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**Contents**

**FINAL REPORT**  
**SEVER EOOD, Veliko Tarnovo -**  
**Audit and Analysis**  
[ 7 pages and 4 supplements ]

**Project symbols**

**DG/BUL/93/002** Assistance to the Transition to Market  
Economy

**UNIDO Contract:**

**No. 94/074P** Assistance to the Transition to Market  
Economy, Purchase Order No. 15-4-1074P ✓

**National Contractor:**

**BULGARIAN INDUSTRIAL ASSOCIATION (BIA)**  
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**Date:** September 15, 1994

## **ABSTRACT**

The present report bears upon the implementation of the requirements at Stage Two of Contract No. 94/074P, and contains the results of the study and a survey of the company SEVER EOOD, together with proposals for technical assistance.

**The aims of the report are:**

- to identify the main problems relating to the company's activities and to formulate priorities as a function of the company's short-term development objectives under the new market conditions;
- to identify the areas for technical assistance, in accordance with the market conditions;
- to link the points of "intersection" between the company needs and the possibilities of UNIDO under Project DG/BUL/93/002, Annex B, for the purpose of providing technical assistance.

**The object of the report is the company SEVER EOOD (Veliko Tarnovo).**

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**Contact person:** Engineer Margarita Petkova, Manager, tel.: (+359 62) 3 04 22.

**Object of activities:** Purchase, processing and marketing of fresh, processed and frozen fruit and vegetables; commercial activities in the country and abroad.

**Ownership:** State-owned enterprise (SOE).

**The SOE is supervised by:** The Ministry of Trade. It is managed as a one-man limited liability company by the manager, in compliance with the provisions of the legislation in force in the country.

**Privatization:** No procedure has been opened for privatization, and no potential buyers have been identified so far.

**To meet these aims the team carried out the following tasks:**

- additional information was gathered, and the state of affairs was verified "in the field" by means of interviews;
- problem areas (weaknesses) and advantages (strengths) of the company were identified;
- "the matrix approach" was applied in determining priorities with a view to finding solutions to existing problems;
- the areas of extending technical assistance were identified.



**1. Personnel.** Total number of employees: 65 people ( 32 men and 33 women )  
Men per women ratio: 1:1.  
Administrative personnel: 11 people.  
Workers, including maintenance: 46 people. Seasonal workers are also employed.  
Administration/workers ratio: 1:6.  
Distribution by education:  
higher - 7; secondary - 53; primary - 5.

**2. Organizational Structure:** The existing structure dates from 1990 (Supplement No. 1). It is the result of structural changes in the system of the Ministry of Trade, following a split-up of large holding groups into their initial components. The SEVER SOE is one of the components of the former BULGARPLOD. The manager has no permanent deputy. Whenever the need arises, one of the staff members is appointed as deputy manager.

**3. Infrastructure:** The company is located on a site with good road and transport communications network. It is situated near the main Sofia - Veliko Tarnovo - Varna main way.

The value of the fixed assets amounts to 62.2 million Leva according to a 1992 assessment.

Their structural distribution is as follows: buildings and land - 74.5%; machines and equipment - 18.6%; transport vehicles - 6.9%. The value of the refrigerating plants is included in the "buildings and land" group.

The main building is of metal constructions and is well maintained. It has free spaces allowing for new facilities and technological lines.

The physical depreciation of the buildings is about 40%, that of the machines and equipment which are morally depreciated is 20%, and of the transport vehicles - 80%.

#### **4. Products**

**4.1. List of Products:** The products of SEVER EOOD are in the food industry sector. Previously, being a branch of BULGARPLOD, the company used to produce canned fruits and vegetables (by hot treatment). Since 1992 it has fully switched over to frozen products. The main products are the so-called soft fruits: raspberries, strawberries, morello cherries and cherries with stones (due to the unavailability of machinery). Vegetables account for lesser part of the products due to the unavailability of specialized equipment (cutting machines etc.) for pre-processing.

**4.2. Capacity:** The production refrigerating plant has a total capacity of 1,000MT of finished products.

**4.3. Quality Standards:** The company's activities depend on clients' demands which are laid down in contracts. Technological standards and instructions are used within the framework of the company's technological possibilities. The company carries out orders by Bulgarian export firms, too. Depending on existing capacities, the company keeps in store products for the autumn/winter period.



