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BUMAR FABLOK
Pilot Restructuring Project
Final Report

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& Lybrand**

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31 March 1992

For the attention of Mr Goonatilake

Dear Sir

Re: Bumar - Fablok

We have pleasure in presenting our final report on the pilot restructuring project for Bumar - Fablok ("Fablok").

Yours sincerely



Tim J B Heaton
Partner-in-charge
Coopers & Lybrand Sp. z o.o.



registration number 25921

BFRL

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I Intensive Assistance Provision

Background

101 As a result of Coopers & Lybrand's restructuring study completed in 1992, it was recommended that an implementation element be introduced allowing the consultants to help Fablok bring certain key elements of the report into practice notably those relating to marketing.

102 In order to survive in a market economy Fablok needs to become a strongly responsive, market driven organisation which uses carefully gathered and processed market data to develop and implement coherent and consistent market strategies. Communication within the organisation must be open and flexible and a continual process of iteration is essential.

103 The implementation project was approved by UNIDO and the project commenced in September 1992.

104 The project involved the secondment of a marketing expert to Fablok's sales and marketing department for two months. This intensive implementation period was followed by 6 months during which the consultant is "on call" when required. We are now at the end of the fifth month of the "on call" period. The "on call" assistance is described in the second section of the report.

105 The key goals of the secondment relate to knowledge transfer and the development of a suitable organisational structure and skills base.

Progress

106 The consultant was with the client full time for 4 full weeks, working within the Marketing department and with individual members of the staff in order to maximise the process knowledge transfer.

107 Progress and achievements were as described below.

Week 1

Tasks performed

- interview with each member of staff with a view to preparing brief personnel profiles
- initial contacts with GEC Gears (UK), Self Changing Gears (UK), VSEL (UK), Grove International (UK), David Brown (UK), Jige Lohr (FRA), Towing (PL), CBI (UK) and the German Chamber of Commerce (FGR)

Week 2

Tasks performed

- analysis of key accounts over the past 6 months
- commencement of market research for the car loading platform. the first stage being a detailed questionnaire for current and potential users
- development of contacts with foreign companies

Achievements

- preparation of personnel profiles for all marketing staff
- database of key clients over previous 6 months by value and geographic region

Week 3

Tasks performed

- commencement of market research for platforms; interviews with potential users and Head of Regional Traffic Police
- support with preparation of promotional sign to be situated by the A4 motorway
- preparation for car platform production cost calculations

Achievements

- arrangements of meeting with Grove International in Warsaw on 25 September
- arrangements for Signella to visit Fablok to discuss taking on distributor function for Warsaw region

Week 4

Tasks performed

- continuation of market research for car loading platforms; interviews with Pol-Mot (Polish Automobile Association) and potential users
- meeting with all department managers to discuss opportunities and means of financial and organisational decentralisation
- arrangement of meeting with Lublin "ZUK" directors regarding possibilities for co-operation in producing complete car transporters for the Polish market
- discussions with Ford regional dealer for Katowice regarding possibilities for co-operation regarding platforms

Achievements

- creation of quality circle for development and production of car loading platforms (consisting of members of all key departments)
- meeting with all department managers to discuss opportunities and means of financial and organisational decentralisation
- meeting with the representatives of Grove international (mobile cranes), Senabogen (FRG) building equipment, Belgian Trade Delegation and the French Trade Delegation
- registration of Fablok on German trade delegation computerised database
- meeting with French Inbound Investment centre in Warsaw with a view to gaining suitable trade contacts

Week 5

Tasks performed

- further development of cost data for car platforms
- contact with Coopers & Lybrand Uxbridge with a view to obtaining examples of standard terms and conditions of sale (export) used by UK companies
- visit to factory with UNIDO representative (Prof. Goonatilake)

Achievements

- meeting with all key staff in Mechanical department to discuss Western working practices and the importance of quality control

Week 6**Tasks performed**

- visit to Lublin car factory
- market research regarding car transportation platform
- finalisation of arrangements for GEC Alsthom visit to Fablok
- working party meeting with mechanical department managers dealing with non price product differentiation (for example packing and labelling)

Achievements

- firm expression of interest by FS Lublin regarding cooperation in producing an all Polish car recovery vehicle
- implementation of procedures to clean up the mechanical workshop and improve product quality, notably compulsory palletising of semi-finished and finished products, elimination of unwanted items (rubbish) creating a poor appearance and ergonomic problems
- implementation of a packing/labelling programme

Week 7/8**Tasks performed**

- attendance and presentation at "Round Table" meeting in Warsaw
- meeting with Ford, Iveco and MAN senior management to discuss opportunities for co-operation in the production of car recovery equipment
- support for development of simple computer based costing and pricing systems in the forge
- final follow-up on all past contacts

Achievements

- visit by GEC Alsthom Senior Management (Trade) to Fablok and initial expression of interest in further co-operation with Fablok
- interest expressed by Iveco in selling the Fablok recovery platform in certain countries, notably Greece, Israel and the Balkans
- strong interest expressed by Ford in co-operating in the development of a Transit based transportation platform together with an undertaking by the Ford General Manager to help find a suitable western partner with experience in the recovery vehicle market.
- the main thrust of the two month period was geared on the whole towards liaising with potential new customers, moving forward with all aspects of the development of the marketing department and providing much needed assistance with the new car platform project.

