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REPORTS



*ON THE STRUCTURE OF PRODUCTION, THE
TECHNOLOGICAL LEVEL, THE FINANCIAL SITUATION,
THE ACCESS TO THE DOMESTIC AND FOREIGN MARKETS
AND THE PROBLEMS AND CONSTRAINTS UNDER THE
CHANGED ECONOMIC CONDITIONS FOR:*

“YAVOR” LTD., TETEVEN

“CHETPROM” LTD., TETEVEN

“DARVOREZBA” LTD., TETEVEN

“HLEBMASHCOMMERCE” LTD., PAZARDJIK

“TORCUS” LTD., PAZARDJIK



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INTRODUCTION

The Reports and Job Descriptions presented hereafter are for the first five companies out of the ten included in the project for technical assistance to small and medium size municipally owned companies. Based on these reports and Job Descriptions UNIDO will provide expert consultant help to the management of these companies, so that they will be able to restructure their production and sales in order to meet the challenges of the market economy.

The consultants will also provide assistance in the privatization procedures for parts of these companies and even the whole companies, as well as in identifying partners and potential investors who will facilitate the introduction of the companies at the international market scene.

For this reason the first five companies were selected to be in the industrial production sector and to have an existing or potential export orientation.

"YAVOR" FOOD – TETEVEN

ENTERPRISE IDENTIFICATION

The enterprise is located in the town of Teteven at the following address: 5700 Teteven, 8, "M. Koychev" street, Tel. 0678/33 15.

Its legal status is a sole proprietor's limited liability company with municipal property owned by the Municipality of Teteven (the registration was published in the State Gazette No 25, 1992).

The Manager of the company is Vassil Lazarov Yotov.

The field of activity covers three different production sectors - woodworking and furniture production; tailoring - ready-to-wear, services to the public - window glazing and tire mending.

PRODUCTION STRUCTURE

The production structure is not properly focused. The activities cover three different production sectors, thus making its restructuring imperative through the creation of several new enterprises instead. The structure of its assets and real property, their territorial allotment and position permit that.

The enterprise produces wood joinery, module furniture in limited series and to order, carpenter's tools, ready-to-wear, along with the services rendered to the public.

The production list includes:

- panels and elements of broad-leaved and softwood, wood joinery, wood paneling, furniture;
- manual non-mechanic carpenter's tools;
- ready-to-wear men's, ladies', children's outer garments; sports

and working attire;

- services including window glazing, tire mending, barber's and hairdresser's.

Number of Staff - 121 people. Taking into consideration the scope and the characteristics of the enterprise, the corresponding qualification and functional structure is set up as follows:

- management	1
- administration	9
- auxiliary staff	19
- workers (directly involved in production)	92

The level of education of the staff is as follows:

- university education 3
- vocational training 21
- secondary education 46
- primary education 51

The employees in the dressmaking shop are exclusively women.

The enterprise is operating at one daily shift. If necessary, the production capacity might be increased through switching to a two shifts' regime. Moreover, new jobs will be opened.

Functionally the enterprise is divided into three main production divisions - two for woodworking and furniture production (in the town of Teteven and the Village of Ribaritza - 15 km away of each other) and tailoring ready-to-wear shop.

The other activities related to the services are territorially and technologically separated.

The production capacities are located on several sites as follows:

- "Woodworking" shop - in the town of Teteven on a lot of 12300 sqm on a built up area of 6099 sqm and an overall built up surface of

6217 sqm;'

- "Stara Ribaritzza" workshop - in the Village of Ribaritzza on a lot of 14500 sqm.; 1410 sqm built up area;

- "Tailoring" shop located in the center of Teteven on a lot of 1500 sqm with a built up area of 440 sqm and a total built up surface of 1750 sqm. 40% out of this area is in use, while the remaining part is rented out. This is a potential opportunity for the expansion of the tailoring and ready-to-wear production and the opening of new jobs for women.

The other buildings and lots on which the administration, the rest facilities and various workshops for services are located, should be separated from the enterprise in the process of restructuring and should go into the direct ownership of the Municipality.

Raw and prime materials are predominantly of local origin.

Technological level

The technological level is not good enough. The enterprise disposes with specialized and universal woodworking machines, presses and a dry house. The tailoring shop is equipped with sufficient cutting devices and sawing machines.

An essential weakness of the company in the technological aspect is the comparatively depreciated machinery, in particular in the woodworking and the lack of some specialized sawing machines.

CAPACITY UTILIZATION AND LABOR PRODUCTIVITY

The index "utilization of fixed assets" which is similar to the "utilisation of machinery" factor indicates what is the ratio between the sales' revenue to the value of LFA, respectively the value of machinery

and equipment only. The slight change of these two factors over the last year implies that the enterprise is beginning a slow recovery from the crisis, although the amount of the revenues from sales is insufficient. Thus, the factor of utilisation of fixed assets changes from 4.33 in 1992 to 5.86 in 1993, while the factor of utilisation of assets being exclusively machinery and equipment respectively has grown from 14.68 to 21.33.

FINANCIAL STATE

The balance sheet value of long term assets /LA/ by the 31.12.1993 amounted to about 1096 thousand BG Leva including long-term fixed assets (LFA).

The division of LFA is as follows:

- buildings and land - 676 thousand BG Leva;
- machines and equipment - 289 thousand BG leva;
- others - 86 thousand BG Leva..

