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**DIAGNOSTIC/ RESTRUCTURING STUDY**

**WZT ELEMIS**

*A British Government Financed Project  
executed by the  
United Nations Industrial Development Organisation*

*Final Report*

*London - Warsaw, March 1992*

CENTRAL EUROPE TRUST

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CENTRAL EUROPE TRUST

Introduction...

**CENTRAL EUROPE TRUST, TOGETHER WITH WZT'S MANAGEMENT, PREPARED A RESTRUCTURING PLAN FOR WZT ELEMIS - THE LARGEST POLISH TV SETS MANUFACTURER**

- Central Europe Trust has been appointed by the United Nations Industrial Development Organisation, acting on behalf of the UK Know-How-Fund, to evaluate the chances for a restructuring plan to succeed in the present context at WZT Elemis
- WZT Elemis is located in Warsaw. The whole enterprise is composed of four factories:
  - 1) Core plant - WZT Warsaw
  - 2) Factory of TV boxes - ZPO Warsaw
  - 3) Factory of professional television equipment - ZTSP Warsaw
  - 4) Factory of television components - ZPT Parczew

WZT employs 3000 people. The core plant is the largest unit and its links with the remaining departments are gradually becoming weaker

This is the final report. It concentrates on the core WZT plant, summarising our conclusions about WZT Elemis diagnostic and presenting a strategic business plan to be used by the management team in order to restructure and refinance the company

Introduction... Current Situation...

**WZT ELEMIS IS ON THE EDGE OF BANKRUPTCY. ACCORDING TO ITS MANAGEMENT, ITS FUTURE DEPENDS ON THE SUCCESS OF A PROJECT FOR THE LAUNCHING OF A NEW TV MODEL; BUT IT SEEMS THAT THERE ARE MORE PARAMETERS TO BE TAKEN INTO CONSIDERATION IN ORDER TO ENVISAGE WZT'S SURVIVAL**

- WZT Elemis has enjoyed prosperity in early and mid 80's. However, due to increasing import from western Europe and Asia its domination on the Polish market has been broken. Since 1989 WZT has been constantly loosing its market share, approx. 5% a year, and in 1991 ended up with 16.5% of the market of some 1 Mln TVs
- Currently WZT is selling 10 to 14 thousand pieces a month which is only 30% of its production capacity. High production costs and tough price competition cause that every month WZT generates a loss that ranges between \$100,000 and \$3.3 Mln since April '91
- WZT is hoping for a success of its new TV set model. This may only happen if the new TV is placed in the lower end of TV prices and provides at least the same quality as other brands, which appears to be a difficult target
- WZT's main creditors are seriously thinking of undertaking a legal procedure in order to obtain at least a partial refund of their receivables; such an action would stop WZT's trading and manufacturing activity

Introduction...

## THE PROJECT HAS BEEN CARRIED OUT OVER A FOUR MONTH PERIOD

- Initial visits to WZT (October 1991)
- Information gathering and analysis performed by the following CET staff:
  - J. Staniewski (Project Manager)
  - J.P. Hildebrandt (Project Manager)
  - P. Jablonski (Analyst)
  - P. Sitnicki (Analyst)
  - P. Monka (Analyst)
  - R. Sosna (Consultant)
- Engineering expertise performed by Mr. Pierre Aegerter, former General Manager of Thomson
- Market and Industry Research on Polish TV market
- Preparation of Interim Report with initial conclusions and recommendations
- presentation of Interim Report to WZT Elemis Management
- Review of Interim Report with WZT Management, the agency for industrial development and a United Nations Representative (04.02.1992)
- Preparation of Final Report (02.1992)

Introduction...

## THE PROJECT WAS PERFORMED IN TWO PHASES - DIAGNOSTIC AND BUSINESS PLAN

- The first phase was a diagnostic of WZT Elemis which formed the basis for the second phase - a strategic business plan for the enterprise. The main steps within each of the two phases were as follows:
  - Collection of market and company information
  - Analysis of information gathered in order to develop a company diagnostic from which conclusions and recommendations could be drawn and presented in the interim report
  - Development and analysis together with company management of strategic options available to WZT
  - Final report

The objectives were to provide information and analysis on which basis the company would make decisions and also to train management in strategic thinking

- The diagnostic had five main elements:
  - Revenue / product mix analysis
  - Cost analysis
  - Asset utilisation
  - Management and staff structure
  - Financial analysis

The output from this element of the work was an evaluation of the competitive positioning of WZT Elemis. This evaluation was used to develop the basic assumptions behind the strategic business plan

- The strategic business plan was developed by carrying out strategic training sessions with the management team and by interviewing key individuals within the organisation. The key elements of the plan were as follows:
  - Corporate mission
  - Product/ market strategy for each major product group
  - Cooperation strategy
  - Company organisation and asset mix
  - Financial business plan
  - Prospect for a future co-operation with company's major domestic competitor

The aim of this plan was to clearly identify the options available to the enterprise, to outline the constraints which the company might face in pursuing the various options, and to develop key actions which the company needs to take in order to sustain competitive advantage

Introduction...

**CENTRAL EUROPE TRUST HAS ASSEMBLED A MULTIDISCIPLINARY TEAM WELL-SUITED TO THE TASK OF RESTRUCTURING WZT FACTORY**

**Members of WZT Elemis Restructuring Team**

<b>Individual</b>	<b>Role</b>
Mr Mierzwa	Executive Coordinator / Warsaw
Mr Jonscher	International Market Expert
Mr Chudy	Project Manager / Warsaw
Mr Hildebrandt	Project Manager / Warsaw
Mr Kinast	Chartered Accountant / London
Mr Koniecki	Chartered Accountant / Warsaw
Mr Aegerter	Industry Expert / Paris
Mr Kirk	Analyst / London
Mr Sosna	Consultant / Warsaw
Mr Sitnicki	Analyst / Warsaw
Mr Weyhausen	International Market Expert
Mr Davision	Market Support / London



Introduction...

**CENTRAL EUROPE TRUST INTERVIEWED THE FOLLOWING PEOPLE TO GAIN A GOOD UNDERSTANDING OF WZT ELEMIS AND TV INDUSTRY**

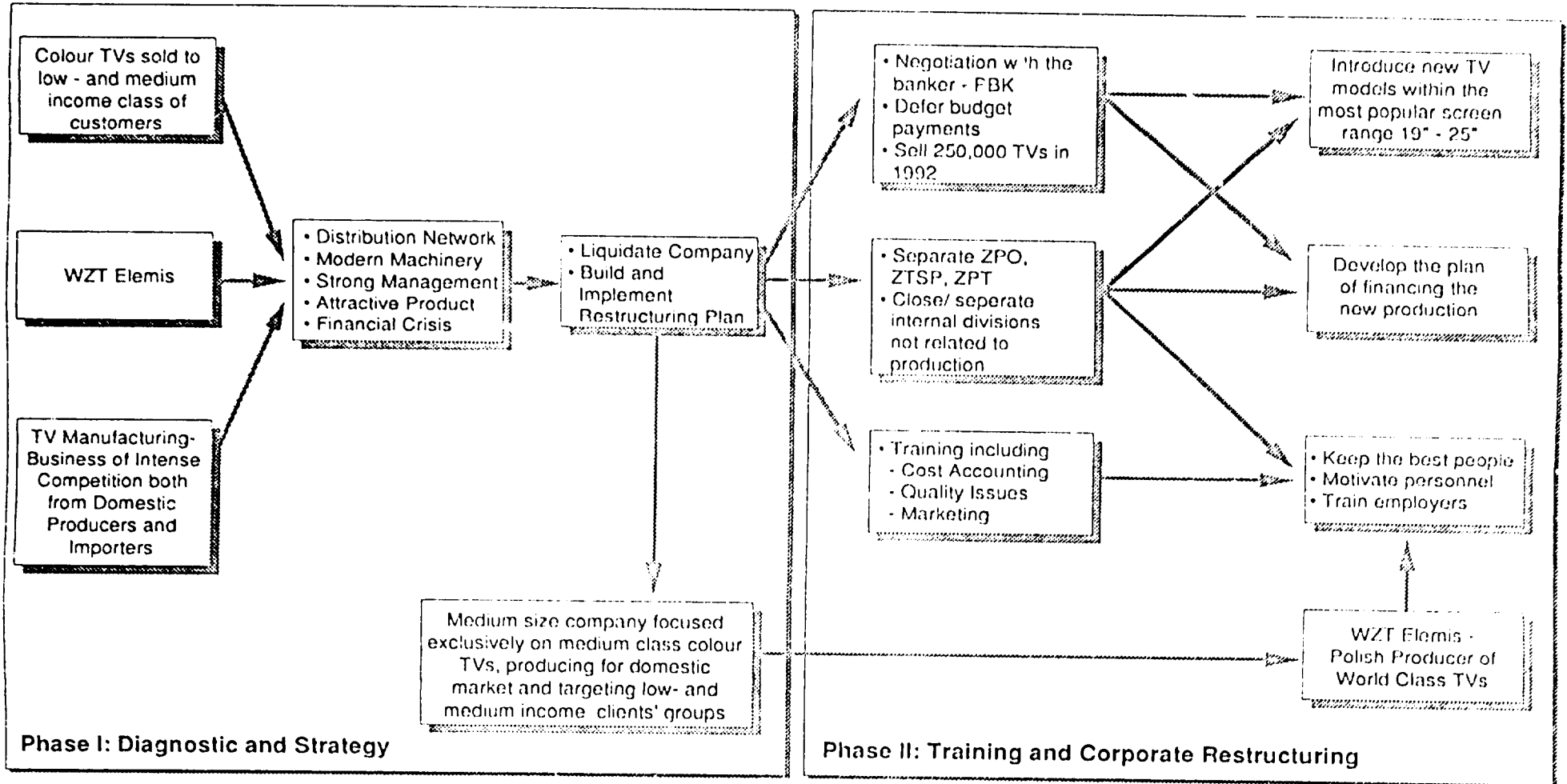
**Interviews**

<b>Internal</b>	
Mr Okrasa	- Managing Director
Mr Kalka	- Financial Director
Mr Stec	- Commercial Director
Mr Makowski	- Technical Director
Mr Kurek	- Procurement Division
Mr Turek	- Accounting/ Finance
Mr Choinski	- Tool Room Division
Mr Gizowski	- Maintenance Division
Mr Nowakowski	- Transport Division
Mr Lewandowski	- Chief Designer
Mr Jakóbczyk	- Quality Control
Mr Mardas	- Personnel Manager
Mr Kuchta	- Inventory Division

<b>External</b>	
Mr Golonka	- Brinkman & Landwehrmann Investment Banking Ltd (B&L)
Mr Sarnowski	- B&L
Mr Lotz	- B&L
Mr Schneider	- Electronics Times
Mr Bann	- Electronics Weekly
Mr Buflett	- Trade & Industry
Mr Scherder	- GTM

Introduction...

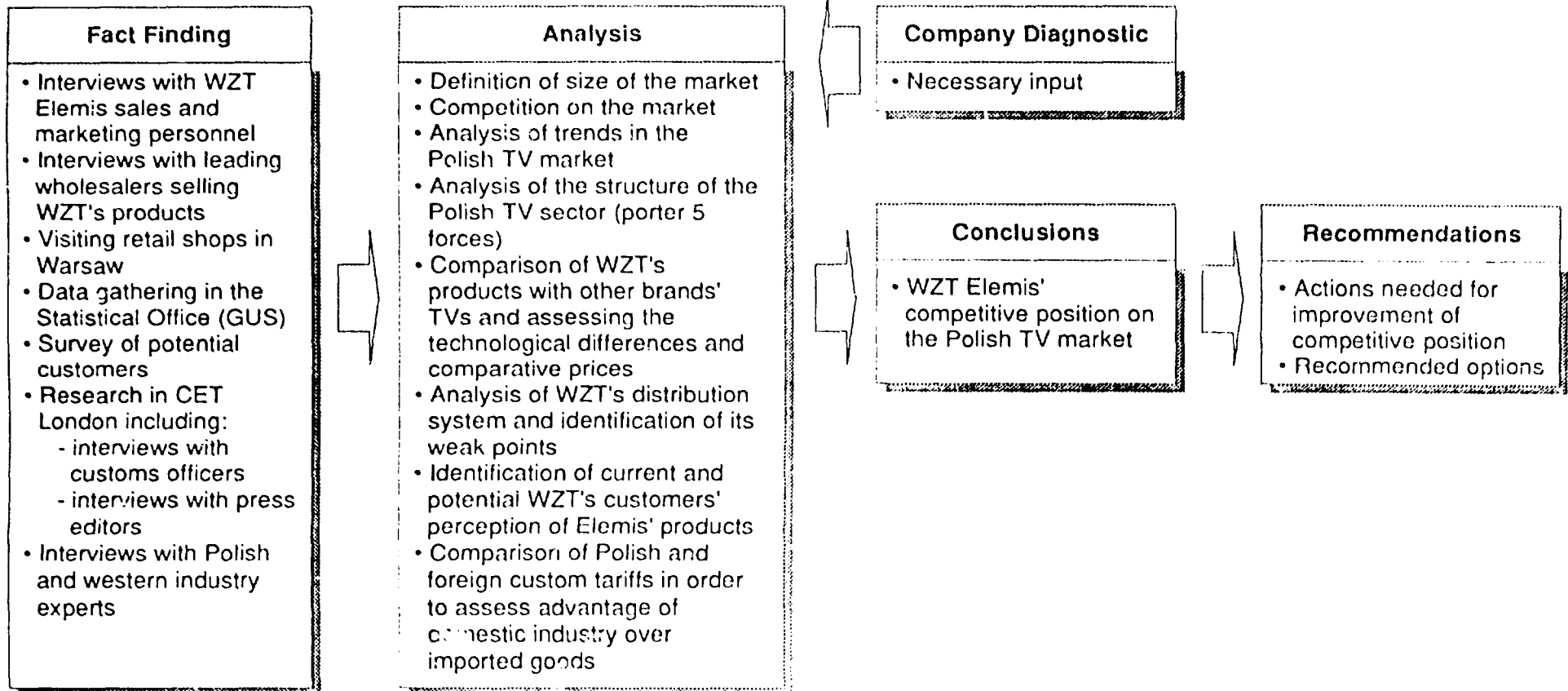
## CET HAS DEVELOPED A STEP BY STEP PRACTICAL APPROACH TO CORPORATE RESTRUCTURING IN POLAND, WHICH HAS BEEN DISCUSSED WITH THE MANAGEMENT OF WZT ELEMIS



Introduction...

## DURING THE MARKET AND INDUSTRY ANALYSIS, CET FOLLOWED AN ESTABLISHED METHODOLOGY

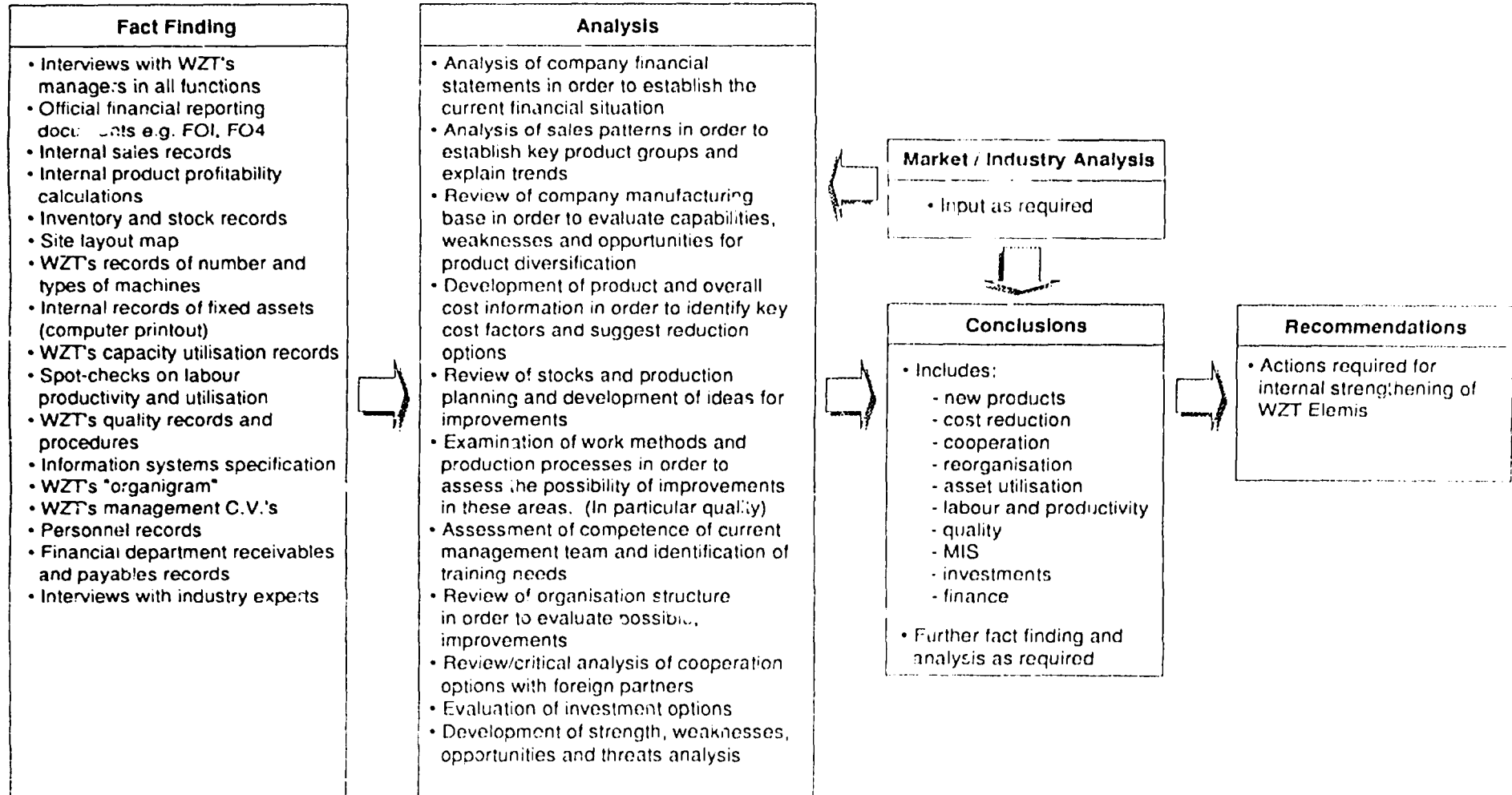
### Summary of Methodology: Industry and Markets



Introduction...

## THE COMPANY DIAGNOSTIC METHODOLOGY INCLUDED USE OF MANUFACTURING AND INDUSTRY SPECIALISTS

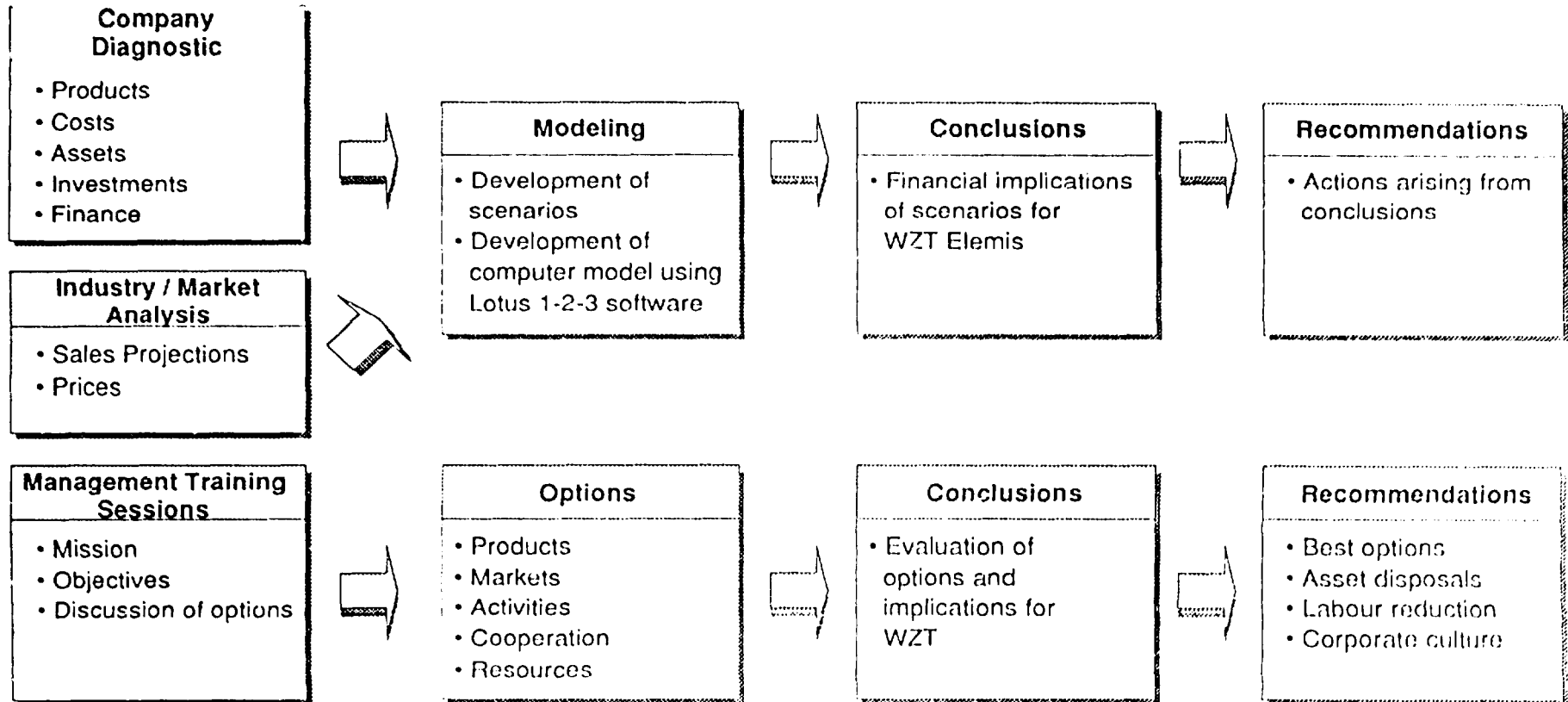
### Summary of Methodology : Company Diagnostic



Introduction...

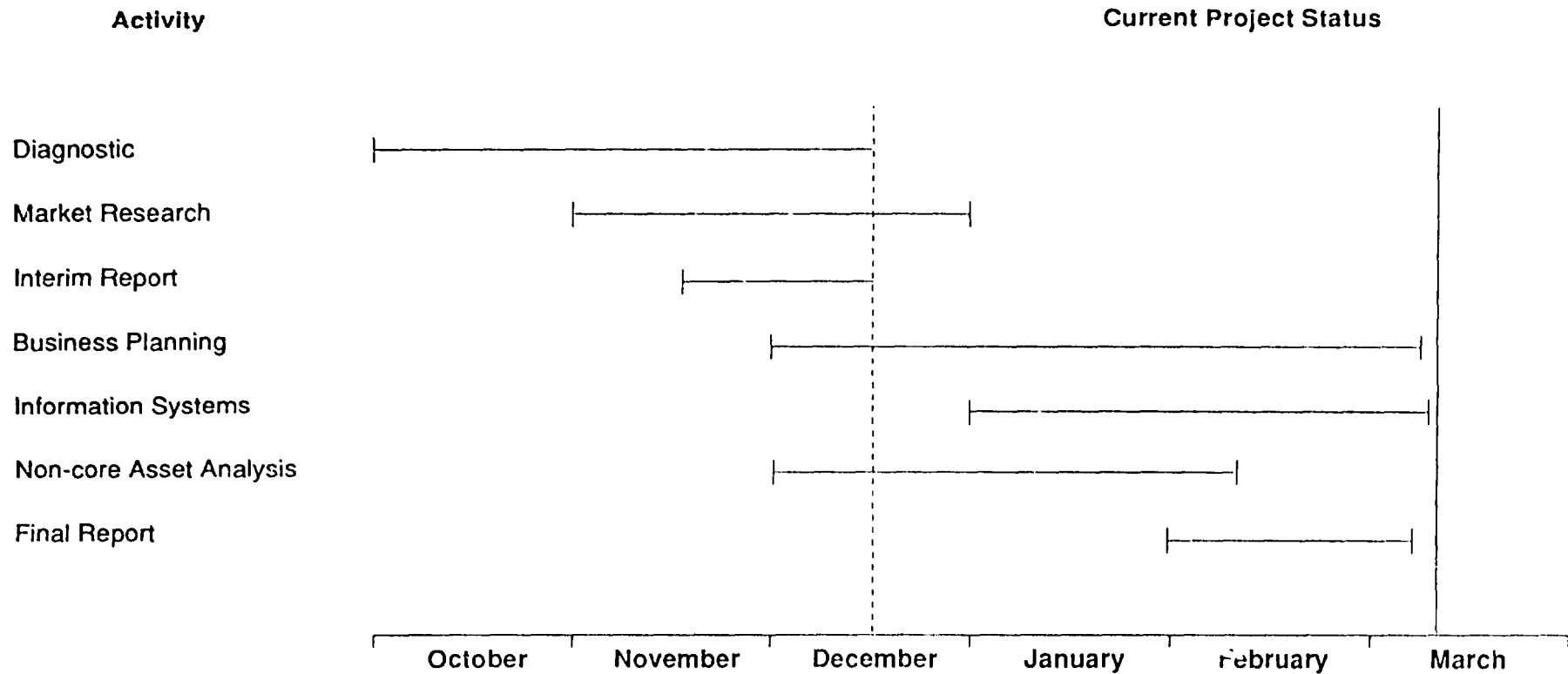
## THE BUSINESS PLANS WAS DEVELOPED IN CONJUNCTION WITH WZT ELEMIS MANAGEMENT

### Methodology : Business Plans



Introduction...

**CENTRAL EUROPE TRUST HAS COMPLETED THE DIAGNOSTIC PHASE OF THE WZT ELEMIS RESTRUCTURING PROJECT AND IS CURRENTLY WORKING WITH THE ENTERPRISE MANAGEMENT ON DEVELOPING A BUSINESS PLAN**



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CENTRAL EUROPE TRUST

Executive Summary...

## WZT ELEMIS

### Mission

To become a leading Polish manufacturer of medium class colour TVs aiming at a certain target group of buyers - low and medium income class of customers

### Strategy

To develop strong distribution network, acquire major distributors' interest in maintaining their relationships with WZT and in a medium term - their active participation in setting the company's guiding philosophy and strategy

### Goals

To achieve the level of sales of 250,000 pcs in 1992. To improve the quality and reliability of WZT's new products, to make "Westa" a highly recognisable and praised brand name. To reach sound financial position, allowing privatisation of the company

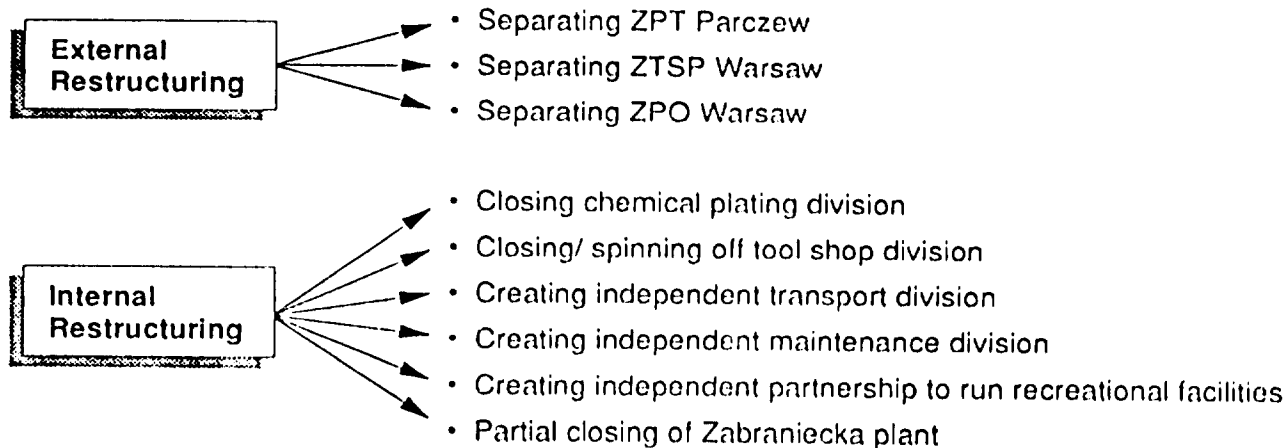
### Implementation

WZT will be separated from ZPT, ZPO, ZTSP and also internally divided. WZT will start acquiring new distributors and sign agreements with already existing trade partners. WZT will develop new systems of internal quality control procedures as well as the external network of service points



Executive Summary... Strategic Issues...

**ORGANISATIONAL RESTRUCTURING OF WZT INCLUDES SPINNING OFF SUBSIDISED ACTIVITIES AND CREATING NEW ORGANISATIONS WITHIN CORE WZT ELEMIS PLANT**



Executive Summary... Strategic Issues...

**RESTRUCTURING OF ZPT, ZTSP, ZPO REQUIRES ACTIVE PARTICIPATION AND FINAL APPROVAL OF THE FUNDING BODY, THE MINISTRY OF INDUSTRY AND TRADE, WHICH HAS ALREADY APPOINTED A COMMITTEE TO COMMENCE THE PROCESS**

ZPT Parczew Factory of Television Components	Further existence of ZPT as WZT supplier is questionable. In the past, 100% of Parczew production was designed for WZT. Currently WZT debt in Parczew amounts to 2 bln zlp and should be paid before any future actions are taken. Present employment in ZPT consists of 162 workers. Management of the factory officially proposed leaving the organisational structure of WZT. However, additional plans for future activity have not been presented
ZTSP Warsaw, Professional Television Equipment Factory	Activity of the plant was never strictly connected with the core factory. ZTSP deals with industrial TV systems for banks, hotels, railway stations, airports, road traffic observations, fire control and fighting equipment (monitors and cameras), satellite TV, cable system, studio equipment. Mutual debts are balanced. Present employment is approximately 200 workers. Management of the factory was first to formally declare its will of separation and has already presented its business plan based on present activities
ZPO Warsaw, Factory of TV Boxes	After incorporation of Zabraniecka department (TV boxes production) directly to WZT core plant ZPO's association with the company ended. Management of the factory has already proposed formal separation. No problems with mutual payments exist. Present employment consists of 160 workers. Business plan based on future operations providing interior decorating services for banks, hotels and trading firms

Source: WZT Elemis, CET Analysis

CENTRAL EUROPE TRUST

Executive Summary...

## FINANCIAL RESTRUCTURING INCLUDES NEGOTIATIONS WITH WZT'S MAIN CREDITOR PBK AND REPRESENTATIVES OF THE MINISTRY OF FINANCE

### Business Plan

#### Main Assumptions

- Defer state budget payments
- Re-opening of the PBK account and obtaining ZLP 100 bln short term operating credit
- On-time payments of interest and capital installments of PBK and IDA credits
- Recovering of 50% of 1991 accounts receivables
- Obtaining 20 days deferred payment for purchased components
- Payment of 60% of accounts payable

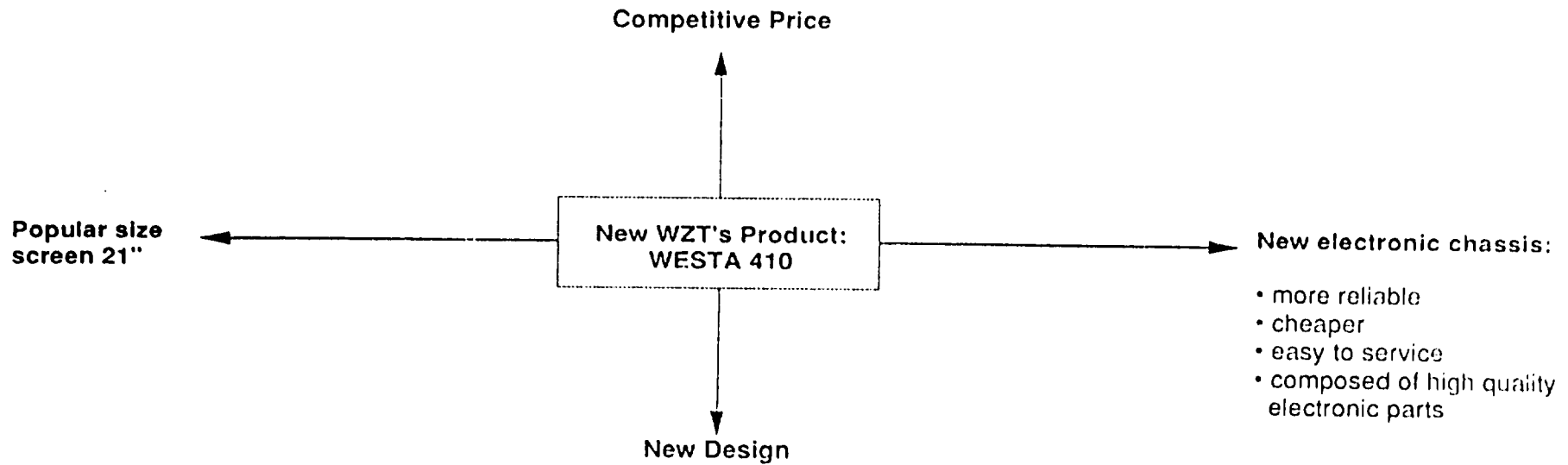


#### Results

- The basic condition set by PBK. Its fulfillment will create a basis for the PBK to consider WZT's credit request
- ZLP 68 bln will pay the old, overdue credit and stop the penalty interests
- ZLP 32 bln will cover all disbursements associated with the production of the new TV model
- Improving cash flow situation and financial liquidity
- Reduction of the company's liabilities and improvement of relationships with WZT's trade partners and suppliers

Executive Summary... Strategic Issues...

