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FINAL REPORT
DETSKI SVYAT EOOD, Yablanitsa -
Audit and Analysis
[5 pages and 6 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)
16-20 Alabin str. Sofia 1000; Bulgaria

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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 DETSKI SVYAT 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 DETSKI SVYAT EOOD (Yablanitsa)

Address: 102 Gurko Str., 5750 Yablanitsa, Bulgaria; Tel.: (from Sofia 906891) 20 92, 20 94, 22 54.

Contact person: Engineer Ivan Tzochev, Manager, tel.: (from Sofia 906891) 20 92.

Object of activities: Production and Trade of wooden children's toys and carpentry services.

Ownership: State-owned enterprise (SOE).

The SOE is supervised by: The Ministry of Industry. 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 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: 108 people (32 men 76 women).

Men per women ratio: 1 : 2.4.

Administrative personnel: 11 people.

Workers, including maintenance: 97.

Administration/workers ratio: 1:9.

Distribution by education:

higher - 2; secondary - 48; primary - 58.

2. Organizational Structure: The company was established in 1971 as a children's toys plant on the basis of an existing workshop. In 1989, the company detaches itself and forms an individual company, MLADOST State Economic Enterprise (SEE). The existing structure dates from June 1994 (Supplement No. 1) when the enterprise was reorganized into a one-man limited responsibility company (EOOD).

3. Infrastructure: The company is located on a site along the Sofia - Varna - Rousse main way. It consists of two production premises, four auxiliary buildings and an administrative building. The company was registered in 1994 with authorized capital of 10.19 million Leva. The fixed assets' structural distribution is as follows: buildings and land - 38%; machines and equipment - 54%; transport vehicles - 8%. The buildings are relatively depreciated.

4. Products

4.1. List of Products: The company produces wooden children's toys and offers carpentry services. The toys' products list includes: several sizes of drums, toy trucks with construction blocks, toy trains, toy pianos, etc. The products need no equipment completion. Children's needle-craft products are new items on the production list.

4.2. Capacity: The total capacity of the plant is 300,000 pcs of toys per year. In 1993 the plant produced 197,000 pcs, i.e. the work efficiency was 66%. In 1994, contracts have been negotiated for 215,000 pcs, i.e. the anticipated load is 72%.

4.3. Quality Standard: The company's activities depend on clients' demands that are laid down in contracts, and are conform to local standards.

4.4. Sales: Sales are negotiated in advance, and are oriented mainly for export. In 1993, 97% of the total production to the amount of 8.7 million Leva was exported; in 1994, 96% of the overall production has been contracted for export.

4.5. Trade Mark and Packings: The company has no trade mark. Its products are sold under the exclusive name of the agent company. Packings are made of corrugated pasteboard made in Bulgaria.

4.6. Acceptability in the Market: The company products are well received on the international markets due to the wood raw materials that are ecologically-oriented.



4.7. Adaptability of the Products: The products can be adapted to market requirements.

4.8. Flexibility of the Products Towards the Market Needs: No sizable pricing flexibility is possible due to the steady process of inflation that leads to a quicker rise in the price of raw materials as compared to that of selling prices.

4.9. Automation of the Processes: Labour is nearly fully manual. Good possibilities exist for the mechanization of some of the production processes.

4.10. Production List Availability: Possibilities exist for introducing new types of toys requiring analogous technological operations. The production was started of a toy railway as a complementary element to the children's toy trains.

5. Production

5.1. Production Technological Chart: The production of wooden toys is shown in general outlines in Supplement No. 2. It is done in two workshops having comparatively closed production cycles. The first workshop manufactures toy trucks, toy pianos, stools; the second one - toy trucks with construction blocks, swings, etc. The production-technological chart is traditional, and includes the following operations: cutting-up, assembly, coloring, varnishing and packing machines that perform the basic wood-working operations. The machines are made in Bulgaria and are comparatively universal. They are multifunctional. Some of them are physically and morally depreciated but are still used in the production cycle. The book depreciation of the machinery is about 70%, and of the buildings - 25%. The experts' assessment is that the machines and equipment can operate another 5 to 10 years provided they are well serviced. There are also imported machines: a two-shaft grinding machine, a cassette-grinder (2 pieces) and a carpenter's quadrilateral machine; also, a Skoda truck.