The analysis of financials made on the basis of balance sheets and the profit and loss accounts for the last three years (1991 - 1993) shows:

I. Liquidity

In 1993 the current and quick liquidity ratios did not change significantly in comparison with the values accounted in 1992. The current liquidity of 1.84 (in 1992) became 1.67 (in 1993), quick liquidity decreased respectively from 0.69 to 0.60. The low figures of ratios and especially of quick liquidity show that the company is facing the problem of providing liquidity.

In 1993 appeared a trend towards the decrease of the average

duration (in days) both in the receivables collection and the repayment to creditors. The most pronounced is the decrease in the terms for repayment to suppliers - from 17.93 to 9.43.

2. Trade activity

In the last year a positive trend of increase in all indices of trade activity was noted, mainly due to the growth of sales income from 4539 thousand BG Leva in 1992 to 5884. This trend is not real, since it is due only to the increase of the prices of the products offered for sale.

As a negative factor the unfavorable structure of short-term assets, where the stocks and the finished production are about 64 %, may be noted.

3. Indebtedness

During the last two years (1992 and 1993) the short-term indebtedness showed almost no change - 1491 thousand BG Leva (1992) and 1481 thousand BG leva (1993). A characteristic feature is the tangible growth of debts to the national budget and the social security - over 320 thousand BG leva. compensated by a decline in debts to other creditors, as well as by the reduction of short term credits from 260 thousand BG Leva to 120.

In the capital structure the amount of the external capital is 52%.

4. Profitability

Profitability ratios have not changed, since there is no profit in the company. During 1993 the accumulated loss amounted to 513 thousand BG Leva, out of which 185 were registered in 1992.

DOMESTIC AND INTERNATIONAL MARKETS

Because of the different nature of production, the enterprise's markets should be analyzed separately e.g. furniture and woodworking, and ready-to-wear.

The boards, the elements made of solid wood, the wood joinery and the wood paneling, as well as the furniture are exclusively realized on the domestic market. However, the enterprise is the major Bulgarian producer of manual non-mechanic carpenter's tools. Their demand on the domestic market is considerable. Initial attempts are made for the export of this production but there is clearly a lack of marketing knowledge and planning strategy in the management so that both the domestic and the foreign market have not been studied and used properly.

New market openings for the woodworking and the furniture production might also be looked for in co-operated operations. It might either be translated into the production of individual turned out elements or panels for furniture made elsewhere, or the reverse - furniture to be produced with the use of elements (for instance carved ones) coming from another enterprise.

The tailoring production has not developed yet an active market policy. Some exports to Germany and Canada were realized, but they went through a long chain of intermediaries.

PROBLEMS AND CONSTRAINTS UNDER THE CHANGING ECONOMIC ENVIRONMENT

Along with all common problems faced by the economic life in

Bulgaria, "Yavor" EOOD - Teteven experiences difficulties of its own.

The enterprise is facing a number of problems. Besides the dependency on the economic juncture in the country, a significant part of them is related mainly to the diversified nature of YAVOR's activities - industrial production (woodworking and tailored ready-to-wear) along with services rendered to the public.

The major problem faced by the woodworking are the raw materials - there is a lack of sufficient timber; the imports of Russian timber are not continuous, while its quality is poor (the moisture percentage is high). Moreover the enterprise lacks enough ready cash for its purchase and importation. The drying capacity is limited, while natural drying requires 1 - 1.5 years, thus blocking a significant amount of working capital. The destruction of the local distribution network for the joinery and the furniture along with the general stagnation are affecting negatively the efficiency of the woodworking activity. .

As far as the tailoring products are concerned, it should be pointed out that there is neither a suitable local distributor, nor markets. The enterprise is successfully working with materials supplied from Canadian customers. However, this is realised through a long chain of intermediaries. We have to note that a certain technical and technological improvement in this production is necessary, since there is a need to compensate the absence of some technological prerequisites for certain operations (specialised dressmaking machinery).

Due to the closing down of workshops in some villages, a portion of qualified labour force had been lost, which is beginning now to return gradually. Since the beginning of the year between 12 and 15 people have returned to the main enterprise.

The company needs qualified consultancy assistance in the

spheres of:

- restructuring of the enterprise into two or three new small enterprises with production in the woodworking and the tailored ready-to-wear, followed by the preparation of a privatisation project and schemes:

- marketing research and a search for new domestic markets for both productions:

- identification and development of new foreign markets, including the elimination of the intermediaries' network and legal assistance in export transactions' contracts.

Note

The enterprise "Yavor" EOOD - Teteven conforms with almost all criteria applied in the selection of enterprises qualifying for the Project:

- it is some 130 km. far from Sofia on the highway;
- the enterprise is small in size;
- the enterprise has the potential for future development both on the domestic market and on foreign markets;
- makes use mainly of local raw materials;
- in the tailoring shop the staff is solely female ;
- the enterprise is one of the major ones on the territory of the Municipality.

CHETPROM" EOOD – TETEVEN

ENTERPRISE IDENTIFICATION

The enterprise is located in the town of Teteven at the following address: 5700 Teteven, 39 "Vurshetz" street, tel. +0678/23 38; fax 30 11.

Its legal status is a sole proprietor's limited liability company with municipal property owned by the Municipality of Teteven (the registration was published in the State Gazette No 83, 1991).

The Manager of the company is Lazar Vasilev Vlaevsky.

The field of activity is the production of all types of brushes.

PRODUCTION STRUCTURE

The enterprise is unique in this country because of the nature of its production. It produces all varieties of brushes. It has the monopoly in the country over this field. The second brush-making enterprise (in the town of Perushtitza) produces but metal brushes.