## INTRODUCTION OF THE NEW TV MODEL IS THE KEY SUCCESS FACTOR OF FUTURE WZT'S OPERATIONS



**WESTA 410 was rewarded a gold medal at Poznan Consumers Goods Fair, February 1992**

Executive Summary...

**DESPITE CRITICAL ECONOMIC SITUATION, SEVERAL FACTORS INDICATE, THAT WZT ELEMIS' POSITION CAN BE CONSIDERED AS FAVOURABLE AND THE FIRM CAN SUCCEED IN THE FUTURE**

- Strong management team, dedicated to the idea of restructuring the company
- Loyal and co-operative workforce
- Very good and strong relationships with suppliers and distributors
- Developed and partially implemented restructuring plan
- New product, highly appraised at Poznan Consumers' Fair, 1992 (gold medal)
- TV market, considered to be the most attractive one among all consumer electronic products in Poland

Executive Summary... Synthesis...

**THE SURVIVAL OF WZT ELEMIS IS PRESENTLY SERIOUSLY PUT INTO QUESTION. IN ORDER TO BECOME VIABLE, I.E. TO OBTAIN FINANCIAL LIQUIDITY, THE COMPANY MUST UNDERGO A FUNDAMENTAL RESTRUCTURING PROCESS**

The key elements of such a programme must include:

- obtaining the rescheduling of the current debt through negotiations with:
  - its main creditor PBK
  - the state budget
  
- obtaining a credit for the implementation of the restructuring programme, this implies:
  - presenting the business plan to PBK as well as to other banks and international funds
  - involving the IDA and the Ministries of Finance and Industry
  
- building up a strong and stable management team. This team should be subject to an intensive training programme, that has been offered by UNIDO
- keeping the minimum production potential required for assembly activity
- getting rid of all the non-productive assets
- introducing above all price competitive new products, aiming at the domination in a well-defined market segment
- remodelling the organisational chart of the core company
- spinning off the subsidiaries, that are not fully involved in the main activity

Nevertheless the restructured assembly plant will have to face a strong competition from both domestic and foreign manufacturers

Executive Summary...Industry...

**WZT ELEMIS IS INVOLVED IN MANUFACTURING TV RECEIVERS. THE COMPETITION ON THIS MARKET IS VERY INTENSIVE AND BASED ON PRICES**

#### NEW ENTRANTS

- Low entry barriers
- Technology is generally available
- Limited capital investment is required
- Distribution is very easily accessible for price competitive products

#### SUPPLIERS

- WZT Elemis imports 70% of components used for TV production. Its suppliers of electronic parts are chosen among the most renowned brands, Siemens, Philips
- WZT buys TV tubes from Czechoslovakia, former DDR and Polish manufacturer Polcolor-Thomson
- As WZT is no longer a reliable partner for its suppliers, it is having difficulties with obtaining deferred payment conditions with them

#### COMPETITORS

- Main competitors are Far East and Western Europe companies
- WZT also faces competition from recently established, dynamic assembly plants
- Competition is getting intensive

#### SUBSTITUTES

- Non existent

#### BUYERS

- Individual buyers can be divided into 4 categories
  - Affluent, accepting only top quality and top brand equipment (not accessible to WZT)
  - Young customers who cannot afford the most expensive equipment, but who pay attention to good standard and design (accessible to WZT)
  - Common user type of customer interested only in basic standard of TV (accessible to WZT)
  - Low income users, aspiring to basic TV equipment
- WZT Elemis direct contact with customers is still weak (Only 13 WZT retail shops)

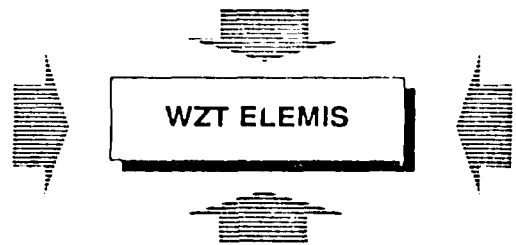
**DESPITE A NUMBER OF STRENGTHS, OVERCAPACITY AND IMPORT PENETRATION ON THE POLISH MARKET CAST DOUBT ON THE VIABILITY OF WZT**

**OPPORTUNITIES**

- Existing possibilities for significant cost cutting actions
- Current position on the Polish TV market (16%) which could be used as a spring board for future expansion

**STRENGTHS**

- Large production facilities
- Experienced specialists
- Network of own service shops
- Good relationships with TV wholesalers
- Management is ready for changes



**WEAKNESSES**

- Limited number of modern machine tools
- Developed social and non-productive infrastructure
- Insufficient and inefficient quality control procedures
- Lack of adequate financial and monitoring system
- Lack of efficient and dynamic marketing and purchase departments

**THREATS**

- Increasing competition from both domestic producers and importers
- Serious debt burden
- Lack of financial sources for covering current need
- Increasing departure of WZT best specialists
- Internal conflicts
- Excess supply on Polish TV market



## WZT'S NON-RESPONSIVENESS TO NEW MARKET CONDITIONS HAS RESULTED IN A COLLAPSE OF REVENUES

### Revenue

- Since the beginning of 1991 sales have dramatically decreased to ZL 415 bn (\$40 mln) for the period of January - September 1991. 1990 sales resulted with a revenue of ZL 952 bn (\$90 mln). This collapse was caused mainly by the non-adaptation of WZT's products to the expectation of the market; it resulted in the domination in Poland of imported TV sets and increasing competition from new small assembly plants
- 87% of TV models sold in the 1991 are colour. But only WESTA series (41% of all sold TVs during the period of January - September '91) represent modern design and provide most of the features desired by customers

## WZT ALSO FACES A FINANCING CRISIS

### Financial and Accounting Analysis

- WZT Elemis debt is over ZL 300 bln. It is 100% overdue
- WZT Elemis is having difficulties to obtain the necessary funds for its current needs
- WZT keeps high raw materials and components stock level.  
Total value of kept materials is ZL 60 bn, and 50% of wood material and support stocks have not been in use for at least 6 months

Executive Summary... Company Diagnostic...

**UNDERSTANDIBLY, THE POOR CONDITION OF THE FIRM IS AFFECTING THE COHERENCE OF THE ORGANISATION'S PERSONNEL**

### Management and Organisation

- WZT personnel is poorly motivated - best specialists are quitting their positions with WZT
- There are several internal conflicts among management and lower level employees
- Management needs strengthening in the fields of marketing, finance and control
- Yet the company management is conscious of the poor condition of the firm, and seems to be ready for fundamental changes

**THE COST BASE IS HIGH, AND DRASTIC MEASURES WILL NEED TO BE TAKEN TO EFFECT ANY IMPROVEMENT**

**Costs**

- WZT suffers from high costs associated with support divisions' activities. Costs can be significantly reduced by closing paint shop, Zabraniecka wooden box plant, galvanic division and tool preparation department
- WZT is also in trouble because of costs related to Research and Development, laboratories and social facilities
- WZT Elemis is maintaining 80,000 square metres of excessive space
- In 1991, the price of "non-activity" accounted for 14% of all production departments costs (i.e. the capital costs of idle equipment, and operating costs of associated personnel)
- Quality problems result in additional costs for the company - current level of claims is extremely high - 15% causing associated costs of ZL 44 bn for the period of January - December 1991

Executive Summary... Company Diagnostic...

**THE PRESENCE OF SOME MODERN MACHINERY MAY OFFER POTENTIAL FOR IMPROVED OPERATION UNDER NEW WORKING PRACTICES**

**Production and Assets**

- WZT Elemis has no adequate production planning methods
- 30% of the production capacity is actually being used
- Net value of WZT production assets constitutes only 65% of total value of assets
- Average level of depreciation within production divisions is 57% but the core TV heads production division is equipped with modern machinery, depreciated only by 21%

**GIVEN WZT DIRE ECONOMIC POSITION, MARKET AND INDUSTRY FACTORS ARE OF PARTICULAR IMPORTANCE FOR THE COMPANY'S FUTURE**

**MARKET**

- Projections for 1992 reveal that demand will vary between 700,000 and 1.1Mln pieces
- Predicted import of TVs will reach a level of 400,000 - 600,000 pieces. Total domestic production is estimated at 1Mln pieces in 1992
- It is expected that the difference between supply and demand on the Polish TV market in 1992 may be from 200,000 to 800,000 pieces
- 85% of WZT production will have to compete in the most saturated segment of TV market

**COMPANY**

- Present level of sales shows that WZT cannot reach the breakeven point. Sales of ZL 582 Bln resulted in a loss of ZL 80 Bln for the period of January - September 1991
- WZT debt is over ZL 300 Bln. It is 100% overdue
- As WZT has no money to purchase the necessary components and materials, costs of "no production" have become a serious cost component
- WZT is composed of 4 separate plants. Co-operation and direct links among them are disappearing, making today's structure an artificial and ineffective organisation

**INDUSTRY**

- Manufacturing TVs
- Global industry
- Competition among lesser known brand names is based on prices
- Major competitors are Far-East and Western Europe producers
- Technology is generally available

Executive Summary...Market...

**"FOUR Ps" ANALYSIS SHOWS, THAT WZT HAS NEGLECTED ONE OF THE MOST IMPORTANT FACTORS OF SUCCESS - PRODUCT ATTRACTIVENESS AND PROMOTION CAMPAIGN**

<b>PRODUCT</b>	<ul style="list-style-type: none"><li>• WZT manufactures colour TVs of 14", 20", 21", 22" &amp; 26" diagonal. They are equipped with standard features of remote control, TXT and on screen control display. Only WESTA models represent modern design, though some wooden elements are still used in box construction.</li></ul>
<b>PLACE</b>	<ul style="list-style-type: none"><li>• WZT TVs are mainly geared to customers living in small town and villages, middle income people, not paying much attention to brand names or modern design but sensitive to prompt after-sales service and guarantee conditions.</li></ul>
<b>PROMOTION</b>	<ul style="list-style-type: none"><li>• WZT has launched an intense TV promotion in the first half of 1991. As WZT later suffered serious financial problems, promotion activities ceased.</li></ul>
<b>PRICE</b>	<ul style="list-style-type: none"><li>• WESTA TVs although in the lower price range, are still ZL 300,000 to ZL 500,000 more expensive than imported receivers, which generally present a much better look</li></ul>

Executive Summary...

**ACTIONS TAKEN BY WZT MANAGEMENT IN THE SHORT TERM, WILL BE THE KEY TO WZT ELEMIS LONG TERM SUCCESS**

**Short Term**

- Negotiate with the main banker PBK and evaluate possibilities of deferring state budget payments
- Implement new organisational structure
  - Introduce the position of purchase manager responsible for relations with suppliers
- Keep control on cashflow
  - Institute careful cash planning
- Train sales / marketing personnel and give sales incentives
- Implement radical program of quality improvement and change the system of co-operation with service points
- Sell / Close all non-productive assets, chemical coating division and tool shop division, empty buildings
- Introduce new brand name for the new generation of TVs or adopt the old name "Westa" but simplify the coding system

**Medium Term**

- Implement a system of management by objective and define "responsibility centres" (managers must be responsible for their budgets and achieving targets)
- Implement new cost accounting system based on new organisational structure. Introduce decentralised cost and profit centres
- Design and implement new management information system
- Reach goal of total quality
- Introduce "just in time" delivery
- In order to create strong team of TV components importers able to negotiate and receive discounts, start negotiations with other TV manufacturers on possibilities of creating such group

**Long Term**

- Proceed with organisational changes, implementing new technologies of TV production
- Introduce new types of TVs, closely following world trends



Executive Summary...

**CURRENTLY WZT ELEMIS HAS NO PRACTICAL MEANS OF RECOGNISING RELIABLE AND PRICE-COMPETITIVE SUPPLIERS. IN ORDER TO STRENGTHEN ITS BARGAINING POSITION AND GAIN KNOWLEDGE OF THE SUPPLIERS' MARKET, WZT HAS TO INTRODUCE A NEW FUNCTION OF PURCHASE MANAGER**

#### **General Responsibilities of Purchase Manager**

- Developing relationships with new reliable suppliers with the objective of having three suppliers per purchased product (70%,20%,10%)
- Data gathering on components and parts prices
- Strengthening position of the top management during procurement negotiations
- Assuring efficiency of operations by integrating storage operations, components and materials procurement and movement within the firm

Executive Summary...

**WZT ÉLEMIS HAS TO DESIGN AND IMPLEMENT NEW FINANCIAL ACCOUNTING SYSTEM WHICH WILL MEET MINIMUM REPORTING STANDARDS**

**Management Information System  
Key Issues**

- Fully integrated with financial accounting system
- Real time processing
- Powerful report generating package producing all required reports
- Formalised management structure of each department to include review of performance measures
- Appropriate costing system to be used according to the type of procedure (i.e. batch, one-off or continuous processing)

Executive Summary...

## WZT ELEMIS MUST IMPLEMENT SYSTEMS, WHICH WILL SOLVE ITS PRODUCT QUALITY PROBLEMS

- In order to prevent distant service-points from providing false service statements, introduce new forms of payment (fixed monthly rates)
- As total 1991 cost associated with defective products amounts almost to ZI 50 Bln, implement radical improvement programme
  - Bonus / penalty schemes to motivate workers in all divisions to maintain quality
  - Written instructions / boards to depict quality requirements
  - Quality control function is to be independent and should not instruct workers but should record / report bad employees to the appropriate authorities

Executive Summary...

## WZT MANAGEMENT TEAM NEEDS TRAINING IN THE AREAS OF MARKETING, COSTING AND QUALITY

### MARKETING

- Market research and analysis
- Segmentation
- Market databases
- New product marketing
- Negotiating skills

### COSTING

- Variable / Fixed costs analysis
- Overhead absorption
- Cost centres / profit centres
- Budgeting
- Variance analysis

### QUALITY

- Total quality training

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CENTRAL EUROPE TRUST

Polish TV Market...

**IN THIS CHAPTER WE SHALL ANSWER THE FOLLOWING QUESTIONS:**

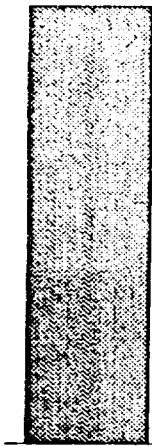
- What are the estimates of 1992 demand and supply of TVs on the Polish market?
- Who are the main WZT Elemis competitors on this market?
- How does the general performance of WZT Elemis compare to those of its competitors?
- How are WZT Elemis products placed in the wide spectrum of TVs offered on Polish Market?
- What is the potential demand of Polish market?
- How does the distribution network work in Poland?
- What is the customs policy towards imported TV sets in Poland?

Polish TV Market... Structure...

**IN 1992 IMPORTERS AND DOMESTIC TV MANUFACTURERS WILL HAVE TO SEVERELY COMPETE FOR THEIR SHARE OF THE POLISH TV MARKET**

**Estimated Demand of Polish Market for TV Receivers in 1992**

700 000 + 1100 000 pcs



**Estimated Production and Import of TV Receivers on the Polish Market in 1992**

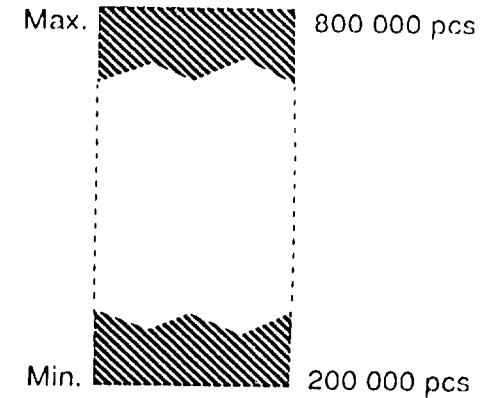
1.3 mln + 2.0 mln pcs



400,000 + 600 000 pcs  
Estimated level of 1992  
import of TV Receivers



**Excessive number of TV Receivers on the Polish Market**



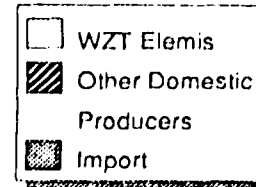
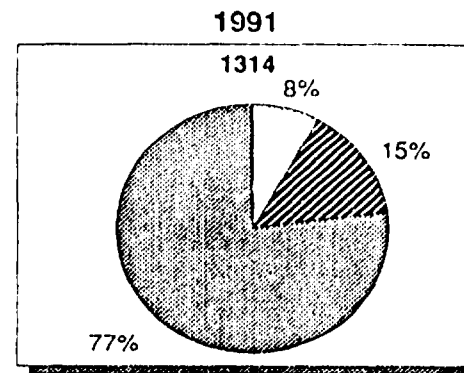
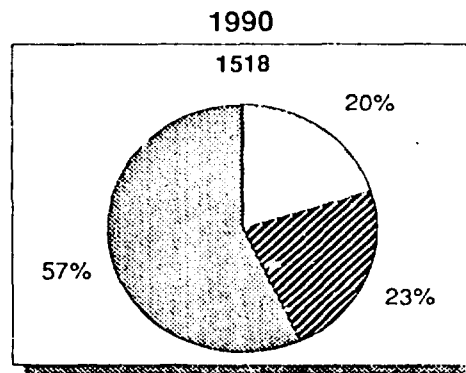
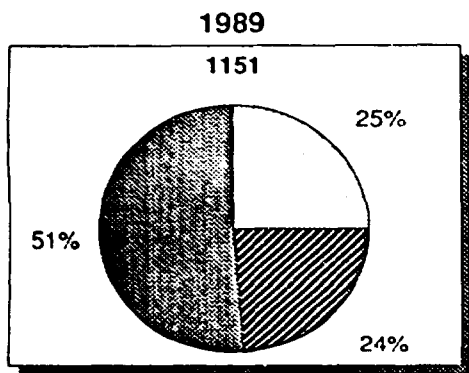
Source: B&L

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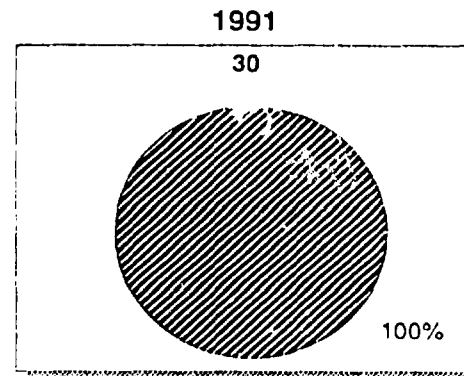
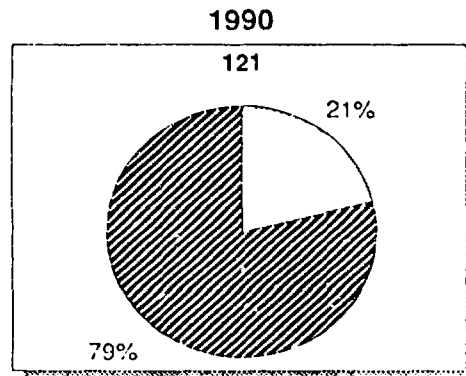
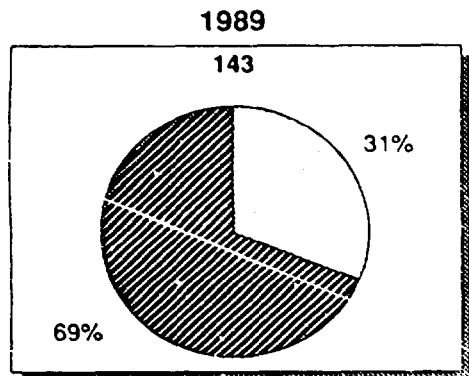
Polish TV Market... Structure...

**LACK OF THE CORPORATE MISSION FOR THE FUTURE WITHIN THE FORMER MANAGEMENT OF WZT AND PASSIVE ADAPTATION OF THE COMPANY TO THE NEW ECONOMIC ENVIRONMENT CAUSED THAT WZT IS NOW THE BIGGEST LOSER IN MARKET SHARE WITHIN LOCAL TV PRODUCERS**

Supply of TVs on Polish Market (by main sources)  
(‘000 Pcs)



Structure of Polish TV Exports  
(‘000 Pcs)



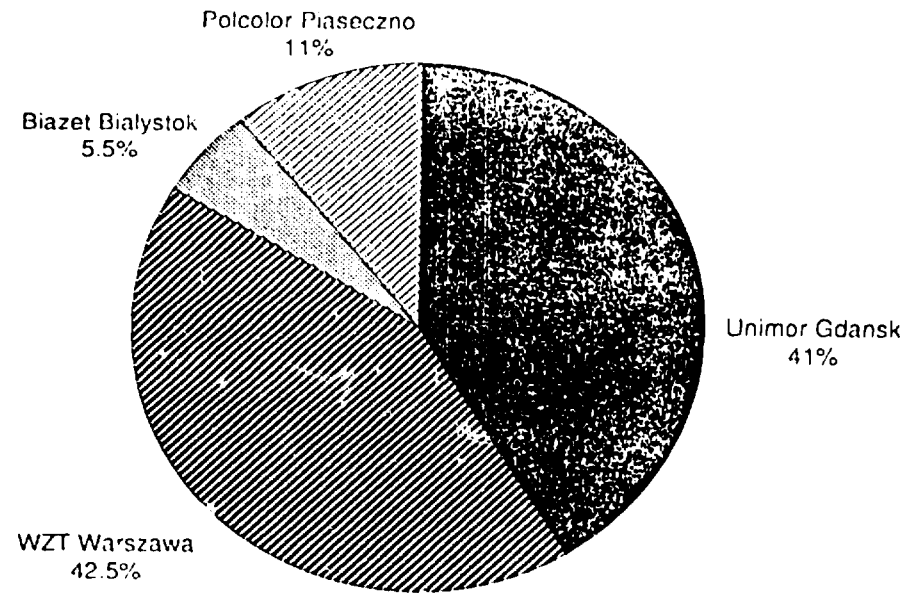
Source: B&L



Polish TV Market... Structure...

**THE MAIN OUTPUT STILL BELONGS TO WZT WARSZAWA AND UNIMOR GDANSK**

Structure of Polish Producers of TV Sets in 1990



Total Output 771000

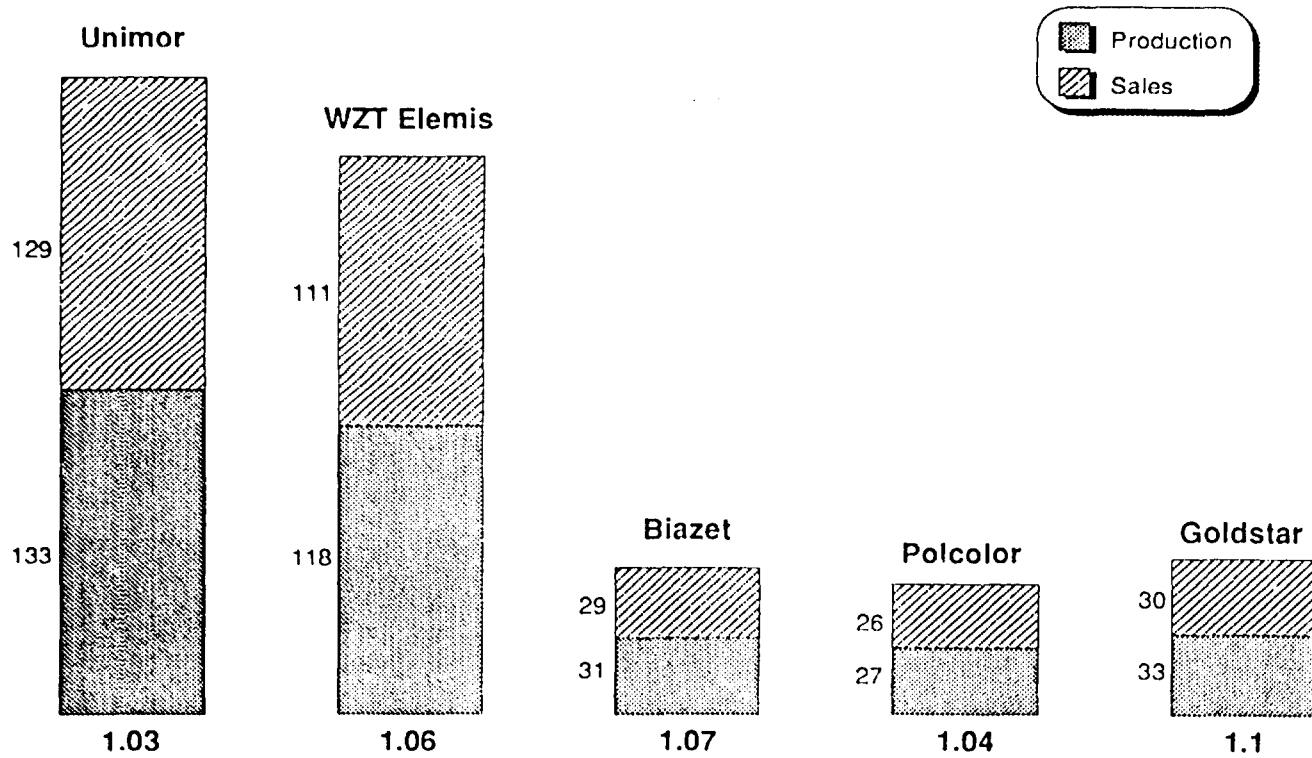
Source: B&L

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Polish TV Market... Structure...

**WITHIN TV SETS MAIN PRODUCERS IN POLAND, BIAZET AND WZT ELEMIS HAVE TWO LEAST FAVOURABLE PRODUCTION/SALES RATIOS**

Production and Sales of TV Sets by Main Polish Manufacturers  
(ths. 01.01-30.09.1991)

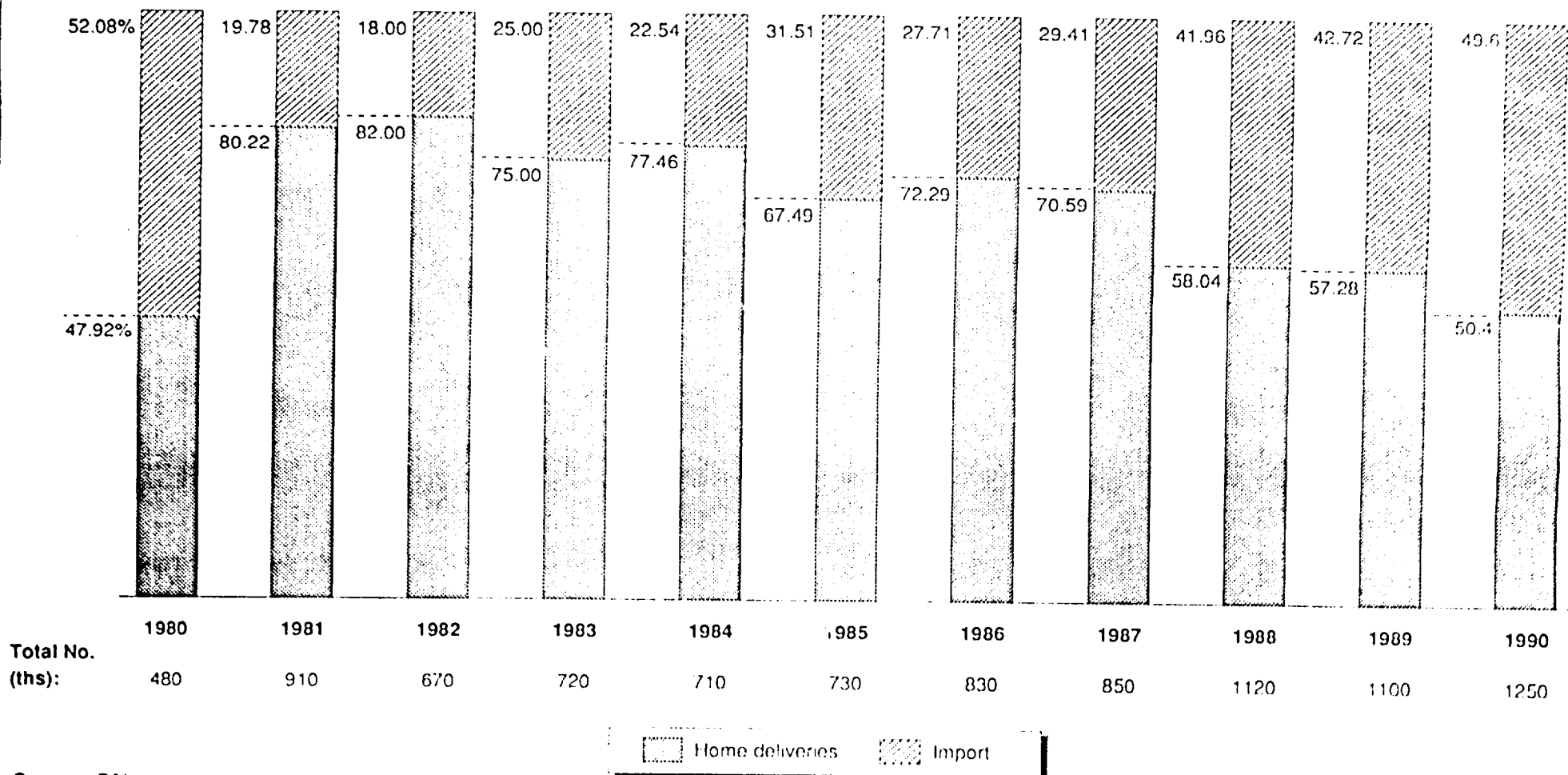


Source: B&L

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Polish TV Market... Structure...

AS THE IMPORT REGULATIONS HAVE GRADUALLY BECOME MORE LIBERAL, THE PERCENTAGE OF HOME DELIVERIES HAS BEEN DECLINING, REACHING 50% IN 1990

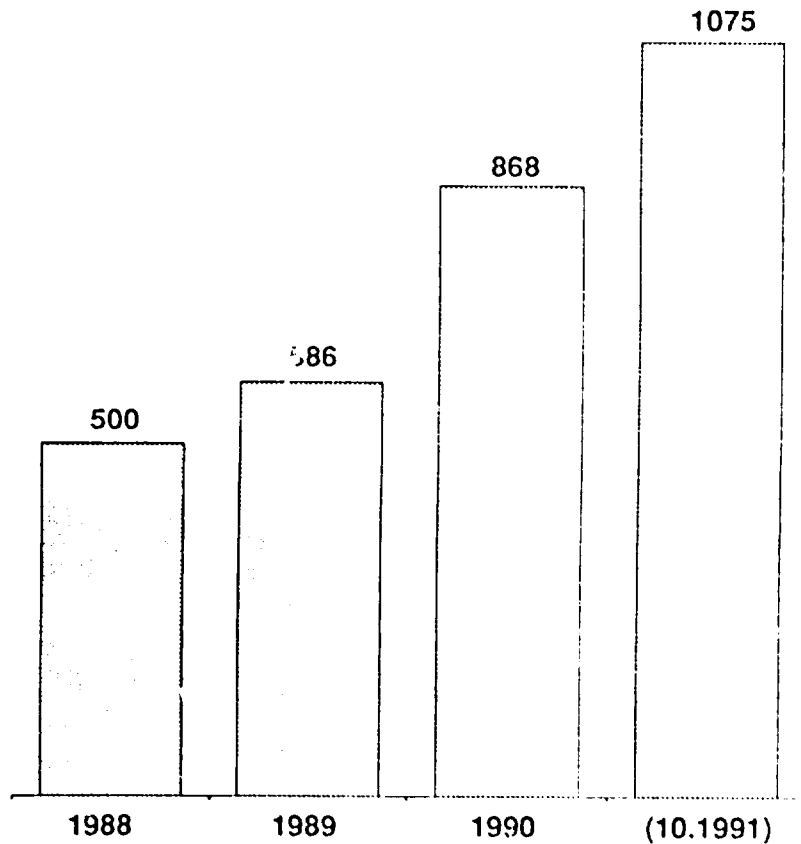


Source: B&L

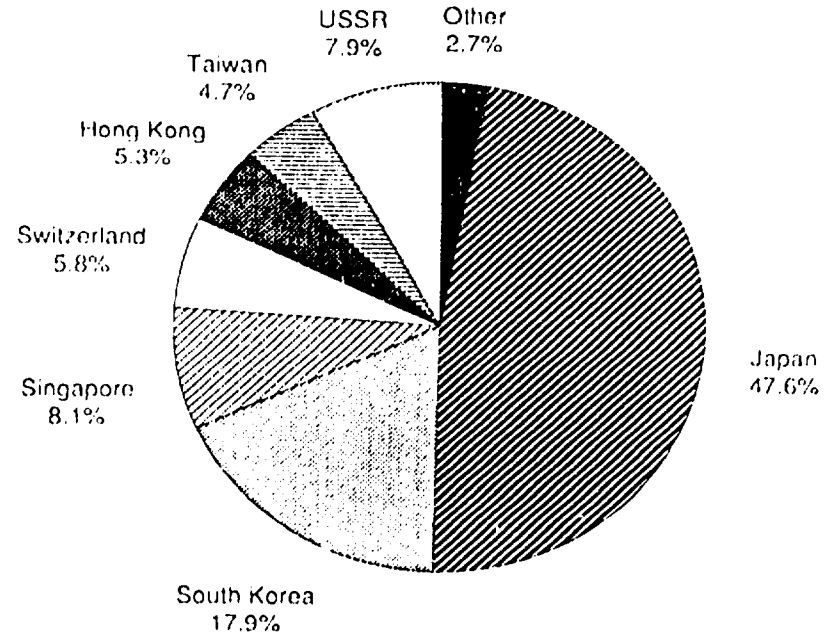
Polish TV Market... Structure...

