Supply Chain Management Challenges in Russian Retail Market

Case company: Tokmanni Oy

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With the fiercely increasing competition over raw materials between different industries, a complete scope of supply chain management has become necessary. Firms dedicate their resources and personnel to improve flexibility and adaptability of their supply chain management.

This thesis will cover current Russian retail market situation; the main challenges of supply chain in Russian and major concerns regarding the Russian market demand.

This research focused on a Finnish non-grocery company Tokmanni’s supply chain management adaptability to Russian retail market. Tokmanni is one of the largest Nordic non-grocery discount retailers. They aim their future market at west and central part of Russia. For retail business, a strong and steady supply chain is necessary. However, facing Russian retail market is a whole brand new challenge for Tokmanni.

Key words: Retail, Supply chain management, Tokmanni, Russian Retail market
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1 Introduction

1.1 Purpose

In the 21 century, advanced technology has made our life easier. The global market has been connected electronically. Companies who want to increase their market share have to improve their agility level with the objective of being flexible and responsive. Tokmanni is a largest Nordic non-grocery discount retailer. They aim their future market at west and central part of Russian. In order to achieve this move, they have to figure out a way to adjust local business environment and how to communicate with local suppliers. All these achievements require a steady and complete supply chain, which means they has to consider whether they can still remain the current supply chain management methodology or they have to change to adjust Russian retail environment.

The purpose of this research is to study Tokmanni supply chain management process, understand the supply chain challenges when Tokmanni face their entering the Russian market and offer proper advice and solution for overcoming those challenges to help Tokmanni extend their business successfully.

1.2 Tokmanni

Tokmanni is one of the largest Nordic non-grocery discount retailers with a leading position in Finnish market. They have seven different brands under their name.

Tokmanni has turned from a local discount retailer into the biggest discount retail chain in the Nordics. From 1970s-2003, Tokmanni was an entrepreneur-driven discount retailer. Since then Tokmanni developed steadily and become a regionally strong brand. After 2004, Tokmanni grow aggressively through market consolidation, rapidly expansion through acquisition of seven brands. Tokmanni group becomes the leading discount retail operator in Finland. After then, Tokmanni reorganize
and integrate itself as International Corporation. They build new logistics center and enhanced IT system. For employees, they start systemic training of employees-Tokmanni academy. By the year 2011, they focus on the further growth and profitability. Seeking profit from foreign countries becomes their new priority.

Figure 1: Tokmanni Brief (source: Tokmanni annual reports)

As showing in Figure 2: Tokmanni share the biggest market in Finland. Main competitor is one Swedish retailer.

Figure 2: Main Competitors in Finland (source: Tokmanni annual reports)
1.3 Research objective

In this specific research field, in order to get precious and accurate information of supply chain management issues, questionnaires and data collection are the two measures in use. Tokmanni supply chain manager will receive e-form questionnaires, the questions based on standard supply chain management, after collection the comprehensive data, and using comparison to find out the differences between Tokmanni supply chain management and how the supply chain works in Russian. What steps and methods Tokmanni should take in order to extend their business to Russia successfully? The objective of this research is to study Tokmanni supply chain, and get basic understanding of Russian retail market, at the end of this research give proper advices to Tokmanni.

1.4 Research Approach

In this project, Questionnaire is the main research measure during the research process. Questionnaire is aim to collect supply chain management information from Tokmanni. It is divided into 4 sections:

1. Company Profile
2. The way company manages their supply chain
3. Types of systems currently in use in the company
4. Future measures for supporting company effort in SCM and IT

When using compare with Finnish retail market and Russian's, the base line is product/service is cost and satisfaction of customers. It focuses on operational performance and software solutions.

1.5 Theoretical Approach

Supply chain management is the essential study background of this research.

As the European retail market start to saturate, companies are seeking their future market outside Europe. Russia is one of these markets. However, Russian business environment and local policy differ from EU
market in many ways. That could be the challenges for those companies who want to enter Russian market. Tokmanni is a retail company, which means supply chain is the obstacle they have to face. Also business environment in Russia complicates supply chain. It not only needs to be managed globally, but also adjust to local situation.

“In terms of supply chain management, the means by which firms engaged in creating, distributing, and selling products could join forces to establish a supply network with an unbeatable competitive advantage” (Poirier, 1999) ALANE.BRANCH also point out the factors and challenges drive logistics and supply chain management. He also gives suggestions for companies who want to be international how to manage their supply chain globally. “The ultimate objective of global supply chain management is to link the marketplace, distribution network, manufacturing/processing/assembly process and procurement activity in such a way that customers are serviced at a higher level, yet low cost.” (Branch, 2009)

2 Supply Chain Management

2.1 Supply Chain Management Introduction

Supply chain—the functions within and outside a company that enable the value chain to make products and provide services to the customer.