The enterprise produces over 360 different in use, design and material brushes of natural and artificial hair. Besides that, it produces parts including wooden turned ones, or small plastic items.

The enterprise renders services to other woodworking units by drying sawed or cut out solid wood.

The production list includes:

- tooth-brushes, shaving-brushes, bathing brushes, scrubbing brushes;
- hair-brushes, cosmetic brushes, kitchen brushes, hand and nail-

brushes, brushes to clean the bathroom and the toilet, shoe polish brushes, clothes-brushes;

- brushes for oil-paints, watercolors, distemper and poster paints; glue and latex brushes;

- special brushes for the cleaning of machinery, cars, wall-papers; for washing units; for the painting of radiators;

- brushes for the dentistry, for the cleaning of tennis courts, for the scrubbing and washing of floors; brushes to be used in medicine and cytology;

- cylindrical, circular and other brushes for technical and technological use.

Number of staff - 262 people. Taking into consideration the scope and the characteristics of the enterprise, the corresponding qualification and functional structure is set up as follows:

- management	2
- administration	23
- auxiliary staff	2
- workers (directly involved in production)	235

The level of education of the staff is as follows:

- university education	10
- vocational training	30
- secondary education	101
- primary education	121

More than half of the workers are women.

Functionally the enterprise is divided into several production sections: brush-making (major), woodworking, plastic processing (automatic sprayers) a wood drying section (equipped with 4 vacuum dryers), a steam boiler station.

The production capacities are located on two opposite sites in the industrial area of the town. The lot (of an overall surface of 12300 square m.) is sufficient and is allowing future extension. There are available production, administrative and housing buildings on an area of 6189 square m., while the total built up area is 11502 square m. The buildings property of the company are mainly new, built in the period 1980 - 1990.

Raw and prime materials are predominantly of local origin. A part of them: artificial fiber, pork bristle, badger hair and horse tail are imported.

The technological level is comparatively high. The enterprise disposes with specialized manual, semi-automatic and automatic brush-making machines and automatic sprayers for the plastic production, universal woodworking machines. The machinery and equipment are in a good condition, 80% were imported between 1976 and 1988 by companies from Germany, Poland, Austria, Belgium, Italy and Russia. The quality of production is good, even though the design of some of the machines is already outdated. In most of the departments at least two to three generations of machines are present, but all of them are kept in good shape. This is due to the fact that the Company has its own repair shop, equipped somewhat lavishly. (This could be another item for the consultant: how to utilize the machines in the repair shop more effectively.)

CAPACITY UTILIZATION AND LABOR PRODUCTIVITY

Bulgarian accounting rules deal with the index "utilisation of fixed assets" which is similar to the "utilization of machinery" factor. It indicates the ratio between the revenues from sales to the value of

LFA, respectively the value of machinery and equipment only. These two indices of the CHETPROM enterprise have marked an improvement over the last two years. Thus, for instance the LFA utilization index has increased from 4.28 in 1992 to 8.12 in 1993, while the "utilization of machinery" factor has become respectively 39.5 instead of 13.9. The first and the second factors are quite different, since the depreciation of machinery is greater; while buildings whose value is included into the first factor are new, built in the last few years. However, those two factors are not very significant under the conditions of Bulgarian economy nowadays. For example the utilization of machinery factor of CHETPROM at the 31.12.1993 was 39,5, although only six months later it dropped drastically to 1.06 regardless of the increased production and sales. This paradox is due to the fact that during that period a governmental decision for revaluation of assets had been implemented, and as a result their value has increased significantly in an artificial way.

FINANCIALSTATE

The balance value of long-term assets /LA/ by the 31.12.1993 amounted to about 60 000 thousand BG Leva.

The annual turnover of the enterprise in 1993 was about 30 mln. BG Leva.

The analysis of financials made on the basis of balance sheets and the profit and loss accounts for the last three years (1991 - 1993) shows:

1. Liquidity

In 1993 the liquidity ratios marked a significant increase compared to 1992. They were respectively 1.19 to 1.47 for current and 0.06 to 0.48 for quick liquidity.

With regard of the management of dues a negative trend has been established characterized by an abrupt increase in the average duration of their collection - in total for all takings from 2.95 (1992) to 85.70 (1993) and for the takings from sales from 0.00 to 73.24. The average duration of repayment has decreased from 384.90 (1992) to 214.81 (1993) and in particular to suppliers it has gone down from 81.13. to 34.95.

Despite the improvement in recent years, the liquidity problems of the company has not been resolved.

2. Trade activity

In 1993 all indices related to the trade activity marked a relative raise in comparison with 1992. The most tangible increase belongs to the turnover of LA - from 3.57 to 8.01 and in the turnover of net working capital - from 5.06 to 15.31.

This trend is the result of significant income growth in 1993 - 22704 thousand BG Leva (12763 thousand BG leva in 1992).

A positive impact on the turnover of long-term assets is their reduction from 15334 thousand BG Leva (1992) to 13256 (1993). Regardless of their decrease, the turnover of stocks ratio keeps a relatively low figure /1.71/, which indicates that the company maintains a considerable amount of stock.

3. Indebtedness

During the period under review an insignificant decrease in the overall indebtedness ratio was observed - from 0.61 to 0.55 due to the repayment of a portion of the short-term loan. The remaining indices keep or aggravate their rate, thus being an evidence of the unfavorable capital structure emerging.

The company has exhausted its capital reserves without covering the losses.