**4.4. Sales:** Work is done according to preliminary contracts, and is oriented mainly for export (98% of the total production). Sales structure by types of markets is shown in Supplement No. 2.

**4.5. Trade Mark and Packings:** The company has no trade mark. Packings are Bulgarian, three-layer corrugated pasteboard, of good quality, without inscriptions. The packings have no variety or attractive design. They have a uniform weight ( by 1 kg, by 2 kg, etc.) Labour is manual.

**4.6. Acceptability in the Market:** The products are well received on the foreign markets. The frozen products are not well accepted on the domestic market for the following reasons:

- psychological factors: the majority of the population prefers home-made (bottled) food; no tradition exists for the consumption of frozen vegetable products;
- no separate refrigerating facilities are available for the sale of portioned frozen fruits and vegetables,
- no good advertising of the products is done.

**4.7. Adaptability of the Products:** The products can be adapted both technologically and for the consumer, within the framework of the company's technological facilities.

**4.8. Flexibility of the Products Towards the Market Needs:** Pricing flexibility is possible and depends on the size of orders. The ratio between labour and production cost is 1:6.

**4.9. Automation of the Processes:** Manual labour predominates.

**4.10. Production List Availability:** Deep freezing is done in two variations: "en bloc" and "by the piece". Due to the lack of specialized machinery which is too costly for the company, its products rank lower than those of leading world companies. For example, there is no "shock" freezing, no stoning facilities, no freezing of cut vegetables, etc. No big possibilities exist for improvement of the production list. The company needs pre-processing machinery (stoning, cutting, splitting, etc.)

## **5. Production**

**5.1. The production technological chart** for the processing of vegetables comprises the following operations: acceptance, washing, primary processing (cleaning, cutting, blanching), placing in trucks, refrigerating, packing, storing in the storage rooms, spedition.

The technological chart for the processing of fruits is analogous but excludes the primary processing operation. Labour is mainly manual. The technological charts are shown on Supplement No. 3.

**5.2. Machinery and Facilities:** The primary processing technological line and the refrigerating plants are made in Bulgaria. The automated equipment is imported from the West. The automatic washer is made in the Netherlands. Foreign clients have made proposals to supply new technological lines and/or individual machines.



**5.3. Flexibility of the Production:** The refrigerating tunnel was built in 1991, and is the "narrow spot" of the technological process. The storage chambers are connected with the refrigerating facilities in parallel; therefore, the free chambers can be switched off individually, without disrupting the working process of the remaining ones.

The work load has a seasonal character. In the summer, the processing of raw materials is done in two shifts, and work in the refrigerating tunnel - in three shifts. In the autumn and the winter, apples and vegetables are stored in the chambers. The work load is assessed by the experts at 50% due to the lack of raw materials having advantageous purchasing price.

**5.4. Working Places:** The working places are distributed by technological operations: acceptance and pre-processing, entry and exit from the "tunnel", storage and spedition.

**5.5. Equipment Maintenance:** The equipment is maintained in a good status by a special unit. The company has organized the production of instruments and tools.

**5.6. Quality Control (QC):** Quality is controlled at the "entry" and at the "exit". The company has a QC laboratory, which does dosimetric control.

**5.7. Environmental Protection:** The company has no purification facilities. The production is 100% waste-free.

## 6. Procurement

**6.1. Raw Materials:** The company purchases all of its raw materials locally. The region has long fruit- and vegetable-growing traditions. The semi-mountainous areas are rich in raspberry plantations. It is the established practice to conclude preliminary contracts with the producers, including contracts for the purchase of agricultural preparations. Negotiations begin in May with initial prices and negotiable margins. Contracts are not binding upon either side, and are executed following an additional negotiation of prices. In 1994 a new practice was introduced: financing some of the larger producers (fruit- and vegetable-growers); however, this practice is still limited due to the company's financial situation. The purchasing price of the raw materials are high (e.g.: 2 DM/kg for the raspberries while their export price is 1.7 DM/kg for products refrigerated "en bloc", and 3,9 to 4.0 DM/kg for products refrigerated "by the piece").

