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**Contents**

**FINAL REPORT**  
**RAYNA KNYAGINYA PKI, Panagyuriste-**  
**Audit and Analysis**  
[ 6 pages and 3 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 RAYNA KNYAGINYA PKI, 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 RAYNA KNYAGINYA PKI (Panagyurishte).**

**Address:** 1 Nistor Rugekov Str., 4500 Panagyurishte, Bulgaria; Tel.: (+359 357) 21 42, 29 63, 30 78, 20 77; fax: (+359 357) 28 36; telex: 46 436.

**Contact person:** Jordan Penchev, Chairman, tel.: (+359 357) 21 42.

**Object of activities:** Production of plastic articles and packings of the cosmetic industry; children's, babies' and women's ready-to-wear clothes; packing materials of corrugated pasteboard; relief emblems on tissue; cito-prints workshops.

**Ownership:** Cooperative-owned enterprise (COE). The owners are about 240 persons. All of them are now-a-days cooperative's employees or previous employees - pensioners.

**The COE is supervised by:** General Assembly and the authorized by it Managing Council. The chairman executes the decisions of the General Assembly and the Managing Council.

**Privatization:** The procedure has been completed with the establishment of the cooperative.

**To meet these objectives 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: 311 (230 women and 81 men).  
 Men per women ratio: 1 : 3.  
 Administrative personnel: 25 people (13 women and 12 men).  
 Workers, including those who are directly involved in production: 286 (217 women and 69 men).  
 Administration/workers ratio: 1:11.  
 Distribution by education:  
 higher - 2; secondary - 81; secondary vocational - 35; primary - 194.

**2. Organizational Structure:** The company was established as a cooperative in May 1966 with activities analogous to the present ones. The organizational structure which is shown in Supplement No. 1 dates of 1992 when the cooperative was registered as such for a second time. The cooperative is managed by a manager who is elected by the general assembly on the proposal of the board of managers. Work is computerized in the following departments: "Labour & Wages"; "Administration"; and "Finance & Accounting".

**3. Infrastructure:** The cooperative is situated on two sites in the central part of the town, with a good road leading to it. It consists of one main building which accommodates the administration, and of low buildings used as garages and the "Toolroom". The second site accommodates the "Cardboard Workshop" and the "Warehouse". The buildings are comparatively new and well maintained.  
 The cooperative owns transportation vehicles (2 motorcars, 3 trucks and a tractor with a trailer).

#### 4. Products

**4.1. List of Products:** The cooperative's production consists mainly of plastic articles for the cosmetics industry. Here are some figures:

Type	1989	1993
cream jars	5,654 thous. pcs	2,936 thous. pcs
lipstick cartridges	5,000 thous. pcs	-

The cooperative also produces dress-making articles, namely:

Type	1989	1993
towelling tissue	161 thous. m	
lyropol	107 thous. m	189 thous. m

The plastic production is cooperated with the cosmetics industry.  
 The cooperative produces women's ready-to-wear clothes for the foreign market on clients' design.



Another group of products are the non-standard packings made of corrugated pasteboard for which no automated production exists, and are therefore made manually. Plastic items account for about 70% of the total output, and dress-making articles - for about 10% of the total output.

**4.2. Capacity:** Capacity differs for the different workshops and production lines but is not used fully in any of them. This is mainly due to insufficient market studies and lack of clients.

**4.3. Quality Standards:** The production is in accordance with the requirements of the Bulgarian State Standards (BDS) and is adapted to the needs of the clients.

**4.4. Sales:** Sales are negotiated in advance. The production is organized on a contractual basis.

**4.5. Trade Mark and Packings:** The company has no trade mark. Products for the domestic and foreign markets are packed in Bulgarian packings.

**4.6. Acceptability in the Market:** Dress-making articles on clients' design are well-received. No serious complaints have been received. Some quantities of cream jars are exported to the Middle East Countries by the cosmetic cream exporter.

**4.7. Adaptability of the Products:** The non-standard packings made of corrugated pasteboard are a typical example of products which are adapted for the needs of the market. Quick changes of the products list are possible, depending on demand, within the framework of the possibilities of the existing machinery.