A supply chain indicates a connection between suppliers, factories, warehouse, distribution centers and retailers. The purpose is to make the transformation and delivery of the products more sufficient between company and customers. (Chopra & Meindl, 2007) SCM as known as supply chain management first being introduce to the world in the early 1980s-Oliver and Webber had a discussion over potential benefits of integrating the business functions. Purchasing, manufacturing, sales and distribution etc., those functions could be integrated in one business model. In the current business market, supply chain management has been used in different ways. In a typical supply chain, raw materials
produced at different factories, after that shipped to warehouses for short storage, finally the products deliver to the retailers or customers.

Traditionally, the company does not consider their suppliers or customers to be their potential partner. Each of the company runs solely, because the fierce competition over materials, suppliers and customers. At the beginning of 1960s and 1970s, few companies start to change their view and connect internal functions, such as material flow, purchasing, and transportation. (Gradde, Håkansson & Göran, 2010) Companies who adapted this merge have successfully lowered their operation costs and improve their performance. Logistics network cost and processes are showing in Figure 3. A successful supply chain process should contain all the factors shown in Figure 3.

Figure 3: The Logistics Network (source: Ellram)

2.2 Supply Chain Management Concepts

After integrate customers into the supply chain management process, all the customers information are available to the inside department. Company could analyze customers’ data in some manner to find out customers’ potential demands. This movement will reduce company respond to the customer’s needs and shorten the cycle of planning new products.
As customers have been integrated into supply chain management, it allows product development department of the company get contact with customers more frequently. Since customers get more involved at the product development process, certain product development cycle tends to reduce.

According to ‘Basics of Supply Chain Management © 2001 by CRC Press LLC’ There are two main forces driving supply chain management.

- Brand new technologies are available
- Companies optimize supply chain to fit customers’ demands (better service and lower prices)

Supply chain management requires constant level of cooperation of all the members in the supply chain. Open sharing information, equally distribute profits are key issues. The final goal of an effective supply chain management is to reduce inventory, which means products are available whenever they are needed. Sophisticated software systems are solutions for successful supply chain management. There are two main types of supply chain management software.
1. Planning applications, use high level algorithm to fill the order in a fast and proper way
2. Execution applications, tracing physical status of goods; raw materials management and finance management

2.3 Supply Chain Management Evolution

It has been a long time for practitioners to come up with a universally accepted definition of supply chain management. After years study, most commentators have agreed that SCM is focus on customer orientation and cost minimization. (Maha & Narayan, 2001)

Physical distribution management stage

Before the Physical Distribution Management (PDM) was set up 1963, companies still appreciated the separation of distribution, transportation and marketing function. Things change since practitioners find out the inter-relationship between warehousing and transportation. Then the PDM integrate those two functions together, the result is quite satisfied. Reduce inventory and reliable, efficient transportation have been carried out. This not only just reduces the cost but also improve the service level.

Logistics management

Logistics is the next step of the development of supply chain management. At this phase, manufacturing, procurement and order management have been integrated with PDM. This movement enables the possibility for data interchange, effective communication between supplier and customers and future of software for management, analysis the data.

Supply chain management

Finally comes to the supply chain stage. In this stage, suppliers and customers have been added to each end of logistics function. More and
more functions have been integrated into the management process, electronic communication, IT, and computerized decision system. (Maha & Narayan, 2001) The enablers in this stage are more advanced communication technology, computerized decision systems and highly trained personnel. In Figure 5, the modern supply chain management framework has become simpler and easy to control with advanced IT system.

![Supp Chain Framework](image)

**Figure 5: Supply Chain Management Framework**

### 2.4 Implementation of Supply Chain Management

Usually in a supply chain, the company who has the large amount of market share becomes the leader of the supply chain. As a leader of the supply chain, showing partners where the improvement in the supply chain will arise, and how these will increase profit for each member are the main responsibilities. Reliability and trustiness of the lead company has to establish among all the members. Communication between different members must be opened up. Lead company also need to ensure each member receive his fair share of the profits. (Underhill & Associates. 2002) there is one representative example-Wal-Mart. For years, Wal-Mart has collected and analyzed extensive data on customers buying patterns. Wal-Mart uses all these data internally to decide and update their own inventory. They start to share all these data with their most trust suppliers. This gives suppliers who know how to use this data an opportunity to take advantages. Suppliers may improve their service
according this data and decrease their own costs. Supply chain is driven by customer demand; it is constrained by its own internal resources.

Supply chain exists on a higher, enterprise wide level. As we can see from the figure below: supply chain layer across all enterprises, from supplier side to customer side, supply chain layer is the link that connects them.