**DURING THE LAST THREE YEARS, THE NUMBER OF IMPORTED TVs DOUBLED. IN 1991 50% OF IMPORTED TVs CAME FROM JAPAN, WHILE IN 1988 THE MAIN STREAM OF TVs IMPORT WAS FROM USSR**

Estimated Number of Imported TVs  
(THS PCS)



Geographic Structure of Imported TVs  
(01.1991 - 10.1991)



Source: B&L

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Polish TV Market... Structure...

**THERE IS A RAPIDLY INCREASING NUMBER OF TV SETS ON THE POLISH MARKET WITHIN THE MOST POPULAR RANGE (21"), WHICH CAN SUCCESSFULLY COMPETE WITH WZT PRODUCTS**

**Size of Screen  
21"**

Brand	TXT	On Screen Display	Remote Control	Price (ths)
Royal	-	-	•	4100
Technic	-	-	•	4300
Elemis	-	•	•	4850
Neptun	•	•	•	4990
Elemis	•	•	•	5350
Otake	•	•	•	5700
JVC	-	-	•	5700
Hitachi	-	-	•	5800
Hitachi	-	•	•	5800
Samsung	•	•	•	5900
TEC	•	•	•	5950
JVC	•	•	•	6000
Toshiba	-	-	•	6200
Sanyo	-	-	•	6240
Greatz	•	•	•	6300
NEC	-	•	•	6300

<b>Minimum Price:</b>	4100
<b>Maximum Price:</b>	10100
<b>Average Price:</b>	6491
<b>Elemis Price:</b>	4850/5350

All prices calculated on basis of retail prices in Warsaw shops in November 1991

Source: B&L

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Polish TV Market Structure... Supply...

THE COMPETITION IS THE TOUGHEST IN THE POPULAR 20" TV SETS RANGE, SIMILAR FEATURES ARE OFFERED ON MOST MODELS

Size Of Screen  
20"

BRAND	FEATURES			RETAIL PRICE (THS)
	TXT	ON SCREEN DISPLAY	REMOTE CONTROL	
Royal	—	—	*	3500
Otake	—	—	*	3600
Samsung	—	—	*	3700
Royal	*	*	*	3800
Crown	—	—	*	3800
Goldstar	—	*	*	3930
Unimor	—	*	*	3930
Elemis	—	*	*	3950
Orion	—	—	*	4000
Funay	—	*	*	4100
Multitech	—	—	*	4200
Samsung	*	—	*	4450
Goldstar	*	*	*	4590
Elemis	*	*	*	4650
Toshiba	—	—	*	4800
Orion	*	*	*	4850

Minimum Price	3500
Maximum Price	6590
Average Price	5662
Elemis Price	3950/4650

All prices calculated on basis of retail prices in Warsaw shops in November 1991

Source: B&L

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Polish TV Market... Supply...

**FOUR ASSEMBLY LINES HAVE RECENTLY BEEN OPENED, IN ADDITION TO THE EXISTING POLISH FACTORIES, OUT OF WHICH WZT'S AND UNIMOR'S JOINT SALES AT BREAK-EVEN POINT WOULD REPRESENT ~ 80% OF THE LOWER FORECAST FOR THE WHOLE POLISH TV MARKET. THE INCREASING OUTPUT OF IMPORTS MUST ALSO BE TAKEN INTO ACCOUNT**

NAME OF ENTERPRISE	SIZE OF SCREEN	MAXIMUM VOLUME OF PRODUCTION (th)	PRICE	OTHER
<b>OTAKE MLAWA</b>	20", 21"	300 - 350	4 - 4,5 Mln ZL (390 USD)	Good quality No distribution network
<b>PHILIPS KWIDZYN</b>	21", 25"	120 50% will be export	Above 7,6 Mln ZL (660 USD) one of the most expensive in the Polish market	Own distribution network (Brat'ork)
<b>GOLDSTAR WALBRZYCH</b>	20"	150	290 USD one of the cheapest on the Polish market	No distribution network, low quality 20 - 40% claims
<b>TELESTAR* WARSZAWA</b>	21"	120		Own shops and service network

\* Will start to operate in 1992

Source: B&L

Polish TV Market Structure... Demand...

**THE HUGE POTENTIAL OF THE POLISH TV MARKET IS ATTESTED BY THE CURRENT PENETRATION, THAT EQUALS THAT OF WESTERN COUNTRIES 20 YEARS AGO**

NAME OF COUNTRY	YEAR	"NO. OF TV SETS/1000 PEOPLE" RATIO
GERMANY	1970	276
HOLLAND	1970	237
BELGIUM	1976	252
AUSTRIA	1976	254
NORWAY	1976	262
FINLAND	1976	285
POLAND	1988	259
	1990	265

Source: b&L

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**DEVELOPED COUNTRIES USE IMPORT TARIFFS AND QUOTAS TO PROTECT THEIR DOMESTIC PRODUCTION**

Import Duties imposed on Selected Products by Destination Countries

Destination Country	Colour tvs		B&W tvs		Video Recorders		TVs Aerials	
	from EEC	other origin	from EEC	other origin	from EEC	other origin	from EEC	other origin
Austria	none	17%*	none	35%*	none	17%*	none	7%*
Finland	none	4.4%	none	21%	none	4.4%	none	12.6%
Iceland	none	15%	none	none	none	15%	none	none
Norway	none	22%	none	22%	none	15%	none	4.4%
Sweden	none	6.5%	none	6.5%	none	6.5%	none	6.5%
Switzerland	none	SF 120/ 100kg	none	SF 120/ 100kg	none	SF 120/ 100kg	none	SF 94/ 100kg
Turkey	10% + \$50 each		10%		10%		5%	
EC	none	14%	none	14%	none	14% (**)	none	7.2%
USA	3.9%	Quota for Japan	3.9%	Quota for Japan	3.9%		3.7%	

\*) level for GATT countries

\*\*) Penal tariff for Far East

Source: DTI, Embassy information

Polish TV Market... Tariffs...

**THERE IS NO CONSISTENT POLICY PROTECTING THE DOMESTIC ELECTRONIC EQUIPMENT FROM THE FOREIGN COMPETITION**

**Custom Duty and Turnover Tax for TV Sets and Electronic Components Imported to Poland**

	Custom Duty	Turnover Tax
<b>TV SETS</b>	07.1990 - 07.1991 12%	01.1990 - 30% for private importers 03.1001 - 30% for all importers
	08.1991 20%	25%
	01.1992 30%	30%
<b>ELECTRONIC COMPONENTS</b>	10.1990 - 02.1991 3.5%	0%
	03.1991 - 07.1991 5%	0%
	08.1991 15%	25%
	01.1992 15%	25%

Source: B&L

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Polish TV Market... Structure...

**STATISTICAL DATA INDICATE THAT AMONG LOWER INCOME GROUPS THERE IS A LARGE UNMET DEMAND FOR COLOUR TV SETS**

Home electronic equipment within Polish households  
(pcs for 100 households)

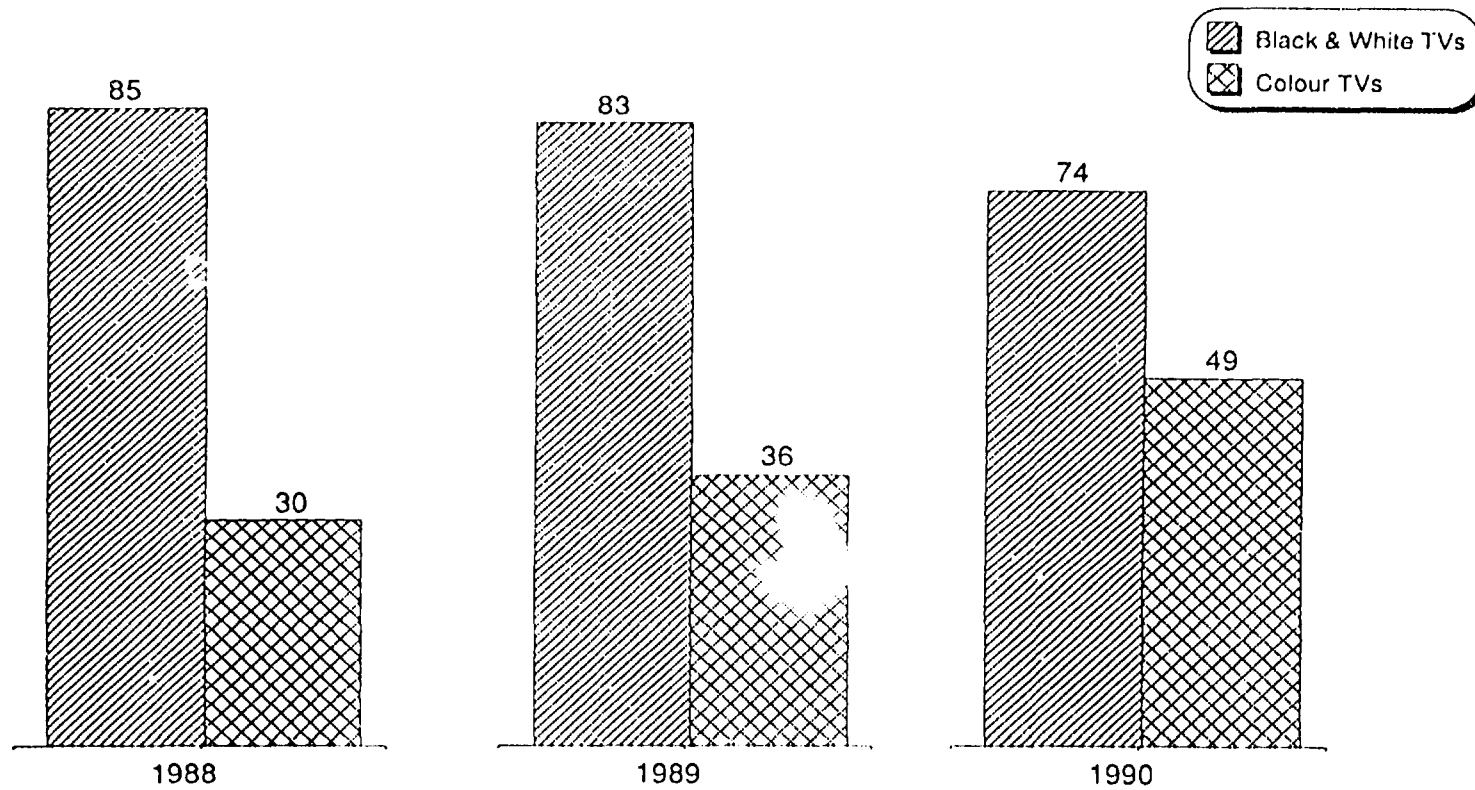
	Employees' Households			Farmers' Households			Employees-Farmers' Households			Retired Persons and Pensioners Households		
	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990
<b>Black and white TV sets</b>	98	81	49	72	92	80	98	99	88	84	97	78
<b>Colour TV sets</b>	9	23	66	2	7	16	2	7	33	3	8	17
<b>TV sets together</b>	107	104	115	74	99	96	100	106	111	87	95	95

Source: B&L, GUS - (General Office of Statistics)

Polish TV Market... Structure...

**POLISH HOUSEHOLDS' STEADY TREND TO REPLACE BLACK AND WHITE TVs BY COLOUR EQUIPMENT INDICATES, THAT IN THE CLOSE FUTURE THE MARKET SHOULD REMAIN STABLE**

Number of TVs per 100 Households in Poland

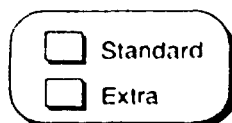


Source: B&L

Polish TV Market... Trends...

**ANSWERS OF THE RESPONDENTS TO A SURVEY CONFIRM THAT STANDARD TV SETS PRODUCED BY WZT SHOULD ONLY BE EQUIPPED WITH REMOTE CONTROL AND VIDEO INPUT**

**Important TV Features According To Surveyed Consumers  
(%)**



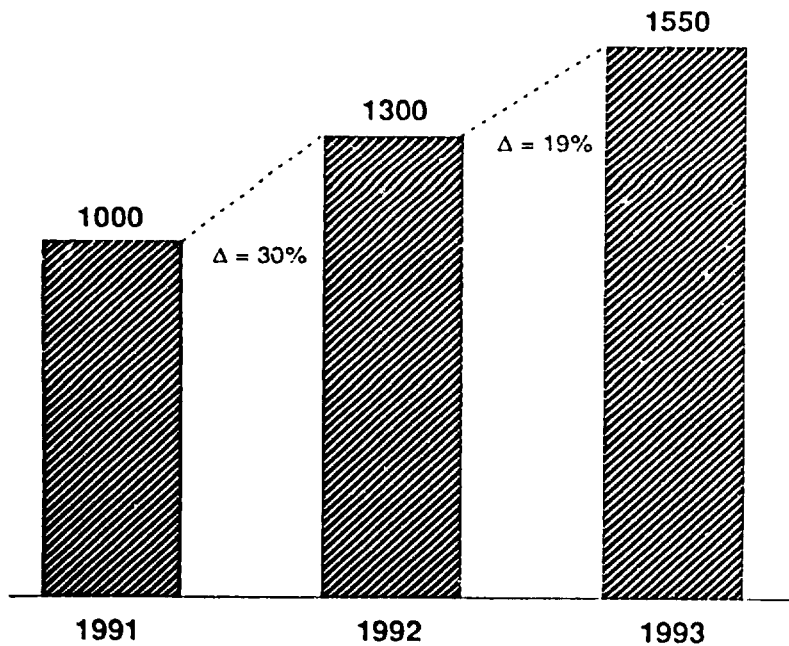
	Employees Households (%)	Farmers Households (%)	Farmers Employees Households (%)	Pensioners Retired Households (%)	Average (%)
Remote control	73.8	36.0	39.5	62.4	52.9
Video Input	61.0	46.0	50.9	43.1	50.3
TV SAT Reception	20.7	18.0	22.6	18.3	19.9
On / Off Programmer	7.0	24.0	24.5	1.8	14.3
Cable TV	14.4	15.0	20.8	5.5	13.9
Teletext	12.3	10.0	20.8	11.9	13.8
Functions on Screen	8.0	10.0	22.6	3.7	11.1

Source: B&L

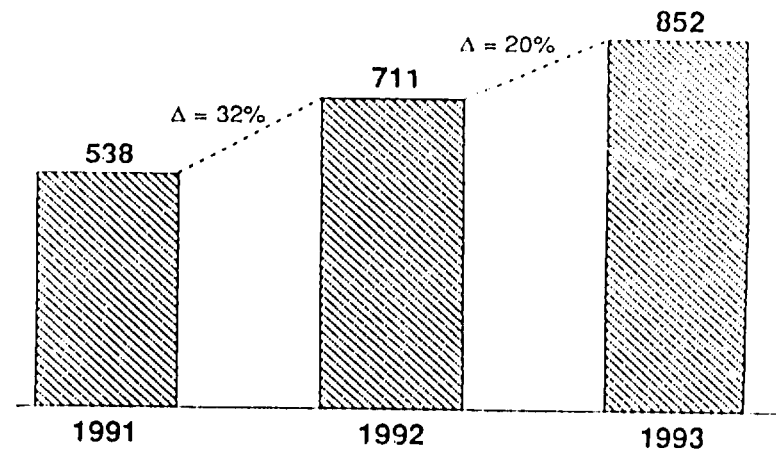
Polish TV Market... Structure...

**VCR MARKET IN POLAND, STRONGLY CONNECTED WITH TV MARKET, SHOWS UNUSUALLY FAST TENDENCY TO GROW**

VCR Volume of Sales in Poland  
('000 pcs)



Retail Value of VCR Market in Poland  
(USD mln)



Source: BIS Mackintosh, Poland Consumer Electronics 1991

Polish TV Market... Structure...

**INCREASING NUMBER OF VCRs IN POLISH HOUSEHOLDS INDICATES PROSPECTS OF GROWING DEMAND FOR VCRs IN THE FUTURE. THIS CAN RESULT IN AN INCREASING DEMAND FOR COLOUR TVs**

**Number of VCR's within Polish Households**  
(Units/ 100 Households)

	1988	1989	1990
<b>Employees' Households</b>	1.9	4.7	20.1
<b>Farmers' Households</b>	0.4	0.4	2.7
<b>Employee- Farmers' Households</b>	0.6	0.9	6.9
<b>Retired Persons and Pensioners Households</b>	0.4	0.9	2.6

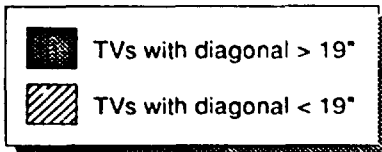
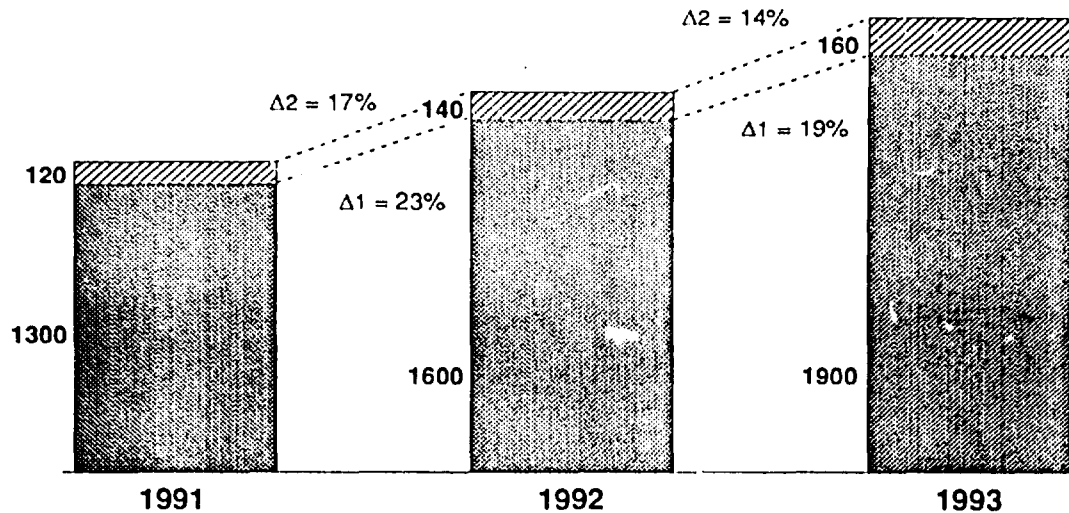
Source: GUS

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Polish TV Market... Structure...

**TV DEMAND FORECAST SHOWS, THAT THE BIGGEST GROWTH RATE OF SALES VOLUME WILL BE ACCOUNTED BY TVs WITH A DIAGONAL OF MINIMUM 19"**

Forecast of Sales volume and Growth Rate for Colour Televisions  
('000 Pcs)



$\Delta 1$  - Growth rate for TV's with diagonal equal or bigger than 19"  
 $\Delta 2$  - Growth rate for TV's with diagonal smaller than 19"

Source: BIS Mackintosh, Poland Consumer Electronics

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Polish TV Market... Trends...

**IN ORDER TO FULFILL THE CONSUMERS' EXPECTATIONS, WZT RESEARCH AND DEVELOPMENT DEPARTMENT SHOULD CAREFULLY TRACK MARKET TRENDS AND RESPOND TO CLIENTS' NEEDS**

**Importance of Selected TV Features for Potential Clients (%)**

Feature	Employees Households (%)	Farmers Households (%)	Farmers Employees Households (%)	Pensioners Retired Households (%)	Average (%)
Colour Reception	97.9	88.0	84.9	97.2	92.0
Reliability	93.0	54.0	60.4	91.7	74.8
High Reception Quality	82.9	60.0	56.6	86.2	71.4
Screen Size:					
Small	4.3	6.0	1.9	3.7	4.0
Medium	50.8	48.0	60.4	36.7	49.0
Big	44.9	44.0	35.8	59.6	46.1
Difficult to say	0.0	2.0	1.8	0.0	0.9
Cabinet Materials:					
Wood	19.3	46.0	32.1	50.5	37.0
Plastic	54.8	38.0	49.1	28.4	42.6
Difficult to say	25.9	16.0	18.8	21.1	20.4
TV Type:					
Portable	26.7	26.4	28.8	22.0	26.0
Stationar	63.7	67.9	71.2	63.1	66.5
Difficult to say	9.6	5.7	0.0	14.9	7.5

Source: B&L

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Polish TV Market... Trends...

**PLANNING ITS FUTURE PROMOTION CAMPAIGN, WZT SHOULD TAKE INTO CONSIDERATION THE RESULTS THE CET SURVEY, WHICH SHOWS THAT:**

- Only a third of respondents knew, that WZT Elemis is a Polish TV manufacturer
- Only a fifth was able to name a TV produced by WZT
- 50% of surveyed potential consumers intends to buy an imported TV
- Only a fourth wanted to buy a TV made in Poland
- The average expense declared for a TV is Zl 4.7 Mln
  - The highest, Zl 5.2 Mln, is planned mostly by employees households
  - The lowest, Zl 3.3 Mln, is planned mostly by farmers households
- 44% of respondents complained of the low quality picture of Polish TVs
- 39% of people surveyed pointed out the high failure frequency of Polish TVs.

Source: B&I.

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Polish TV Market... Distribution...

**SURVEY OF POLISH WHOLESALERS AS WELL AS RETAILERS SHOWS, THAT MANY OF THEM INTRODUCED THE POSSIBILITY OF BUYING TV EQUIPMENT ON INSTALLMENTS. THIS COULD BE A NEW, ALTERNATIVE WAY OF SALES FOR WZT ELEMIS**

**Examples:**

<b>Wholesale/ Retailer</b>	<b>Installments conditions</b>
<b>Aria</b>	<ul style="list-style-type: none"><li>• Installments: 40% down payment , 30% after 30 days, 30% after 60 days</li></ul>
<b>Toml Market</b>	<ul style="list-style-type: none"><li>• Installments: 40% down payment, 60% paid in three installments; 2 guarantors required</li></ul>
<b>Domax</b>	<ul style="list-style-type: none"><li>• Installments: 3 installments: 40%, 30%, 30% paid every month; 2 guarantors required</li></ul>

Source: WZT Elemis

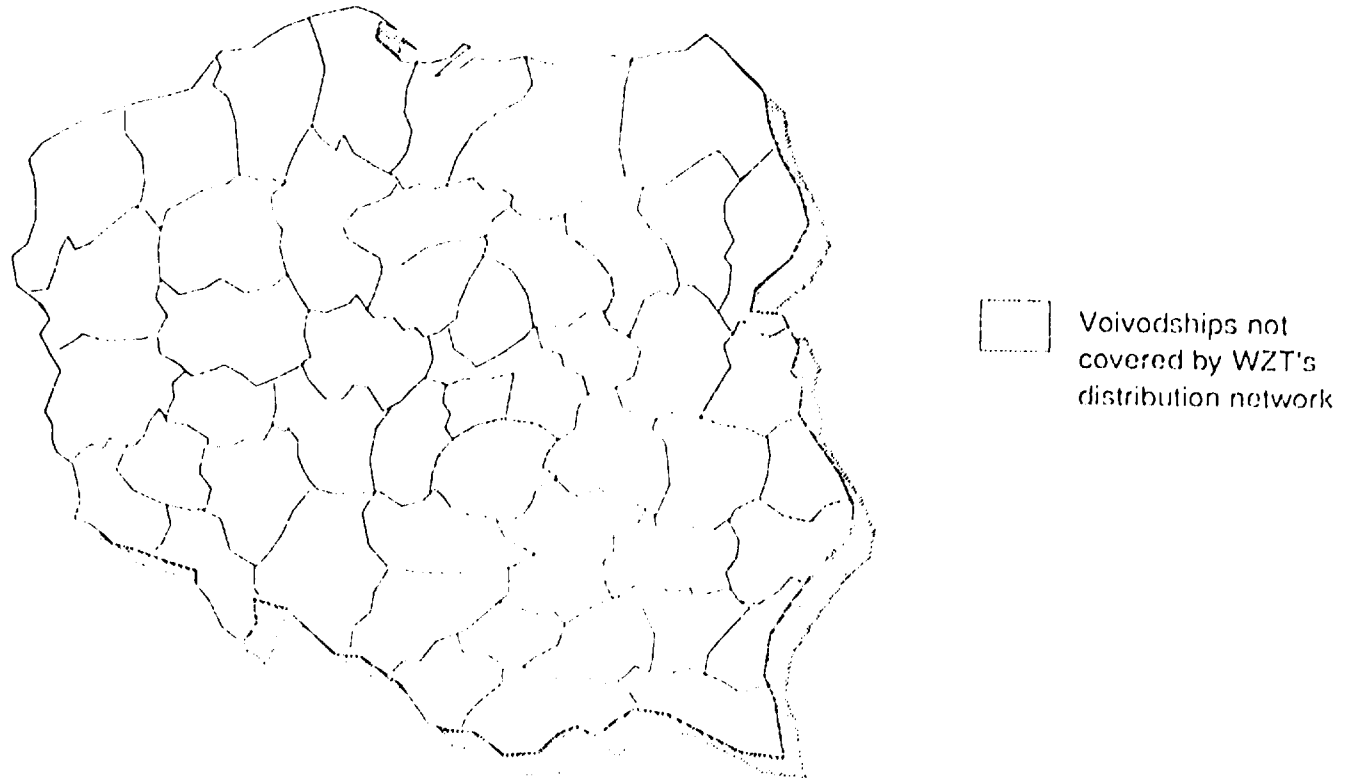
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WZT 1191

Polish TV Market... Distribution...

**LOOKING AT THE MAP OF WZT WHOLESALERS NETWORK, ONE CAN NOTICE THAT CIECHANOWSKIE, OSTROŁĘCKIE, BIELSKOPODLASKIE, PIOTRKOWSKIE AND ZAMOJSKIE VOIVODSHIPS HAVE NOT BEEN COVERED BY THIS DISTRIBUTION SYSTEM**

Network of Wholesalers and Retail Shops Selling WZT TVs (as for July 1991)



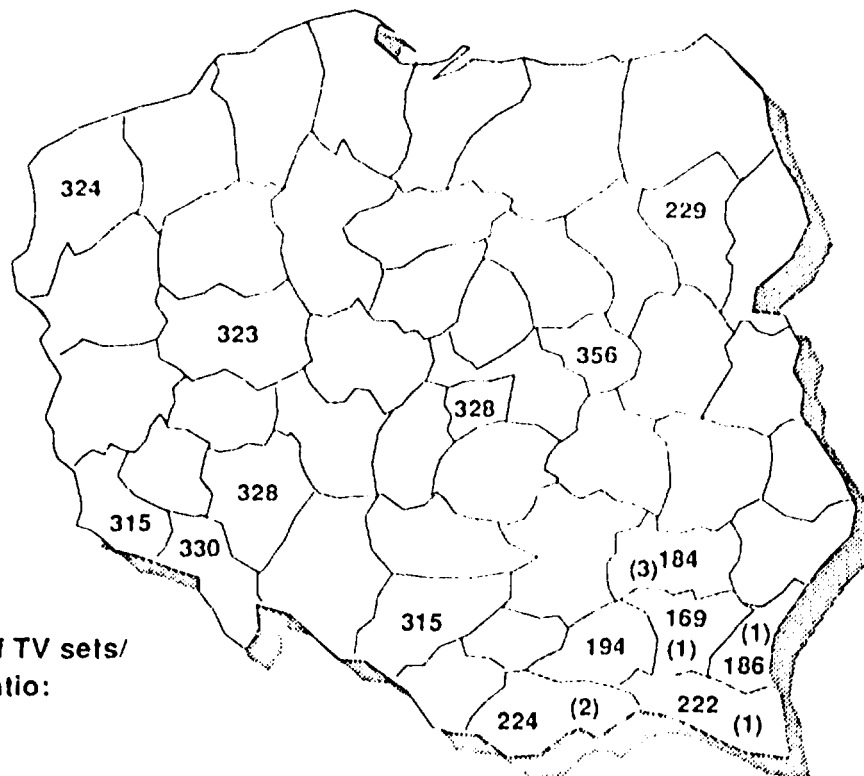
Source: B&L

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Polish TV Market... Distribution...

**COMPARISON OF WZT ELEMIS WHOLESALE STORES AND SHOPS NETWORK WITH THE LIST OF VOIVODSHIPS WITH THE HIGHEST AND THE LOWEST LEVEL OF TV SETS FOR 1000 PEOPLE LEADS TO THE CONCLUSION THAT ENTERPRISE SHOULD IMMEDIATELY INCREASE ITS SALES NETWORK IN NOWOSADECKIE, KROSNIENSKIE, PRZEMYSKIE, RZESZOWSKIE, TARNOWSKIE AND TARNOBRZESKIE VOIVODSHIPS**

Voivodships with the highest and the lowest number of TV sets for 1000 people in 1990



Average no. of TV sets/  
1000 people ratio:  
Cities 299  
Villages 211

Source: B&L

Polish TV Market... Conclusions...

**WZT ELEMIS MUST CONCENTRATE ON A WELL-DEFINED MARKET SEGMENT, ON WHICH THE COMPANY MUST REINFORCE AN IMAGE OF RELIABILITY, COMPETITIVE PRICE, AND PROXIMITY**

- WZT Elemis possesses a very important competitive advantage - vast distribution network, which, in the future, can be one of the major factors of WZT market success
- Though potential demand is very high, current economic situation in the country causes, that in 1992 supply will seriously exceed the demand and manufacturers and importers will fight severely for their market shares
- WZT Elemis products, though in the lower range of retail prices of TVs available in Poland, do not have a significant price advantage. Their design is also not competitive
- WZT Elemis should not try to attempt to strengthen its position in all segments of Polish TV market. The company has to follow a steady marketing strategy and focus on a selected segment of the market

Polish TV Market... Conclusions...

**THE FOLLOWING PANEL OF WZT PRODUCTS' STRENGTHS AND WEAKNESSES CAN HELP IN ASSESSING ITS PLACE ON THE POLISH TV MARKET AND CHANCES IN THE FUTURE**

Strengths	Weaknesses
<ul style="list-style-type: none"><li>• Extended guarantee period (18 months)</li><li>• Large after-sale service network (about 330)</li><li>• Low repair costs</li><li>• Bigger choice of operational features compared with middle class imported products</li><li>• Covering costs of transport of defected TVs within guarantee period</li></ul>	<ul style="list-style-type: none"><li>• High failure frequency within guarantee period</li><li>• Old-fashioned design (heavy, wooden case)</li><li>• Higher price than that of some foreign products</li></ul>

Source: CET Analysis

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- I INTRODUCTION
- II EXECUTIVE SUMMARY
- III POLISH TV MARKET
- IV WZT ELEMIS DIAGNOSTIC
- V STRATEGIC BUSINESS PLAN
- VI APPENDICES

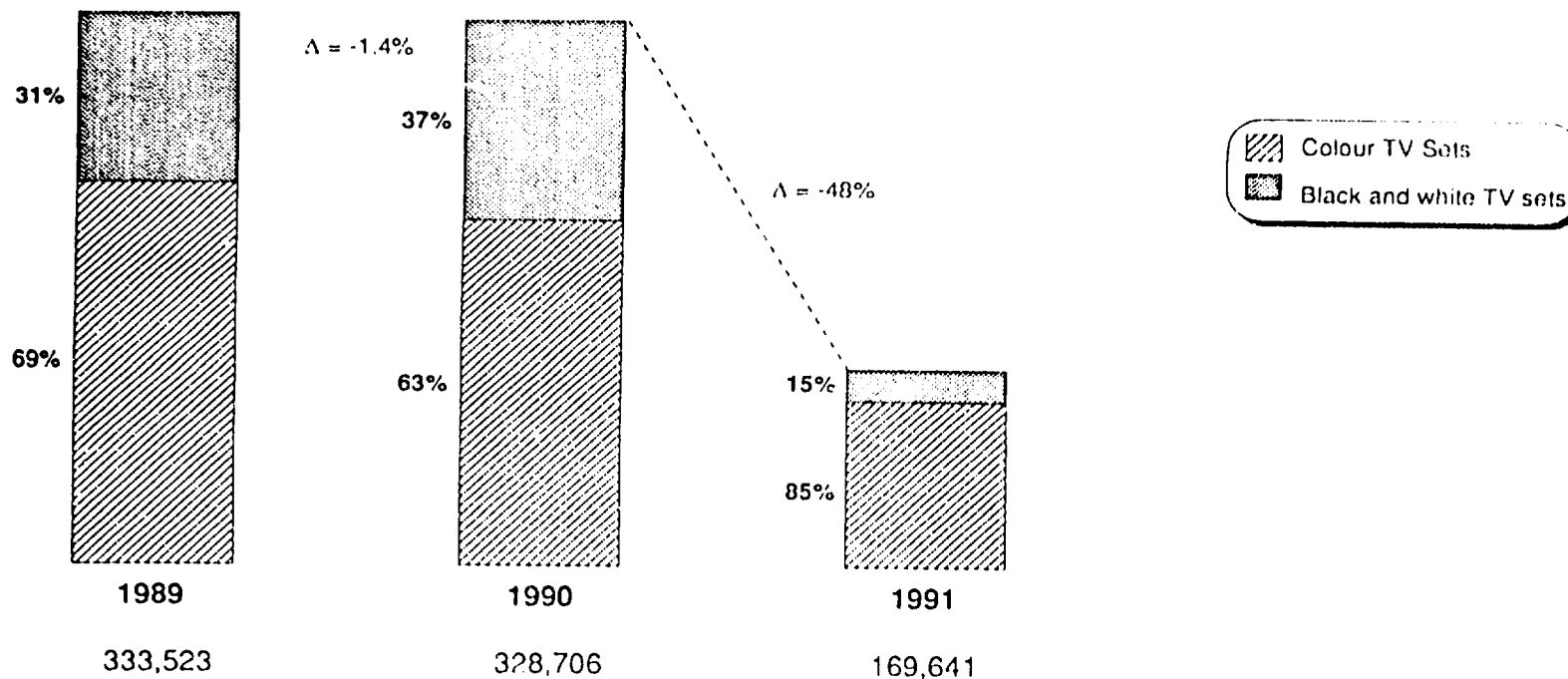
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Diagnostic Revenue... Product Mix...