4. Profitability

During the last two years (1992 - 1993) the company has been working at a loss. The losses in 1992 amounted to 2539 thousand BG Leva, while in 1993 they were 1693 thousand BG Leva.

By the end of 1993 the capital structure of the company is unfavourable. This is due to the fact that capital attracted is almost equal to their own (5869 thousand BG Leva compared to 6009 thousand BG Leva)/ As a matter of fact the major part of the attracted capital is a short-term bank credit, which however during the year has been hardly serviced. As a result it will be transformed into a long-term one and under the exceptionally high interest rate it bodes no good.

It may be foreseen that in the medium term the company's results will continue to be negative, both due to the unfavorable capital structure and the disadvantageous correlation between income and expenditure. Taking into account a certain improvement during the last year, efforts should be channeled to the efficient use of production capacities and an increase in income from sales along with a reduction in the stock of products.

DOMESTIC AND INTERNATIONAL MARKETS

The enterprise is the major and almost the sole producer of such items in Bulgaria. It holds about 80% of the domestic market. However, this market is unable to absorb the whole volume of production and part of it is exported.

In 1993 30% of the production was realized on foreign markets - Israel, England, Algeria, Cyprus and Macedonia. The share of exported production should grow in order to improve the financial state of the company. The main competition on international markets comes from companies in Germany, the Czech Republic and Hungary.

PROBLEMS AND CONSTRAINTS UNDER THE CHANGING ECONOMIC ENVIRONMENT

Before the collapse of the COMECON the Company exported most of its products, especially the tooth brushes, to the USSR and had practically no competition on that market. Now both the Bulgarian and the Russian and other CIS countries market has been flooded by other producers. In order to compete the Company will need a highly professional production and marketing management, that would be able to solve such problems as:

- selection and diversification of materials used for different markets in order to provide the required quality with minimum costs;
- balancing quality and cost of packaging of the products;
- motivation of laborers and optimization of labor structure, bearing in mind that most of the staff is female and that unemployment in the region is high.

Because of the problems and the related bad financial health of the enterprises, Chetprom needs qualified consultancy assistance in the spheres of:

- marketing and the functioning of its trade department, the search and establishment on new foreign markets, legal advise on export transactions' contracts;

- attraction of an external (Bulgarian or foreign) investor as a buyer of the major share of the enterprise or a partner for a joint-venture with two sub-objectives:

i. mainly for the elaboration and expansion of foreign markets;

ii. as a source of fresh investment, for the improvement of the capital structure, for the increase of working funds and their more efficient use in future modernization, technical renovation and technological development;

- elaboration of a privatization project and schemes.

Note

The enterprise Chetprom EOOD - Teteven conforms with a number of criteria applied in the selection of enterprises qualifying for the Project:

- it is some 130 km. far from Sofia on the highway;

- the enterprise is medium in size;

- the enterprise has the potential for future development both on the domestic market and on foreign markets;

- makes use mainly of local raw materials;

- the staff is predominantly female ;

- the enterprise is one of the major ones on the territory of the municipality.

"DARVOREZBA" FOOD – TETEVEN

ENTERPRISE IDENTIFICATION

The enterprise is located in the town of Teteven at the following address: 5700 Teteven, 8 "P. Mikhaylova" street, tel. and fax +0678/47 52.

Its legal status is a sole proprietor's limited liability company with municipal property, owned by the Municipality of Teteven (the registration was published in the State Gazette No 25, 1992).

The Manager of the company is Margarita Tzankova.

The field of activity is the design and production of furniture and souvenirs, as well as other small wood-carved items, wood-carved ceilings, luxury wood-carved joinery.

PRODUCTION STRUCTURE

The enterprise is unique in its production. The production is handmade, since wood-carving is a traditional Bulgarian craft.

The enterprise produces luxury upholstered and module furniture in limited series in a style typical for Bulgarian crafts. There is as well made to order furniture in the style requested by the customer, baroque for instance; either designed by the enterprise or by the client.

Unique pieces of furniture are manufactured as well. The kind of wood, its coloring and upholstery are decided by the customer.

The production list includes:

- luxury furniture for the house, for trade and tourist offices and venues, made of solid wood with carved ornaments and turned details;
- carved ceilings, luxury wood-carved joinery and other decoration elements - grills, cornices;
- fretwork carved frameworks for tapestries, pictures and mirrors;
- icons and art panels;
- wooden or wood-carved souvenirs.

There are used solid oak, beech, walnut, alder, red wild wiiow, white fir and wild pear.

Number of staff - 55 people. The qualification and functional structure of the enterprise is set up corresponding to its scope and characteristics as follows:

- management	2
- administration	5
- auxiliary staff	4
- workers (directly involved in production)	45

The level of education of the staff is as follows:

- university education	2
- vocational training	31
- secondary education	12
- primary education	10

A significant portion of the employees are women. The enterprise disposes with a highly skilled labor - master wood-carvers. Out of the 31 employees with vocational training, 28 are either graduates in "wood-carving" or "furniture production". A supplementary contingent of such specialized and highly skilled labor is available in the

municipality, thus providing the ability to staff a probable expansion of the production volume. Besides, there is a vocational high school in the town providing training for young wood-carvers in the long years' experience and traditions of this craft in the region.

The enterprise works one daily shift. If necessary the working capacity may be increased by switching to a two shifts' regime. Besides, new job openings will be created.

In the functional aspect the enterprise has two main production sections - furniture and wooden souvenirs' production.