5.3. Flexibility of the Production: The company is flexible enough and relatively quickly responds to construction design changes requested by the clients; consequently, it is technologically flexible. The workers' qualification permits shifting from one working place to another, and avoiding "narrow spots" in the production cycle. The existing buildings permit an industrial and technological expansion of production both in the branch of wooden toys and in the needle-craft branch.

5.4. Working Places: The working places are distributed by types of technological operations.

5.5. Equipment Maintenance: The equipment is maintained by the company. About 70% of the tools are bought from other enterprises. Similar is the situation with the spare parts, as most of the machinery is of Bulgarian made.

5.6. Quality Control (QC): Quality is controlled at the "exit". No serious complaints have been received. Some machine defects are removed manually, and the end product is of good quality.



5.7. Environmental Protection: The production is environmentally safe both during the processing of the toys and throughout the products' life cycle. No effective solution has been found with respect to the wood processing wastes.

6. Procurement

6.1. Raw Materials: One of the employees takes care of the procurement of raw materials and of the sale of the products. The main raw materials are beech and poplar timber, also, a variety of paints and varnishes. Timber is supplied by various companies in the region, whereas paints and varnishes are imported to respond to the clients' quality requirements. Attempts have been made to use Bulgarian paints and varnishes which have failed because of lower quality level. Cooperative supplies account for a very small share being mainly some plastic elements that are assembled with the wooden toys.

6.2. Spare Parts Supply: About 60% of the spare parts are imported, 20% are bought from other Bulgarian enterprises, and 20% are own production. About 30% of the tools are produced by the company, 50% - by other Bulgarian firms, and 20% are imported. There is normal water and power supply. Electric power consumption is measured "at the entry" of each production unit.

6.3. Packing Materials: The company uses polyethylene bags and corrugated pasteboard cartons of the client.

7. Sale

7.1. Marketing: The company has a Sale Department with one employee. The manager is primarily responsible for this sector. The company has no information about prices of children's wooden toys made by large international companies, and therefore has no basis for comparison.

7.2. Trade Channels: The company works only through agents. It has no information about price changes along the distribution channel. The production cycle is uninterrupted but sales depend greatly on big holidays.

7.3. Promotion of Products: The products are promoted through participation in international fairs (Nuhrenberg /Germany/ and Plovdiv), by donations for TV shows and quizzes, and by promotional folders and brochures of artistic design.

7.4. Realized Export: The company's production is oriented exclusively for export. Realized exports for 1993 and the first half of 1994 are given in figures in Supplement No. 3.

7.5. Contacts with Foreign Companies: The company maintains traditional contacts with western clients since 1969. Four of them are German, one - Danish and one - Austrian (See Supplement No. 3). They act as the company's trade agents on the foreign markets. Attempts are also made to attract new clients.



8. Financial Situation: The company profit amounted to about 229000 Leva in 1990, then went down to 52000 in 1991, and reached zero level in 1992. The year 1993 ended with a minimal loss of 5,000 Leva. In 1994 the company's financial situation has consolidated, and a profit of about 360,000 Leva is expected. The company keeps records of the production cost in both sectors. Supplement No. 5 shows the production cost chart for two of the products; it clearly shows that a large share of the expenses are material expenses and plant overheads. Whereas the high cost of the materials is easy to explain (costly imported paints and varnishes), plant overheads should be carefully analyzed. The price of the "toy truck with construction blocks" is 0.84 of the cost (it is sold at a loss); the second product's price is equal to its production cost (Supplements Nos. 4 and 5). Both the production cost's structure and the price in BGL are strongly influenced by the dollar exchange rate. This is accounted for by the prices of paints and varnishes.

9. PROBLEMS AND CONSTRAINTS UNDER THE CHANGED ECONOMIC CONDITIONS

The survey data and the analysis that 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 company is located in a region that is rich in raw materials;
- the production of children's toys has long traditions and dates from many years;
- the wooden children's toys find a good welcome on the foreign markets;
- the products are environmentally safe throughout their life cycle;
- the production list is adapted to the needs of foreign clients.

Weaknesses:

- the purchasing prices of timber are steadily going up;
- environmentally safe paints and varnishes can only be bought from abroad for there is no adequate local production;
- the products are not sold with a trade mark of their own.