### WZT POLISH MARKET SHARE HAS DECREASED, DUE TO THE INCREASING COMPETITION FROM IMPORTED TVs

Volume of Sales between 1989 - 1991  
(pcs)



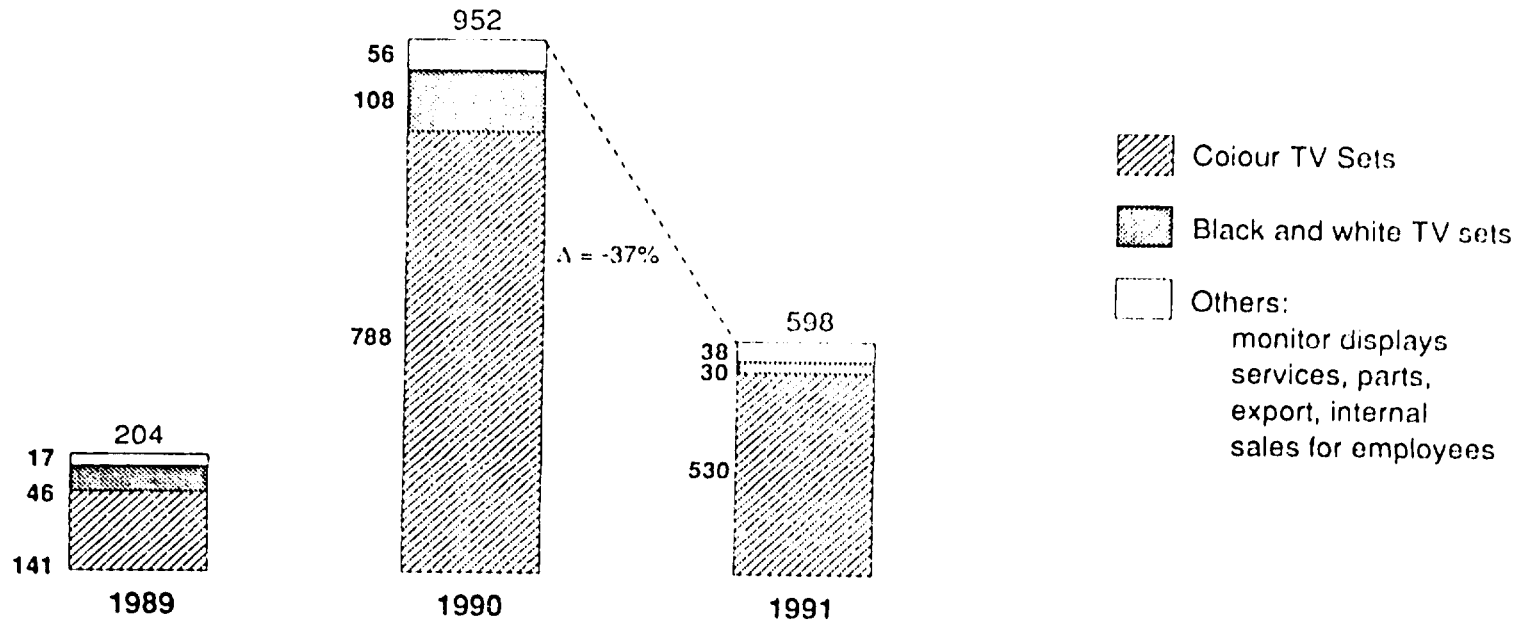
Total Number of Sold TV's:

Source: WZT Elemis, CET Analysis

Diagnostic... Revenue/Product Mix...

**THIS HAS RESULTED IN A 37% DROP IN THE VALUE OF 1991 SALES**

Value of Sales between 1989 and 1991\*  
(Bln z!)

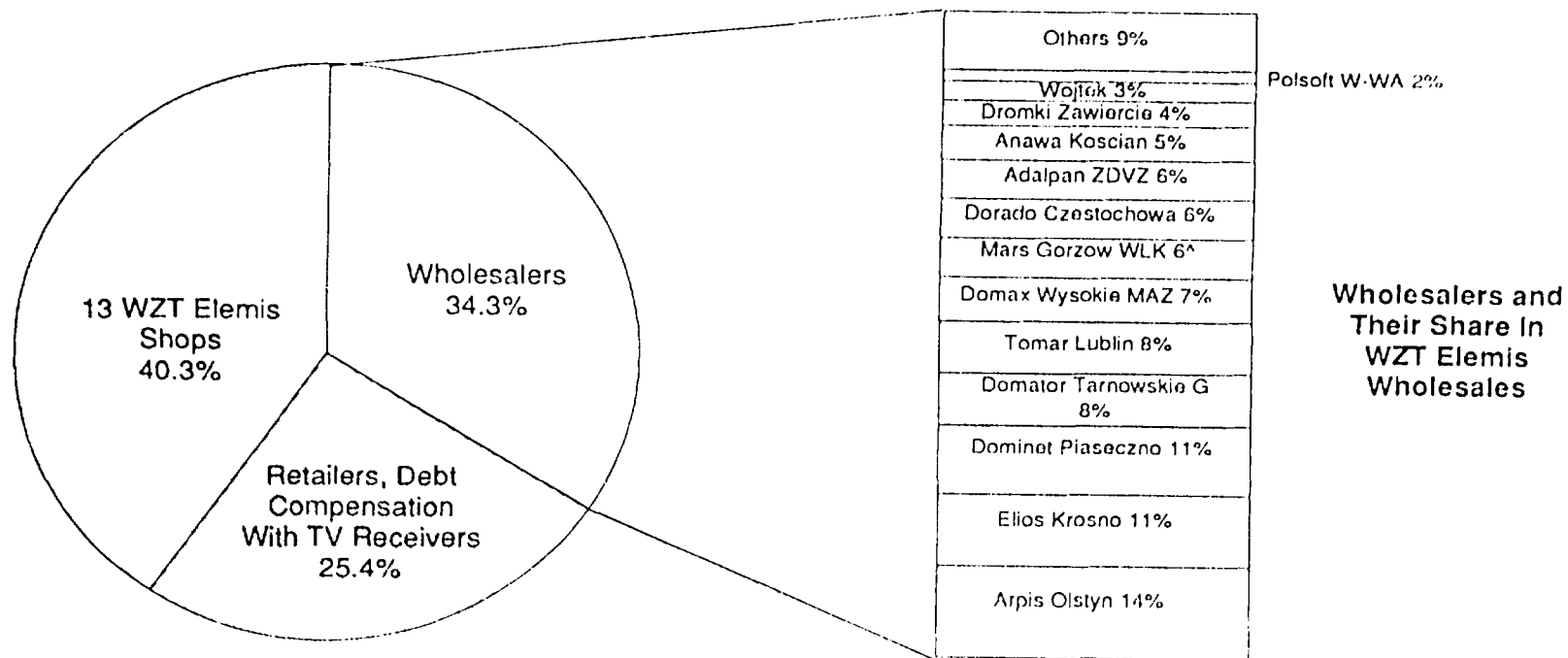


\* The 1989 and 1990 figures are distorted by the unusually high inflation rate at that time

Source: WZT Elemis, CET Analysis

Diagnostic...Revenue / Product Mix... Distribution.....

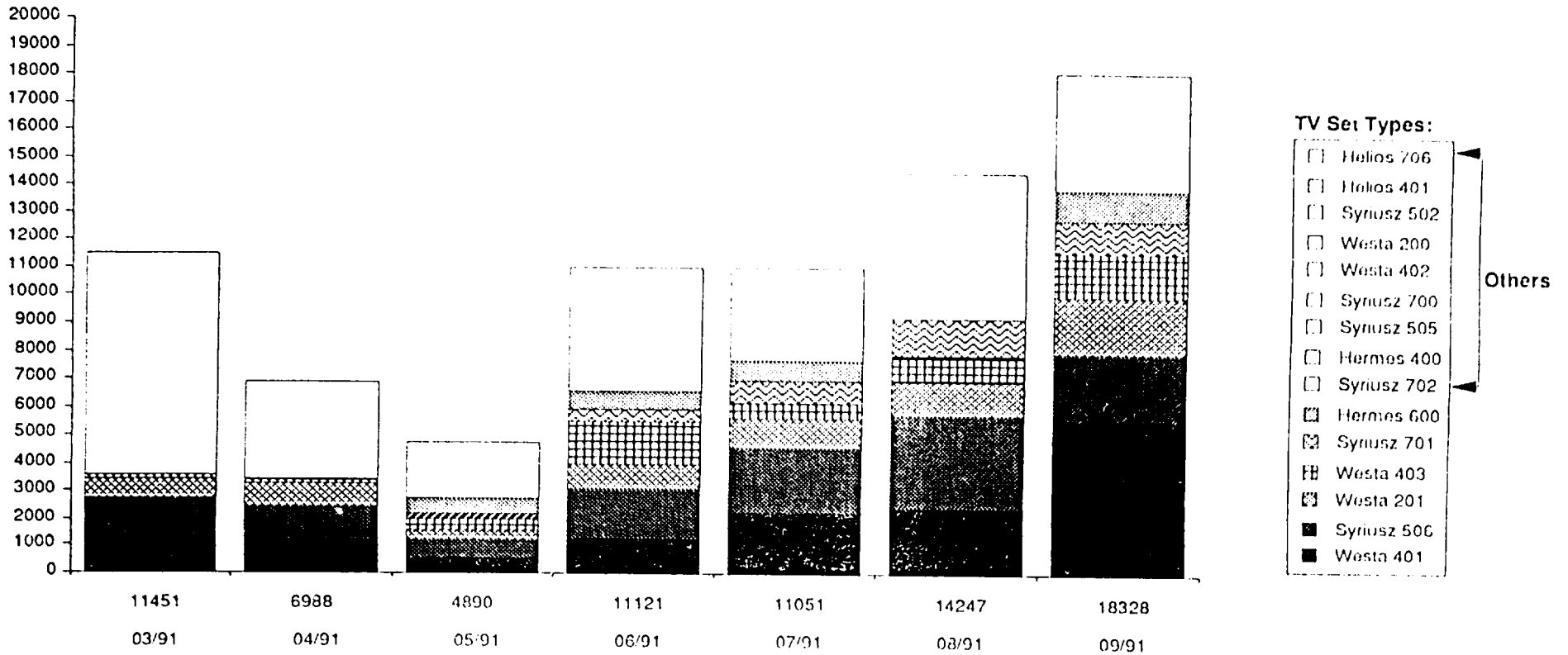
**TO INCREASE ITS SALES THROUGH WHOLESALERS WZT ELEMIS DECIDED TO DEPOSIT SOME OF ITS TV RECEIVERS IN WHOLESALER'S STORES AND AGREED FOR "AFTER SALES" TERMS OF PAYMENT. THIS MOTIVATED WHOLESALER'S INTEREST AND AS A RESULT CREATED AN EFFICIENT SALES NETWORK**



Source: WZT Elemis, CET Analysis

**WESTA 201,401 AND SYRIUSZ 506 HAVE BECOME THE BASIS OF WZT SALES IN THE LAST MONTHS OF 1991**

**Structure of WZT Products sold  
between 03.1991 - 09.1991**

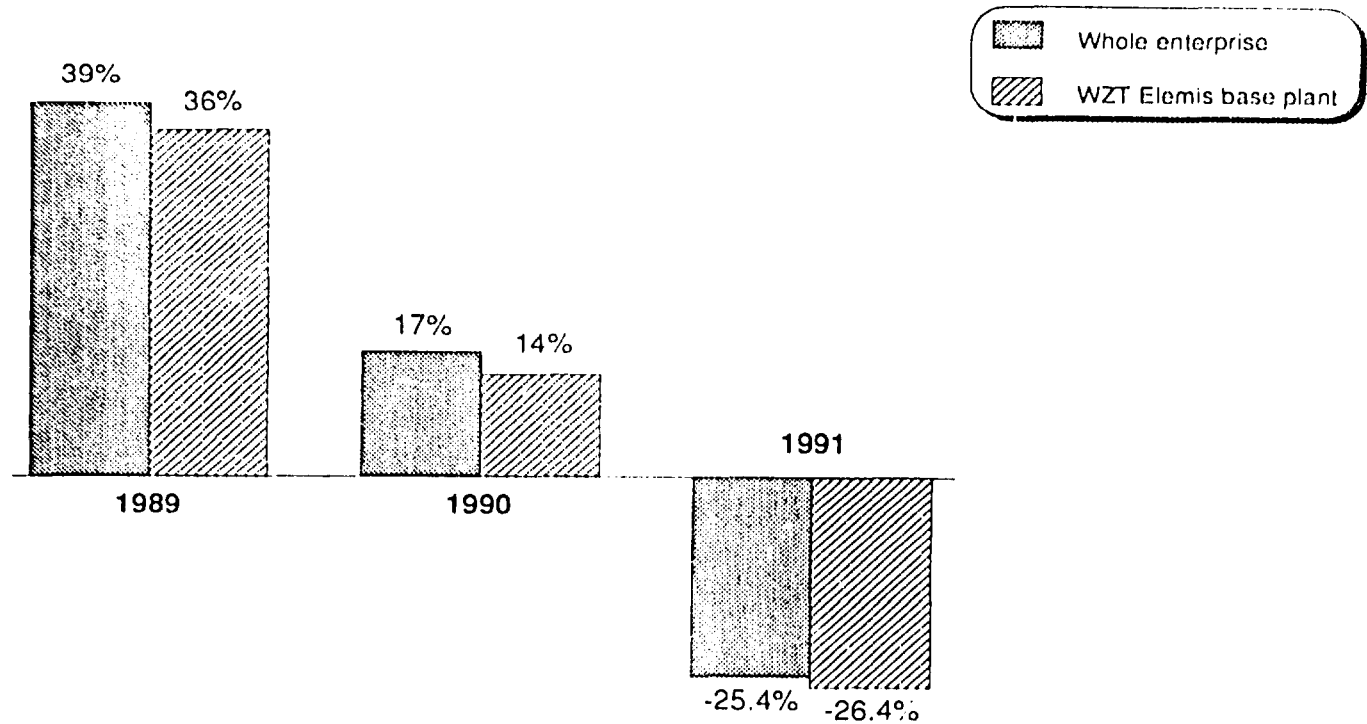


Source: WZT Elemis, CET Analysis

Diagnostic... Revenue/Product Mix...

**BEING FORCED BY THE COMPETITION TO CONSTANTLY LOWER ITS PRICES AND AT THE SAME TIME FACING HIGH PRODUCTION COSTS, WZT STARTED TO GENERATE LOSSES IN 1991**

WZT Return on Sales  
between 1989 - 1991



Source: WZT Elemis, CET Analysis

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Diagnostic... Revenue/Product Mix...

**MODERN DESIGN, OPTIONAL FEATURES LIKE REMOTE CONTROL, TXT AND, ON SCREEN DISPLAY MAKE SYRIUSZ AND WESTA MODELS THE BEST SELLING WZT TVs IN 1991**

**WZT Best Selling TV Sets in 1991 and Features**

Model	Diagonal	TXT	Remote Control	Power Consumption	Mass	Price (zł)
SYRIUSZ 506	22"	No	Yes	90W	26 kg	3.390.000
WESTA 401	20"	No	Yes	75W	24 kg	3.170.000
WESTA 201	14"	No	Yes	65W	13 kg	2.560.000
SYRIUSZ 701	26"	No	Yes	90W	30 kg	4.520.000
WESTA 403	20"	Yes + on screen display for complete control	Yes	75W	24 kg	4.500.000

Source: WZT Elemis, CET Analysis

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Diagnostic... Revenue/ Product Mix...

**WZT HAS NO CONSISTENT BRAND POLICY...**

**Current Brands used by WZT Elemis**

<b>Black and White TV's</b>
<ul style="list-style-type: none"><li>• Vela</li><li>• Cygnus</li><li>• Hermes</li></ul>

<b>Colour TV's</b>
<ul style="list-style-type: none"><li>• Westa</li><li>• Syriusz</li></ul>

Source: WZT Elemis, CET Analysis

Diagnostic... Revenue/ Product Mix...

**... IN ADDITION, WZT ELEMIS USES MODEL CODING METHODS WHICH ARE UNCLEAR AND CONFUSING FOR CUSTOMERS**

<b>Model Name</b>	<b>Code</b>	<b>Explanation</b>
<b>Westa</b>	200	14" Diagonal
	201	14" Diagonal, remote control
	401	20" Diagonal, remote control
	402	20" Diagonal, remote, TXT
	403	20" Diagonal, remote, TXT, on screen display
<b>Syriusz</b>	505	22" Diagonal
	506	22" Diagonal, remote control
	700	26" Diagonal
	701	26" Diagonal, remote control

Source: WZT Elemis, CET Analysis



**WZT Balance Sheet**  
(mln zl)

Assets	31.12.89	31.12.90	30.09.91
<b>Fixed assets</b>			
Tangible	8568	177671	182305
Intangible	11737	8243	10438
Capital expenditure	5531	17986	24764
Share in others	-	-	-
<b>Total fixed assets</b>	25836	203900	217507
<b>Current Assets</b>			
Stocks	53345	174757	160402
Accounts receivable	45438	90013	78107
Cash	10834	14364	8312
Deferred charges	-	2010	5223
<b>Total current assets</b>	109617	281144	252044
<b>Total Assets</b>	135453	485044	469551

Liabilities	31.12.89	31.12.90	30.09.91
<b>Capital</b>			
Enterprise fund	15740	172460	173677
Founder fund	2411	11509	10984
Workers fund	462	582	4030
Accumulated income	-	79	19651
<b>Total equity</b>	18613	184630	208342
<b>Short term liabilities</b>			
Accounts payable	72727	204560	242952
Other payable	-	-	-
Short term debt	6540	55070	66647
Short term loan	-	-	-
Overdraft	-	-	14875
Deferred charges	5	-	-
<b>Long term liabilities</b>			
Long term debt	4359	3399	3219
Long term loan	10441	12462	12462
Deferred income	119	-	-
Reserves	6	289	390
Non distributed income	22643	24634	(79336)
<b>Total liabilities</b>	116840	300414	261209
<b>Total</b>	135453	485044	469551

Source: WZT Elemis, CET Analysis

Diagnostic... Financial Performance...

**WZT Income Statement**  
(mln zl)

	<b>31.12.89</b>	<b>31.12.90</b>	<b>31.12.91</b>
Sales	211543	978550	832672
Sales Tax	(44662)	(195482)	(115334)
Cost of Sales	(96044)	(621246)	(758134)
Gross Margin	70837	(161822)	(40796)
Less Depreciation	409	6443	19127
Operating Income (loss)	70428	155379	(59923)
Less Interest Paid	2920	39325	41742
Other Income (loss)	8816	(25793)	(49136)
Income (loss) before Tax	76324	90261	(150801)
Dividend	-	-	(2208)
Income Tax	(30902)	(44820)	-
Excessive Wages Tax	(2685)	(1843)	-
Other	-	-	-
<b>Total</b>	<b>42737</b>	<b>43598</b>	<b>(153009)</b>

Source: CET Analysis

Diagnostic... Financial Performance...

**ALTHOUGH WZT ELEMIS MANAGED TO IMPROVE ITS LIQUIDITY AND LEVERAGE POSITIONS, IT IS STILL NOT ABLE TO MEET ITS CASH NEEDS.**

### WZT Elemis Ratio Analysis

	31.12.89	31.12.90	30.09.91
Current Ratio	0.94	0.94	0.96
Debt-To-Equity	6.28	1.63	1.25
Asset Turnover Ratio	156%	202%	177%
Days Inventory	202	102.7	77.2

Source: WZT Elemis, CET Analysis

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Diagnostic... Financial Performance...

## WZT IS HEAVILY INDEBTED WITHIN STATE BUDGET, GOVERNMENTAL AGENCIES, BANKS

### WZT Elemis Debt towards State Budget, Governmental Agencies, Banks (31.12.91, Mln ZL)

State Budget:	98604
Governmental Agencies:	12462
Industry Development Agency	12462
Bank Creditors:	70812
PBK Warszawa	70812
Total	181878

Source: WZT Elemis, CET Analysis

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**ALL PRESENT WZT TRANSACTIONS WITH OTHER ENTERPRISES ARE PAID IN CASH**

**WZT Commercial Receivables / Payables**  
 (Above 1000 mln zł)  
 (31.12.1991)

<b>WZT RECEIVABLES</b>	
Tomar Lublin	4905
Doredo Czestochowa	3999
Avia Koscierzyn	3993
Telmet Nasielsk	2517
Droma Zawiercie	2400
Tomi Market Torun	1958
Domax	1806
Bomis Warszawa	1693
Elios Krosno	1675
Diora Dzierzoniow	1503
Arpis Olsztyn	1216
Zaklad Wegorzewo	1148
Dorhan Starogard Gdanski	1131
Hurtownia Gizycko	1039
Quatro Plonsk	1031
<b>TOTAL RECEIVABLES</b>	<b>75339</b>

<b>WZT PAYABLES</b>	
THP Unitra	19897
Polcolor SA	7725
Zatra Teresin	5424
Przedsiębiorstwo Energetyki Ciepłej	4219
Biazet Bialystok	3737
Urząd Miasta	2511
Miflex Kutno	2405
Intercell Ostroleka	2188
Toral Torun	1530
Tewa Warszawa	1455
Huta Aluminium Torun	1325
Klub Sportowy Polcolor	1286
<b>TOTAL PAYABLES</b>	<b>102287</b>

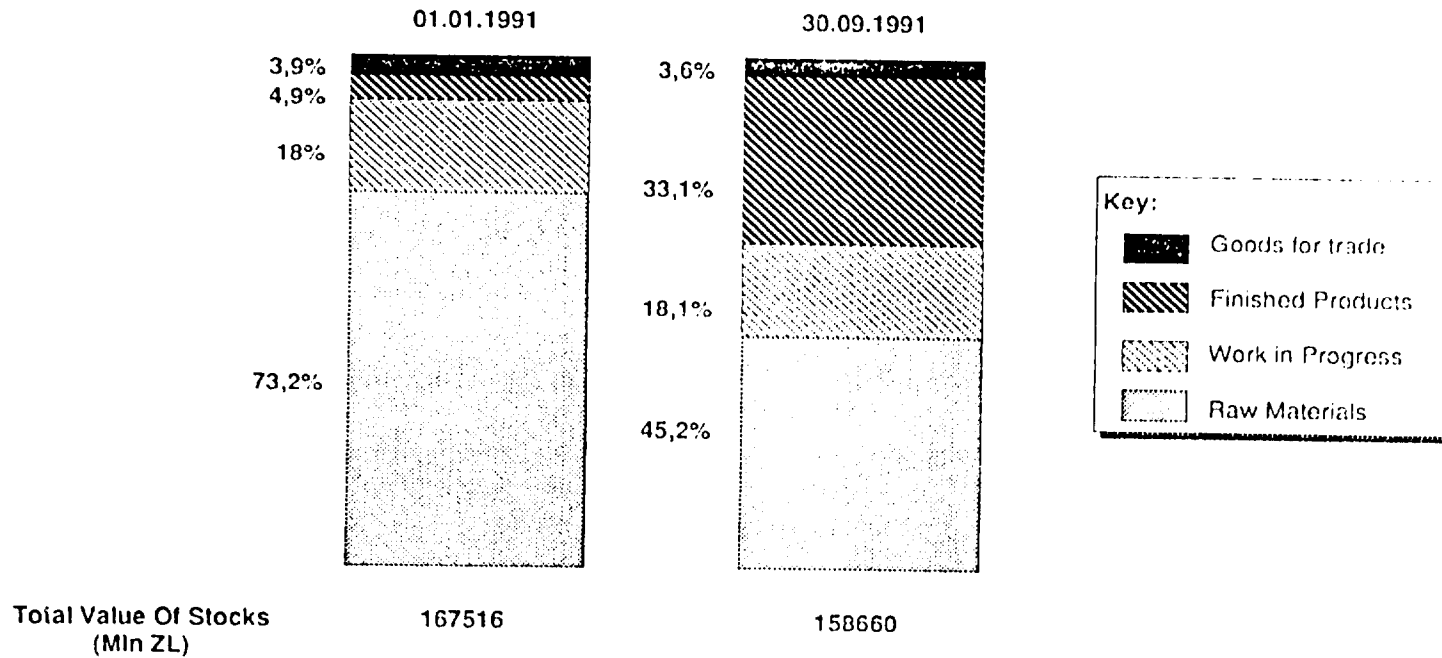
All figures mentioned above are overdue

Source: WZT Elemis, CET Analysis

Diagnostic... Financial Performance...

**WITHIN 1991 WZT SHARPLY REDUCED STOCKS OF RAW MATERIALS. AT THE SAME TIME STOCKS OF FINISHED PRODUCTS CONSIDERABLY INCREASED**

### WZT Elemis Inventories Breakdown



Source: WZT Elemis, CET Analysis

Diagnostic... Financial Performance...

**UNADAPTED MANAGEMENT POLICY IN THE EARLY 80's HAS LAUNCHED THREE INVESTMENTS THAT ADD TO WZT'S BURDEN. STILL SOME CASH FLOW SHOULD POSSIBLY BE GENERATED FROM THE SALE OF THESE FACILITIES**

Name of Investments	Year Of Beginning	Level Of Achievement	Planned Cost (ZL 000's)	Present Condition
Carpentering Facility	1982	65%	7,589,661	Without technical equipment
Canteen	1983	35%	4,917,395	Without technical equipment
TV Sets Assembly Facility	1977	40%	320,814,900	Without technical equipment

Source: WZT Elemis, CET Analysis

Diagnostic... Financial Performance...

**WZT ELEMIS HAS SHARES IN OTHER COMPANIES WORTH 13182 MLN ZL. SELLING THESE SHARES CAN GENERATE EXTRA INCOME, WHICH CAN BE USED FOR REDUCING WZT DEBT BURDEN**

**WZT Shares in Other Companies and Organisations**

	Start Up Capital (Zl Min)	WZT share as % of all shares	Real Value of 1 share (Zl Min)	Total Value of WZT Shares (Zl Min)
Zaklad Podzespolow Teleelektronicznych Demko. Sp. z o.o.	150	99%	4.2	4143
Galeria Wzornictwa Sp. z o.o.	38	15.78%	15.7	94.1
Bank Wlasnosci Pracowniczej S.A. (Bank of Workers' Property)	50,000	2%	10.7	1069
Agencja Elektroniki i Elektronizacji S.A. (Electronics Development Agency)	500	4.4%	10.2	224.4
Centrum Rozwojowo-Worozeniowe Telesystem Sp. z o.o. (Development and Research Centre Telesystem Ltd)	102	39.2%	8.5	339.6
Zaklad Rdzeni Magnetycznych Ferpol Sp. z o.o. (Magnetic Cores Manufacturer Ferpol Sp. z o.o.)	6750	60%	1.1	6597
Przedsiębiorstwo Budownictwo Telpom Sp. z o.o. (Construction Company Telpom Co. Ltd)	6	33.33%	0.13	1.3
THP Unitra (Trading & Manufacturing Company Unitra)	19500	1.27%	1.4	714



Diagnostic... Organisation/ Management...

**IN ORDER TO BETTER UNDERSTAND AND ANALYSE THE ORGANISATIONAL STRUCTURE AS WELL AS COST AND ASSET ALLOCATION, CET HAS OUTLINED THE FOUR MAIN DIVISIONS IN WZT'S BASE PLANT**

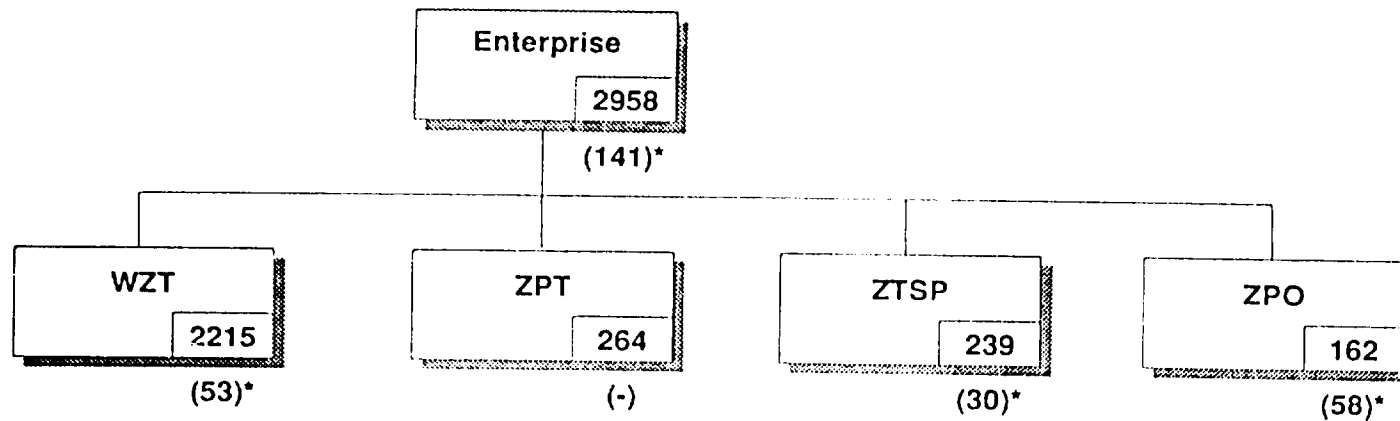
<b>Support Division</b>	<b>TV Heads Production Division</b>	<b>Assembly Division</b>	<b>TV Boxes Production Divisions</b>
<ul style="list-style-type: none"><li>• Mechanical Departments</li><li>• Paint Shop</li><li>• Plastic moulding and injection</li></ul>	<ul style="list-style-type: none"><li>• Electrical Department</li><li>• Assembly and tuning of TV heads</li><li>• TV heads service</li><li>• Sub-assembly departments</li></ul>	<ul style="list-style-type: none"><li>• Assembly and tuning of colour TV sets</li><li>• Assembly and tuning of black and white TV sets</li><li>• Electronic Department</li><li>• Dispatcher</li><li>• Maintenance Department</li></ul>	Zabraniecka wooden boxes plant

Source: WZT Elemis, CET Analysis

Diagnostic... Organisation and Managment...

**WZT IS THE BIGGEST DEPARTMENT OF THE WHOLE ENTERPRISE AND THE LINK BETWEEN IT AND THE REST OF THE DEPARTMENTS IS RAPIDLY DECREASING**

Organisation Chart and Structure of Employment (31.12.1991)



\* Under group lay-offs

Source: WZT Elemis, CET Analysis

Diagnostic... Management and Organisation...