The production capacities are located on one site. The lot (of an overall surface of 4630 square m.) is enough and provides for a certain future extension. The real property of the company includes a two-storeys' production-administrative building built in 1973 - 1975 and other buildings - solid warehouses and sheds. The total surface under the buildings amounts to 1729 square m., while the overall built up area is 2664 square m. The buildings provide opportunities for new job openings.

Raw and prime materials are predominantly of local origin. A small part of polishes, colorings, casings and damasks are imported.

TECHNOLOGICAL LEVEL

The technological level, in particular that of the specific hand work is high. The enterprise disposes with some specialized and universal woodworking machines which are not sufficient for increase of furniture production.

The major weakness of the company in the technological aspect is the lack of a wood vacuum dry house of its own. At present natural two years' drying of the sawed and cut out wood is used. This leads to the blocking of working funds for considerable lengths of time and to

additional expenses in the form of interest rates paid over the loans.

CAPACITY UTILIZATION AND LABOR PRODUCTIVITY

The factors of utilization of long-term material assets and the utilization of machinery and equipment are: the first 0.25 and 0.39 respectively for 1992 and 1993; and the second - 1.3 and 2.21 respectively.

However, those coefficients are not too indicative, since single pieces are being produced, which is done mainly by hand.

FINANCIAL STATE

The balance sheet value of long-term assets /LA/ by the 31.12.1993 amounts to about 9322 thousand BG Leva including long-term fixed assets /LFA/ - 9319 thousand BG Leva.

The division of LFA with regard of their nature is:

- buildings and land - 7381 thousand BG Leva;
- machinery and equipment - 1629 thousand BG Leva;
- others - 309 thousand BG Leva.

The annual turnover of the enterprise in 1993 was about 3470 thousand BG Leva.

The analysis of financials made on the basis of balance sheets and the profit and loss accounts for the last three years (1991 - 1993) shows:

1. Liquidity

Compared with 1992, in 1993 the current liquidity ratio changed insignificantly from 1.00 in 1992 to 1.45 in 1993 respectively. A significant decrease in quick liquidity ratio from 0.53 to 0.07 occurred, due mainly to the growing short-term indebtedness.

At the same time and important increase of stocks - from 582 thousand in 1992 to 1737 thousand in 1993 is compensated to a certain extent by the growth of indebtedness (from 546 thousand BG Leva to 985 thousand) translated into an insignificant change in liquidity.

In 1993 there was a growth in the average period of receivables collection (in days) 1.22 and the average duration of repayment - 139.10. At the same time the use of down payments in the collection of sales receivables and the immediate payment to suppliers brings to nil the average term for the implementation of those operations.

2. Trade activity

The indices of trade activity in the turnover aspect of long-term assets shows a growing tendency (from 0.20 in 1992 to 0.35 in 1993) due to the contributions of sales.

The turnover of floating assets, the turnover of the net working capital and the turnover of stocks show a decrease as a result of the significant increase of stocks in 1993.

3. Indebtedness

In 1993 the company increased its short-term debt, both in the current loans' part - from 545 thousand BG Leva to 989 thousand and through the use of short-term credits amounting to 262 thousand BG Leva, the last one being repaid by the 31.03.1994.

4. Profitability

During the last two years profitability has been registered based on the gross profit to total income of about 2%.

The low figure of the profit brings to nil the indices of net profitability of assets and primary capital.

It should be presumed that the growth registered of about 30% in the sales' income in 1993 compared to 1992 is a sign of a revival in the trade activity of the company.

DOMESTIC AND INTERNATIONAL MARKETS

Because of the nature of the production, its relatively high price and as a result of the overall still unfavorable economic juncture in Bulgaria, the domestic market of wood-carved furniture is temporarily limited. Therefore the major portion of furniture produced is realized on foreign markets. The major foreign market at present is Germany. Attempts have been made to go to new markets - for instance the USA. The Italian market is being tested at present with regard of decoration wood elements.

For the time being due to the shrinking of the tourist flow to Bulgaria, the demand of souvenir articles has gone down. Regardless of the above, the Manager has not cut down the number of jobs in those kind of production in view to retain the production characteristics of the enterprise and the highly qualified labor, while expecting a positive change in the juncture of this market segment.

New market opening are looked for in co-operated production , as "Darvorezha" will produce some of the carved or turned out elements for a furniture made by another major producer. The latter could be either domestic or foreign one.

PROBLEMS AND CONSTRAINTS UNDER THE CHANGING ECONOMIC ENVIRONMENT

Along with all common problems faced by the economic life in Bulgaria, "Darvorezba" EOOD - Teteven experiences difficulties and needs qualified consultant assistance in the following fields in particular:

- **Furniture design.** The carvers in the company are highly qualified and could produce almost anything, but the Company clearly needs a designer who would provide the designs of furniture that will find bigger market in the West.

- **Development of the production of metal parts.** At present the metal elements used in the furniture are of very low quality and this hampers with the sales, especially to foreign clients. The Company should either develop its own list of metal elements needed and find a suitable producer for them, or incorporate standard elements, available in the international market into its furniture designs.

- **Development of new domestic markets.** A serious marketing study and an advertisement campaign is needed in order to draw the attention of the domestic buyers back to the Bulgarian style in furniture.

- **Development of the Company as a part of Teteven-the tourist attraction.** This could be done by joining efforts with other economic structures on the territory of the Municipality for the establishment of "craft" tourism as a division of the agrarian and ecological tourism.

- **Experienced trading and legal aid in the preparation of exports contracts.** The existing practice shows a complete lack of knowledge of international prices and contractual possibilities.