**4.8. Flexibility of the Products Towards the Market Needs:** Production prices are comparatively low.

**4.9. Automation of the Processes:** Labour is chiefly manual.

**4.10. Production List Availability:** Possibilities exist for the production of all types of polymers by using the method of injection moulding of weights up to 260 gr. Possibilities exist for diversifying the ready-to-wear list (knitwear excluding).

## 5. Production

**5.1. Production Technological Chart:** The individual products are manufactured in separate workshops and production units:

- "Plastics Department": It produces plastic articles and packings for the cosmetics industry, which are made of polystyrol, polyethylene, polypropylene and other polymers;
- "Relief Emblems and Cito-Prints Workshop": It makes emblems on tissues using PVC, inscriptions on paper and polymers by using the cito-printing technology;
- "Dress-Making Workshop": It manufactures children's and babies' ready-to-wear clothes, women's ready-to wear, and bath-gowns made of towelling tissue;



- "Cardboard Workshop": It produces cartons and packings made of corrugated pasteboard, paper, artificial leather;
- "Toolroom": It produces moulds and tools for the needs of the cooperative and for clients.

The technological charts are of the traditional type. Manual labour predominates.

**5.2. Machinery and Facilities:** The evaluation of the general status of the machinery and facilities differs for the different productions (workshops).

The machinery for polymer articles are highly productive and are specially made for the method of injection moulding of plastics. They are imported from Czechoslovakia, Russia and Poland. Their work load is about 90%; depreciation nears 30%. Some of the sowing machines are in a comparatively good status, just as some bookbinder's knives, presses and universal tool-making machines (lathes, cutters and grinders). The enterprise has facilities for the supply of industrial water, and aspirators for cleaning the air in the production premises.

**5.3. Flexibility of the Production:** The machinery is multifunctional and permit flexibility of production.

**5.4. Working Places:** The production uses mainly manual labour. Workers with labour rehabilitation specialize in the performance of specific tasks depending on the degree of their rehabilitation and on the type of disability.

**5.5. Equipment Maintenance:** The equipment is well maintained.

**5.6. Quality Control (QC):** Quality control is organized in the standard way - the end-product is checked at the "exit".

**5.7. Environmental Protection:** No penalties or fines have been imposed relating to a harmful effect on the environment.

## **6. Procurement**

**6.1. Raw Materials:** The "Commercial Department" takes care of the procurement of raw materials. All of them are of Bulgarian origin. Main suppliers: NEFTOCHIM (Burgas), and KARLOVSKA KOPRINA.

The plastics quality is not competitive on the foreign market for the following two reasons:

- medium degree raw materials' quality;
- morally depreciated equipment (bad pasting, rough edges).

**6.2. Spare Parts Supply:** About 60% of the spare parts are manufactured by the cooperative, 40% are imported. The tools are manufactured by the cooperative (70%) and bought from the outside (30%).

**6.3. Packing Materials:** The packing materials are of Bulgarian origin.



## 7. Sale

**7.1. Marketing:** The cooperative has a "Sale Department" but it does not perform typical marketing activities. Market studies are done by the individual cooperative members and mainly by the manager. The products of leading world companies (in cosmetics packings) are well familiar, and a comparison has been drawn between their products and those of the RAYNA KNYAGINYA cooperative.

### 7.2. Trade Channels:

- > directly, by types of products, with relatively permanent local clients;
- > by agents for types of products.

Principal clients: LAVENA (Shumen), AROMA (Sofia), INPAKO (Plovdiv), and the Institute of Roses in Kazanluk.

**7.3. Promotion of Products:** Participation in the 1994 Spring Trade Fair in Plovdiv.

**7.4. Realized Export:** The cooperative's production is sold mainly at the domestic market. A part of the women's ready-to-wear clothes is exported to the Netherlands. Some non-standard packings indirect are exported to the foreign markets in the Middle East.

**7.5. Contacts with Foreign Companies:** The cooperative has no traditional contacts with foreign companies.

**8. Financial Situation:** During the years of economic stagnation the cooperative has realized profits except for the year 1992.

Gross profit for 1993: A total of 1,506 thousand BGL, coming from the following sources:

production activities:	1,118 thousand BGL
financial operations:	342 thousand BGL
other profits:	46 thousand BGL

The cooperative has no short-term or long-term payables, and operates entirely using its own working capital.

The break-down of expenses is shown in Supplement No. 2. The share of expenses for materials and labour, social insurance including, is very high.