![Supply Chain Layer - Across all Enterprises](image)

**Figure 6:** Supply Chain- the highest level of an enterprise (source: the Performance Measurement Group)

In order to make the supply chain management effective, there are two important trends are benefiting the whole supply chain management process: Customer service focus and Information technology. A successful organization must be prepared and excellent in both of those two trends. (Ed & Marc, 2008)

Customer needs change all the time, the importance of Just-in-Time and Quick response inventory management has been highlighted. Manufacturers, distributors and other carriers implement information technology to shorten their cycle time and improve quality of freight handling.
3 Case Study-Tokmanni Supply Chain Management

3.1 Tokmanni Assortments

![Diagram of Tokmanni Assortments]

Figure 7: Three Assortment of Tokmanni

Base assortment includes so-called every-day or all-year items, such as toothpaste, ketchup, hammer etc. Tokmanni has specific category management according to base assortment. They use automated store and warehouse replenishment systems (ASR and AWR) to forecast the demand.

Seasonal products represent items for a specific season in a year: gardening, fishing etc. Statistics from previous seasons, customer trends and also suppliers’ statistics and campaigning are the main approach to foresee each season demands of the customers.

Batch products also called one off products. Their items are adding interest to assortment and allowed ad hoc purchases in order to exploit special pricing of suppliers. Statistics from previous batches and campaigns, campaigning are the two main methods to forecast the market demands.

Tokmanni forecast every year market demand by using different IT system. After get the big picture of current year demand, they order from suppliers. As Figure 8 showing.
Figure 8: Forecasting Demand (source: Tokmanni assortments)
3.2 Tokmanni Buying and Sourcing

Base assortment is mostly bought with long-term contracts from suppliers in Finland and EU. Seasonal and batch products are mostly purchased from one-off contracts from suppliers outside Finland and EU. Also PL products are mostly sourced outside Finland and EU. Most of the exports outside of EU come from China, India, and Brazil and also some other Asian countries. The sourcing process is easy and direct. Sourcing department screens the suppliers and negotiates volumes, prices and other terms. After the negotiation, Tokmanni place the orders and prepare the shipment process. Forwarding department takes care of the shipments and customs regulations.

4 Russian Retail Market

4.1 Russian Retail Business Situation

Most companies among the Russian market chose consolation movement to enter Russian market. Mergers between super-and hypermarket between Moscow and St Petersburg based operations taking place across the board. Pyaterochka and Paterson have also extended their reach to Ukraine and Kazakhstan. Foreign retailer show up in Russian markets begins 1980s. In 2000 IKEA begin their first implementation. After then another two international heavyweights, the German Metro Group and French hypermarket pioneer Auchan take their entrance to Russian market in 2002. The following table shows different retailers and their store’s location.

In Russia, for a period time, foreign investment in specialized is still limited compare to other investment markets such as China and Brazil. Apparently there is no foreign pharmaceutical chain has entered Russian market. The majority of other foreign operators-such as French cosmetics chain Yves Rocher, they start their first business in Russia since 1990, still they prefer to enter through a local branch or a franchising network. Another example of this respect is IKEA. All these cases above demonstrate customer-oriented companies who dedicated to identifying
and satisfying unaddressed demand can achieve the movement to Russian market. Nowadays-new mature market formats have been appeared in Russian market- such as mini-stores. In table 1, table 2 and table 3, we can see the fierce competition in Russian retail market. Other European retailers prefer to take a share of the spoils. (Source: “Retail in Russia 2011 - Regional focus. Market analysis and development forecasts for 2011-2013”)