II Continuing Support Assistance

"On call" assistance

201 On completion of the site element of the implementation the final stage "on call availability" is now at the end of its fifth month. Assistance provided to date with regard to the six month follow on period is described below.

- Contact continued with the French firm Jige Lohr. This firm was planning to visit the factory in Chrzanów in the period between Christmas and New Year. The same firm's Norwegian agent also expressed interest in the company's products. This agent was to make contact with regard to a visit to the factory.
- The earlier initial contact with ABB Traction in Germany was again followed up as ABB had shown a certain amount of interest in mass transportation rolling stock equipment. Upon pressing ABB Transportation as to their plans, it was discovered that they had no intentions in taking their enquiries any further.
- Further information was obtained for Fablok with regard to the car recovery vehicle market through contact with yet more existing suppliers and manufacturers. This involved the obtaining of specification lists, price lists and delivery information. Obtaining such information often required a great deal of tact as firms are not forthcoming with information regarding their products if they suspect the information is being used by a possible competitor.
- Contact with the German firm Thyssen Henschel has led to an offer document being received inviting Fablok to submit a quotation for the manufacture of various steel profile to European standards. This offer, which was received at these offices, has been passed on with an explanation of the original German.
- A request for assistance was received from Fablok in tracing various trading and registration details of a German firm which was to visit Chrzanów. We contacted Coopers & Lybrand Frankfurt in order to pursue our enquiries. As Fablok was only able to furnish us with the name of the company and a rough geographical location, no further details being available, Coopers & Lybrand Frankfurt were, unfortunately, unable to trace the company.

- We were later informed by Jige Lohr, the French firm which showed some initial interest, that they were unable to visit the Fablok factory in December. Their fax suggested that Jige Lohr did not wish an alternative date to be made available for a visit to Fablok.
- Contact was established with a UK based firm involved in various crane manufacturing activities. An information pack was supplied and a short meeting took place. No further interest was shown from this company.
- The general consensus from the company is that business contacts established with German firms are likely to be most fruitful, quite simply due to the close geographic proximity of Germany to Poland.

202 The assistance provided to the company is a minimal level at this stage, as anticipated. No specific assistance requests were received during a recent trip to the company. The marketing department did note that lack of a suitable computer and printer was hampering their efforts.

III Restructuring Progress

301 We have summarised below the principal recommendations made in our earlier report;

- An integrated MIS system does not exist
- Fablok should be split into five main operational units
- Product line rationalisation
- Employee headcount is too high
- Products should not be produced for stock
- The company has excess stocks
- A modernised inventory control system should be installed
- Fablok should dispose of redundant property
- Fablok should resolve all issues regarding title to land
- Fablok should expand its sales and marketing initiatives

302 Fablok's current position regarding these recommendations is discussed below.

An integrated MIS system does not exist

303 It appears that MIS requirements continue to be fulfilled on an *ad hoc* basis. The present data processing facilities are not geared to providing factory wide information in a condensed form suitable for management use. We were informed that the company does not have the available money for purchase and implementation of such a system.

304 No one individual has been identified to supervise the introduction of a MIS.

305 The company is working towards the creation of profit centres, although this is at an early stage of development.

306 An analytic-economic department comprising of three people provides information requested by management, again on a seemingly *ad hoc* basis. The company hopes to link its present Mera and IBM computers and use this base to build systems for the future.

Fablok should be split into five main operational units

307 This was probably the most crucial recommendation of Stage One of the project.

308 The company has not been split into five separate operational units. The reasons for the company's inability to proceed with this are;

- The trade unions did not approve a split up of the company. The Supervisory Board met to discuss the matter but did not sanction the proposal. It appears that the reason was the uncertainty of the impact of implementing what was perceived as an important task.
- The company does however, intend to create profit centres. These profit centres are to be based on production process areas rather than individual product areas such as cranes.

309 The three main areas around which the profit centres are to be based are as follows:

- (i) forge;
- (ii) mechanical workshops; and
- (iii) construction, welding, and fabrication facilities.

310 Management inform us that the above changes are sufficient for Fablok at this stage of restructuring, and that no further changes in company structure are required for the foreseeable future.

Product line rationalisation

311 All main product lines continue to be manufactured, but no locomotives were manufactured in 1993 to date due to a lack of orders.

312 As the technology for locomotives manufacture is similar to that required for other tasks such as crane or car platforms, employees have been relocated to other task areas.

Employee headcount is too high

313 The number of employees has gone down slightly, by around 70 to 1,318. This follows previous reductions. Since 1989 employee levels are down by around 35%. Even though employees are moved between departments, the company informs us that they are currently experiencing a shortage of skilled welders.

Products should not be produced for stock

314 The company no longer produces for stock. Products are now only manufactured for specific orders. Whilst the company appears very aware of the need to negotiate prices to cover "as a minimum" fixed costs, we understand that some goods are still manufactured at below full cost recovery.