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

### 9.1. Relating to the Structure of Production:

#### Strengths:

- products list variety
- tradition in using disabled persons in the production
- possibilities exist for diversification of the products by type and by size

#### Weaknesses:

- the low quality of the plastic cosmetic packings does not allow for penetration in the western markets.

### 9.2. Relating to the Technological Level

#### Strengths:

- universal equipment;
- an important share of the tools are manufactured by the cooperative;
- the machinery's potential allows for a long-term usage.

#### Weaknesses:

- no modern automated equipment is used.

### 9.3. Relating to the Financial Situation

#### Strengths:

- all fixed assets are owned by the cooperative;
- the cooperative has no obligations or debts (either short-term or long-term);
- the cooperative uses working capital of its own.

#### Weaknesses:

- no re-evaluation has been done of the fixed assets, which maintains low depreciation values, and does not encourage a supply of capital for the substitution of the depreciated machinery;
- substantial amount of materials stocks and unrealized production in stock;
- there are important sales receipts.

### 9.4. Relating to the Access to Domestic and Foreign Markets

#### Strengths:

- the products are well realized on the markets;
- the production list fills in "niche" that require products with a high percentage of manual labour and comparatively simplified operations.





**Weaknesses:**

- there is no access to the foreign markets; no studies have been made of the needs of such products.

**TERMINAL SECTION**

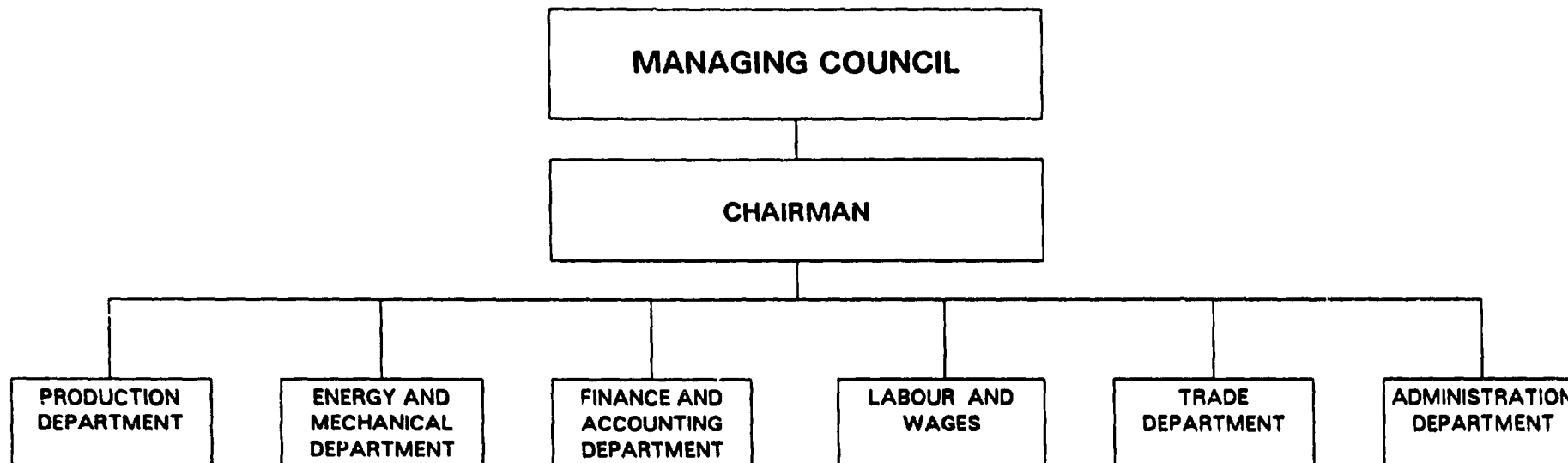
The cooperative is in a strong position which is mainly due to two factors: First, The owner is personified which results in a greater involvement and motivation. Second, in the conditions of the transit to a market-oriented economy the enterprise is profit-bearing with a minimal stagnation.