### Table 1: Foreign specialized (non-food) chains in Russia

<table>
<thead>
<tr>
<th>Group</th>
<th>Sector</th>
<th>Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media Market (Metro)</td>
<td>Electronics</td>
<td>Germany</td>
</tr>
<tr>
<td>Stockman</td>
<td>Department stores</td>
<td>Finland</td>
</tr>
<tr>
<td>Intersport</td>
<td>Sports and leisure equipment</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Karstadt Quelle</td>
<td>Mail order sales</td>
<td>Germany</td>
</tr>
<tr>
<td>Marks &amp; Spencer</td>
<td>Textile, clothes, accessories</td>
<td>UK</td>
</tr>
<tr>
<td>Inditex (Zara)</td>
<td>Clothes, prêt-à-porter</td>
<td>Spain</td>
</tr>
<tr>
<td>Hachette</td>
<td>Press</td>
<td>France</td>
</tr>
<tr>
<td>IKEA</td>
<td>Furniture, home equipment, accessories</td>
<td>Sweden</td>
</tr>
<tr>
<td>OBI</td>
<td>Home furnishings, DIY</td>
<td>Germany</td>
</tr>
<tr>
<td>Castorama (Kingfisher)</td>
<td>Home furnishings, DIY</td>
<td>UK</td>
</tr>
<tr>
<td>Leroy Merlin</td>
<td>Home furnishings, DIY</td>
<td>France</td>
</tr>
<tr>
<td>K-rauta (Kesko)</td>
<td>Home furnishings, DIY</td>
<td>Finland</td>
</tr>
<tr>
<td>A S Watson Group (HWL)</td>
<td>Cosmetics /beauty products</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>Douglas</td>
<td>Perfumery</td>
<td>Germany</td>
</tr>
<tr>
<td>N°</td>
<td>Groups</td>
<td>Origin</td>
</tr>
<tr>
<td>----</td>
<td>----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>1</td>
<td>X5 Retail Group</td>
<td>Russian n</td>
</tr>
<tr>
<td>2</td>
<td>Metro</td>
<td>Foreign</td>
</tr>
<tr>
<td>3</td>
<td>Magnit</td>
<td>Krasnodar</td>
</tr>
<tr>
<td>4</td>
<td>Auchan</td>
<td>Foreign</td>
</tr>
<tr>
<td>5</td>
<td>Diksi</td>
<td>St Petersburg</td>
</tr>
<tr>
<td>6</td>
<td>Kopeika</td>
<td>Moscow</td>
</tr>
<tr>
<td>7</td>
<td>Sedmoy Kontinent</td>
<td>Moscow</td>
</tr>
<tr>
<td>8</td>
<td>Lenta</td>
<td>St Petersburg</td>
</tr>
<tr>
<td>9</td>
<td>Ramenka</td>
<td>Foreign</td>
</tr>
<tr>
<td>10</td>
<td>O'Key</td>
<td>St Petersburg</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: The top ten generic chains in Russia
Table 3: The foreign presence - generic retail groups

<table>
<thead>
<tr>
<th>Group</th>
<th>Number and type of stores</th>
<th>Locations</th>
<th>Development projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auchan</td>
<td>14 hypermarkets</td>
<td>Moscow and suburbs, Saint-Petersburg, Nizhny-Novgorod, Yekaterinburg</td>
<td></td>
</tr>
<tr>
<td>Metro</td>
<td>31 cash and carry</td>
<td>Moscow, Saint-Petersburg, Tula, Rostov-on-Don, Krasnodar, Voro-nezh, Yaroslavl, Nizhny-Novgorod, Kazan, Ufa, Volgograd, Samara, Yekaterinburg, Tyumen, Lipetsk, Ryazan, Ulyanovsk, Naberezhnye Tchelny, Perm</td>
<td>Siberia (Omsk, Novosibirsk)</td>
</tr>
<tr>
<td>Ramstore</td>
<td>54 supermarkets et</td>
<td>Moscow, Cheboksary,</td>
<td>Yekaterinburg</td>
</tr>
<tr>
<td>(Ramenka)</td>
<td>Hypermartks</td>
<td>Krasnoyarsk, Kazan, Lipetsk, Murmansk, Naberejnye Tchelny, Nizhny-Novgorod, Rostov, Saint-Petersburg, Samara, Stavropol, Ufa, Volgograd, Vologda</td>
<td>Krasnodar, Novosibirsk, Tomsk, Tyumen, Smolensk, Sochi, Irkutsk, Togliatti</td>
</tr>
<tr>
<td>REWE*</td>
<td>26 «Billa» supermarkets</td>
<td>Moscow</td>
<td></td>
</tr>
<tr>
<td>IKEA</td>
<td>7</td>
<td>Moscow, Saint-Petersburg, Kazan</td>
<td>Nijni-Novgorod, Yekaterinburg</td>
</tr>
<tr>
<td>Spar</td>
<td>41 supermarkets and super-</td>
<td>Moscow and region, Tula and region, Vladimir, Kostroma, Nizhny-Novgorod</td>
<td>Doubling turnover by 2007 ; launch of hypermarkets</td>
</tr>
<tr>
<td>ettes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tradeka</td>
<td>3 «Siwa» supermarkets</td>
<td>Saint-Petersburg</td>
<td></td>
</tr>
</tbody>
</table>
As we can see from the evolution format, because the high entry barriers, the foreign advantage in the retail and discount section has not ready being fully exploit. When we take the four of the top Russian retail groups in consideration (Pyaterochka, Diksi, Kopevka, Magnit), it is clearly that all of them started with a pure discount format, which means they have the sufficient experiences and the competition is fiercest.