**WZT ORGANISATIONAL STRUCTURE IS TOO COMPLICATED, DOESN'T SUIT ITS PRESENT POTENTIAL AND SHOWS SIGNIFICANT SPARE CAPACITY, PARTICULARLY WITHIN NON PRODUCTIVE DEPARTMENTS**

WZT Organisational Chart  
(31.12.91)

General Manager Section	
General Manager	1
Quality Control	70
Security Guards	62
Administration	61
Health Center	20
Holiday Resorts	19
Training Workshop Facilities	14
<b>TOTAL</b>	<b>247</b>

Technical Manager Section	
Technical Manager	1
Construction Office	155
Maintenance Workers	125
Tool-room Facility	80
Investment Department	11
<b>TOTAL</b>	<b>372</b>

Production Manager Section	
Production Manager	1
TV Sets Assembly Lines	600
TV Heads Production	300
TV Boxes Department	180
Supply & Stocks Workers	106
Injection Moulding Facility Workers	70
Stamp Facility	36
Plating Facility	30
Production Planning	13
Varnishing Facility	8
<b>TOTAL</b>	<b>1344</b>

Commercial Manager Section	
Commercial Manager	1
Shops & Service Facilities	151
Market Analysis Section	8
Foreign Cooperation Department	6
<b>TOTAL</b>	<b>166</b>

Financial Manager Section	
Financial Manager	1
Computing Center	29
Accountancy Section	33
Employment & Wage Section	23
<b>TOTAL</b>	<b>86</b>

Direct production: 885  
Indirectly productive: 1330

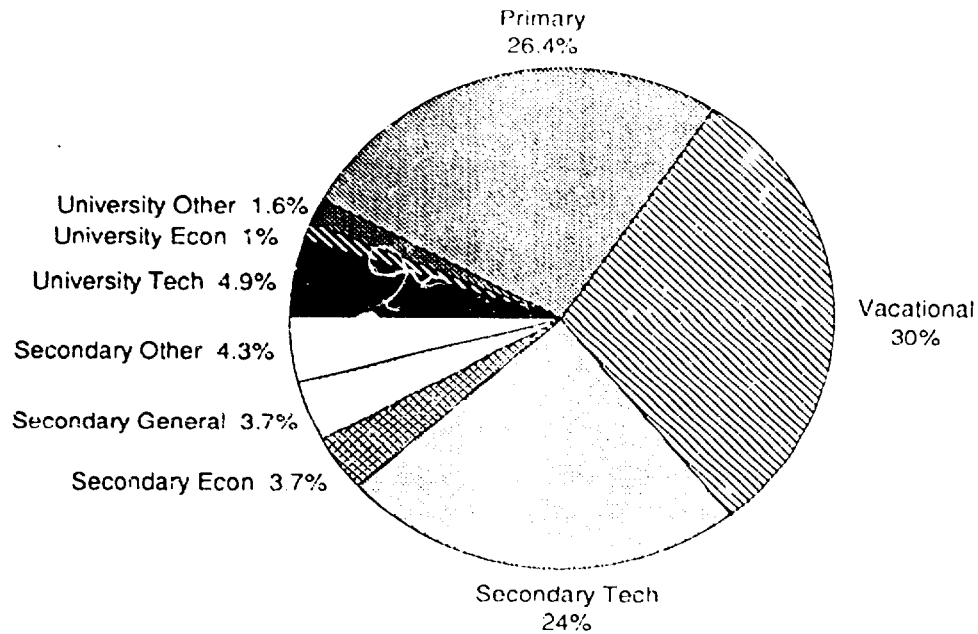
**GRAND TOTAL: 2215**

Source: WZT Elemis, CET Analysis

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**MAJORITY OF WZT WORKFORCE HAS PRIMARY OR VACATIONAL EDUCATION AND IS ABOVE 36 YEARS OLD**

**WZT Employees Education Structure**



**WZT Age Structure**

Age	Number	%
18-25	307	13
26-35	596	27
36-45	862	39
46-50	196	9
51-60	227	10
61+	27	2
<b>Total</b>	<b>2215</b>	<b>100</b>

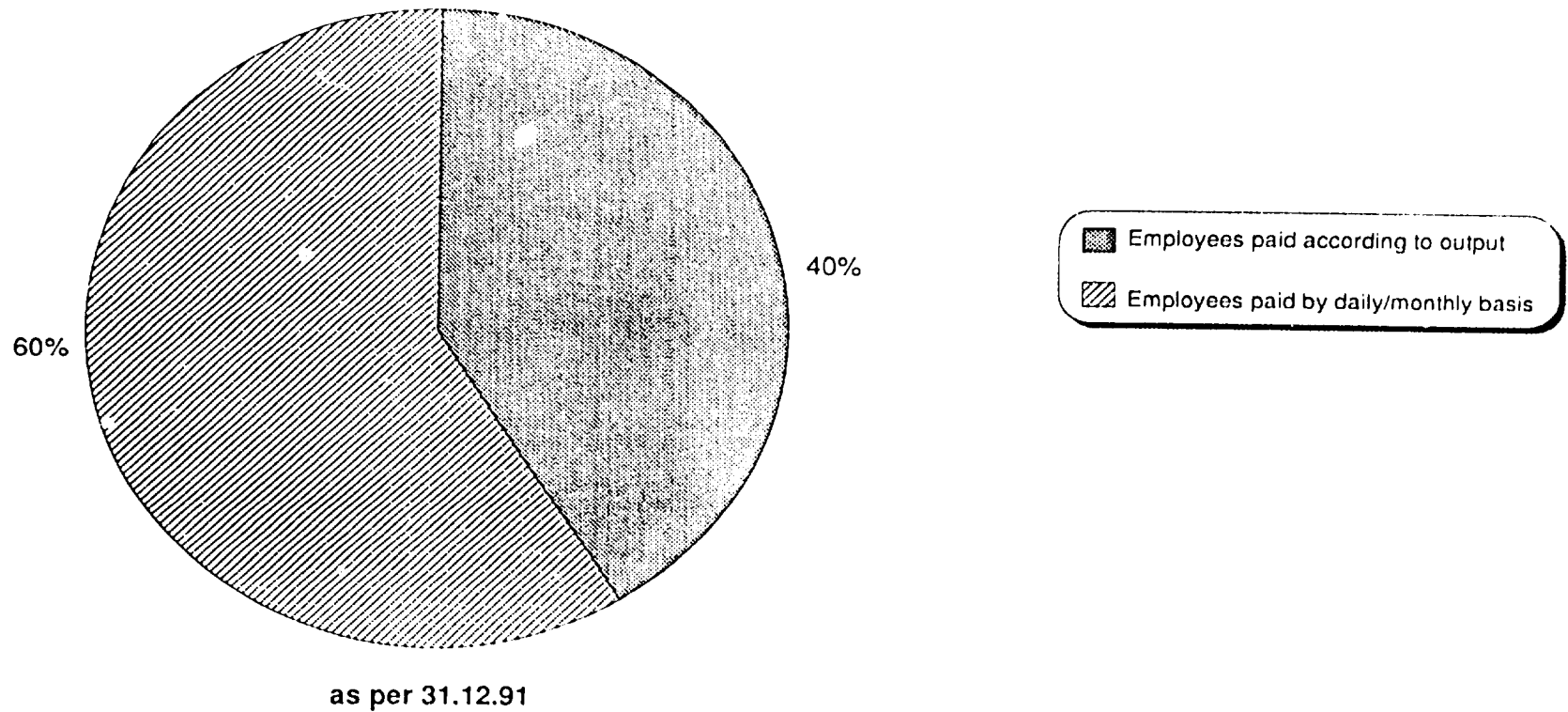
**WZT Employees' Gender**

Gender	Number	%
Male	1274	58
Female	941	42
<b>Total</b>	<b>2215</b>	<b>100</b>

Source: WZT Elemis, CET Analysis

Diagnostic... Organisation and Management...

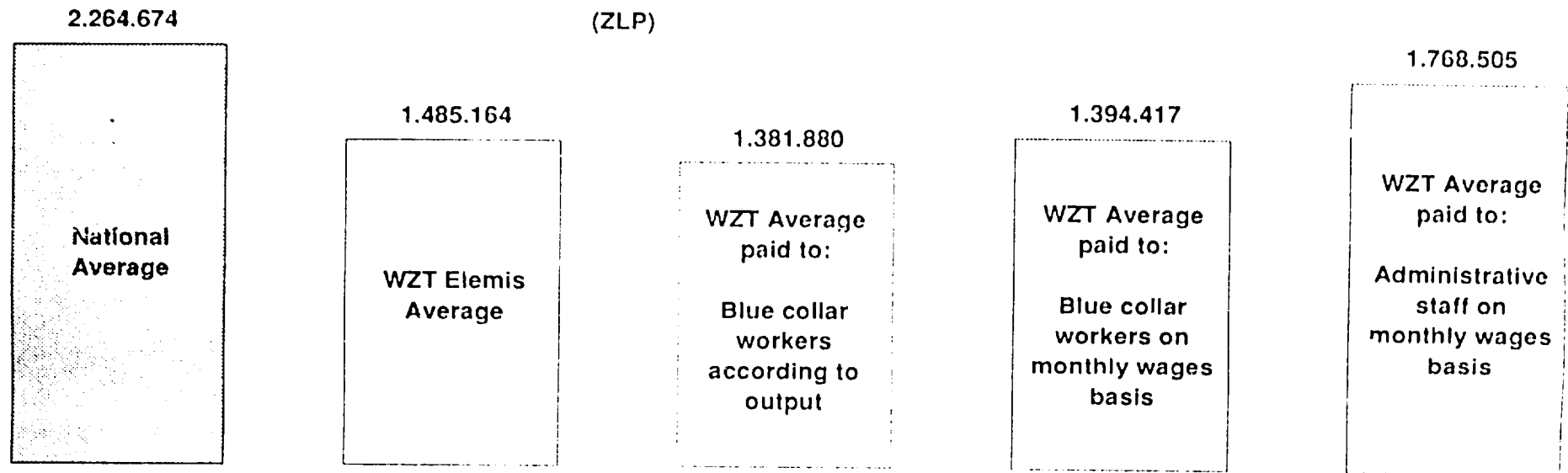
**WZT ELEMIS PAYS A LARGE NUMBER OF ITS EMPLOYEES ACCORDING TO OUTPUT. THIS OCCURS MAINLY IN THE DIRECT PRODUCTION DEPARTMENTS. THIS SYSTEM CAUSES CONFLICTS**



Source: WZT Elemis, CET Analysis

Diagnostic... Organisation and Management...

## PRESENT WZT ELEMIS EMPLOYEE'S SALARIES ARE WELL BELOW THE NATIONAL AVERAGE



as for 31.12.1991

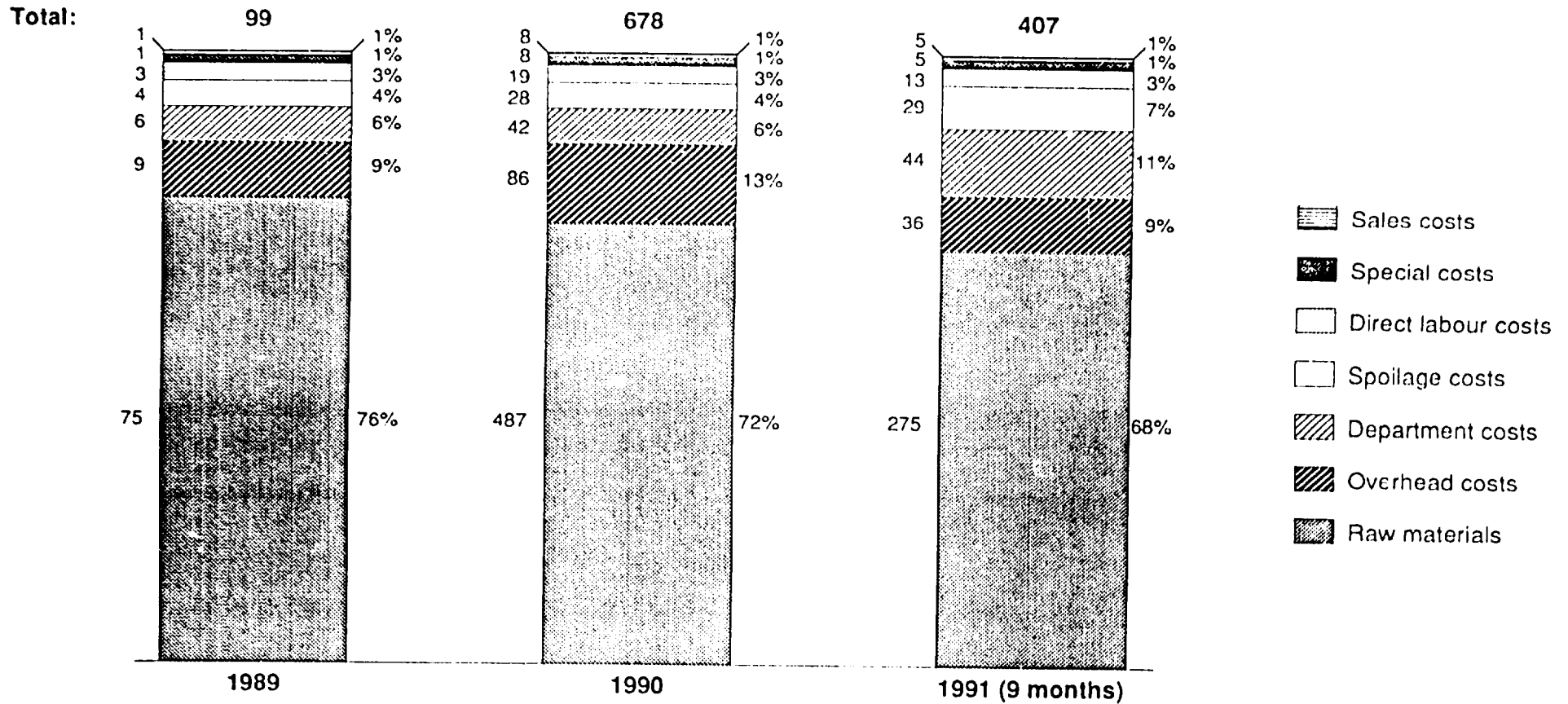
Source: WZT Elemis, CET Analysis

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Diagnostic... Cost...

**ALTHOUGH RAW MATERIALS CONSTITUTE THE LARGEST COST COMPONENT, SAVINGS MAY NEED TO BE MADE IN DEPARTMENT, OVERHEAD AND SPOILAGE COSTS**

WZT Elemis Overall Cost Breakdown  
(bln zl)

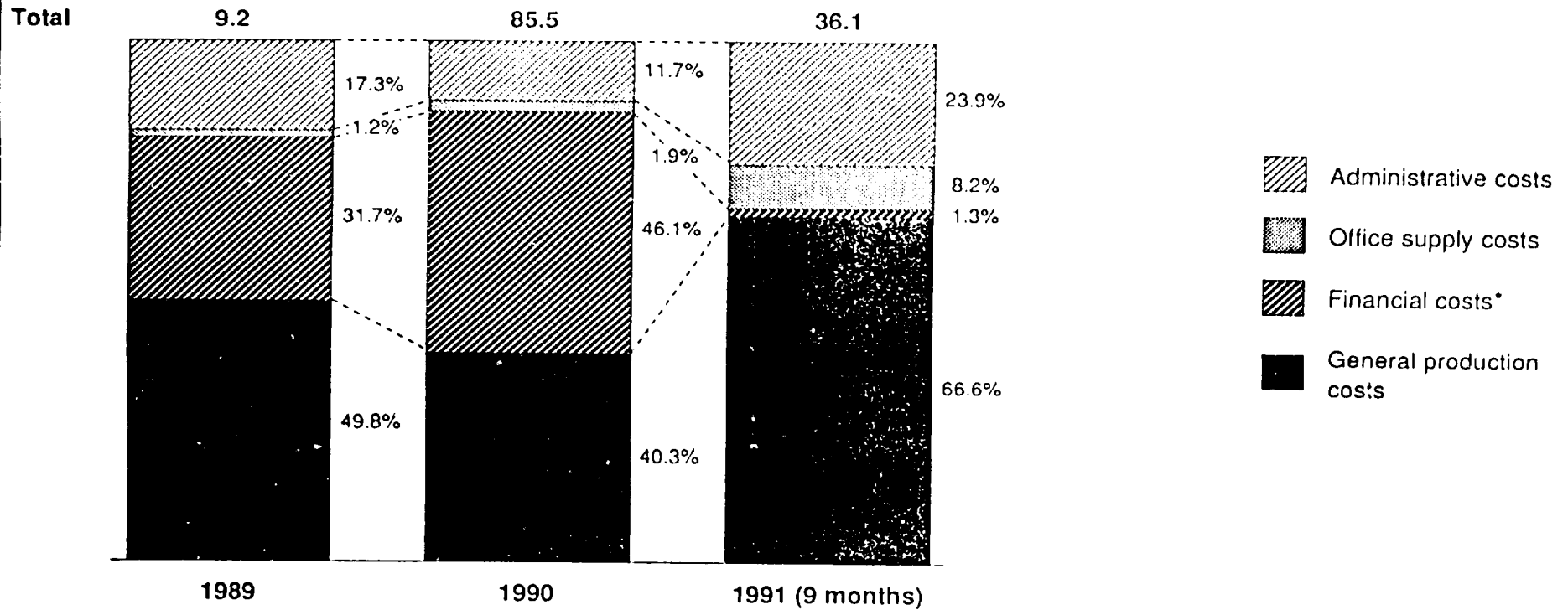


Source: WZT Elemis, CET Analysis

Diagnostic... Costs...

## GENERAL PRODUCTION COSTS CONTRIBUTE TO THE BASIC PART OF THE OVERHEAD COSTS STRUCTURE IN WZT

Overhead Cost Structure in WZT in 1989 - 91  
(BLN ZL)



\* no financial cost in 1991

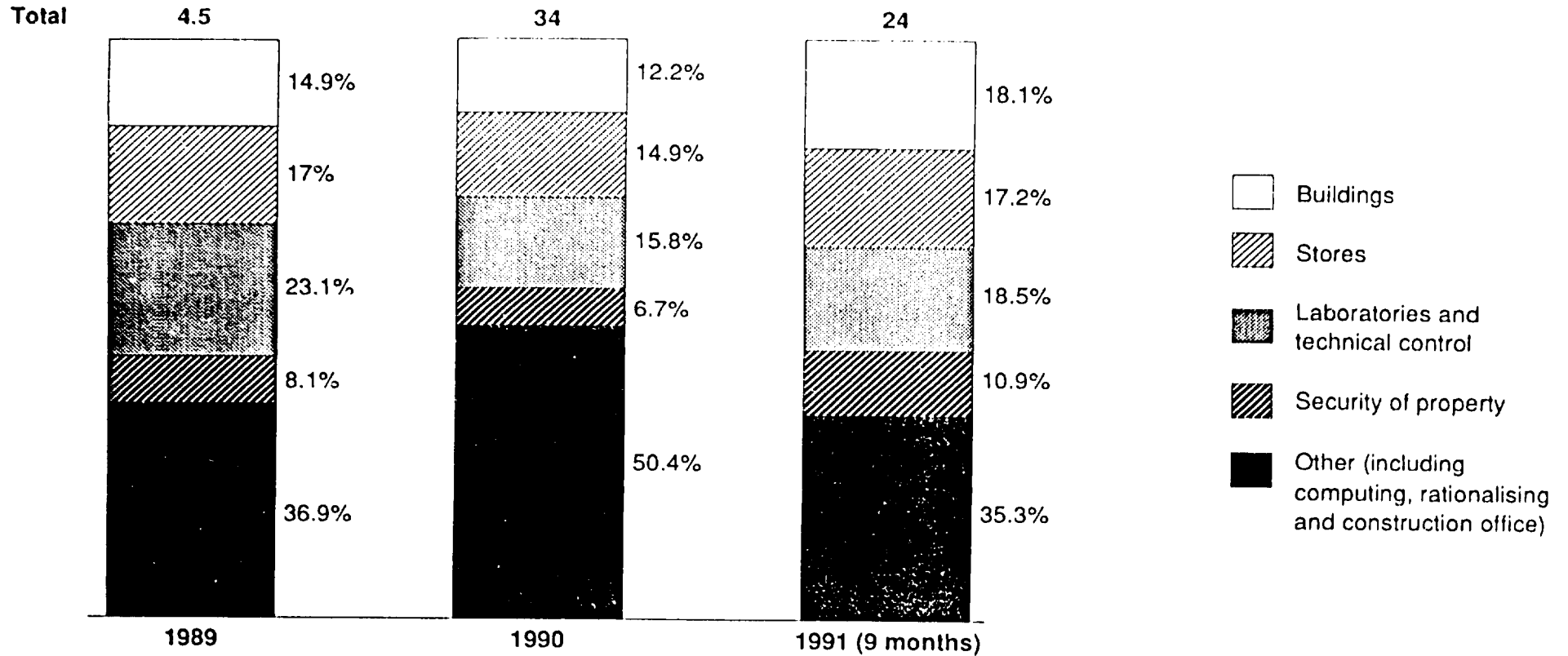
Source: WZT Elemis, CET Analysis



Diagnostic... Costs...

**WITHIN GENERAL PRODUCTION COSTS MAIN POSITIONS BELONG TO BUILDINGS, STORES, LABORATORIES AND TECHNICAL CONTROL**

**General Production Costs Breakdown  
(BLN ZL)**



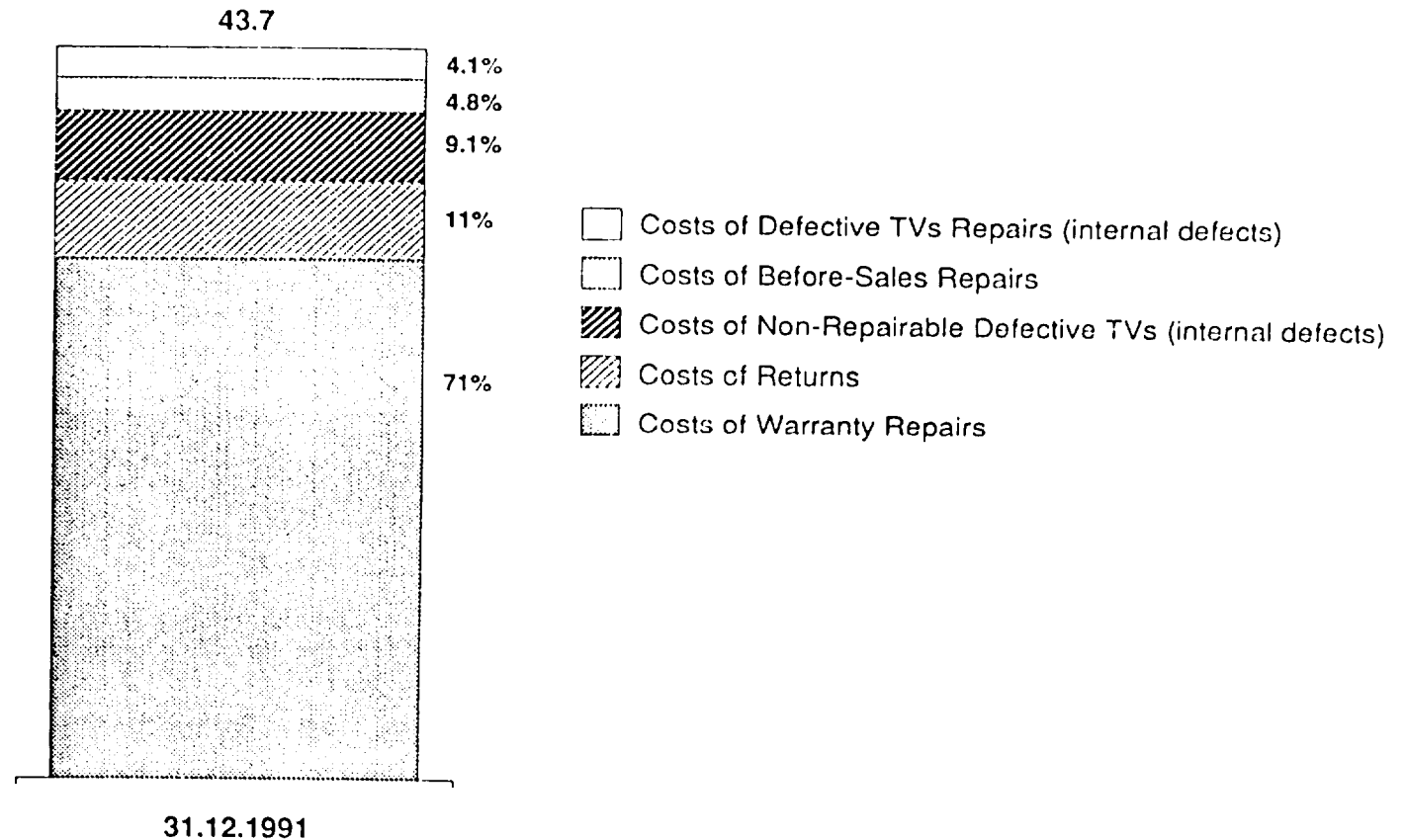
Source: WZT Elemis, CET Analysis

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Diagnostic... Cost...

**TOTAL COSTS ASSOCIATED WITH TV DEFECTS IN 1991 AMOUNTED TO ZL 44 BLN - ALMOST A HALF OF WZT'S DEBT TOWARDS ITS SUPPLIERS**

**Breakdown of Total Costs Associated with TV Defects  
(Zl Bln)**

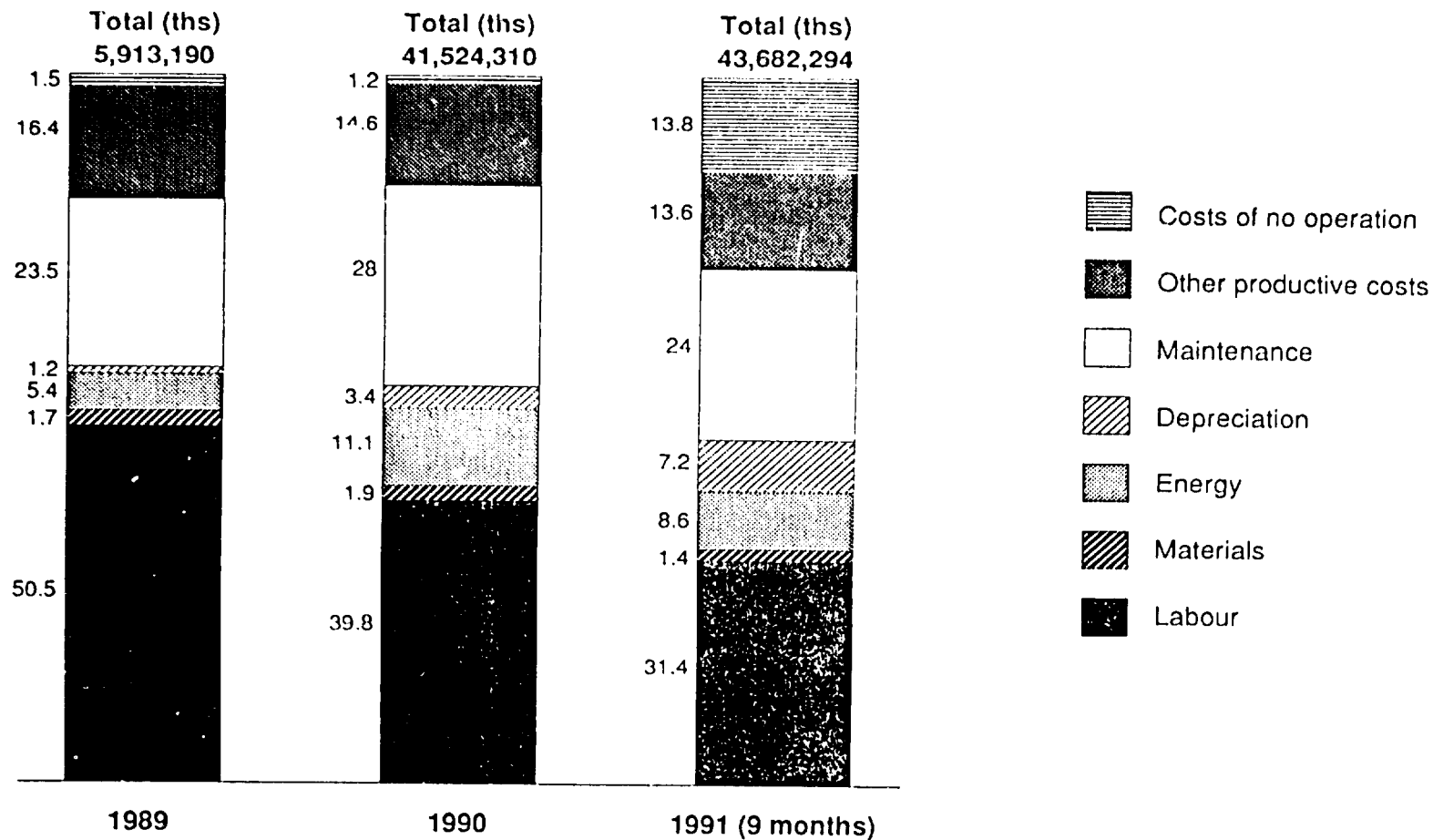


Source: WZT Elemis

Diagnostic... Costs...

**IN 1991 COSTS OF NO OPERATION WITHIN PRODUCTION DEPARTMENTS HAVE RISEN UP TO 14% OF ALL ENTERPRISE COSTS**

**WZT Elemis Production Departments Cost Breakdown**



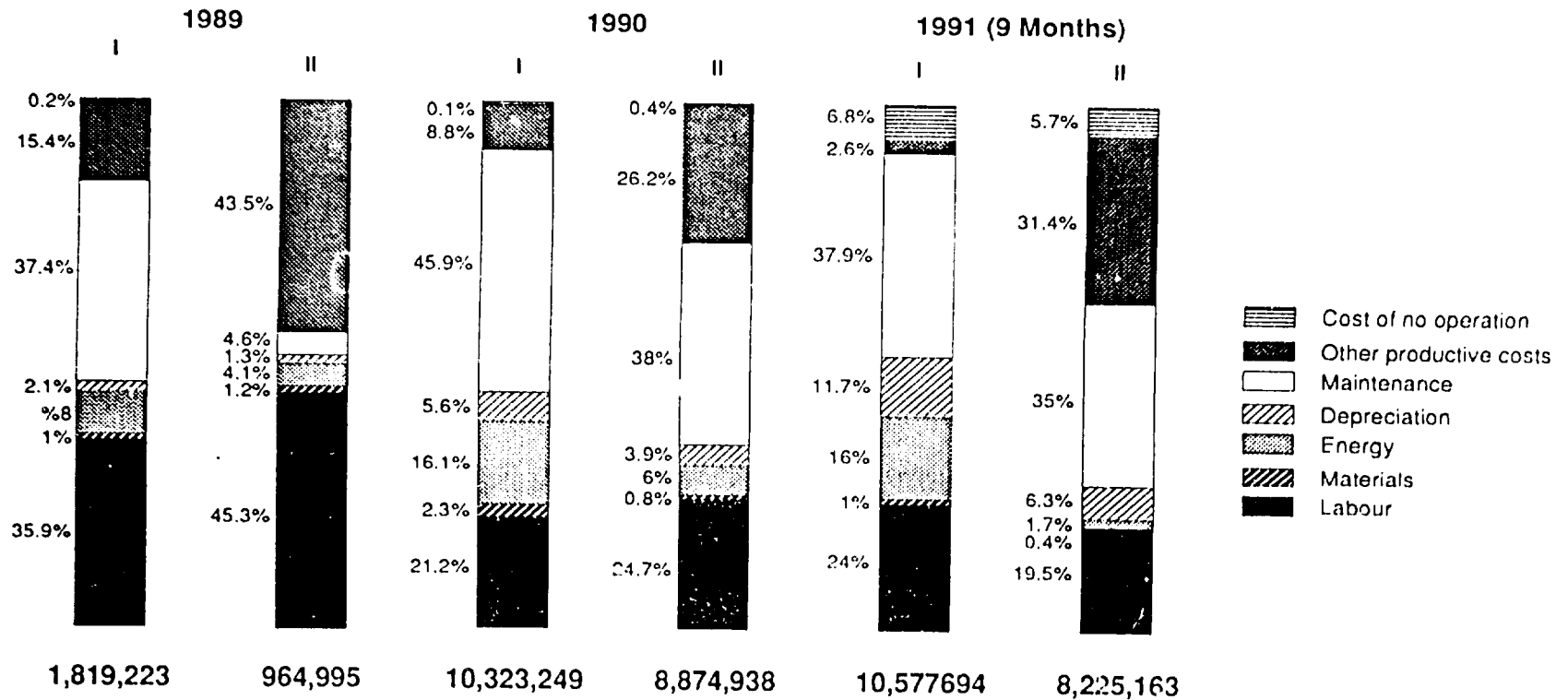
Source: WZT Elemis, CET Analysis

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Diagnostic... Costs...