9.2. Relating to the Technological Level

Strengths:

- possibilities exist for expanding production capacities;
- the machines are universal, multifunctional and permit a flexibility of production;
- energy consumption is measured by workshops;
- the company has qualified manpower.



Weaknesses:

- no effective cutting technologies exist which increases the share of manual labour;
- some of the machinery is morally and physically depreciated;
- woodworking wastes are not used effectively enough.

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

- the fixed assets are owned by the company within the limits of its powers;
- the company has no investment debts;
- a physical motivation system which is related with the economy of materials has been introduced;
- a cost accounting system has been introduced by types of products.

Weaknesses:

- sales receivables are not collected in due time; consequently, the company uses short-term credits;
- no analysis is done of plant overheads with relation to production costs;
- the accountancy is not automated.

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

- the company has traditional relations with foreign clients and, consequently, a stable presence on the external markets;
- the company products are competitive on the markets because they are environmentally safe, and because of their low cost (due to the cheap labour).

Weaknesses:

- the company has no developed marketing structure;
- there is no information on price changes along the distribution channel to the end user.

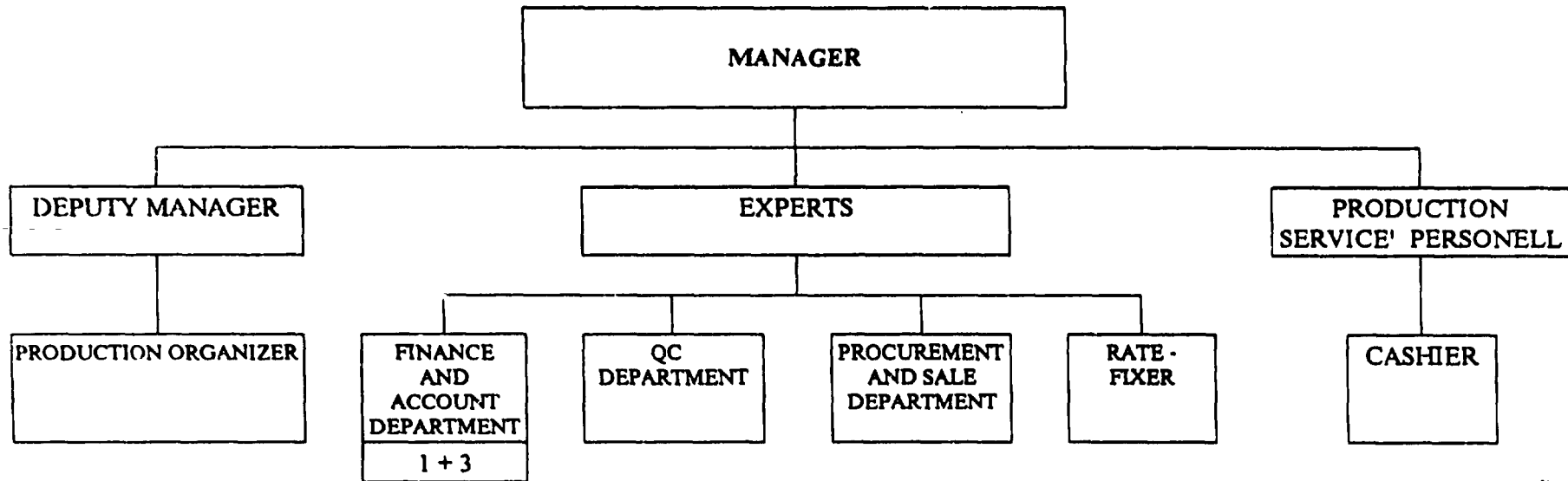
TERMINAL SECTION

On the basis of the "strength" and "weakness" analysis, the experts' team proposes, jointly with the company management, that UNIDO provide technical assistance in the following priority areas:

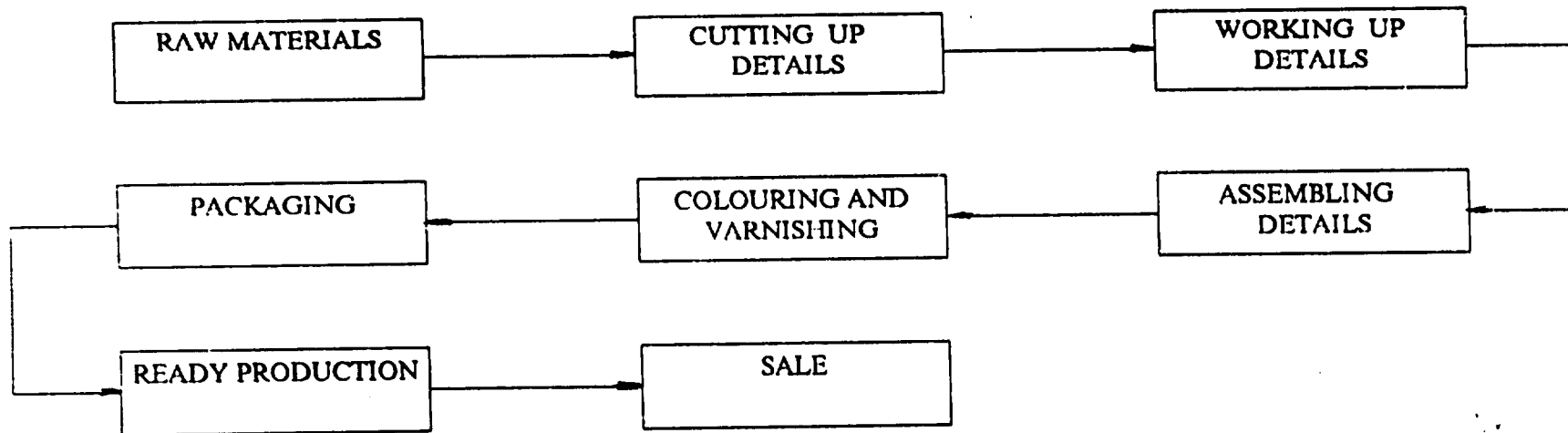
- *general management issues;*
- *marketing and functions of the Sale Department;*
- *technologies.*