- **Attraction of an external (Bulgarian or foreign) investor for**

the major share of the enterprise or a joint-venture with two sub-objectives:

i. mainly for fresh investments aiming at the modernization, the technical renovation and the technological development;

ii. development and expansion of foreign markets, including through new finished or semi-finished products;

- **Elaboration of a privatisation project and schemes.**

Note

The enterprise "Darvorezba" EOOD - Teteven conforms with a number of criteria applied in the selection of enterprises qualifying for the Project:

- it is some 130 km. far from Sofia on the highway;

- the enterprise is small in size;

- the enterprise has the potential for future development both on the domestic market and on foreign markets;

- makes use mainly of local raw materials;

- the enterprise disposes with an exceptionally highly qualified and specialized labor force;

- the staff is predominantly female ;

- the enterprise is one of the major ones on the territory of the municipality.

- the enterprise is deeply rooted in the local cultural tradition.

"HLEBMASHCOMMERCE" FOOD - PAZARDJIK

ENTERPRISE IDENTIFICATION

The enterprise is located in the town of Pazardjik at the following address: 4400 Pazardjik, 21 "Strandjata " Street, tel. 034/7 10 70, 7 11 78, 7 14 59.

Its legal status is a limited liability company with municipal property owned by the Municipality of Pazardjik .

The Manager of the company is Petar Ganchev.

Its sphere of activity includes the production and trade with bread and bread products, machinery and spare parts for the food industry.

PRODUCTION STRUCTURE

The enterprise belongs to the food industry sector. Its activities cover three interrelated production divisions. They are located on two sites, 1 - 2 km. away. This permits, if needed, to restructure it by creating several new smaller enterprises. "Hlebmeshcommerce" is the owner of a chain of stores, where part of its production is being realized. The enterprise produces bread (regular and special brands), bread products, confectionery, bread and confectionery ready-to-cook, soft drinks (the typical Bulgarian drink "boza" - millet-ale); machinery, equipment and spare parts for the bread-making industry. Besides its

own chain of stores, the enterprise is in the process of establishing a network for the sale of snacks in the schools of Pazardjik.

The production list includes:

- bread - the regular kinds (Stara Zagora, Sofyisky, Dobrudzha);
- special and luxury brands (rye-wheat bread, French bread, "Pazardjik" bread, dietary bread, all sorts of round and flat loaves, small breads, burger rolls, etc.);
- bread products (rolls and buns, patties, doughnuts, Easter bread, cheese crackers, rusks);
- confectionery (dry pastries and cookies, juicy pastries, cakes, biscuits and meringues, Oriental pastries);
- bread ready-to-cook products (bread crumbs, pastry sheets, pasta, different dough, Turkish shredded pastry sheets);
- confectionery ready-to-cook (butter dough, paste, pastry sheets)
- soft drinks (millet-ale);
- machinery, equipment and spare parts for the bread-making industry.

Number of staff - 344. The qualification and functional structure of the staff is set up to correspond to the scope and the characteristics of the enterprise as follows:

- management	1
- administration	10
- workers (directly involved in the production) and auxiliary staff	333

The qualification of the staff is as follows:

- university education	15
- college education	1
- vocational training	64
- secondary education	219

The employees in the enterprise are predominantly women. The company disposes with a highly qualified personnel with good potential.

Functionally the enterprise has got three major production divisions - for bread-making, for confectionery and the special brands of bread; and for the metal -working. and the machine building.

The production capacities are concentrated on two sites with the following characteristics:

- "new bread-making plant" site (basic bread-making and machine building) on a surface of 11 840 square m., at 3600 sqm built up area and an overall built up area of 4300 sqm and a built up volume of 32000 cubic m.

The buildings and the lots of land on which the stores, the stalls and the rest home are located are not the subject of this report.

On one of the sites there are significant free lots of land, which combined with the opportunities for setting up of new lots reveal important reserves for a future development.

Prime and raw materials are mainly of local origin. The bread-making plant is in the immediate vicinity of a milling enterprise in the town, thus having its flour supplied directly without packing. Only some of the ingredients are imported - yeast, spices, ferments, additives, non-corrosive tin, pipes and bearings.

TECHNOLOGICAL LEVEL

The technological level is relatively good due to the constant repairs and maintenance. The major technological equipment (furnaces, fermentation chambers, dough separators) supplied from Bulgaria and Poland was installed back in 1972 and is already outdated

and greatly worn out. Only the workshop for the luxury bread was set into operation in 1989 and the Bulgarian machinery (rotation furnaces, a mechanical bread and dough lines) are in a very good technical condition. To a certain extent the same applies to the confectionery workshop set into operation in 1988.

An essential weakness of the company technology wise, is the comparatively depreciated equipment in the workshop for the metal-working and the building of bread-making and confectionery machines and equipment.

CAPACITY UTILIZATION AND LABOR PRODUCTIVITY

The factors of long-term material assets utilization and the use exclusively of machinery and equipment calculated in the manner illustrated above show an unfavourable trend of change during the last year. This, for instance, the value of the factor "utilization of LFA" being 11,9 in 1992 went down to 2,1 in 1993, while the factor of utilization of machinery is respectively changing from 34,6 to 10,2. This result was produced despite the increase in production and realisation, which in figures is somewhere about 17%. This is due to the fact that during that period a government decision for the revaluation of assets had been implemented, thus their value had significantly increased in an artificial way.

FINANCIAL STATE

The balance value of long-term assets (LA) at the 31.12.1993 amounted to 34687 thousand BG Leva, including long-term fixed assets (LFA) to -34357 thousand BG Leva.