Figure 9: Evolution of formats in the Russian n retail market (% market share)  
(Source: “Retail in Russia 2011 - Regional focus. Market analysis and development forecasts for 2011-2013”)

4.2 Future Market Trends

4.2.1 Customers Aspect

The Russian market and customers change since the crisis. High unemployment rate and low income has lead customers to believe reducing purchase. Russians continue economizing on purchases the number of respondents who consider the next 12 months as not the best time to make any large purchases increased to 78% in March. Since the high unemployment rate in Russia blow in Figure 10 and customer spending in Figure 11, customers will not able to expend money on unnecessary goods. In this case, it is also considered as an opportunity for foreign retailers enter to Russian market by offer a better price and brand new products.
unemployment in Russia, % of labor force

Figure 10: Unemployment rate of Russia-2009

Moscow SC retail gallery area occupiers by profile

Figure 11: Moscow supply chain retail gallery area occupiers by profile
4.2.2 Occupier Aspect

International retailers:

International retailers continue their expansion to Russia. Carrefour hypermarket has opened in Moscow’s Fillion SEC in June. And they plan to open two more stores in Krasnodar and Lipetsk. They aim to establish local production of its private label goods by the end the year 2009. Auchan will open nine hypermarkets in Moscow and other near regions in 2009-2010. Castorama has a plan to launch seven hypermarkets in Moscow and regions as well. Wal-Mart continues to express its interest in Russian market. They probably will make their entrance through purchasing of a local brand. Other foreign retailers like British Debenhams will make their second entrance by franchise-in mall of Russia and in the summit multi-functional center (the former Minsk hotel, currently under reconstruction). IKEA reduced its expansion plans due to the bureaucratic problems with local authorities in Omsk and Samara. (Sanders, 2008)

Russian retailers:

Local Russian retailers act different ways due to the market challenges from international retailers. X5 Retail Group will increase the number of its discount stores. Pyaterochka, on the other hand, W&B retailer Mir closed their shops in few regions because the low sales and high rental. Facing the international retailers and crisis they choose pause their expansion.

4.2.3 Retailer Demand

At the current circumstance, it is a great opportunity to rent a store in a shopping center or open on a street for small and mid-size retailers, who have usually paid the highest entry fees and rents. The shop is unavailable and unaffordable before the crisis. In the meantime, retailers can get a discount for the first two years of operations in new SCs. Cos-
metrics and clothes retailers were the most active sections. According to the market forecast for the next 6 years, retail business remains a better future. (See Figure 12) (Kubacka, 2011)

![Retail sales forecast](image)

**Figure 12: Retail sales forecast**

### 4.3 Future Market Demand

Clothing and footwear market in Russian retail market are worth $56bn in 2010. In the next few years also expected increasing by 10% on average.

-PMR. Dominika Kubacka

Russia remains one of the world’s largest and most attractive retail markets because it’s over 143 million inhabitants. Russian economy increases 4% every year. According to the statistics, by the end of the year 2010, Russian retail business has developed 13%, which means $540 bn. As for the market, clothing and footwear is the second largest section after food section. After the stagnant 2009, the acceleration speed has increasing. There are many segments offer opportunities for whom already operating in Russia. And for companies who want to start their entrance as well.
According to PMR forecast in Figure 13, the next 3 years, scale of Russia central federal area (CFA) market will continue its expansion, by the year 2013; it will reach $75 bn. clothing and footwear section mainly driven by children, which means it will focus on middle price segment. Sportswear and casual wear also make their contribution for the market expansion of CFA. For accessories business there are huge market space from market saturation. Future development space could be found there as well. (LaSalle, 2009)

In Russia, there are 22 million children under the age 14; it implies a large group of potential customers for the children´s goods market. (LaSek, 2011)
4.4 Central Federal District - the Largest Retail Market

Central federal district of Russia has been the largest retail market since the year 2000. By the end of 2009, CFD still represents more than 34% retail sales in Russian, on the other hands 4,920bn in RUB ($155bn in USD). This almost twice size of the second largest retail market - Volga FD according to the “Retail in Russian 2011 - Regional focus. Market analysis and development forecasts for 2011-2013” (PMR, 2011)

Figure 15: The share of the CFD in the total retail turnover in Russia (%), 2004-2009

Main features of modern Russian retailing (Radaev, 2003; Sheresheva, 2005)

- Increasing share of retail chains
- Increasing number of specialized retail chains
- Growing power of foreign retail chains
- Regional expansion of retail chains
5 Conclusions

5.1 Findings

Main finding of this thesis is that the relational exchange requires facilitation via technology. Advanced ICT technology is required in order to compete other foreign retail chains and also compared with Russian local retailers. Before establish a supply chain, lack of trust and professionalism are the two barriers between providers and manufactures. So arrange communication between providers and manufactures are necessary. Through communication with logistics providers and manufactures, and also give a view of the logistics reports in Russia, the following challenges appear.

Planning Supply Chain: Different sections have made supply chain more complex. In order to satisfy the large group disperses customers in Russia, (long-distances has to be take consideration), high quality services, quick response time are the key to hold market share. Forecasting market demand and market trends is challenging due to the rapidly growth rates, lack of point-of-sales data, failure communication throughout supply chain, and low supply reliability. Russian local legal environment is still unstable and inconsistent; this could also be challenge to foreign companies.