A characteristic feature of this enterprise is the fact that it is "social-oriented". On the basis of these three arguments, as well as on the results of the data analysis and the discussions with the representatives of the enterprise, the experts' team considers to propose that technical assistance be provided by UNIDO in the following areas:

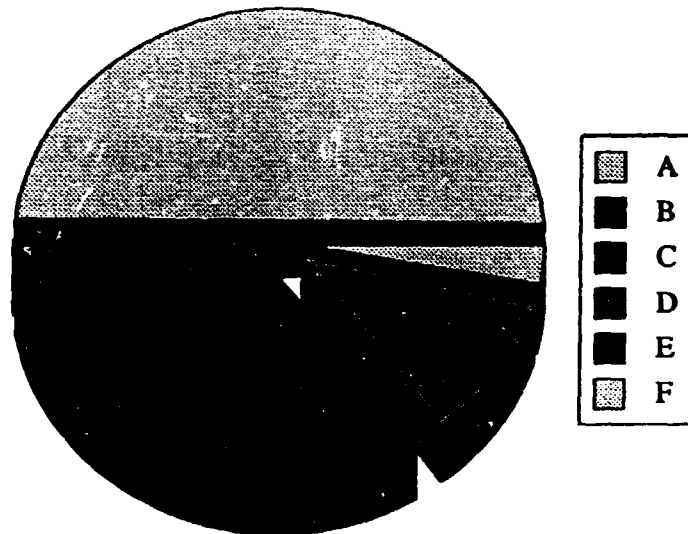
- *marketing and functions of the Sale Department;*
- *attracting foreign investment and joint venture;*
- *general management issues (with regard to the specific issues of disabled workers);*
- *assistance in the area of the cooperative's social identification and establishment of a permanent social status by means of legislation.*



### ORGANIZATIONAL STRUCTURE



## PRODUCTION EXPENSES' STRUCTURE



	Types of Expenses	tho.BGL	Parts of Expenses in percent
A	Raw materials	6,034	49.6
B	External services	217	1.8
C	Salaries	3,976	32.7
D	Social Insurance	1,397	11.5
E	Depreciation of fixed assets	125	1
F	Other Expenses	428	3.4
	<b>TOTAL</b>	<b>12,177</b>	<b>100</b>



## TOTAL EXPENSES' STRUCTURE

	Types of Expenses	tho.BGL	Parts of Expenses in percent
A	Production Expenses	12,177	99.6
B	Credits' Interests	15	0.1
C	- for working capital	15	0.1
D	Other Expenses	35	0.3
E	Taxes	-	-
	<b>TOTAL</b>	<b>12,227</b>	<b>100</b>



**RAINA KNYAGINYA PKI, (Panagyuriste)**

## ***Job Description***

**TA: Marketing and the function of sales department**

### **1. Organizational activities:**

Assistance in creating organizational marketing structure. To be done by the board of directors, respectively by the manager jointly with the consultant.

### **2. Theoretical activities:**

to familiarize briefly the managing body and specialized unit with the methods and approaches of modern marketing. To be performed simultaneously with the practical assistance.

### **3. Practical activities:**

To create a marketing product strategy with the following emphasis:

- first steps for outlining marketing in foreign markets; handling with invalids' organizations to give assistance to those surveys.
- co-operative assortments policy following marketing strategy;
- diversification.



RAINA KNYAGINYA PKI, (Panagyuriste)

## *Job Description*

**TA:** General Management issues  
Foreign Investments or Joint-venture

### 1. Development of strategy

- production strategy;
- suppliers/co-operative relations strategy;
- development of personnel skills according to the specific of the co-operative:
- environmental strategy.

**Note:** marketing strategy as a part of management strategy is developed with the consultant's assistance, in other identified TA's area "MARKETING ...".

### 2. Elaboration of a business-plan for the implementation of the management strategy including resources, terms and expected results.

The main target of the plan is a joint-venture or another type of co-operation and co-production with foreign company.



RAINA KNYAGINYA PKI, (Panagyuriste)

## *Job Description*

TA: Social Assistance

1. Analysis of the social status of the co-operative and describing the positive and negative features in the following aspects:

- present jurisdiction and taking advantage of existing opportunities;
- advancing proposals for rational use of advantages of the existing jurisdiction. The task is to be done by a team of experts in social jurisdiction, who are representatives of the co-operative board of directors under the consultant's supervision.

2. Advancing proposals to improve the jurisdiction according to the worldwide experience and social and economic capacity of the country.

A prominence is given to the following;

- to cover all socially poor groups, if possible excluding pensioners;
- to cover social assistance and professional qualification of invalids under school age and at school age.