They are distributed as follows:

- buildings and credits - 22151 thousand BG Leva;
- machinery and equipment - 7175 thousand BG Leva;
- other - 1740 BG Leva.

The net amount of annual income realized by the enterprise through its major activities in 1993 was 72917 thousand BG Leva.

The analysis of financials based on the financial statement and the profit and loss accounts for the last three years (1991 - 1993) leads to the following conclusions:

As a result of the reassessment of the enterprise's assets, the balance structure has been significantly modified by increasing the amount of long-term assets and the primary capital. The total amount of assets is 47 013 BG Leva, out of which the biggest share belongs to long-term assets - 34 357 (73.08%).

Stocks and receivables are slightly rising.

There are no short or long-term loans. Dues keep the same level. Regardless of the competitive environment the enterprise registered a positive financial result of 1078 thousand BG Leva.

The operational income in 1993 exceeded the expenses and represents a gross profit. The remaining income and expenses have an insignificant relative weight and do not affect the size of the profit. There is a proportional increase in extraordinary expenses and income.

The analysis of the financial ratios in 1993 shows a high rate of solvency - 3.76 and a liquidity of 1.45. Indebtedness is low - 0.07. Trade activity and profitability show a trend to decrease. As a conclusion the financial state of the enterprise may be defined as comparatively good.

DOMESTIC AND INTERNATIONAL MARKETS

The enterprise is a traditional producer of bread and confectionery in the region. Over the last two years its monopoly

situation has been broken, however it succeeded in keeping its traditional customers. The general shrinking of the Bulgarian market is noted here as well. For instance, at an average production capacity of 52 000 loaves of bread/16 hours daily, 30 000 are actually produced.. The equipment for luxury bread and snacks production work with half of its capacity which is 10 T./16 hours . Despite the competition, the enterprise has very good market positions both in the town and the region.

The structure of sales in the different categories is as follows at present:

- bread (all brands) 62%
- snacks and confectionery 30%
- machinery and spare parts 8%

New market openings are perceived through the establishment of a network for the sale of snack in all schools in Pazardjik. The geographic position of Pazardjik between two important consumers - Sofia and Plovdiv offers good opportunities for a presence at those potential markets, especially with lasting confectionery and bread and confectionery ready-to-cock products.

PROBLEMS AND CONSTRAINTS UNDER THE CHANGING ECONOMIC ENVIRONMENT

Along with all common problems faced by the economy in Bulgaria, "Hlebmashcommerce" EOOD - Pazardjik needs highly qualified consultant assistance in particular in the following aspects:

- **Restructuring of the enterprise into two or three new smaller enterprises.** The competition of the emerging small private bakeries is inevitable if the Company continues to function in the same way. The units producing luxury bread, sweets, etc. should be structured and

managed in a different way in order to survive. The big bread-making factory should be directed towards new products that would provide markets sufficient in size for the high capacity of the plant.

- **Identification and establishment on new market openings (marketing)** through the development of additional domestic markets and the expansion of the production list, improvement of the technique and management of sales;

- **Technological renovation and updating** by finding ways of attracting investment or investors.

Note:

The enterprise "Hlebmeshcommerce" EOOD - Pazardjik satisfies almost all criteria applied in the selection of enterprises for the Project.

- it is 100 km away from Sofia on the highway;

- the enterprise is small in size;

- the enterprise has a potential for future development especially on the local domestic market;

- it makes use only of local raw materials with the exception of some additives such as ferments, anti-ageing agents, etc.;

- the female staff is predominant;

- the enterprise is among the major ones on the territory of the Municipality. It plays an important social role providing a basic food to the population;

- enterprises with such good profiles exist in all Bulgarian municipalities and they are an absolute necessity for them;

- the enterprise supplies machinery and equipment to a number of Bulgarian bread-makers along with the necessary spare parts.

"TORGUS" EOOD - PAZARDJIK

ENTERPRISE IDENTIFICATION

The enterprise is located in the town of Pazardjik at the following address: 4400 Pazardjik, 2 "Omurtag" Street, tel. 034/243 80.

Its legal status is a limited liability sole proprietor's company (EOOD) with municipal property owned by the Municipality of Pazardjik (registration - resolution No 2342/1992 of the Pazardjik companies' division at the regional court).

The Manager of the company is Liliana Geneva.

Its sphere of activity includes the production of knitwear and services for the public sector.

PRODUCTION STRUCTURE

The enterprise is small. Its activities cover two sectors - production and services. They may be split up and continue in the future as two independent small enterprises - the first to establish itself in the production of knitwear and ready-to-wear, while laundering and dry cleaning will be the priority of the second one. This fact makes its restructuring imperative, the more so because the structure of its assets and property, their territorial position and allotment permit it. Further in the present report priority is assigned to the production activities of the enterprise.

The enterprise produces ready-to-wear knitted clothing made of wool or wool like yarns with a different correlation between natural

and artificial fibers, yarns with effects, etc.

The production list includes:

- outer children's, ladies and men's knitwear;
- services - laundry and dry cleaning.

Number of the staff - 119, out of which 99 are women. 68 women alone are employed in the knitting shop. The knitters are highly qualified. There is a very important social element to be considered - a number of the lady workers are the only member in the family employed. The qualification and functional structure of the staff is set up to correspond to the scope and the characteristics of the enterprise as follows:

- management	1
- administration	10
- workers (directly involved in the production)	108

The qualification of the staff is as follows:

- university education	6
- vocational training	49
- secondary education	24
- primary education	40

The enterprise operates on one daily shift. The production capacity might be increased if necessary, by switching to two shifts' regime. Besides, it will lead to new job openings.