Sourcing business in Russia: there are 3 different types sourcing options for those foreign companies who want to start their business in Russia.

1. Sourcing from local suppliers. Most foreign companies choose sourcing to the local suppliers, because local suppliers could offer sufficient technical and service level at a competitive price. And also local suppliers are able to settle disputes and communicate with local officials or authorities. However local suppliers facing issues with low delivery reliability, constraints of different capacity and also quality levels. The competition from western partners and global suppliers focus on Russian local suppliers make their improvement in the future.
2. Importing from abroad. Importing from abroad may guarantee service level and delivery reliability, nonetheless high import duties, complicated regulation, licensing requirement, grey import competition, the corruption at customs have to take into consideration. This could be resources and personnel consuming.

3. Convincing foreign suppliers move to Russia. In order to convince foreign suppliers move to Russia, company have to establish a stable supply chain. Certain minimum production volume require in a certain schedule is the guarantee to business partnership. This achievement is difficult to business, which in a start-up phase.

Personnel Challenges: companies start business in Russia also experience high staff turnover due to the short-term employment contracts. There is no enough well trained logisticians and qualified supply chain management managers.

Delivery Challenges: Retail business in Russia facing the delivery problems, because Russia is the largest country in the world. Company who recently start business in Russia, inferior transport infrastructure, no warehouse and poor logistics services providers all reinforce the challenges. Russia has the largest railway system in the world, but the tracks and locomotives are in a questionable condition, also railway owned by government. Ports in Russia need to increase capacity and modernization. Inland waterways are often frozen during the winter. Air transports is expensive, although it is fast, but delays at custom fail this advantage. According to this situation, multi-modal transportation has been implemented. But the link between different modes does not run smoothly and there have communication failure.
Returning goods challenges: supply chain for returning goods still under-development, in order to deal with various difficulties, companies trying to implement reverse logistics processes.

There are still few more additional issues need to be called attention. First of all, corruption in Russia especially in public bodies present. Because low government salaries, bureaucracy, and poor law enforcement. Secondly, the bank system in Russia is still under developing, but the high interest rates are well known. Nevertheless, since Russia show its prospect to join World Trade Organization, Russian government taking action to reform its law and regulation. The business situation in Russia becomes more transparent and predictable.
5.2 Suggestion

Supply chain management is not just about shipping orders, producing goods and pushing them out the factory. It is about develop an effective process to respond to different demands of each customer.

Evaluating supply chain performance can identify problems and opportunities. Proper strategy and measuring methods are necessary to analyze and take control of the whole supply chain process. In order to manage supply chain network successfully, the knowledge of different power sources are essential. Maintain a good relationship with your suppliers; if both retailers and suppliers have an equal opportunity to achieve their goals, in the meantime, retailers have greater capacity to achieve their goals and benefits than suppliers.

Proper supply chain strategies for Russian market: although there are plenty of challenges among Russian market. But it can still be managed. Different markets need to implement different supply chain strategies. Due to the instability and uncertainty of the Russian market, the process of supply chain strategies implementation should be more effectiveness and responsiveness, rather than simply efficiency.

Additionally, retailers should implement integrated information technology systems while they perform demand forecast and out-of-stock actions. This could also achieve by rapidly evaluates telecommunications technology. When comes to information sharing, mutual trust with both customers and suppliers are required.

Last but not least, it is always advisable to keep extra safety stocks, in order to deal with potential problems and administrative barrier. Paper work should always be fulfill, if there are supply failure appear, it is traceable. Companies can seek advices and guidance from local consultant companies and intermediary firms to cut through the complicated and extreme government regulations (Gadde, Håkansson & Person, 2010)
References


Electronic Sources

T. Kearney, the 2005 Global Retail Development Index, and Destination: Russian, http://www.atkearney.com/


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Questionnaire form for Erki Milistver - the Development Director of Tokmanni Assess Supply Chain Management

The purpose of this questionnaire is to assess supply chain management capability within Tokmanni and also connection to Tokmanni’s trading partners. Each section is designed to assess the capability and agility of current supply chain management process in Tokmanni. Complete each section by selecting the best response for each question. Thank you in advance for your participation

Zhang Ji
Business Information Technology
Bachelor’s Thesis
Laurea University of Applied Sciences Leppävaara
Section 1- Company Profile

1. Name of the company: *Tokmanni Oy*

2. Sector Types:  ☐ Manufacturing    ☒ Service    ☐ Both

3. No. of employees
☐ Less than 50    ☐ 50-200    ☐ 200-1000    ☒ over 1000

4. Your job title: *Development Director*

5. Your years’ experience in this job (years)
☒ Less than 5    ☐ 5-10    ☐ over 10

6. The industry that your organization belongs to
☐ Electronics    ☐ Information product manufacture
☐ Import-export business    ☐ Logistics
Others  *Retail*