AS THE RESULT OF REDUCED OUTPUT, COSTS OF NO OPERATION AND MAINTENANCE IN SUPPORT ACTIVITY DEPARTMENT AND PRODUCTION OF TV BOXES DEPARTMENT DRAMATICALLY INCREASED, AT THE SAME TIME COST OF LABOUR AND MATERIALS SHARPLY DECREASED

Department Costs Breakdown



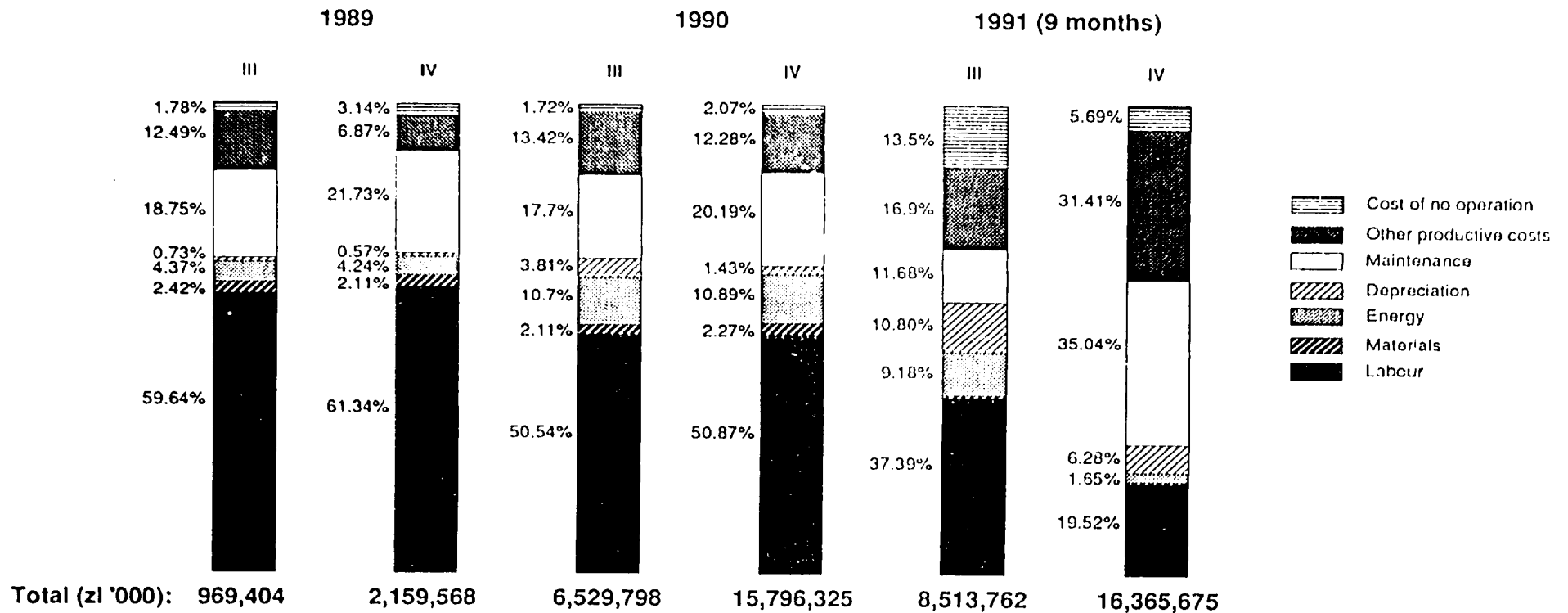
I Support activity  
II Production of TV Boxes

Source: WZT Elemis, CET Analysis

Diagnostic... Costs...

**THE SAME TRENDS CAN BE OBSERVED IN THE DEPARTMENTS OF TV HEADS PRODUCTION AND TV ASSEMBLY LINE**

Department Costs Breakdown



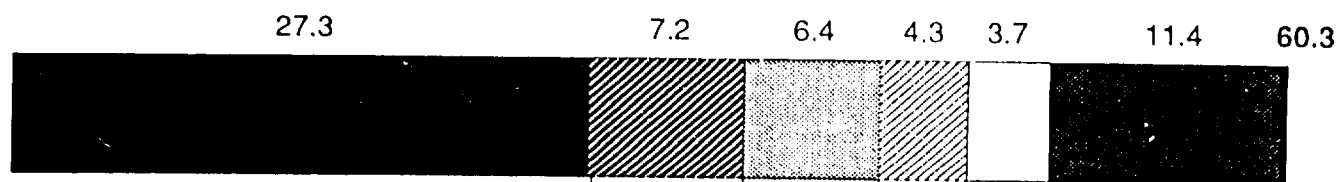
III = Production of TV Heads  
IV = TV assembly lines

Source: WZT Elemis, CET Analysis

Diagnostic... Costs...







**THE VALUE OF KEPT STOCK 'S VERY HIGH. MORE THAN 50% OF ALL MATERIALS IN SUPPORT, METAL AND WOOD STORES HAVE NOT BEEN USED FOR AT LEAST 6 MONTHS**

**WZT Raw Materials and Components Stock Breakdown**  
(mld zł)



**% of Materials Not Used and Present in the Store Rooms...**

... for 3 months	11%	0.5%	40%	31%	31%
... for 6 months		0.4%	29%	22%	28%
... for 9 months			21%	16%	17%
... for 12 months			8%	12%	2%

-  Electronic Components Store Room
-  TV Tubes and Boxes Stores
-  Support Store
-  Metal Store
-  Wood Store
-  Others

as per 01.11.91

Source: WZT Elemis, CET Analysis

Diagnostic...Costs...Materials...General Assumptions...

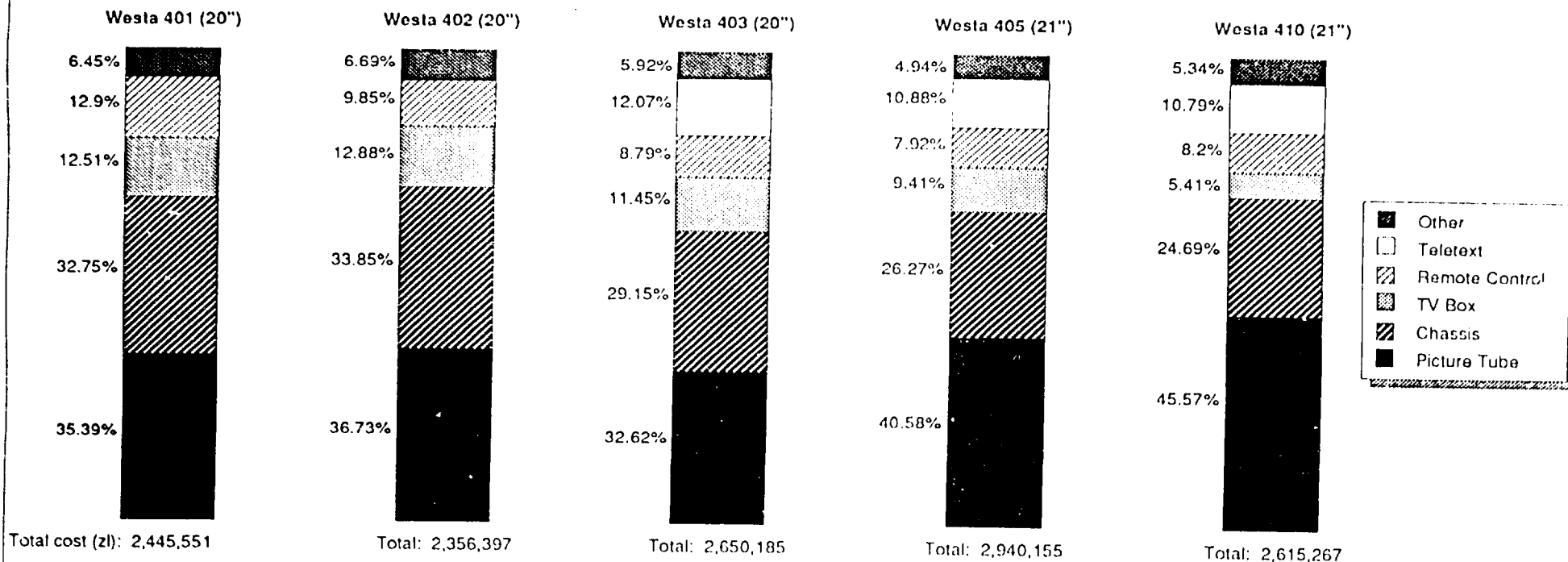
**THE PROLONGATION OF WZT'S ACTIVITY WOULD HAVE TO BE ACCOMPANIED BY A SHARP REDUCTION OF COSTS, TOGETHER WITH THE NARROWING OF THE PRODUCT RANGE**

- Costs of materials in each TV model manufactured in WZT Elemis constitute 65-70% of all costs.
- Costs of materials in each TV sets can be divided into 6 main categories (picture tube, chassis, TV box, remote control, TXT, other). Cost structure of all WZT models will be analysed within this structure
- There are 2 main generations of TV sets manufactured in WZT Elemis, Westa an Syriusz with different sizes of screen and features
- Westa 401; 403 and Syriusz 505; 506 are now the most popular WZT products
- We shall also present the cost structure of Westa 405 and 410, that are to become Elemis' main products in 1992

Diagnostic... Costs... Materials...

## WZT CAN ONLY INFLUENCE THE STRUCTURE OF MATERIALS' COSTS BY REDUCING THE COST OF TV BOXES

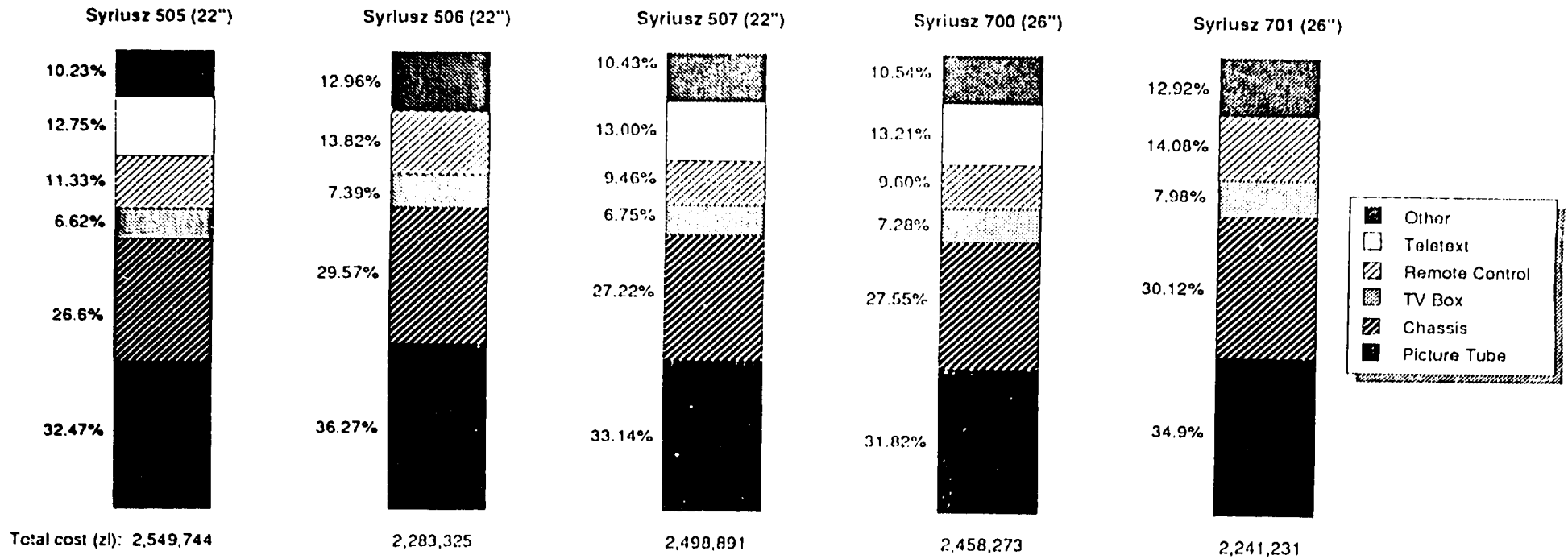
### Cost of Materials Structure Westa Family



Source: WZT Elemis, CET Analysis



### Cost of Materials Structure Syriusz Family



Source: WZT Elemis, CET Analysis

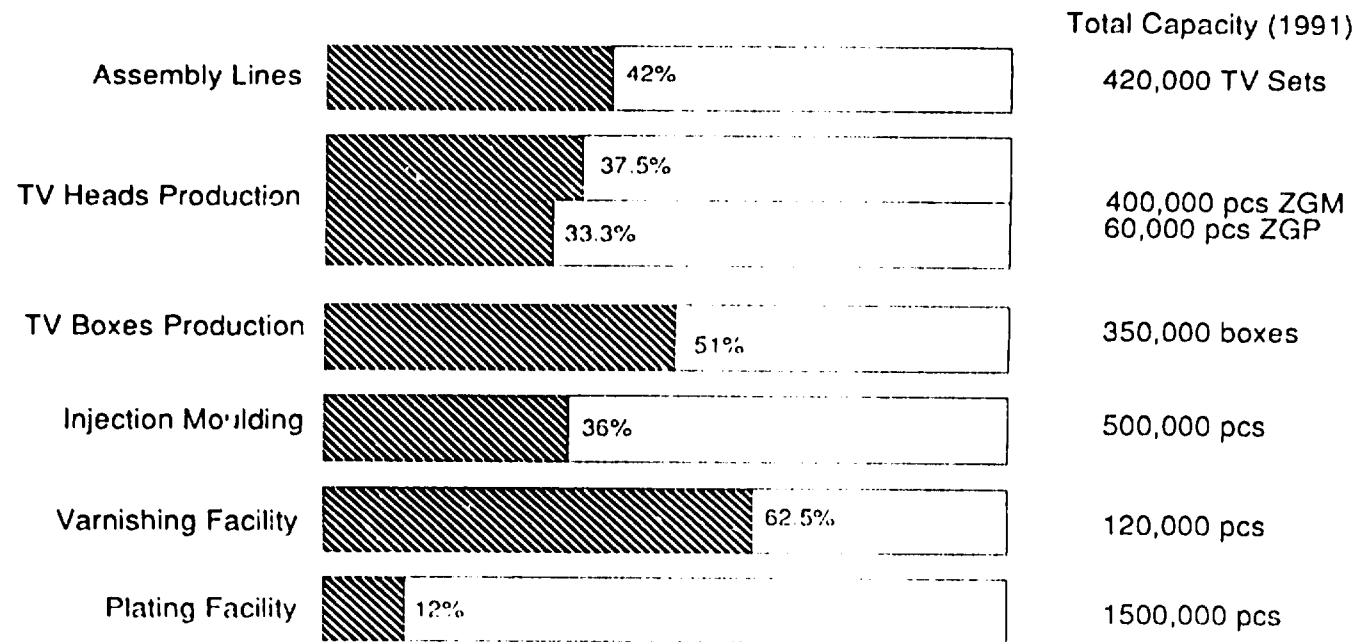
Diagnostic...Costs...Issues...

**WZT MUST CONCENTRATE ON PRODUCING MODERN TV SETS THAT CORRESPOND TO CONSUMERS' EXPECTATIONS, AND ARE CONCERNED WITH A RATIONAL APPROACH**

- Within present WZT conditions cost structure of Westa 410 represents optimum and should constitute a more significant part of WZT production.
- Several technical compositions and solutions from Westa 410 should be adopted on the remaining TV sets manufactured by WZT .  
The effects would be:
  - To reduce cost of teletext module from ZL 325,000 to 280,000 (by 13%)  
In the case of teletext it is also worth reducing the total volume of TV sets equipped with this module. This could reduce costs in each TV model by over 10%
  - To reduce costs of remote control module from 315,000 to 215,000 by 32.1%)
  - To stop the production of the old-type Westas 401, 402, 403, in which the cost of the TV box accounts for 10% of the total cost
  - To use the same TV box for the Westa 405 and 410 models, reducing the final cost of Westa 405 by 5%

**PRODUCTIVE CAPACITIES IN ALL DEPARTMENTS ARE BELOW THEIR POTENTIAL**

**Capacity Utilisation Within Main Productive Departments Of WZT**

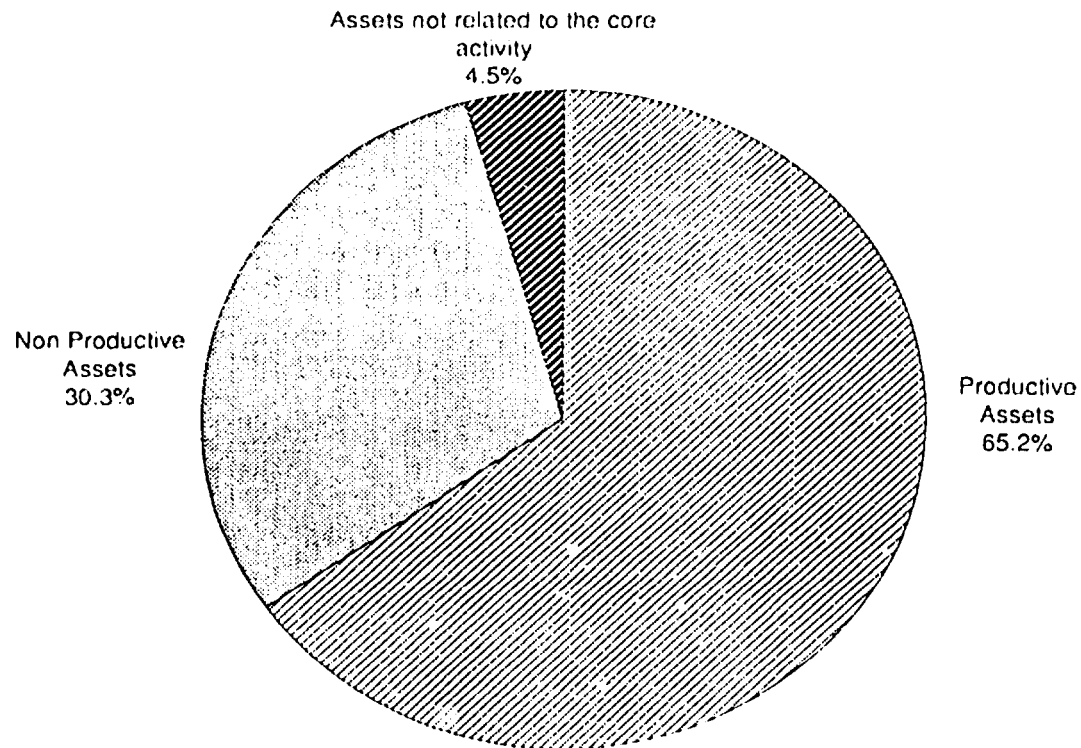


Source: WZT Elemis, CET Analysis

Diagnostic... Production and Assets...

**THE NET VALUE OF FIXED ASSETS ASSOCIATED WITH ADMINISTRATION AND SOCIAL FACILITIES (NON PRODUCTIVE ASSETS) CONSTITUTES MORE THAN A THIRD OF ALL WZT FIXED ASSETS**

Net Value of WZT Elemis Fixed Assets Structure  
(31.12.1991)



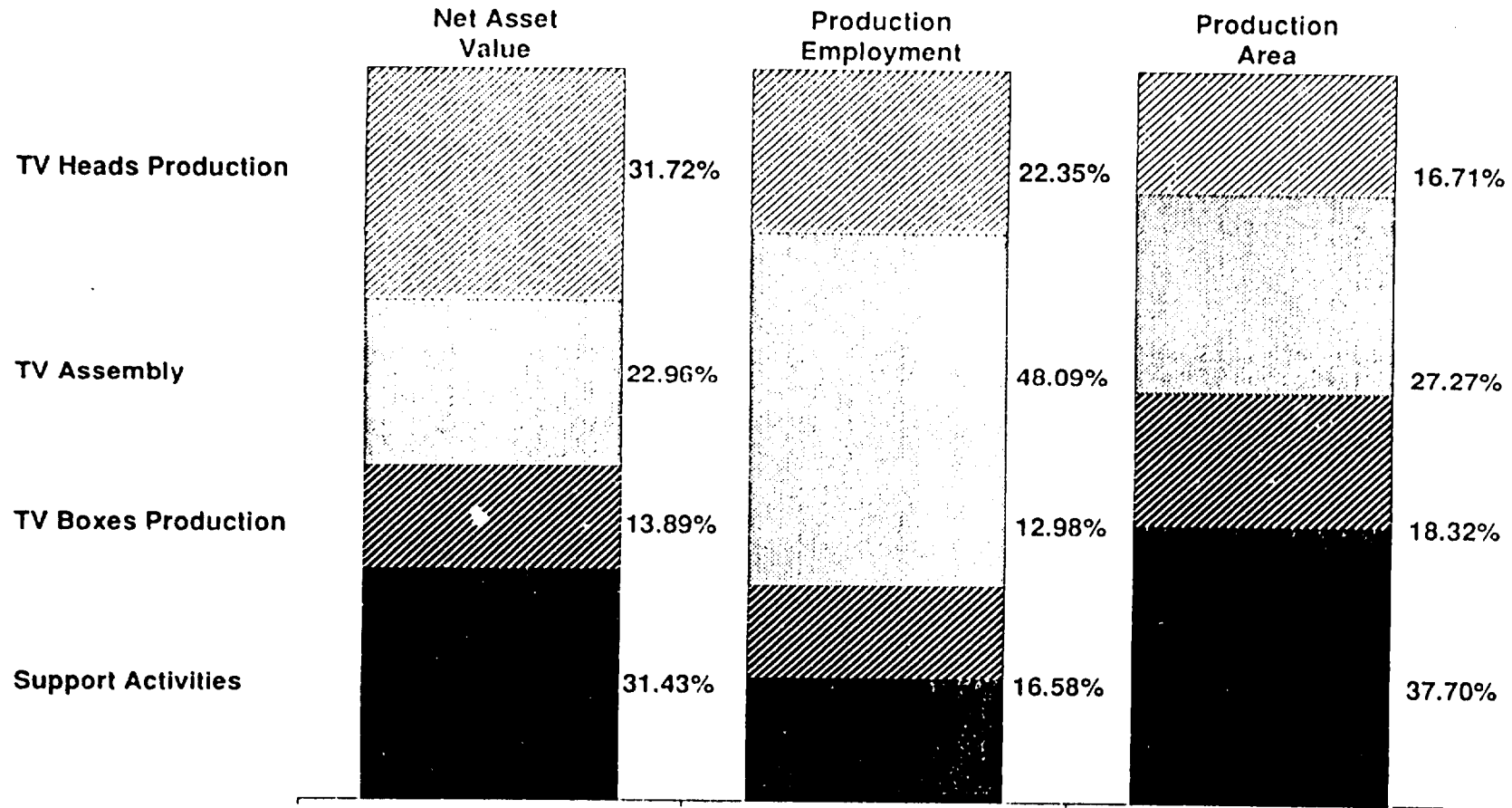
Total net value of fixed assets 178 Bln Zlp  
The average level of all WZT fixed assets depreciation is 56.3%

Source: WZT Elemis, CET Analysis

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Diagnostic... Production and Assets...

**TV ASSEMBLY DIVISION IN WZT IS RELATIVELY LABOUR INTENSIVE WHILE TV HEADS PRODUCTION IS RATHER CAPITAL INTENSIVE**



Production related assets (net value) : 77.612 Mln Zlp

Production employment : 1387

Production Area : 38210 m<sup>2</sup>

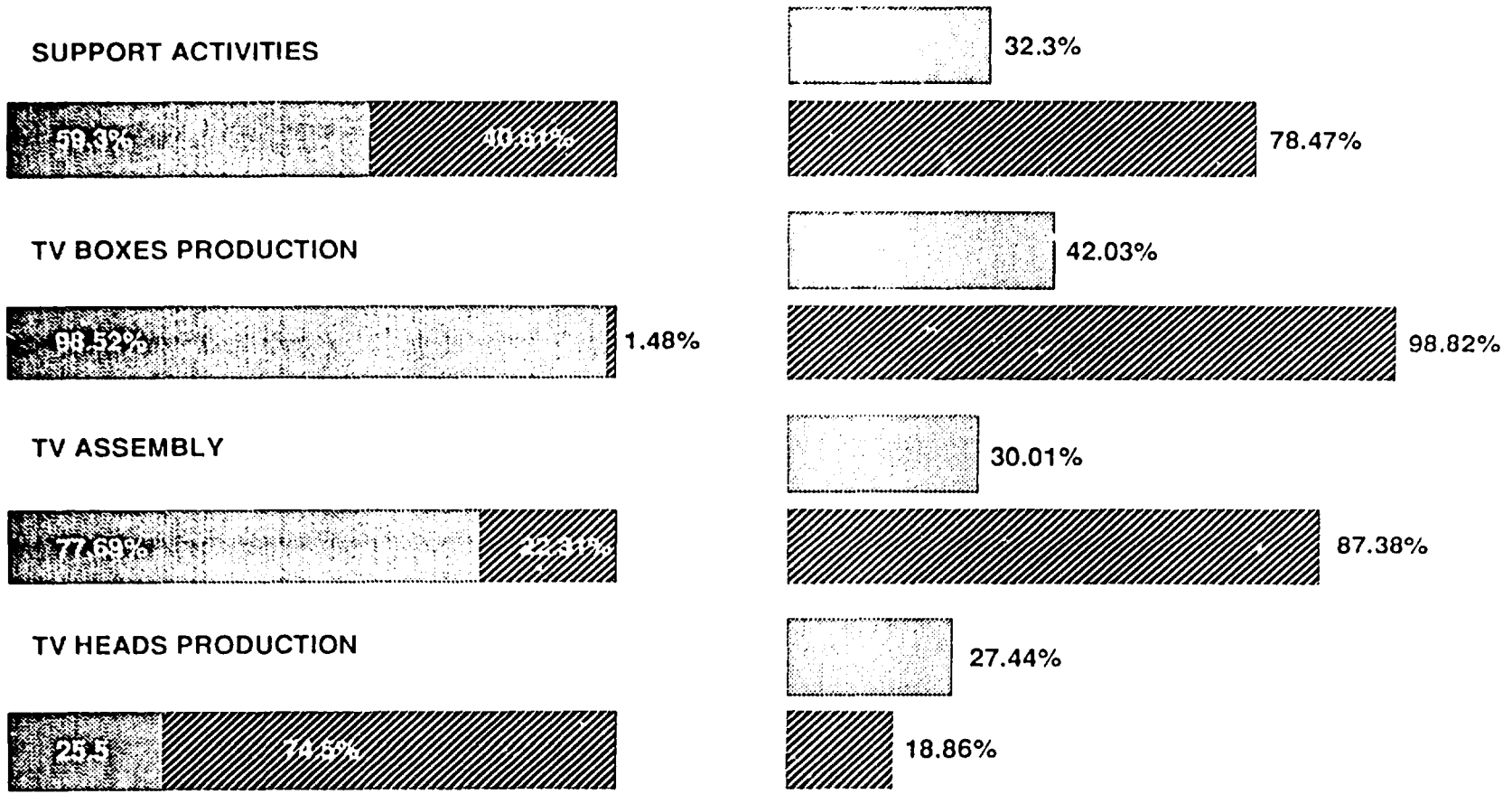
Source: WZT Elemis, CET Analysis

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**WITHIN WZT PRODUCTIVE ASSETS TV HEADS PRODUCTION DEPARTMENT IS THE MOST MODERN DIVISION WHILE TV BOXES DIVISION IS THE OLDEST**

**ASSETS STRUCTURE**

**LEVEL OF DEPRECIATION**



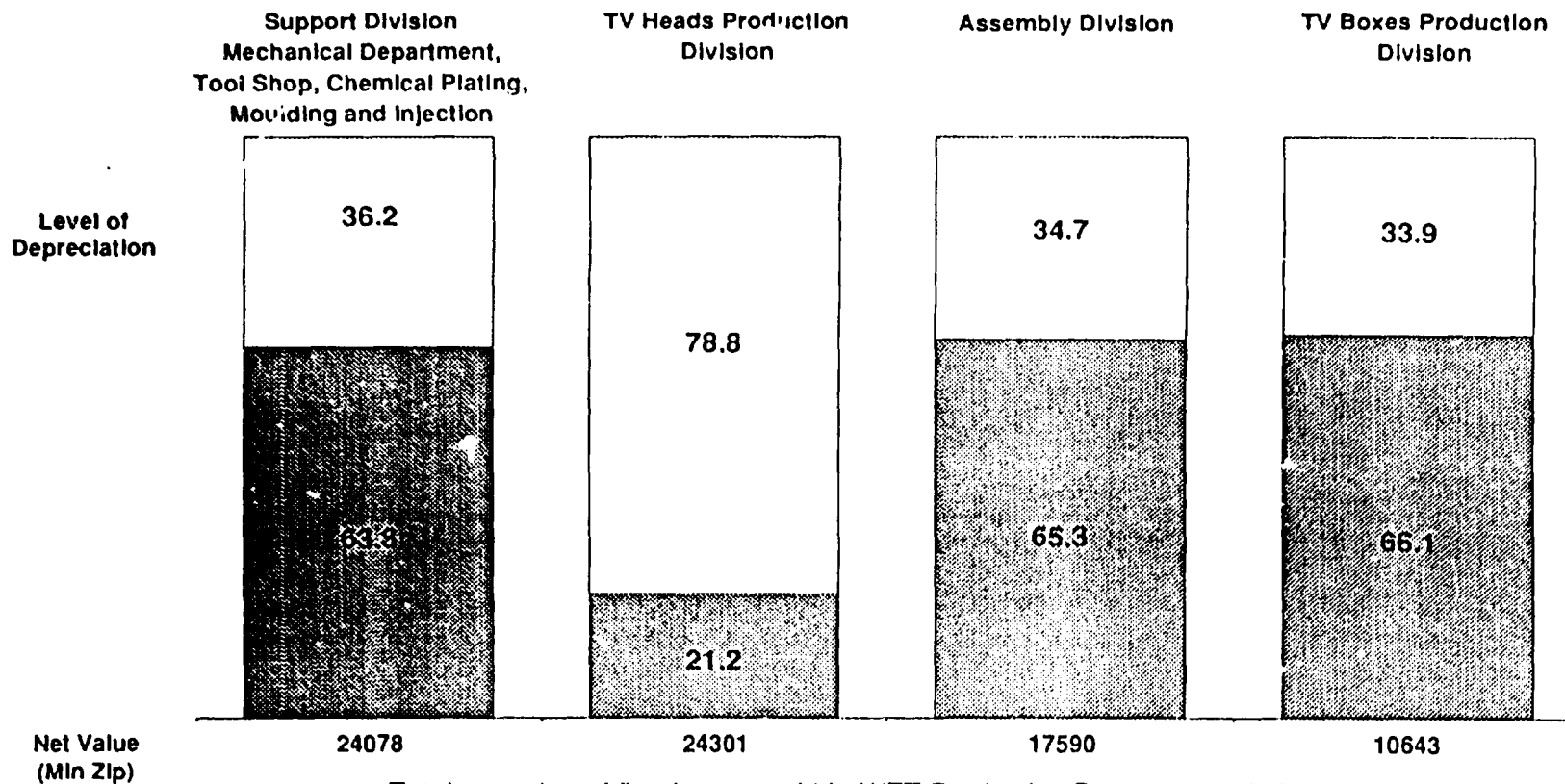
Source: WZT Elemis, CET Analysis



Diagnostic... Production and Assets...