**6.2. Spare Parts Supply:** Spare parts are bought locally (80%) and imported (5%). There is normal power and water supply. Power consumption is not measured "at the entry" by units. Electric power consumption expenses are considerable because of the refrigerating facilities

**6.3. Packing Materials:** They are made in Bulgaria, in the region of Veliko Tarnovo.

## 7. Sale

**7.1. Marketing:** The company has a Sale Department with one employee. Contracts with clients are mainly negotiated by the manager. The company has no information about the pricing of its products on the international markets or about price tendencies.



**7.2. Trade Channels:**

- by means of agents: foreign companies having offices in Bulgaria or joint ventures;
- for the country: by wholesale traders.

**7.3. Promotion of Products:** The products are advertised mainly for the domestic market through the mass media and by participation in the Plovdiv Fair. The company has no promotional brochures. It has not participated in specialized international exhibitions.

**7.4. Realized Export:** Export by types of products:

| Product<br>in tons     | Quantity |                  |
|------------------------|----------|------------------|
|                        | 1993     | 1st half of 1994 |
| 1. Frozen strawberries | 8        |                  |
| 2. Frozen raspberries  | 27       | 100              |
| 3. Frozen cherries     | 32       | 40               |
| 4. Frozen okra         |          | 350              |
| 5. Frozen plums        |          | 50               |

**7.5. Contacts with Foreign Companies:** The company has traditional contacts with foreign companies which are its principal clients:

1. SD "Bulgarski Plodove i Zelenchutsi" (Bulgarian-Dutch company) - for the Netherlands;
2. The "Alpine" company - for Switzerland and France;
3. The "Schoba" company - for Germany (vegetables only);
4. Greek firms (okra).

**8. Financial Situation:** The manager and the chief accountant are in charge of the company's financial issues.

Since 1990 the financial status of the company has been going down mainly due to the use of a bank credit with a high interest rate for the building of new refrigerating capacities which cannot be fully used. In 1994, a certain progress was made in the use of the production capacities. Since 1991 the company has suffered losses. About 67% of these are the result of the repayment of interest rate on investment credits. Paying off the credits is extremely difficult, and could take a very long time if no other way for repayment is found. Interest rates on working capital credits amount to 19%-23% from the total losses. At the same time, sales receivables exceed bank credits. Losses from direct economic activities amount to 8%-15%, and are due to the low prices of exported products against the rising prices of raw materials. The insufficient using of the capacities also produces losses from direct economic activities.

The structure of expenses and interest rates on the working capital credit for 1993 are given in Supplement No. 4.

The company keeps a profit and loss account by types of products.

The weak financial situation will considerably improve:



- if the capacities are fully used;
- when the management of the turnover means and the cash flow improves;
- if the effectiveness of exports (prices) improve.

## 9. PROBLEMS AND CONSTRAINTS UNDER THE CHANGED ECONOMIC CONDITIONS

The survey data and the analysis which was made show the company's "strengths" and "weaknesses". The "strengths" lead to the conclusion that the company's perspectives are good and that its performance can improve provided the "weaknesses" are eliminated progressively and in due time. Some of them have been identified in the section on required technical assistance, in the context of the UNIDO indices.

### 9.1. Relating to the Structure of Production

#### Strengths:

- the products, the soft fruits in particular, are in high demand on the external markets; these markets are not satisfied;
- some frozen vegetables also find a good welcome on the foreign markets;
- the company is located in a region with outstanding traditions in fruit- and vegetable-growing;
- it has a long experience in the processing of fruits and vegetables;
- the products are processed according to international standards and to the requirements of foreign clients.

#### Weaknesses:

- the production of high technology products is not possible (stoned, with a requested form);
- "shock refrigeration" is not done whereby these products are in the highest demand on the market;
- purchasing prices of agricultural products are constantly going up due to the fact that land restitution is not yet completed;
- packings lack diversity by weight and by design.

### 9.2. Relating to the Technological Level

#### Strengths:

- the buildings, machines and facilities are comparatively new and have a good potential for future exploitation;
- the refrigerating chambers are connected with the freezing installations in parallel, and allow for alternative usage;
- both the existing buildings and the site offer possibilities for a considerable extension;
- the plant uses a waste-free technology;
- a proposal has been made by the company's western clients to finance new technological lines and the versification of the production list.