ORGANIZATIONAL STRUCTURE

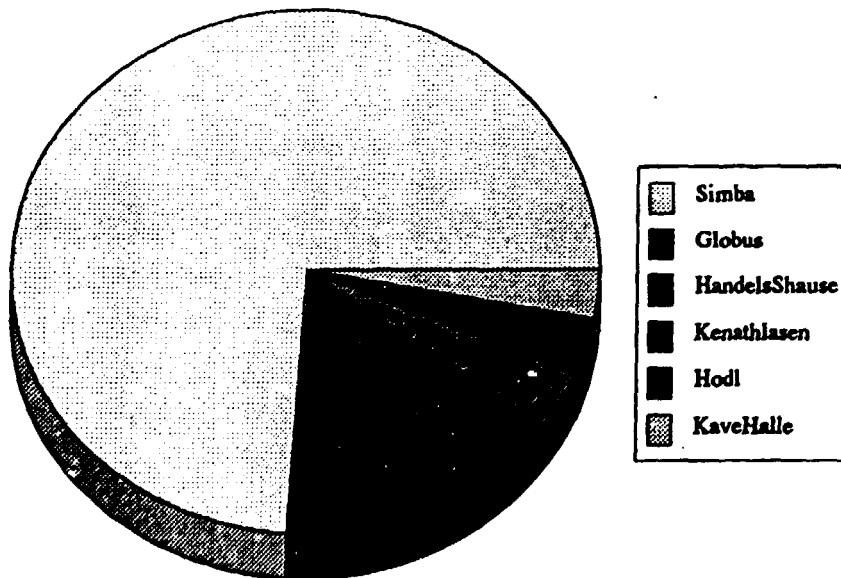


PRODUCTION - TECHNOLOGICAL CHART



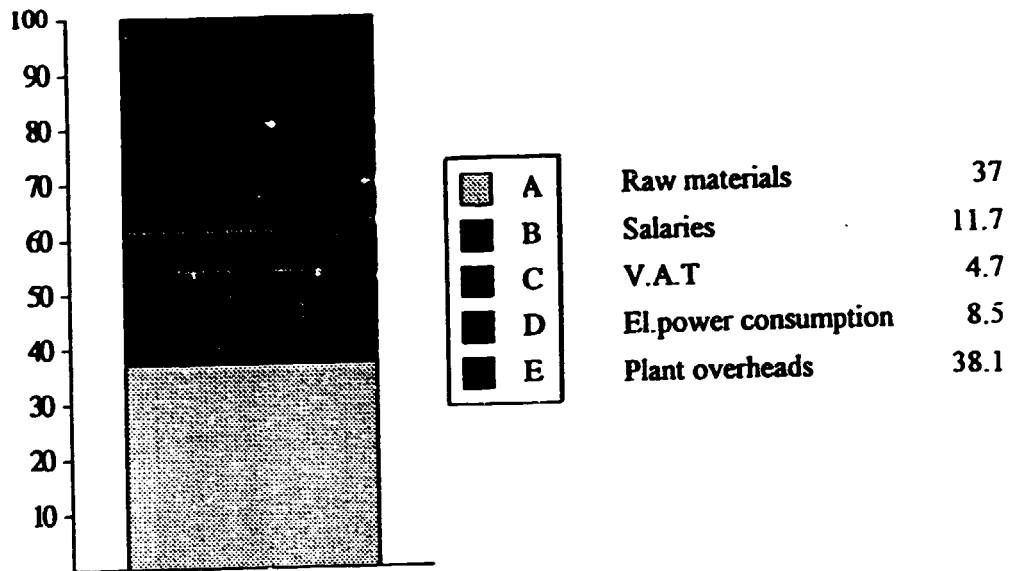
STRUCTURE OF THE SALED PRODUCTION RELATING TO FOREIGN CLIENTS

Main clients	Country	Saled Production in percent	
		1993 r.	1994 r.
1. Simba Toys	Germany	59,0	74,0
2. Globus	Germany	8,0	11,0
3. Handelshause	Germany	7,0	5,0
4. Kenathlasen	Denmark	5,0	3,5
5. Hodl Wien	Austria	6,0	3,5
6. Kavehalle	Germany	5,0	3,0
7. Other		10,0	-

