Our Transformation
In a recent multi-part research study, EYQ, a EY global tank generating future looking insights with diverse perspectives, explored the dynamics of disruptive challenge and transformation, engaging both leading CEOs and institutional investors globally:

**Why to transform?**

- The pace and scale of disruption are creating opportunity with unprecedented speed
- Successful companies can seemingly do everything “right” and still lose market leadership

A need for co-existence of two conflicting imperatives:

1. To drive current business addressed not only simultaneously, but together
2. To invest in future disruption

How to become skilled at both initiating and responding to disruption?

- From treating digital or innovation as discrete strategies
- To make innovation part of holistic business perspective

Top disruptive factors over the next 5 years

- Technology innovations
- New business model
- Regulatory changes
- Changing customer behaviors
- Changing customer behaviors

**Investor reality** vs **CEO perception**

- **55%** companies should invest in exploring potentially disruptive business models
- **67%** companies should undertake potentially disruptive innovation projects even if they are risky and may not deliver short-term returns
- **73%** corporate disruption readiness will become a more important investment decision-making factor over the next 5 years

- **50%** companies have not implemented an adequate response to disruption
- **50%** companies are not well prepared to take advantage of the opportunities that may emerge from disruption

*real readiness levels are much lower than this overall self-assessment, and the list of disruption-ready companies give themselves the highest overall scope, indicate a lack of awareness for the disruptive challenge.*
Transformation project

Ten actions to activate disruption readiness

1. Instill urgency about disruption to overcome inertia in the organization and set a leadership example of experimentation and risk taking — i.e., “walk the talk”

2. Own the disruption agenda as the CEO and develop a leadership model that allows you to devote enough attention to disruptive change and opportunities

3. Align the C-Suite and board of directors to a shared ambition for disruption to guide the needed investment, governance, link to purpose and message to shareholders

4. Engage with key investors to discuss disruption and assess appetite and attitude towards investing in innovation

5. Find the change champions in your company, bring them together and then set them free to drive transformation, whether as dedicated teams or embedded in key functions

6. Develop ecosystems, networks and innovative formats for collaboration to enable duality not only within the organization but also from the outside in

7. Avoid “innovation theater.” Approach disruption readiness not as project but as an organizational transformation that touches fundamental aspects of culture, purpose, operations and the current business model

8. Harness digital by embedding it across the entire value chain, from strategy and design through to execution and the management of risks

9. “Re-strategy” — frequently revisit the plan, re-design the future, and re-pilot concepts

10. Ask, what part of my business is already dead? Then act on the answer to free up resources for fresh innovation

Old operating models no longer apply, as well as old management models

- Today’s management teams need to be open to “new thinkers” who understand where their organizations fit within the ecosystem that is driven by customer expectation for frictionless service and experience.
- Thinking and operating in duality can lead to transformative collisions that allow business leaders both respond to disruption and initiate it.

Market-leading companies face a choice: activate disruption readiness first as chrysalis, then as butterflies, or remain caterpillars, putting both market leadership and market capitalization at risk

Caterpillars
- Do not feel the urgency of disruption, trail in readiness metrics and focus on optimizing the success of the business model

Chrysalis
- Feel the urgency of disruption and have initiated significant transformation steps toward disruption readiness

Butterflies
- Have undergone an enterprise transformation in response to urgent external factors, emerging with new capabilities to drive growth and competitiveness in a digital world

WHERE IS YOUR COMPANY?

EY learned through CEO interviews, that there are important distinctions in terms of disruption awareness, sense of urgency and transformation. The results show that companies fall into one of three following categories:
Pre - Transformation diagnostics revealed:

**Strengths**

The main competitive advantages of the company:

- Leading regional position
- Profitable
- Production facilities are in good conditions and does not require significant investments

- Group’s product portfolio includes SKUs with high margins
- The Group has well established processes and complies with technological and safety requirements.
Pre - Transformation diagnostics revealed

Opportunities

- The Group has wide range of SKUs from cheap social to expensive sophisticated positions. At the same time, cost of producing 1 kg of cheap and expensive bread does not differ significantly.

  Consumer preferences develop to more healthy bread and fresh-baked bread. Being regional leader, Khlibodar could have first step advantage in this area.

- Being properly separated, each business cluster could adopt different market strategy to achieve best results.

- The Group has strong relations with entrepreneurs who act as Group’s suppliers in distribution and transportation services. Transforming these relations into partnership on profit sharing terms would potentially decrease Group’s efforts on managing distribution and transportation processes.

- Simplifying and unifying routing process would result in decrease of administrative staff and create a good platform for further M&A expansion.
Transformation process was started in May 2017. Major steps were completed by September 2017.

- **May 2017**
  - The Group started first stage of the Transformation project

- **September 2017**
  - Key transformation steps aimed for the first stage were completed.
  - Starter tuning of the processes

- **January 2018**
  - Management considers that first stage of Transformation fully reflected in financial performance

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First Stage (completed)  Second Stage
Key steps of the first stage of the Transformation project

**Purpose:**
to simplify routine process and decision making process and outsource complex and non-core functions

1. **Set up business clusters**
   - Developed cluster KPIs, linked remuneration of cluster heads to KPIs, cluster heads were granted with responsibility to make decisions on cluster performance

2. **Transform management system from hierarchic to matrix**
   - Created support hub that services all business lines. Technical and technological services were subordinated to shareholders. The target is to eliminate CEO position

3. **Create back office hub that supports routing processes for all clusters**
   - Administrative hub decreased from 140 employees to 22 employees

4. **Create project evaluation office**
   - Each proposed investment project is evaluated considering for expected cash flow as well as for opportunity costs

5. **Create early warning signs system based on the actual financial performance**
   - Introduced BI system that provides cluster heads with prior day performance comparing to one week ago performance. Cluster heads make decision based on up-to-date financial information. Focus on selling sophisticated high profitable bread resulted in actions that shifted sales pattern to the more profitable SKUs

6. **Messengers used as official channel of internal communication and decision making**
   - Use of quick messaging system
Transformation. Second stage.

**Purpose:** to transform regional player to the national leader

1. Move support hub from Zaporizhzhya to Kiev
2. Transform sales and delivery function such that former sales agents became business partners responsible for sales and distribution
3. Look for M&A opportunities in the regions

**Expected outcome:**
- increased efficiency of delivery function,
- development of fresh-baked segment,
- risks diversification due to increased regional presence