**Weaknesses:**

- there is a "narrow spot" in the technological line (the refrigerating tunnel); consequently, the amount of the production is limited by its transmission capacity;
- the company lacks essential machinery for pre-processing of no highly effective technologies exist for fruits and vegetables (stoning and vegetable cutting) which cuts down the list of products;
- no measuring is done of the energy consumption by units;
- no technological equipment exists for a "shock freezing" of fruits and vegetables which are in very high demand;
- the transport vehicles are morally and physically depreciated.

**9.3. Relating to the Financial Situation****Strengths:**

- the fixed assets are owned by the company.

**Weaknesses:**

- the big investment credits with which the company is indebted engender high interest rates which keep capitalizing;
- sales receivables are not collected in due time; consequently, the company uses working capital credits;
- the company suffers losses from direct economic activities resulting from insufficient work use of the facilities and lack of timely market information;
- weak management of the cash flow; generally speaking, weak financial management.

**9.4. Relating to the Access to Domestic and Foreign Markets****Strengths:**

- the company has established contacts with the western companies and started to deal with them;
- the company has traditional clients with whom it negotiates the raw materials in advance.

**Weaknesses:**

- insufficiently developed marketing structures;
- no tangible presence on the domestic market;
- the production is exported without a company trade mark;
- insufficient number of channels for production marketing;
- lack of market studies and analyses;
- lack of a feed-back with the consumer;
- lack of information on price changes along the distribution channel to the end user.



## TERMINAL SECTION

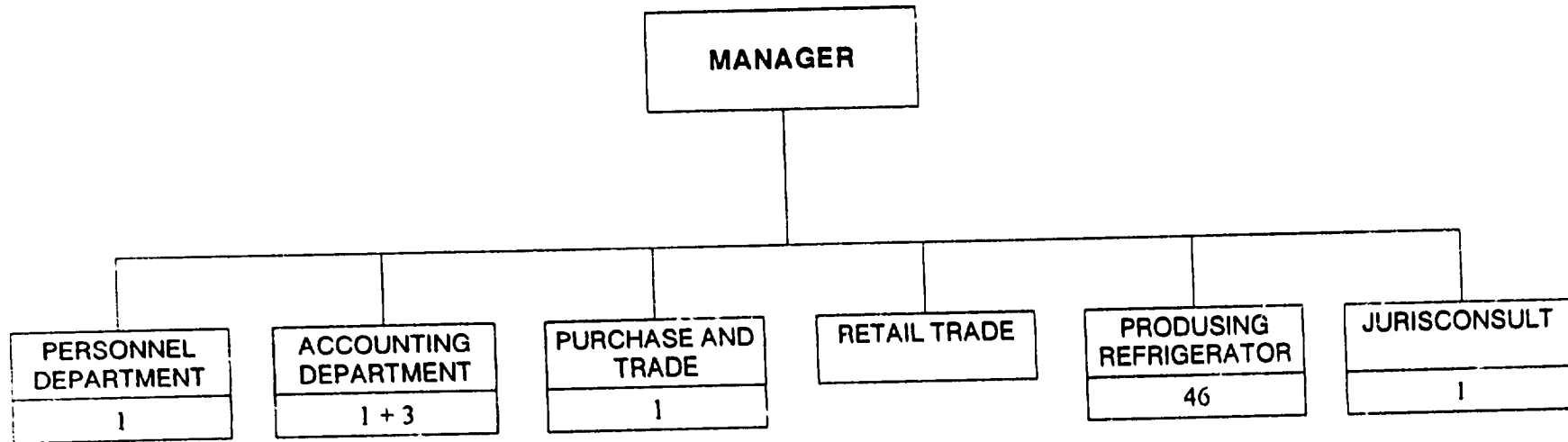
The required technical assistance is identified by means of "points of intersection" between the priority issues of SEVER EOOD (Veliko Tarnovo), the desire of the consulting company management, and the TA areas of UNIDO.