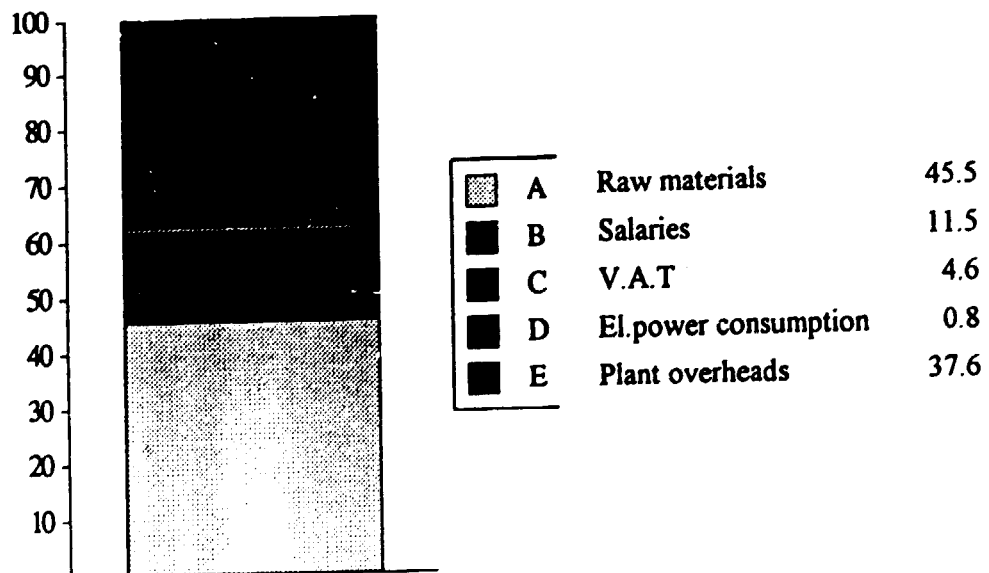


COST PRICE STRUCTURE

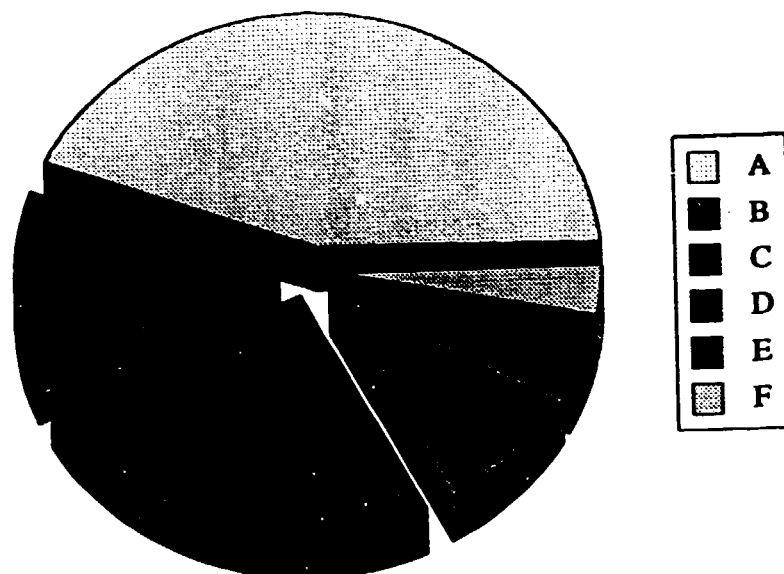
➤ for product "Toy truck with construction blocks"



➤ for product "Lorry with construction blocks"



PRODUCTION EXPENSES' STRUCTURE



	Expenses	%
A	Raw materials	43.1
B	Services	14.6
C	Salaries	23.9
D	Social Insurance	9.2
E	Depreciation	5.3
F	Other	3.9



TOTAL EXPENSES' STRUCTURE

Types of expenses	tho. BGL	Parts of expenses in percent
Total production expenses	8,595	94.6
Interests	318	3.5
- including the working capital		3.5
Other	318	1.8
Taxes	159	0.1
Total expenses	70	100



Job Description

TA: General Management Issues

1. Organizational activities:

To review the existing managing structure. To be carried out by the manager of the company and specialists from the company selected by him and the consultant. The following stages should be covered:

- analysis and appraisal of the existing structure as far as its appropriateness to the market requirements is concerned;
- elaboration of a new managing structure including detailed job descriptions for each position in case required by the results from the first stage.

2. Theoretical activities:

Methods and approaches for implementing modern management. To be carried out simultaneously with the practical assistance: discussion of a specific case - the company.

3. Practical activities:

Creating the structure of the company. To be performed by working teams under the methodological direction of the consultant following the steps described below:

- creating a "tree of goals" and structuring the goals by priority;
- elaborating strategies: product-market strategy, production strategy, another one for the relations with the suppliers, a financial one, another one for developing staff's skills, ecological strategy, etc.;

It will be done by groups of representatives of each unit of the company whose activities are relative to the relevant strategy.

- preparing lists with priority tasks to achieve the determined goals;
- resources procurement of the priority tasks in a short-term plan.

Results: A strategy for the company DETSKI SVIAT and Action plan for its implementation.



DETSKI SVYAT FOOD, (Yablanitsa)

Job Description

TA: Marketing and the function of sales department

1. Organizational activities:

Assisting the development of the marketing unit within the managing structure. To be performed by the director of the company together with the consultant.

2. Practical activities:

To elaborate a product-market strategy. To be carried out under the methodological direction and informational aid of the consultant.

The following tasks to be emphasized:

- opportunities for distributing products with ECOLABEL;
- opportunities for distributing products for a longer period with a trade mark;
- marketing survey and analysis of foreign markets: esp. EU and North America.



DETSKI SVYAT EOOD. (Yablanitsa)

Job Description

TA: Foreign Investment and Technologies

1. Analysis of the available equipment and its capacity with a view to reducing the machines' number at the expense of physically depreciated equipment. To be carried out through the following stages:

- technical check-up of available machines, their suitability, their place in the relevant technological chain, including spare parts and accessories;
- analysis of the existing production organization and suggestions for its improvement.

2. Elaboration of production strategy emphasizing the following aspects:

- the opportunities for introducing new products using the available equipment should be analyzed on the basis of the marketing surveys;
- introducing new technologies which should reduce the production waste and to improve the ecological parameters of the products.