Functionally the enterprise has got two major production divisions (knitwear and dry cleaning), as well as a network of stores (a chain of company stores) covering 17 stores in Pazardjik and in other Bulgarian settlements.

The production capacities are concentrated on two sites with the

following characteristics:

- knitting workshop with six company stores in Pazardjik;
- individual and collective laundry (including the biggest industrial laundry on the Balkans) and dry cleaning.

The annual production of the knitting workshop is 42 000 pieces of knitwear. The laundry has the capacity of washing in its three laundry machines 984 T. washing. The capacity of the dry cleaning is 24 T. a year.

The raw materials (the yarns) are mainly of local origin.

TECHNOLOGICAL LEVEL

The technological level is comparatively good. The enterprise disposes with its own high level designer - a graduate of the Academy of Arts in Sofia. The machine park includes knitting machines imported from Japan and Germany, sawing machines made by companies in Germany and Russia, specialized sawing machines (for making button-holes, for sawing buttons, for basting) from Japan, spooling frames - machines from Germany and ironing devices.

The laundering, ironing and dry cleaning installations, such as washing machines, centrifuges, calenders, dryers and presses are supplied from the Czech Republic, Poland, Bulgaria and France.

An essential weakness of the company technology wise, is the comparatively high depreciation of part of the equipment, whose replacement is urgent. The acquisition by the enterprise of several good quality, modern and universal knitting machines will affect favorably the production list, since it will allow the processing of some special types of yarns. Besides, the productivity will drastically increase (20 to 30 times). There is a need for some finishing devices such as fluffing and anti-static processing.

The packing of items adds to the weaknesses of the enterprise, and especially of the products to be exported.

Another negative fact is the low percentage of use of the washing and dry cleaning installations. These have been designed and constructed in the times of the central planning system with the idea of servicing all health, tourist, educational and other facilities in Central Southern Bulgaria. Presently these items of equipment are practically unused.

CAPACITY UTILIZATION AND LABOR PRODUCTIVITY

The index of utilization of long-term assets and the utilization of machinery and equipment only, calculated in the manner illustrated above, are in general slightly lowered over the last year. Thus, for example the value of the coefficient of utilization of LFA went down from 1,68 in 1992 to 1,3 in 1993; while the coefficient of utilization of machinery has changed respectively from 5,26 to 4,58. This result has been affected both by the slight increase of assets' value and the decrease in revenues from sales by some 8%. In general the low values of these indices speak about a not particularly effective activity.

FINANCIAL STATE

The balance value of long-term assets (LA) at the 31.12.1993 amounted to 12042 thousand BG Leva, while the authorized capital amounts to 2594 thousand BG Leva.

The annual turnover of the enterprise in 1993 was 5828 thousand BG Leva..

The analysis of financials based on the data available from financial statements and the profit and loss accounts over the last three

years (1991 - 1993) lead to the following conclusions:

- The reassessment based on normative regulations performed over the assets, has changed the balance structure compared to 1991 through the increase of long-term assets and the company's capital. Overall the value of assets is 16 637 thousand BG Leva, the biggest portion belonging to long-term assets - 12 042 thousand BG Leva (72.38%).

- Stocks are slightly increasing, while the receivables go down.. A loss of 1 074 thousand BG Leva was realized in 1993.

The credit indebtedness amounts to:

-short-term loans of 200 thousand BG Leva and long-term loans of 500 thousand BG Leva.. The loans and the indebtedness grow.

The analysis of financial ratios shows a good solvency - 2.57 and low liquidity - 0.22 due to the size of stocks. The trade activity is weak, thus profitability is negative.

The financial state of the enterprise may be described as deteriorating.

DOMESTIC AND INTERNATIONAL MARKETS

The knit and ready-to-wear sector in the country is characterized by an extremely big number of small, medium and big industrial enterprises. This fact increases the competition on the domestic market. Despite the noted through recent years stagnation of local markets, the enterprise has a good market position. A specific marketing strategy has not been elaborated, although the company stores are used along with some major trade partners from Sofia and Plovdiv for a consumer's research. After the regular, years ago, exports to Russia were discontinued, the enterprise has established some initial exports to Italy and Germany. Under new and favorable juncture this

may be done to Russia and the Ukraine. There is a potential in this field. The enterprise believes that it will be able to meet the high demands of its foreign buyers with regard of design, quality, prices and terms of supply.

Problems and constraints under the changing economic environment

Along with all common problems faced by the economy in Bulgaria, "Torgus" EOOD - Pazardjik needs highly qualified consultant assistance in particular in the following aspects:

- **Restructuring of the enterprise.** Preserving the major activity - the knitwear - followed by the elaboration of a privatisation project and schemes is essential. A viable solution for the future of the laundry and the dry cleaning is required. A new attitude towards the financial management of the Company must be created.

- **Identification and establishment on new foreign markets.**

- **Legal assistance in export transactions' contracts.**

- **Expansion of the production list,**

- **New marketing policy, improvement of the technique and management of sales.**

- **Technological renovation and updating, identification of means for this purpose.**

Note:

The enterprise "Torgus" EOOD - Pazardjik satisfies almost all criteria applied in the selection of enterprises for the Project.

- it is 100 km away from Sofia on the highway;

- the enterprise is small in size;

- the enterprise has a potential for future development both on the domestic market and on foreign markets;
- it makes use only of local raw materials;
- the staff is only female.