**AMONG WZT PRODUCTIVE DEPARTMENTS THE TV BOXES PRODUCTION DIVISION HAS THE HIGHEST LEVEL OF DEPRECIATION AND WHILE THE TV HEADS PRODUCTION DIVISION HAS THE LOWEST**

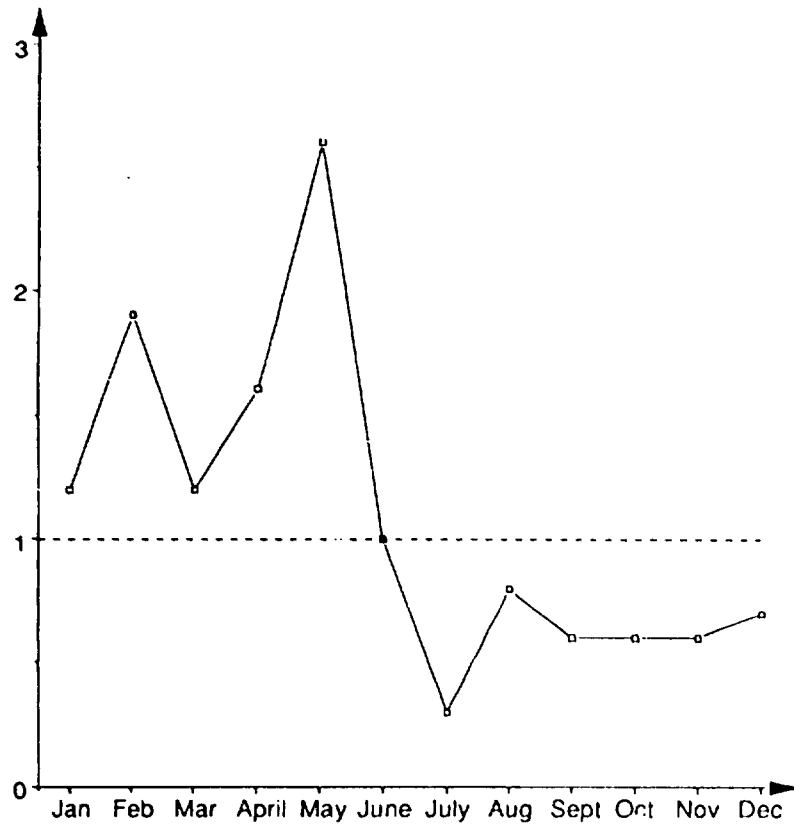
**Net Value of Fixed Assets and Level of its Depreciation within  
WZT Productive Departments  
31.12.1991**



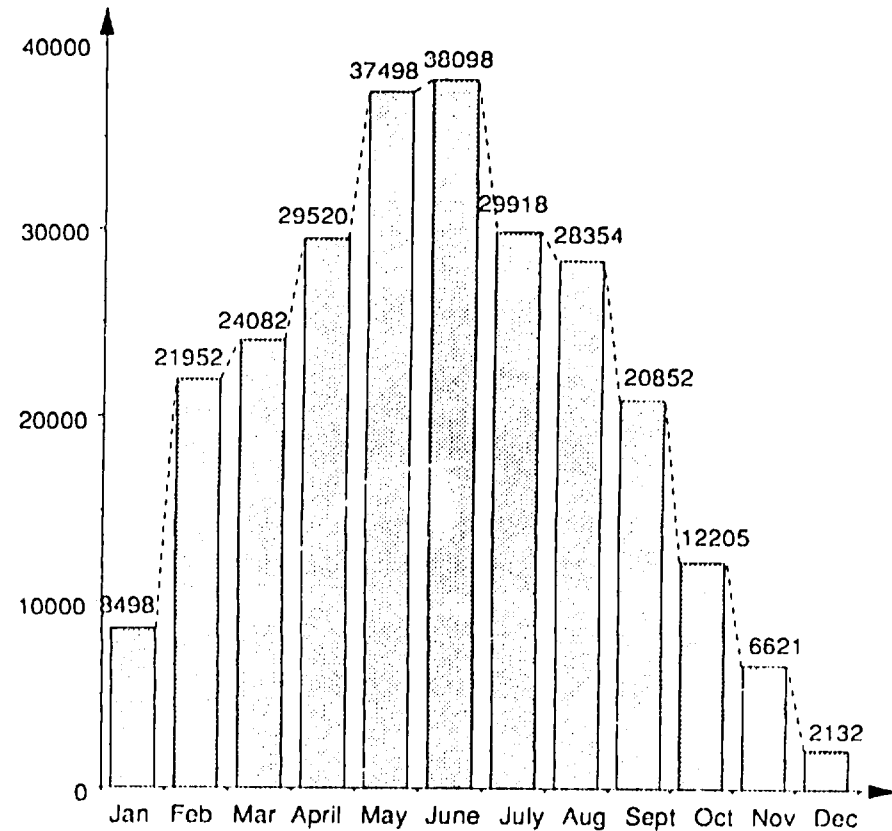
- Total net value of fixed assets within WZT Productive Departments is 76612 Mln Zlp  
- The average level of its depreciation is 57.3 %

**LACK OF EFFICIENT PRODUCTION PLANNING WITHIN THE FIRST SIX MONTHS OF 1991 CAUSED HIGH STOCK LEVELS IN THE MIDDLE OF THE YEAR. DUE TO LIMITED PRODUCTION VOLUME IN THE SECOND HALF OF THE YEAR, THE STOCK LEVEL HAS BEEN REDUCED**

**Production/ Sales Ratio  
(January - December 1991)**



**TV Stock Levels  
(January- December 1991)**



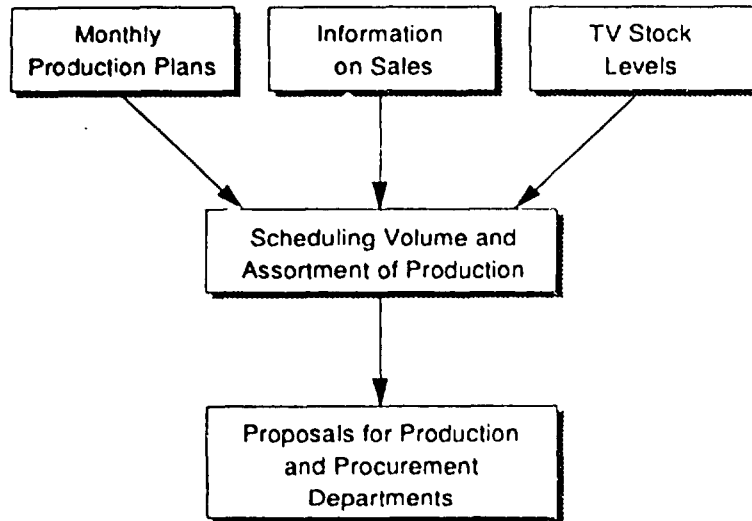
Source: WZT Elemis, CET Analysis



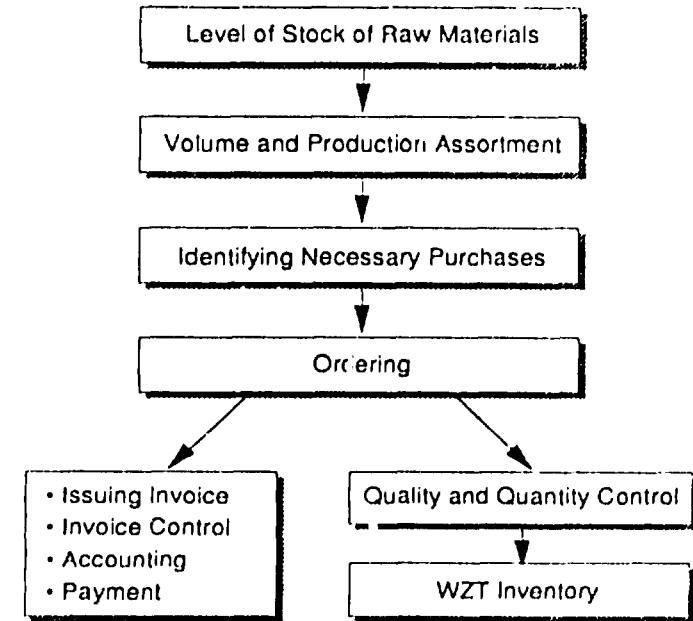
Diagnostic... Production and Assets...

**IN THE CURRENT SITUATION, PRODUCTION PLANS IN WZT ARE MAINLY STIMULATED BY THE LEVEL OF MATERIALS AND COMPONENTS' AVAILABLE ON THE STOCK**

**Mechanism to adopt by WZT**



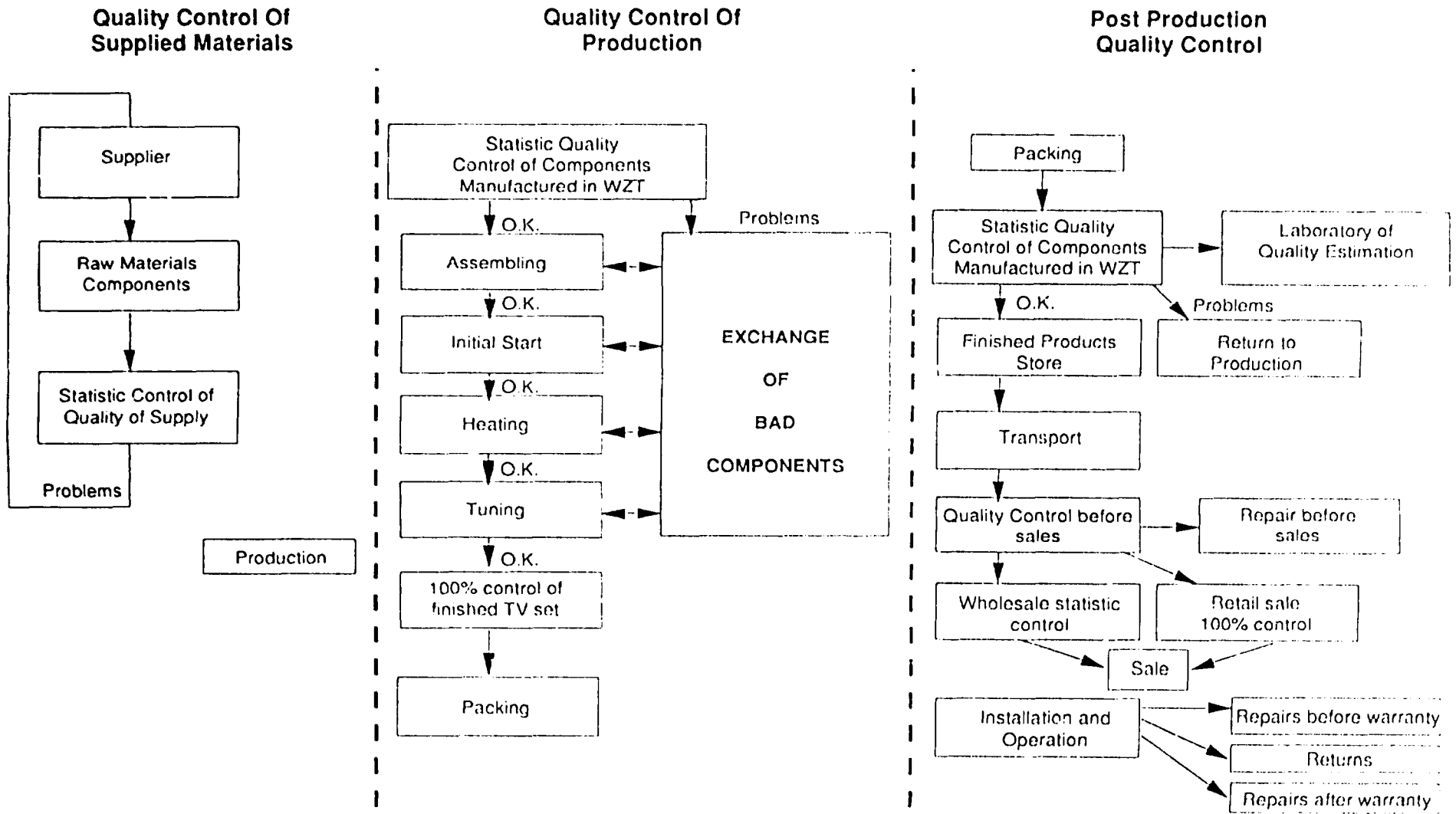
**Current WZT Elemis' production planning and procurement procedure**



Source: WZT Elemis, CET Analysis

Diagnostic... Production and assets...

## THERE ARE THREE LEVELS OF QUALITY CONTROL IN THE MANUFACTURING PROCESS



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Diagnostic... Production and Assets...

## WZT ELEMIS HAS SEVERAL LICENCE AGREEMENTS WITH WESTERN ELECTRONICS MANUFACTURERS

Licence Holder	Subject of the Licence
Telefunken	Black and white TV model FE 201
Thomson	Colour TV model T5601
RCA	Power Supply Unit
Ducati	TV Head Model ZTG 6500

Source: WZT Elemis, CET Analysis

Diagnostic... Production and Assets...

**WZT ELMIS HAS COOPERATION AGREEMENTS WITH SIEMENS, PHILIPS, ITT INTERMETAL AND SGS THOMSON**

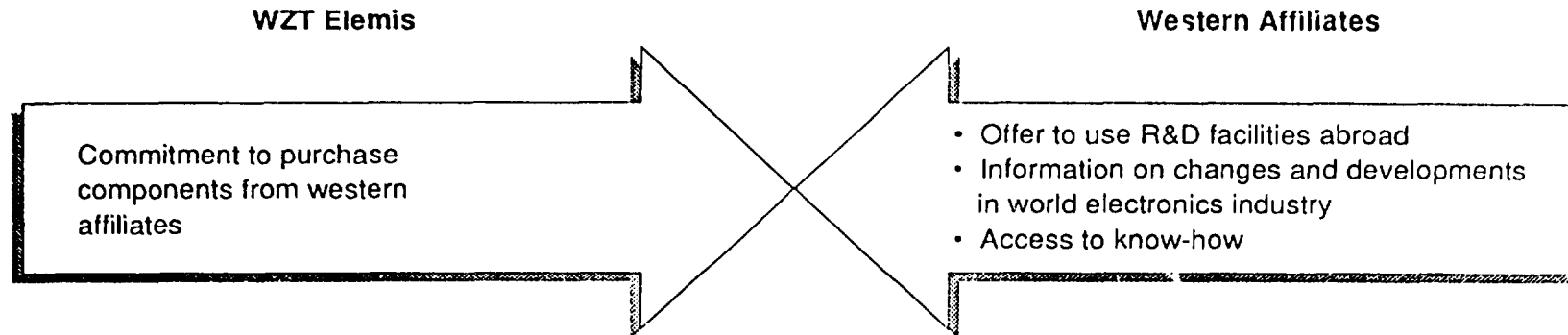
Western Affiliate	Field of Co-operation
Philips	<ul style="list-style-type: none"><li>• Development of chassis 410</li><li>• Development of chassis 440</li></ul>
Siemens	<ul style="list-style-type: none"><li>• Development of chassis 400 (stereo, magatext, picture in picture)</li></ul>
ITI Intermetal	<ul style="list-style-type: none"><li>• Preparation of simple digital chassis 420</li></ul>
Thomson	<ul style="list-style-type: none"><li>• Development of chassis 410 of the basis of French components</li></ul>

Source: WZT Elemis, CET Analysis

Diagnostic... Production and Assets...

**BUT THESE AGREEMENTS ARE OF A VERY LIMITED NATURE**

### Nature of WZT Cooperation Agreements



Source: WZT Elemis, CET Analysis

Diagnostic... Production and Assets...

**DURING ITS SEARCH FOR A POTENTIAL FOREIGN INVESTOR/ PARTNER, CET HAS SENT INQUIRIES AND CONTACTED THE FOLLOWING COMPANIES:**

Company	Location	Comments
NEC	Japan	An introductory enquiry has been forwarded to NEC Japan concerning the possibility of the company investing in the Polish TV industry. At this time NEC does not appear to have any plans of this kind
Philips	Holland	Philips intends to continue its present cooperation with WZT Elemis, but does not predict any investment projects in Poland
Thomson	France	Same as Philips
Auchan	France	French supermarket network. Approached as a potential buyer/ investor of 201 facility - the 40,000 m <sup>2</sup> abandoned production building

Source: WZT Elemis, CET Analysis

## CONTENTS

- I INTRODUCTION
- II EXECUTIVE SUMMARY
- III POLISH TV MARKET
- IV WZT ELEMIS DIAGNOSTIC
- V STRATEGIC BUSINESS PLAN**
- VI APPENDICES

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## WZT ELEMIS

### Mission

To become a leading Polish manufacturer of medium class colour TVs aiming at a certain target group of buyers - low and medium income class of customers

### Strategy

To develop strong distribution network, acquire major distributors' interest in maintaining their relationships with WZT and in a medium term - their active participation in setting the company's guiding philosophy and strategy

### Goals

To achieve the level of sales of 250,000 pcs in 1992. To improve the quality and reliability of WZT's new products, to make "Westa" a highly recognisable and praised brand name. To reach sound financial position, allowing privatisation of the company

### Implementation

WZT will be separated from ZPT, ZPO, ZTSP and also internally divided. WZT will start acquiring new distributors and sign agreements with already existing trade partners. WZT will develop new systems of internal quality control procedures as well as the external network of service points



Strategic Business Plan...

**SUCCESS OF FUTURE WZT ELEMIS' OPERATIONS DEPENDS ON INVOLVEMENT OF MANY EXTERNAL INSTITUTIONS:**

Ministry of Finance:

- Defer the payments of 1991 WZT's debts toward the state budget
- Stop accumulation of penalty interests

Panstwowy Bank Kredytowy (State Credit Bank):

- Approve WZT Elemis' business plan for 1992
- Institute active control over the business plan implementation
- Unblock WZT Elemis' bank account
- Consider possibility of changing part of its credit into future WZT's shares

Industrial Development Agency:

- Support WZT Elemis' effort to obtain necessary credits
- Support WZT Elemis' management during the process of company's restructuring

**IN ORDER TO BECOME EFFICIENT AND COMPETITIVE, WZT SHOULD CONCENTRATE ON THE FOLLOWING AREAS:**

**Technological Innovations**

- Includes introducing new types of chassis ensuring higher reliability, better picture quality at lower cost

**Organisational Restructuring of Subsidiary Companies**

- Includes separating subsidiary operations from the core, TV manufacturing plant

**Organisational Restructuring of WZT TV Manufacturing Plant**

Includes:

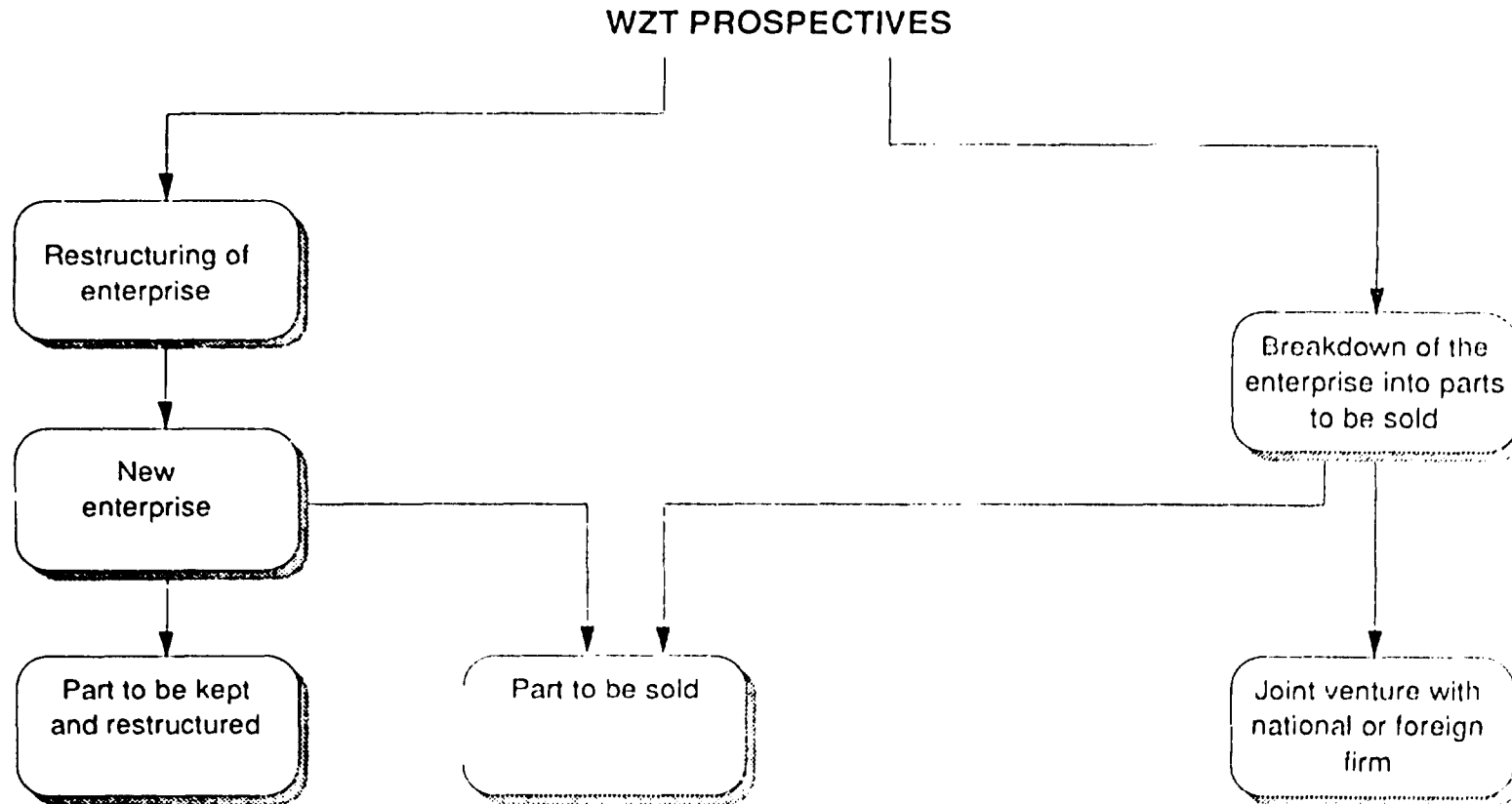
- Redefining plant layout
- Closing down non-profitable divisions
- Creating new companies (workers' partnerships)
- Creating new organisational structure
- Redesigning production process
- Designing new MIS systems
- Divesting assets
- Setting up new accounting organisation

**Financial Restructuring**

Includes:

- Negotiations with creditors and debtors
- Obtaining the necessary funds for implementing the restructuring plan

**THE RESTRUCTURING OF WZT AROUND ITS PRODUCTIVE ASSETS, AND SELLING IT IN PARTS CREATES TWO EXTREME OPTIONS**



Strategic Business Plan..

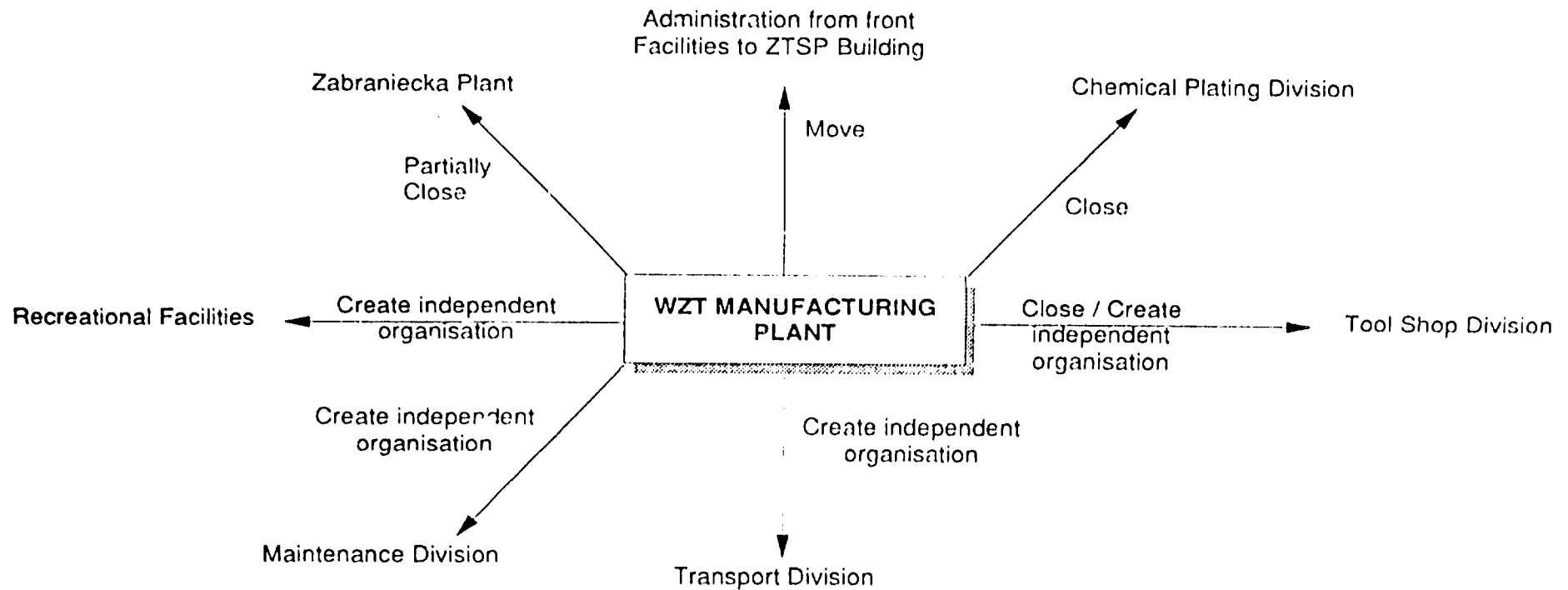
**MANAGEMENT OF ZPT, ZTSP, ZPO HAVE ALREADY PROPOSED TO LEAVE WZT AND HAVE SHOWED THEIR INTEREST IN BECOMING INDEPENDENT ORGANISATIONS. THIS OPTION RAISES THE PROBLEM OF THE DIVISION OF ASSETS AND DEBTS**

Property	Remarks
Matuszewska Property (224.462 m <sup>2</sup> )	Base of future TV manufacturing plant. Some of the buildings have already been rented to: Adidas, Zycie Press and Zeta
Zabraniecka Property (173.335 m <sup>2</sup> )	Includes unfinished production facility of 80.000 m <sup>2</sup> . WZT tends to rent the property
Zabraniecka Property (1300 m <sup>2</sup> )	Currently used by transport division
Zabraniecka Property (49.698 m <sup>2</sup> )	Current operations of this plant will be reduced to minimum. 100 people will be moved to Matuszewska plant to TV boxes finishing Division. 13 employees will stay at Zabraniecka, preparing the production of TV boxes. Unused space should be rented
Kaweczynska Property (9.381 m <sup>2</sup> ) (ZPO)	WZT does not have the property act of this plant. Balance of mutual debts is equilibrated Kaweczynska plant officially proposed leaving WZT organisational structure and moving into interior decoration business
Odrawaza Property (16.566 m <sup>2</sup> )	Foreign trade enterprise THP Unitra is interested in renting Odrawaza storing facilities. Preliminary agreements include compensation of 50% WZT debt toward THP Unitra in return for 5 year rent. WZT has already managed to rent 2500 m <sup>2</sup> to a wholesaler - Mix - Hurt.
Wynalazek Property (10426 m <sup>2</sup> )	WZT does not possess the property act of Wynalazek property, though there still is a legal way to obtain one. Currently there are no specific plans of future Wynalazek activity, though there is a chance of co-operation between Wynalazek plant and Tonsil - Polish speaker manufacturer
Parczew Property (1.618 m <sup>2</sup> ) / (83.690 m <sup>2</sup> )	100% of Parczew production was designed for WZT. At the moment WZT owes Parczew Zi 10 bin Two possibilities are considered: 1) WZT pays Parczew's debts and its debt toward Parczew. Private investor is willing to pay Zi 10 bin for Parczew and keep their current employment level 2) THP Unitra is interested in renting Parczew on the same basis as in Odrawaza case

Strategic Business Plan...

**WZT MANAGEMENT SHOULD DEFINE THE OPTIMAL SHAPE AND STRUCTURE OF THE FUTURE WZT TV MANUFACTURING PLANT. THIS SHOULD SOLVE THE PROBLEM OF EMPLOYMENT AND ASSETS REQUIRED**

Currently WZT Management Should Consider The Following Actions:



Source: WZT Elemis, CET Analysis

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WZT 02/92/1A

Strategic Business Plan...

## NEW ORGANISATIONAL STRUCTURE OF WZT ELEMIS CHANGES THE LOCATION OF ASSETS AND THE NUMBER OF PEOPLE EMPLOYED

WZT Manufacturing Plant	
Employment :	1700
Net Value of Fixed Assets :	Zl 115 Bln

	Employment	Net Value of Fixed Assets (Zl Bln)
Transport Division	118	2.3
Maintenance Division	123	24.3
Recreational Facilities	40	8.0
Tool Shop Division	80	5.2
Zabraniecka Plant	180	10.6

Source: WZT Elemis, CET Analysis

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Strategic Business Plan..

**FOUR SELECTED DIVISIONS ARE AT DIFFERENT STAGES OF THE PROCESS OF SPINNING OFF FROM WZT ORGANISATIONAL STRUCTURE. TRANSPORT DIVISION IS THE MOST ADVANCED AND HAS THE MOST PROMISING PROSPECTS FOR FUTURE OPERATIONS AS AN INDEPENDENT UNIT**

### Transport Division

- 1989 - Transport Division became a semi-independent unit, acquiring the status of self-budgeting operation, accountable for its profits and losses
- 1991 - 90% of Transport Division employees create workers' partnership. Future plans assume creation of joint enterprise between this partnership and WZT manufacturing plant
- Currently Transport Division performs the following activities:
  - Transport services
  - Own network of TV distribution (retail & wholesale points)
  - Driving school
  - Travel agency

**AS THE MAINTENANCE DIVISION PLAYS A CRUCIAL ROLE KEEPING THE WHOLE ENTERPRISE OPERATIONAL THROUGH TECHNICAL SUPPORT, MANAGEMENT SHOULD CONSIDER THE FOLLOWING OPTIONS FOR THE TRANSFORMATION OF THE DIVISION**

**MAINTENANCE DIVISION  
(123 EMPLOYEES)**

**Technical Support Division  
• 35 - 40 employees**

**Transformation of the  
Maintenance Division into  
independent, external  
enterprise**

**Technical Support Division  
• 35- 40 employees**

**Technical Support Division  
• 35 - 40 employees  
Lay off 80 people**

+

**Branch workers' partnerships**

- Installation
- Electrical
- Mechanical & Construction

+

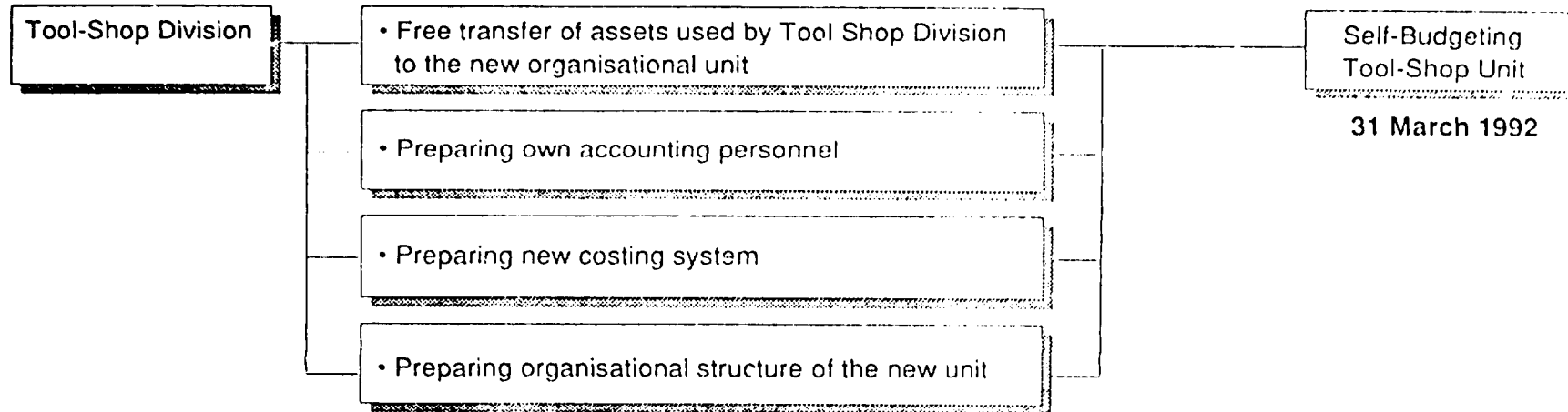
**Maintenance partnership  
performing most of the  
repair and maintenance work  
contracted and supervised by  
Technical Support Division**

**This is the most drastic way  
of transforming Maintenance  
Division, but it will allow WZT  
plant to choose the best offer  
from external subcontractors**



Strategic Business Plan...

IN ORDER TO BECOME COMPETITIVE AND ACQUIRE POSSIBILITIES OF SELLING ITS SERVICES OUTSIDE WZT, THE TOOL SHOP DIVISION SHOULD BE AT THE FIRST STAGE, CONVERTED INTO A SELF-BUDGETING OPERATION



Strategic Business Plan...

**AS WZT HAS WELL-DEVELOPED RECREATIONAL AND SOCIAL FACILITIES, IT SHOULD CONSIDER CREATING A NEW COMPANY IN THE FIELD OF SOCIAL AND LEISURE SERVICES**

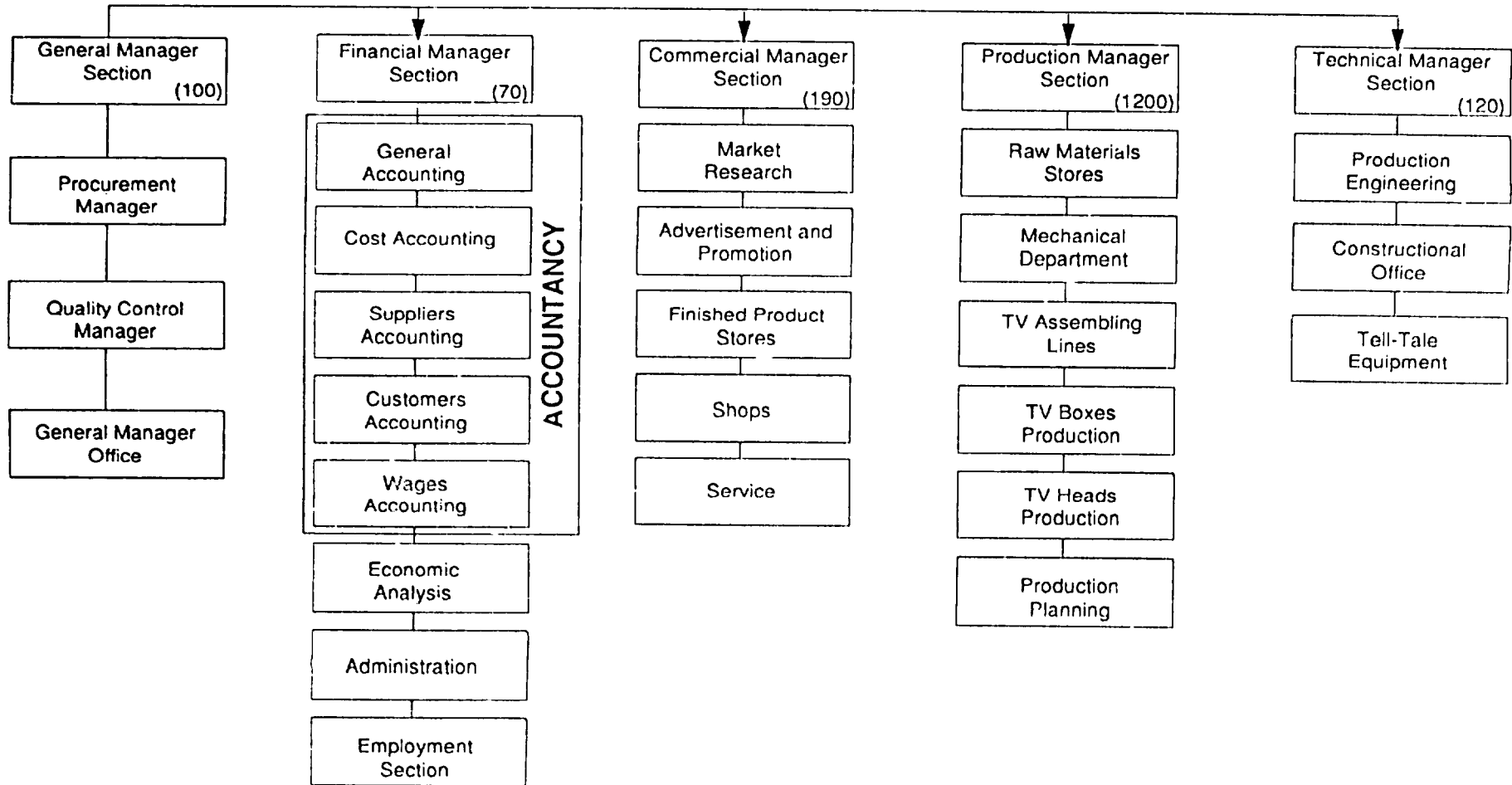
**New Company's Proposed Profile of Activities**

- Recreational services (includes hotel and holiday resorts services)
- Running fast-food bars on site
- Running WZT canteens
- Providing WZT production personnel with protecting clothing

Strategic Business Plan...

