4,617)	(3,752)
Proceeds from collection of loans provided to employees		6,911	15,153
Proceeds from collection of loans to controlling participants		-	2,232
Granting loans to controlling participants		-	(2,232)
Cash received/ (paid) upon acquisition of subsidiary, net of cash acquired	9	(244,730)	(679,594)
Acquisition of associate	9	(687,032)	-
Purchase of financial instruments		(54,000)	-
<b>Net cash flows used in investing activities</b>		<u>(4,416,009)</u>	<u>(2,408,180)</u>
<b>Financing activities</b>			
Proceeds from loans and borrowings		1,872,437	156,429
Repayment of loans and borrowings		(1,023,496)	(687,115)
Interest paid		(89,192)	(61,033)
Dividends paid to controlling participants	31	(47,324)	(17,068)
Dividends paid to non-controlling participants	31	(348)	(126)
<b>Net cash flows from / (used in) financing activities</b>		<u>712,077</u>	<u>(608,913)</u>
<b>Net increase in cash and cash equivalents</b>		<u>165,010</u>	<u>130,058</u>
Net foreign exchange difference		2,130	(17)
Cash and cash equivalents at 1 January	30	551,852	421,811
<b>Cash and cash equivalents at 31 December</b>	30	<u>718,992</u>	<u>551,852</u>

The accompanying notes form an integral part of these consolidated financial statements



“Epicentr K” LLC  
 CONSOLIDATED STATEMENT OF CHANGES IN ASSETS ATTRIBUTE TO CONTROLLING PARTICIPANTS  
 as at 31 December 2017

	Attributable to controlling participants		Total	Non-controlling interest	Total
	Issued capital	Retained earnings			
At 1 January 2016	12,000	3,898,759	3,910,759	30,634	3,941,393
Profit for the year	–	2,441,951	2,441,951	14,766	2,456,717
Total comprehensive income	–	2,441,951	2,441,951	14,766	2,456,717
Dividends	–	(17,068)	(17,068)	(126)	(17,194)
Capital distributions (Note 36)	–	(5,388)	(5,388)	(40)	(5,428)
Increase in share capital	146,610	(83,074)	63,536	(611)	62,925
At 31 December 2016	158,610	6,235,180	6,393,790	44,623	6,438,413
Profit for the year	–	2,830,684	2,830,684	16,095	2,846,779
Total comprehensive income	–	2,830,684	2,830,684	16,095	2,846,779
Dividends	–	(47,324)	(47,324)	(348)	(47,672)
Distributions to shareholders (Note 36)	–	(306,486)	(306,486)	(2,254)	(308,740)
At 31 December 2017	158,610	8,712,054	8,870,664	58,116	8,928,780

The accompanying notes form an integral part of these consolidated financial statements