*The experts' team has concluded that the SEVER EOOD (Veliko Tarnovo) requires technical assistance from UNIDO in the following priority areas:*

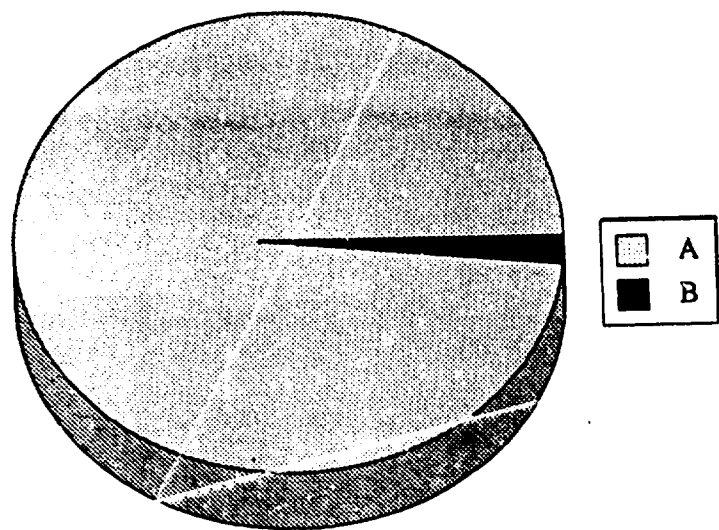
- > marketing and functions of the Sale Department;*
- > finance management;*
- > technologies.*



### ORGANIZATIONAL STRUCTURE



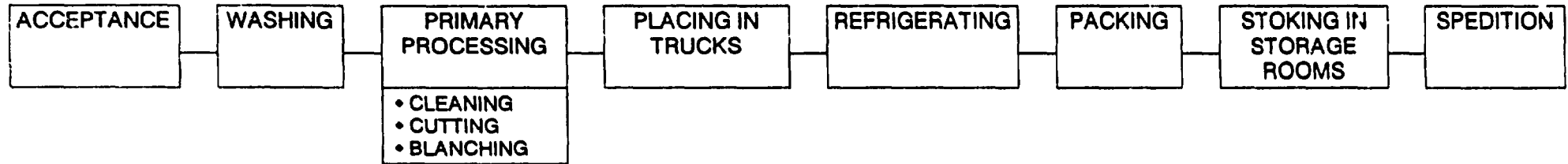
### SALES STRUCTURE BY TYPES OF MARKETS



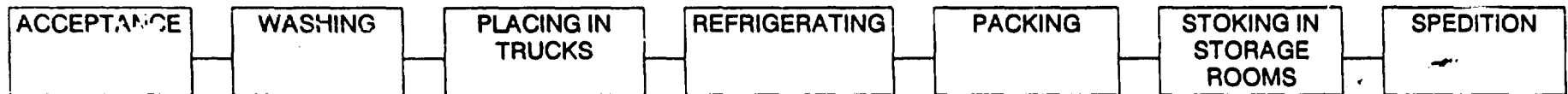
- FOREIGN MARKETS 98
- DOMESTIC MARKET 2

### PRODUCTION - TECHNOLOGICAL CHART

#### > VEGETABLES



#### > FRUITS



## PRODUCTION EXPENSES' STRUCTURE

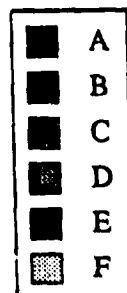
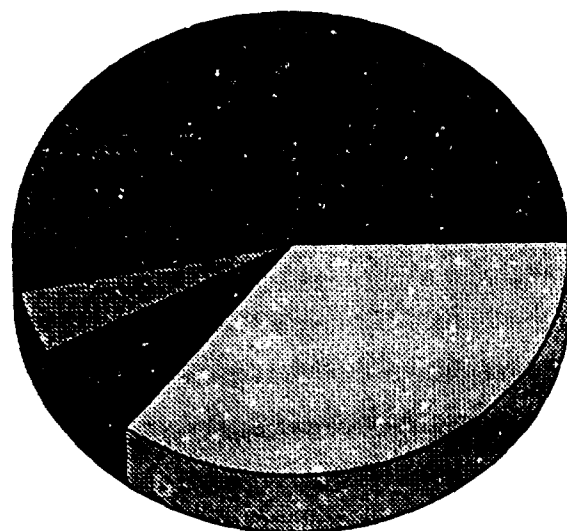
| Types of the Expenses           | tho.BGL       | Parts of expenses<br>in percent |
|---------------------------------|---------------|---------------------------------|
| 1. Raw materials                | 3,341         | 21.7                            |
| 2. External Services            | 2,892         | 18.8                            |
| 3. Salaries and other Fees      | 1,926         | 12.5                            |
| 4. Social Insurances            | 674           | 4.4                             |
| 5. Depreciation of Fixed Assets | 1,083         | 7                               |
| 6. Others                       | 5,456         | 35.5                            |
| <b>TOTAL</b>                    | <b>17,852</b> | <b>100</b>                      |