The company has excess stocks

315 The company is attempting to dispose of excess stock. The most substantial excess stock items are locomotives, chassis for cranes and car platforms.

316 Fablok believes that it can sell off its stock of crane chassis by the end of 1993, using barter deals with the new republics of the former Soviet Union.

317 Fablok anticipates that it will have a greater problem in disposing of excess stocks of car platforms. The Polish market is not able to absorb the platforms, but an advertising and sales campaign is being conducted through its two recently appointed main agents.

A modernised inventory control system should be installed

318 A modernised inventory control system has not been installed. The company relies upon computer printouts from its present system for stock control.

Fablok should dispose of redundant property

319 The company has moved forward with disposal of redundant property. In addition, certain production areas and units are being resited within units which are continuing production.

320 Three production halls are now up for sale or lease. Negotiations are taking place with prospective acquirors.

Social assets

321 The company has proceeded with a closure and divestment programme of its social assets include the following:

- leasing out of holiday facilities
- sports club handed over to Town Council
- kindergarten handed over to Town Council
- a surplus canteen has been leased out

Fablok should resolve all issues regarding title to land

322 All matters relating to regulation of land registry entries have been completed. The company has now settled all questions relating to its occupation of the factory site.

Fablok should expand its sales and marketing initiatives

323 The marketing department has segmented its marketing efforts by largest product groups such as cranes and platforms.

Cranes

324 In the area of cranes the efforts of the sales and marketing department have resulted in the signing of several potential co-operation deals. A contract has been signed with Krupp of Germany for the supply of components and sub-assemblies for cranes of 140/160 tonnes. The main parts involved are the main frame, revolving parts, and the supports.

325 Further talks are also being held regarding the production of a new 25 tonne crane with off-road capability. A further area where sales and marketing has assisted in gaining work is in the area of brakes for trains. These are new brake installations capable of stopping a train travelling at speeds of 200 kilometres per hour.

326 An updating of current crane production is envisaged to provide low temperature operating capability.

Platforms

327 Development of a new light platform for vehicle recovery is continuing. A prototype based on a Ford Transit is now on trial with Ford in the Czech Republic. Development work is continuing on documentation to produce a platform based on a 10 tonne truck. Additionally research carried out by Fablok indicated that the car platform market is moving towards using double decker vehicles, and development has begun on a prototype model.

328 Fablok is a member of a consortium of companies including the German concern AEG, which has been chosen to supply rolling stock for the proposed new Warsaw Metro. This would mean the supply of railway bogies from Fablok as well as frames. This joint project is awaiting financing arrangements.

329 Fablok is also awaiting the results of a further tender for the supply of bogies and frames for the Boston underground railway in co-operation with AEG. This would result in an export element for the USA market. It may be possible to use this contact as an entree into the USA.

330 A third element of the AEG contact is a meeting to be held in April concerning the supply of toothed wheels to Germany.

Former Soviet Union

331 The marketing department has pursued contracts with UFA Bashkiria, a company in the former Soviet Union. This involves a possible deal for joint crane production in the future. Two cranes are to be sent there in CKD (component knock down) form. One crane is to be paid in cash whilst a barter deal will be set up to assist purchase in relation to the other crane. This barter specifies that only certain products can be used as payment means, such as hydraulic elements, pumps and tyres.

332 Renewed efforts in the republics of the former Soviet Union have led to sales of some 10 to 12 cranes this year.

New products

333 The sales and marketing department, in conjunction with the research department, are considering a rescue vehicle for the army and fire brigades, based on a crane chassis.

Computer systems

334 The computer system in use in Sales and Marketing is deemed to be inadequate and no funds have been allocated by management for a suitable computer programme, a personal computer or an adequate printer.

General

335 Fablok believes that the reason for slow implementation of the restructuring recommendations is due to a lack of money. Fablok is hopeful that the sale of buildings or low interest finance will release funds for working capital.

336 It considers that more could be achieved if funds were available for the purchase of new production machines and other capital expenditure.

337 In addition an influx of cash would enable it to get adequate computer and printer back up and update promotional material to a high standard.

Appendix 1: Statistical information for UNIDO

		1989	1990	1991	1992
No. of employees		2047	1885	1545	1329
All in mln USD					
Capital employed	1	17.0	28.2	39.5	24.2
Fixed assets	1	15.7	24.8	31.2	22.0
Current assets	1	5.5	16.5	19.1	13.3
Current liabilities	1	4.4	11.4	13.9	10.8
Sales					
Total sales	2	32.4	27.8	21.0	14.7
Polish sales		-	-	80%	49%
Export sales		-	-	17%	49%
Other sales		-	-	3%	2%
Gross Profit/Loss	2	10.8	7.0	(5.2)	(1.6)
Net Profit/Loss	2	5.4	3.5	(5.9)	(2.1)
Exchange rate USD/PZL					
1 - Year end rate		6500	9500	10957	15767
2 - Avg rate over year		1446	9500	10513	13631