7. The average net sales per year (in millions) approximately
☐ Under €5    ☐ €5-20    ☐ €20-€100    ☐ €100-€500    ☒ over €500
Section 2- Supply Chain process

1. What types of IOS (inter-organizational system) is mostly used in your company?
   ☒ Web browser systems  ☐ Electronic Data Interchange system

   Other systems please specify  Tokmanni ERP is Merx

2. Please rate the degree of each of the following process integration in the business operation through IOS in your company (1: don’t integrate, 5:highly integrate)

<table>
<thead>
<tr>
<th>Process</th>
<th>Don’t integrate</th>
<th>Highly integrate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics process</td>
<td>☐ 1 ☐ 2 ☒ 3 ☐ 4 ☒ 5</td>
<td></td>
</tr>
<tr>
<td>Payment and billing process</td>
<td>☐ 1 ☐ 2 ☒ 3 ☐ 4 ☒ 5</td>
<td></td>
</tr>
<tr>
<td>Product development process</td>
<td>☐ 1 ☐ 2 ☒ 3 ☐ 4 ☐ 5</td>
<td></td>
</tr>
<tr>
<td>Procurement process</td>
<td>☐ 1 ☐ 2 ☒ 3 ☐ 4 ☒ 5</td>
<td></td>
</tr>
<tr>
<td>Materials management process</td>
<td>☐ 1 ☐ 2 ☒ 3 ☐ 4 ☐ 5</td>
<td></td>
</tr>
</tbody>
</table>

3. Please rate the degree of each of the following IT infrastructure for IOS (inter-organizational system) in your company (1: strongly disagree, 5: strongly agree)

   The IOS is too complex to integrate with the current IS...
   ☐ 1 ☐ 2 ☒ 3 ☐ 4 ☐ 5

   It is easy to integrate IOS with enterprise system (ERP) Enterprise Resource Planning
   ☐ 1 ☐ 2 ☒ 3 ☐ 4 ☐ 5
In order to implement IOS (inter-organizational system) efficiently, your company put large degree of technical investments of implementing process
☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

Your company has good telecommunications infrastructure (E.g. E-mail, or intranet)
☐ 1  ☐ 2  ☒ 3  ☐ 4  ☒ 5

Your company has integrate business applications (e.g. ERP) encompassing different business areas
☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

8. the questions below relate to transactions when you doing business with your trading partners by (IOS)inter-organizational system

Your company has related successful implementation experience (e.g., experience of implementing ERP)
☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

How much you think the previous experience in developing inter-organizational system can help you to implement other inter-organizational systems in the future (level 1-5)
☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

Your company has installed security infrastructure (e.g., firewall) to protect the data on the Internet
☐ 1  ☐ 2  ☒ 3  ☒ 4  ☐ 5

9. The questions below relate to the relationships between your trading partners and your organization. Rate (1) strongly disagree to (5) strongly agree
Your company corporates customers are undergoing some supply chain collaboration project (e.g., product design, quality control, as well as forecasting and inventory management)

☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

There exists an equal sharing of the risks, burden, benefits and appropriate incentives between you and your corporate customers

☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

Your company trusts that confidential information shared with your corporate customers will be kept strictly confidential

☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

There exists an open and frequent communication between you and your corporate customers

☐ 1  ☒ 2  ☐ 3  ☐ 4  ☐ 5

You and most of your corporate customers have very similar IT infrastructure in terms of the IT availability, maturity, compatibility, and reliability

☒ 1  ☐ 2  ☐ 3  ☐ 4  ☐ 5

You and your corporate customers have similar decision processes to handle transactions (e.g., having similar procedures to handle order change)

☐ 1  ☒ 2  ☐ 3  ☐ 4  ☐ 5

You and your corporate customer’s top management provide similar support with regard to the development of IOS (inter-organizational system)
Your corporate customers provide educational seminars or system implementation expertise to help your IOS implementation

☐ 1  ☒ 2  ☐ 3  ☐ 4  ☐ 5

10. The questions below relate to the environment within your industry. Rate from (1) strongly disagree to (5) strongly agree

Your company uses related technologies and systems to help gather information from the surrounding supply chain environment (e.g., a system to help your company to gather dynamic information to forecast the customer’s demand)

☐ 1  ☐ 2  ☒ 3  ☐ 4  ☒ 5

There exists an explicit regulation to measure selling/buying activities between you and your corporate customers (e.g., supplier score card)

☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

You and your corporate customers can send the timely, accurate, and complete information to each other

☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5

There are clearly known practices and procedures your employees can follow in doing the selling/buying tasks

☐ 1  ☐ 2  ☒ 3  ☐ 4  ☐ 5
Section 3- Supply Chain process

1. How do you manage your supply chain? (Tick all that apply)
   - ☒ Close partnership with suppliers
   - ☒ Close partnership with customers
   - ☐ Just-in-time supply
   - ☒ Electronic data interchange (EDI)
   - ☒ Outsourcing
   - ☒ 3 party logistics (3PL)
   - ☐ Many suppliers
   Other, please specify Click here to enter text.