## TOTAL EXPENSES' STRUCTURE

| Types of the Expenses      | tho.BGL       | Parts of expenses<br>in percent |
|----------------------------|---------------|---------------------------------|
| 1. Production Expenses     | 15,372        | 61.4                            |
| 2. Credits Interests       | 9,502         | 37.9                            |
| - for working capital      | 2,400         | 9.6                             |
| - for investments' credits | 7,102         | 28.3                            |
| 3. Other Expenses          | 171           | 0.7                             |
| 4. Taxes                   | -             | -                               |
| <b>TOTAL</b>               | <b>25,046</b> | <b>100</b>                      |



### PRODUCTION EXPENSES' STRUCTURE



|                                |      |
|--------------------------------|------|
| - RAW MATERIALS                | 21.7 |
| - EXTERNAL SERVICES            | 18.8 |
| - SALARIES AND OTHER FEES      | 12.5 |
| - SOCIAL INSURANCES            | 4.4  |
| - DEPRECIATION OF FIXED ASSETS | 7    |
| - OTHERS                       | 35.5 |



SEVER FOOD, (Veliko Tarnovo)

## *Job Description*

TA: Marketing and function of sales department

### 1. Organizational activities:

Assistance in creating an organizational structure for marketing. To be carried out by the company's director together with the consultant.

### 2. Theoretical activities:

Short presentation of the methods and approaches to be applied in practice in the marketing unit and for the senior staff. To be realized simultaneously with the practical assistance.

### 3. Practical activities:

a/ Elaboration of product-market strategy: to be performed under the consultant's methodological instructions and his information assistance.

The following aspects to be covered:

- distribution network for the domestic market;
- comparing the frozen products' prices at the foreign markets;
- packings for frozen products i.e. prices, design, material, sizes etc.
- ways of promoting the frozen products;
- diversification of customers in order to keep the foreign markets; establishing contacts with new potential customers.

b/ Programme for implementing the strategy: terms, responsibilities, expected results.





SEVER EOOD, (Veliko Tarnovo)

## *Job Description*

TA: Financial and accounting management issues

### 1. Theoretical assistance:

To enlarge the accountants' and senior staff's knowledge on the following topics: organization of the accounting planning and taking into consideration the market requirements. A short presentation takes place in the course of the practical assistance.

### 2. Practical assistance stressing on the following:

a/ Analysis of the income and expenditures in total and breakdown per units;

➤ incomes and costs planning;

➤ income, expenditure and cash flows auditing;

➤ organization of the accounting of costs according to the season's fluctuations.

b/ Working capital:

➤ managing the goods on stock;

➤ managing the goods on stock and the income from sale;

➤ managing the short and long-term loans in combination with proper capital.

Result: Programme for cash flows management.



## *Job Description*

### TA: Foreign Investment and Technologies

#### 1. Analysis of the available equipment and creating opportunities for processing and producing new items.

To be carried out by a working team from the company, consisting of the manager under the methodological direction and with the consultant's participation. The following stages should be covered:

- analysis of the production processes per working places;
- appraisal of the capacity of the equipment per working places;
- determining the "limits" for changing the technological processes;
- products quality control of the whole production chain (all production processes included) and advancing proposals to maintain and improve the quality.

#### 2. Elaboration of a production strategy which should take into consideration the market requirements (on the basis of the marketing surveys) and the resources possibilities of the area. The following stages should be covered:

- new equipment and production technologies;
- forecast for the resource flows;
- optimization of the losses and the expenses;
- technical equipment for packing;
- possibilities for reducing energy consumption.

#### 3. Elaboration of a programme for implementing the production strategy and determining the necessary resources (i.e. financial, human, information etc.)