2. How successful do you think is your company in managing its supply chain in general?
   - ☐ Not successful at all       ☐ not successful ☒ successful ☐ very successful

3. Which of the following you think that your company needs to do in order to manage its supply chain better? (Tick all that apply)

<table>
<thead>
<tr>
<th></th>
<th>Improve</th>
<th>Start Implement-</th>
<th>Satisfied already</th>
<th>Not apro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close partnership with suppliers</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Close partnership with customers</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Just-in-time supply</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Electronic data interchange (EDI)</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>3 party logistics (3PL)</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
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<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Many suppliers</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td>Click here to enter text.</td>
</tr>
</tbody>
</table>

4. Does your company have a separate logistics department?  ☒ YES  ✗ NO

5. What types of systems are currently in use in your company to support Supply Chain Management?

<table>
<thead>
<tr>
<th>System/Technique</th>
<th>Custom-made</th>
<th>Standard package</th>
<th>Not in use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Requirements Planning (MRP)</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Manufacturing Resources Planning (MRPII)</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Enterprise Resource Planning (ERP)</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Warehouse Management System (WMS)</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Supply Chain Management (SCM)</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Customer Relationships Management (CRM)</td>
<td>✗</td>
<td>☒</td>
<td>✗</td>
</tr>
<tr>
<td>Supplier Relationships Management (SRM)</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Advanced Planning System (APS)</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Just In Time (JIT)</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>E-commerce</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Decision support / expert system</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Radio Frequency Identification (RFID)</td>
<td>✗</td>
<td>☒</td>
<td>✗</td>
</tr>
<tr>
<td>Electronic Data Interchange (EDI)</td>
<td>☒</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>Click here to enter text.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. How much did you actually benefit from using these systems?

<table>
<thead>
<tr>
<th></th>
<th>Not at all (1)</th>
<th>Little (2)</th>
<th>Average (3)</th>
<th>Greatly (4)</th>
<th>A lot (5)</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better quality of information</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Better quantity of information</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Flexibility</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Reduced lead-time in production</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Cost saving</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Forecasting</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Resource planning</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Reduced inventory level</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Increased coordination between departments</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Increased coordination with suppliers</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Increased coordination with customers</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Increased sales</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

7. In what level your company is facing the problems below when using these systems?

<table>
<thead>
<tr>
<th></th>
<th>No problem at all (1)</th>
<th>Some problem (3)</th>
<th>Significant problem (4)</th>
<th>Serious problem (5)</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resistance to change from employees</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Resources shortages e.g. no</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Skills shortages e.g. Computer illiteracy within the company</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Insufficient vendor support</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Hidden cost</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Integration with existing system</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Integration with supplier’s system</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Integration with customer’s system</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Other</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

Click here to enter text.
8. What types of systems do you plan to implement in the near future (within the next 2 years)?

<table>
<thead>
<tr>
<th>System</th>
<th>Custom-made</th>
<th>Standard</th>
<th>Not going to implement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Requirements Planning (MRP)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Manufacturing Resources Planning (MRPII)</td>
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<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Enterprise Resource Planning (ERP)</td>
<td>☐</td>
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<td>☐</td>
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<tr>
<td>Supply Chain Management (SCM)</td>
<td>☐</td>
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<tr>
<td>Customer Relationships Management (CRM)</td>
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<tr>
<td>Supplier Relationships Management (SRM)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Advanced Planning System (APS)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Just In Time (JIT)</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
</tr>
<tr>
<td>E-business</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Decision support / expert system</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Radio Frequency Identification (RFID)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Electronic Data Interchange (EDI)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>Click here to enter text.</td>
</tr>
</tbody>
</table>

9. How important are the following measures for supporting your company effort in SCM and IT system?

<table>
<thead>
<tr>
<th>Measure</th>
<th>Not at all</th>
<th>somewhat</th>
<th>important</th>
<th>very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>More education</td>
<td>☐</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
</tr>
<tr>
<td>Easier access to vocational training</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>More funding and financial support</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>More inter-country regional agreements</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Better infrastructure</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Improved information provision</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Increased regional cooperation between institutions</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Closer cooperation between companies and governments</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Other</td>
<td>☐</td>
<td></td>
<td>Click here to enter text.</td>
<td></td>
</tr>
</tbody>
</table>

THANK YOU FOR PARTICIPATION