**AFTER RESTRUCTURING NEW POSITIONS SHOULD BE CREATED WITHIN GENERAL AND FINANCIAL MANAGEMENT SECTIONS**

**WZT MANUFACTURING PLANT (1680)**



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Strategic Business Plan...

**AS WZT ELEMIS HAS NO EFFICIENT INVENTORIES AND PURCHASING POLICY, IT SHOULD CONSIDER FOCUSING ON CREATING NEW PROCUREMENT MANAGEMENT**

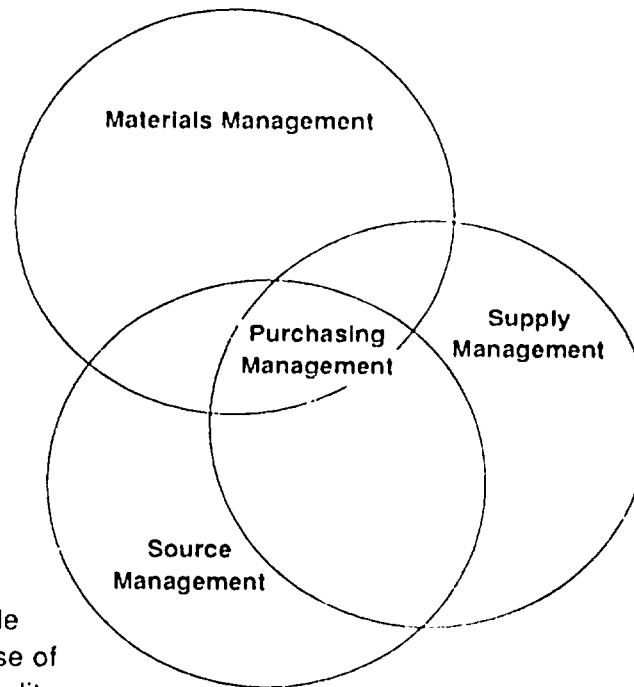
As WZT Elemis will buy most of required materials rather than make them, it will have to manage the procurement function

**Materials management:**

Especially substantial and applicable when transportation and inventory cost are substantial on both input and output sides of production process. The main focus of materials management is to acquire efficiency of operations by integrating storage operations, components and materials procurement and movement within a firm

**Source management:**

Concerned with developing relationships with new, reliable suppliers, especially with those of big ability to produce, high quality products



**Supply management:**

Concerned mainly with long-term availability of high-dollar and critical purchases; future reliable supplies are critical to success of the enterprise. Supply management in WZT should focus on development of relationships mainly with TV tubes suppliers

Strategic Business Plan...

**IN THE MEDIUM TERM WZT SHOULD AIM TO INTRODUCE JUST IN TIME (JIT) DELIVERY**

<b>Goals of JIT procurement</b>	<b>Remarks</b>
Elimination of unnecessary activities	For example, under JIT regime incoming inspections are not required. If purchasing staff have been effective in developing good relationships with suppliers, the purchased components can be received without formal counting, or inspection
Reduction of inventories in the plant	In-plant-inventories are not necessary if there are strong and good relationships developed with a supplier. Parts or components should be delivered in small lots directly to the using department
Reduction of in-transit inventory	Finding suppliers located near the plant causes that flow of materials and money is shorter
Quality and reliability improvement	This is most frequently achieved by selecting a small number of suppliers and increasing long-term relationships (commitments) between the plant and suppliers

**THE MOST IMPORTANT THINGS WHICH SHOULD BE TREATED AS A BASIS OF CREATION OF JIT PROCUREMENTS IS A VERY GOOD RELATIONSHIP WITH CAREFULLY SELECTED SUPPLIERS, BACKED UP BY LONG-TERM AGREEMENTS AND COMMITMENT**

### Characteristics of JIT Purchasing

- |                  |  |
|------------------|--|
| <b>Suppliers</b> | <ul style="list-style-type: none"><li>• Few suppliers - three for each purchased product</li><li>• Nearby suppliers</li><li>• Active use of analysis to enable desirable suppliers stay price competitive</li><li>• Clusters of remote suppliers</li></ul> |
|------------------|--|

- |                  |  |
|------------------|--|
| <b>Qualities</b> | <ul style="list-style-type: none"><li>• Steady output rate</li><li>• Minimal paperwork release</li><li>• Suppliers encouraged to package in exact quantities</li><li>• Frequent deliveries in small quantities</li></ul> |
|------------------|--|

- |                |  |
|----------------|--|
| <b>Quality</b> | <ul style="list-style-type: none"><li>• Help suppliers to meet quality requirements</li><li>• Close relationship between "WZT" and "Suppliers" quality control staff</li></ul> |
|----------------|--|

- |                 |  |
|-----------------|--|
| <b>Shipping</b> | <ul style="list-style-type: none"><li>• Gain control by use of own means of transport or contract shipping</li><li>• Exact scheduling of inbound freight</li></ul> |
|-----------------|--|

Strategic Business Plan...

**AS PURCHASED COMPONENTS REPRESENT 75% OF THE PRODUCTION COSTS, THE PURCHASE DEPARTMENT WILL HAVE TO ADOPT NEW PRINCIPLES IN ORDER TO ENSURE RELIABILITY IN TERMS OF QUALITY AND SCHEDULING**

**Principles that should be in use by the Purchase Department**

- Organisation of the components listings (80/20 rule)
  - Classified by decreasing value, so that the first 20% represent 80% of the whole value of the purchased components

- Management must control those 20% cautiously  
(cathode ray tubes, microprocessors, cabinets)

- WZT must have at least three suppliers for each main component, so the company has an efficient control over
  - Quality and reliability
  - Schedules
  - Prices

The first supplier should have 70% of the turnover  
The second supplier should have 25% of the turnover  
The third supplier should have 5% of the turnover

Strategic Business Plan...

**WZT'S MANAGEMENT MUST FOCUS ON BOOSTING REVENUES AND CASH FLOW BY BRINGING IN NEW COST MANAGEMENT AND GENERAL ORGANISATION PRINCIPLES**

- Focus on improving cash flow
  - Dispose of redundant materials from support, metal and wood stores
  - Set agreements with distributors and suppliers
  - Implement cash planning on a monthly basis
  - Continue current efforts to reduce material inventories. Order stock **only** when required
  - Consider leasing buildings on site, e.g. warehousing
  - Try to negotiate better payment terms with large suppliers
  - Keep bank informed of all development. Build up relationship with bankers
- Seek cheaper sources of credit and restructure debt.
- Institute capital budgeting procedure evaluating projects against each other using Internal rate of return techniques
- Invest heavily in building up sales, marketing and after sales service activities even at the expense of new product development



**WZT MANAGEMENT SHOULD CONSIDER INTRODUCING THE FOLLOWING CHANGES IN WZT'S ACCOUNTING METHOD**

- New applicable accounting principles
  - Matching expenses and revenue
  - Prudence
  - Valuation of assets at historical cost modified by revaluation

- New accounting principles
  - Inventories are to be valued at the lower of actual costs or net realisable value
  - Accounts receivable - recording of bad debt reserve
  - Fixed assets redefining depreciation methods and asset life cycles
  - Prepare a profit and loss statement to EEC format

- Systems changes
  - Cost Accounting
    - Cost allocation
    - Variance tracking and allocation
    - Inventory valuation method
  - Fixed Asset Register

**MORE ADVANCED AND STRICTER TECHNIQUES SHOULD BE IMPLEMENTED IN FINANCIAL MANAGER SECTION**

Areas for Improvement	Priority
• Management education	●
• Cash flow management	●
• Forecasting and budgeting	●
• Banking relationship	●
• Financial information	●
• Cost control	●
• Contracts and pricing	◐
• Accounting Policies and Procedures	◐
• Information System	◐
• Internal control system	◐
• Adaptation of new organisational structure	◑

● High  
○ Low

## WZT ELEMIS' FINANCIAL ACCOUNTING SYSTEM WILL HAVE TO BE REDESIGNED

### Management Information Systems: Key Issues

- Re-design and improve system of data capture
- Allocate overheads on actual cost basis using relevant ratios
- Allocate direct labour on basis of actual hours/rates. Variance reports must be produced automatically based on standard hours
- Cost materials at standard cost with a programme model monitoring price variance and updating standards once price variations exceeds 5%
- Real time processing
- Formalise management structure of each department to include review of performance measures
- Design report generating package producing relevant reports
- MIS system fully integrated with financial accounting system

Strategic Business Plan...

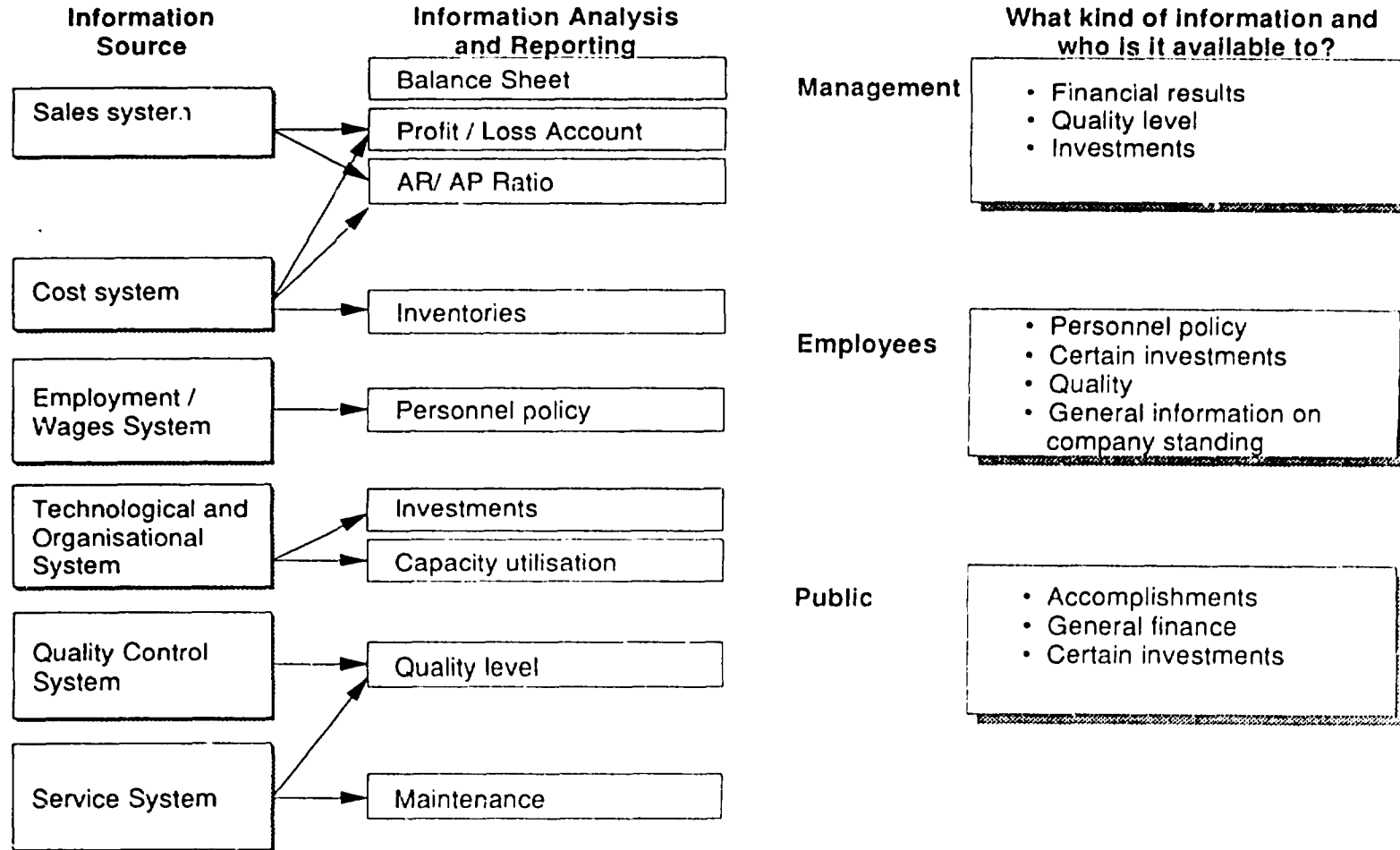
**AS A STEP TOWARDS IMPLEMENTATION OF THE MANAGEMENT INFORMATION SYSTEM, WZT ELEMIS HAS TO DESIGN AND INTRODUCE SYSTEMATIC AND DOCUMENTED INFORMATION GATHERINGS**

Collecting External Data

	Information on			
	Product/ components	Market	Competition	Environment
What information	<ul style="list-style-type: none"> <li>• New technologies</li> <li>• Trends in television industry</li> <li>• Changes in components technologies</li> </ul>	<ul style="list-style-type: none"> <li>• Current and potential customers                             <ul style="list-style-type: none"> <li>- what are the groups of customers?</li> <li>- which groups are most important?</li> <li>- their opinion on WZT</li> <li>- their opinion on competitors</li> </ul> </li> <li>• What are the most efficient distribution channels?</li> </ul>	<ul style="list-style-type: none"> <li>• Competitors' products</li> <li>• Competitors' clients</li> <li>• Strategies</li> <li>• Prices</li> <li>• Economic situations</li> <li>• Advertising activities</li> <li>• Distributors</li> </ul>	<ul style="list-style-type: none"> <li>• State regulations</li> <li>• Tariffs</li> <li>• Industrial policy</li> <li>• Legislation</li> <li>• Banks and growth</li> </ul>
How is it gathered (sources of information)	<ul style="list-style-type: none"> <li>• Mass media</li> <li>• Technical publications</li> <li>• Direct contacts</li> </ul>	<ul style="list-style-type: none"> <li>• Direct contacts</li> <li>• Questionnaires</li> <li>• Customer database created jointly by sales and marketing depts.</li> </ul>	<ul style="list-style-type: none"> <li>• Mass media</li> <li>• Market research personnel</li> <li>• Direct meetings</li> <li>• Interviews</li> <li>• Fact sheets</li> <li>• Competitor database created by marketing dept.</li> </ul>	<ul style="list-style-type: none"> <li>• Mass media</li> <li>• Meetings</li> <li>• Interviews</li> <li>• Conferencos</li> </ul>
Who gathers the information	<ul style="list-style-type: none"> <li>• R&amp;D personnel</li> <li>• Market research personnel</li> <li>• Technical personnel</li> </ul>	<ul style="list-style-type: none"> <li>• Sales representative</li> <li>• Marketing personnel</li> <li>• Sales personnel</li> </ul>	<ul style="list-style-type: none"> <li>• Directors</li> <li>• Sales personnel</li> <li>• Marketing personnel</li> </ul>	<ul style="list-style-type: none"> <li>• Directors</li> <li>• Marketing personnel</li> <li>• Legal advisor</li> </ul>

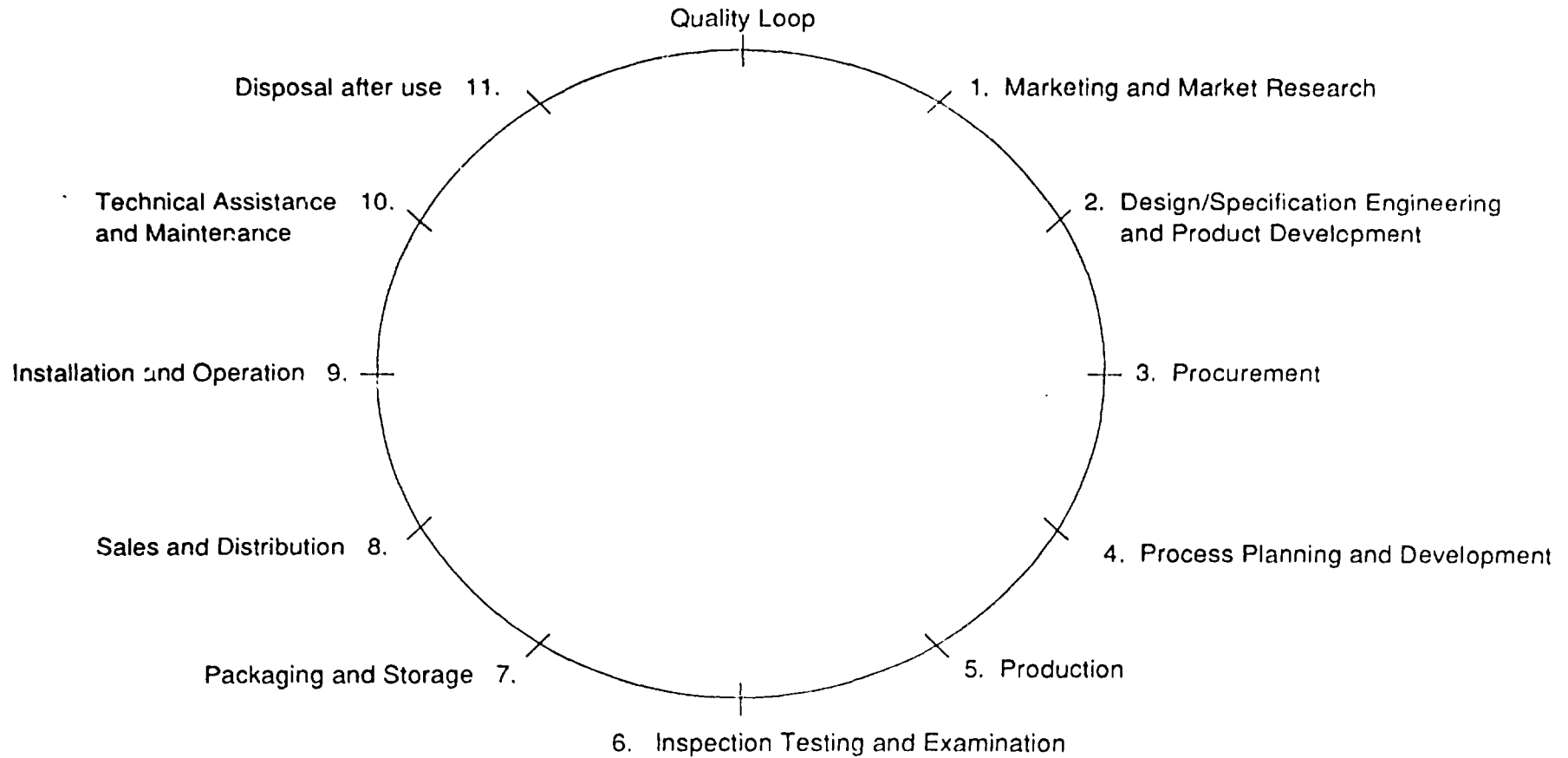
# INTERNAL FLOW OF INFORMATION HAS TO BE CAREFULLY PLANNED AND CONTROL EXERCISED OVER WHO RECEIVES THE DATA

## Information Flows: Internal



Strategic Business Plan...

**QUALITY CONTROL SYSTEM IN WZT SHOULD BE BASED ON QUALITY LOOP CONCEPT, WHICH INCLUDES ALL STAGES FROM INITIAL IDENTIFICATION OF REQUIREMENTS AND CUSTOMER EXPECTATIONS TO THEIR FINAL SATISFACTION. IT IS AN IMPORTANT PART OF IMPLEMENTATION OF ISO (INTERNATIONAL ORGANISATION FOR STANDARISATION)**



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**IN ORDER TO SIGNIFICANTLY REDUCE THE COST OF WOOD-BOXES MANUFACTURING, WZT MANAGEMENT SHOULD CONSIDER REDESIGNING TV BOXES PRODUCTION**

How to lower costs of TV boxes manufacturing

- Search for better offers among external producers
- Close down Zabraniecka plant

- Reduce Zabraniecka plant operations to cutting and milling
- Reduce Zabraniecka employment to 13 people
- Move 100 workers from Zabraniecka to Matuszewska plant
- Matuszewska plant takes over gluing, painting and finishing operation

	Current Costs	Predicted Costs (ZL)
20" Box	308341	260584
21" Box	325453	274184

**IN ORDER TO IMPROVE THE EFFICIENCY OF ITS INVENTORY CONTROL POLICY, WZT ELEMIS SHOULD INTRODUCE THE MEASURES OF INVENTORY EFFECTIVENESS**

**Customer Service Level**

$$\text{Order availability (\%)} = 100 - \left( \frac{\text{No of incomplete orders}}{\text{Demand in number of orders}} \times 100 \right)$$

$$\text{Unit availability (\%)} = 100 - \left( \frac{\text{Stock outs in units for period}}{\text{Demand in units for period}} \times 100 \right)$$

**Inventory Investment**

$$\text{Value of working stock} = (1/2) (\# \text{ pieces ordered}) (\text{value})$$

$$\text{Value of safety stock} = \text{inventory value} - \text{value of working stock}$$

$$\text{Assets in inventory (\%)} = \frac{\text{Inventory}}{\text{Total assets}}$$

**Inventory Management Costs**

**Carrying cost** = housing costs + material handling costs + investment costs + scrap + obsolescence

**Housing costs** = rents, taxes, insurance, building operating costs

**Material handling costs** = equipment, lease, depreciation, power, equipment operating costs

**Investment costs** = borrowing costs, taxes, insurance

**Inventory Management Performance**

$$\text{Inventory turns} = \frac{\text{Cost of goods sold}}{\text{Inventory value}}$$

$$\text{Inventory to sales ratio} = \frac{\text{Inventory}}{\text{Sales}}$$



**WZT ELEMIS SHOULD IMPLEMENT ONE OF THE SIMPLE INVENTORY MODELS WHICH WILL HELP IN SCHEDULING ORDER TIME AND PLANNING OPTIMUM VOLUME OF DELIVERIES**

**Examples of Simple Inventory Control Models**

Model	Comments	Variables	Solutions
Basic economic order quantity	<ul style="list-style-type: none"> <li>Objective: minimise the total cost ordering and holding</li> <li>Assumptions:                             <ul style="list-style-type: none"> <li>- known demand</li> <li>- known lead time</li> <li>- receipt of inventory is instantaneous</li> </ul> </li> <li>No quantity discounts</li> <li>Stockouts can be avoided</li> </ul>	Q* Optimal number of pieces per order D Annual demand in units S Ordering cost for each order H Holding cost/unit/ year T Expected time between orders	$Q^* = \sqrt{\frac{2Ds}{H}}$ $T = \frac{\text{Number of working days in a year}}{Q^*}$
Production order quantity model	<ul style="list-style-type: none"> <li>Company receives its inventory over a period of time (no instantaneous receipt assumption)</li> </ul>	Q* Optimal number of pieces per order H Holding cost/unit/year p Daily inventory inflow d Daily demand rate t Length of delivery time in days	$Q = \sqrt{\frac{2Ds}{H \times [1 - (d/p)]}}$

Strategic Business Plan...

**WZT ELEMIS SHOULD CONSIDER THE IDEA OF SELLING ITS TVs TOGETHER WITH SATELLITE SYSTEMS. SUCH COMPLEMENTARY SETS, UNDER ONE BRAND NAME, COULD INCREASE THE DEMAND FOR WZT PRODUCTS**



Strategic Business Plan...

Summary of Actions

		Actions	Objective	Who	When
Non Core Assets	Social	Transfer to newly created partnership	Reduce overhead costs	General Director	Immediate
	Productive	Sell / dispose of / transfer to newly created partnership	Lower operating costs increase cash flow	Production Manager, council of workers	
Organisational Changes		Introduce the position of purchase manager	Improve inventories and purchasing policy	General Manager Council of Workers	Immediate
		Introduce changes in accounting system	Improving cost tracking, simplify data analysis and reporting	Financial Manager	Immediate
Engineering & Production Support Staff		Lay off unnecessary staff	Lower operating costs and break even point. adjust employment to production plans	General Director, Council of Workers	March / April / May
Management of Human Resources		Increase salary	Retain good employees	General Director, Financial Director, Council of Workers	May

Source: CFT Analysis

**FINANCIAL BUSINESS PLAN**

## Business Plan... Assumptions...

- No inflation
- No revaluation of assets
- 50% of 1991 accounts receivables recovered during the first and second quarters of 1992
- 60% of accounts payables paid to trade creditors
- 80% of sold production revolves around 21 days deferred payment (Starting in March)
- 20% of sold production revolves around 7 days deferred payment (Starting in March)
- Deferred payments for purchased components – 20 days (starting in April)
- No investments in 1992
- Volume of sales in 1992 – 250 000 Pcs.
- New ZLP 100 Bln PBK Credit issued in April:
  - interest rate 55%
  - ZLP 68 Bln pays the old operational credit (capital and interests)
  - ZLP 32 Bln used for production related disbursements
  
- Reduction of employment to 1700 people
- Increase in wages in May (to the level of national average)
- Revenues from fixed assets sales not included
- Introduce production of a new type of TV set (Westa 410) in April 1992
- Reduction of repair and maintenance cost associated with chemical coating division and Zabraniecka plant compensated by the cost of preparing and equipping new paint shop at Matuszewska WZT facilities
- 1/3 of 1991 WZT loss diminish 1992 profits

Business Plan... Assumptions...

THE FOLLOWING PRICES OF WZT PRODUCTS' HAVE BEEN USED FOR FINANCIAL ANALYSIS:

TV Model	I, II, III Quarters of 1992 (mln zlp)	IV Quarters of 1992 (mln zlp)
20/402/TXT	4.5	-
20/410	4.2	4.3
20/410/TXT	4.5	4.6
21/402/TXT	5.2	-
21/410	4.7	4.8
21/410/TXT	5.1	5.2

Source: WZT Elemis, CET Analysis

CENTRAL EUROPE TRUST

FINANCIAL FORECAST WZT ELEMIS 1992

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Tot 1992
<b>SALES (units)</b>													
-20/402/TXT	830	1245	1245	1500	1500	2000	-	-	-	-	-	-	8320
-20/410	-	-	-	1500	1500	2000	3000	3000	4000	7000	7000	6000	35000
-20/410/TXT	-	-	-	3000	3000	4000	3000	3000	4000	3500	3500	3000	30000
-21/402/TXT	950	1425	1425	2000	2500	2500	-	-	-	-	-	-	10800
-21/410	-	-	-	4000	4500	4500	8000	8000	9000	9000	9000	7000	63000
-21/410/TXT	-	-	-	6000	7000	7000	8000	8000	9000	9000	9000	7000	70000
-OTHER TVs	8220	12330	12330	-	-	-	-	-	-	-	-	-	32880
<b>TOTAL UNITS</b>	<b>10000</b>	<b>15000</b>	<b>15000</b>	<b>18000</b>	<b>20000</b>	<b>22000</b>	<b>22000</b>	<b>22000</b>	<b>26000</b>	<b>28500</b>	<b>28500</b>	<b>23000</b>	<b>250000</b>
<b>SALES (million ZLP)</b>													
-20/402/TXT	3735	5603	5603	6750	6750	9000	-	-	-	-	-	-	37441
-20/410	-	-	-	6300	6300	8400	12600	12600	16800	30100	30100	25800	149000
-20/410/TXT	-	-	-	13500	13500	18000	13500	13500	18000	16100	16100	13800	136000
-21/402/TXT	4940	7410	7410	10400	13000	13000	-	-	-	-	-	-	56100
-21/410	-	-	-	18800	21150	21150	37600	37600	42300	43200	43200	33600	298600
-21/410/TXT	-	-	-	30600	35700	35700	40800	40800	45900	46800	46800	36400	359500
-OTHER TVs	26889	40334	40334	-	-	-	-	-	-	-	-	-	107557
<b>TOTAL FROM TV SALES</b>	<b>35564</b>	<b>53347</b>	<b>53347</b>	<b>86350</b>	<b>96400</b>	<b>105250</b>	<b>104500</b>	<b>104500</b>	<b>123000</b>	<b>136200</b>	<b>136200</b>	<b>109000</b>	<b>1144258</b>
<b>OTHER SALES</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>6000</b>
<b>ASSETS DISPOSAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>RENT/LEASE REVENUES</b>	<b>328</b>	<b>292</b>	<b>324</b>	<b>476</b>	<b>441</b>	<b>441</b>	<b>476</b>	<b>441</b>	<b>441</b>	<b>476</b>	<b>441</b>	<b>440</b>	<b>5017</b>
<b>TOTAL REVENUES</b>	<b>36392</b>	<b>54139</b>	<b>54171</b>	<b>87326</b>	<b>97341</b>	<b>106191</b>	<b>105476</b>	<b>105441</b>	<b>123941</b>	<b>137176</b>	<b>137141</b>	<b>110540</b>	<b>1165275</b>

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Tot 1992
COSTS (million ZLP)	46356	59466	62979	62691	69522	75568	73257	72533	86502	92556	92556	75573	809559
DIRECT MATERIALS	30440	43114	43788	45885	50983	56081	53583	53583	63326	68495	68495	55276	633049
ENERGY	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18000
LABOUR	5156	5156	5156	4174	5313	5313	5313	5313	5313	5313	5313	5313	62146
MARKETING/SALES	511	511	511	511	562	618	599	599	707	767	767	605	7268
MAINTENANCE	932	942	952	943	1011	1079	1056	332	1188	1258	1258	1079	12030
INTEREST	223	223	3301	3301	3301	3301	3301	3301	3301	3301	3301	3301	33456
OTHER FINANCIAL COST	220	330	330	396	440	484	484	484	572	627	627	506	5500
DEPRECIATION	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18000
ADMINISTRATION	840	854	868	856	951	1046	1014	1014	1188	1296	1296	1046	12269
OTHER COSTS	5034	5336	4638	3190	3671	4646	4907	4907	7907	8499	8499	5447	66681
GROUP LAY-OFF COST	-	-	435	435	290	-	-	-	-	-	-	-	1160
TURNOVER TAX	7113	10669	10669	17270	19280	21050	20900	20900	24600	27240	27240	21920	228852
TOT. COSTS (INC.TAX)	53469	70135	73648	79961	88802	96618	94157	93433	111102	119796	119796	97493	1098411
INCOME BEFORE TAX	-17077	-15996	-19477	7365	8539	9573	11319	12008	12839	17380	17345	13047	56864
CUM INCOME BEF TAX	-17077	-33073	-52551	-45186	-36647	-27074	-15755	-3747	9092	26472	43817	56864	-
INCOME TAX PREPAYMENT	0	0	0	0	0	0	0	0	0	0	1527	5219	6746
CUM INCOME TAX PREPAYMENT	0	0	0	0	0	0	0	0	0	0	1527	6746	-
DIVIDEND	172	172	172	172	172	172	172	172	172	172	172	172	2064
NET INCOME	-17249	-16168	-19649	7193	8367	9401	11147	11836	12667	17208	15646	7655	48055



CASH FLOW ANALYSIS WZT ELEMIS 1992

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Tot 1992
RECEIPTS	36392	54139	19495	65874	90809	100439	105964	105441	111916	128596	137141	127830	1084035
- 1991 A/R	0	0	10000	10000	10000	10000	0	0	0	0	0	0	40000
ADD TRADE DEPOSIT	0	0	0	0	0	0	0	0	0	0	0	0	0
ADD BILL OF EXCHANGE	0	0	0	5000	5000	0	0	0	0	0	0	0	10000
ADD BANK CREDIT	0	0	0	32000	0	0	0	0	0	0	0	0	32000
ADD BACK DEPR	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18000
<b>TOTAL CASH INFLOW</b>	<b>37892</b>	<b>55639</b>	<b>30995</b>	<b>114374</b>	<b>107309</b>	<b>111939</b>	<b>107464</b>	<b>106941</b>	<b>113416</b>	<b>130096</b>	<b>138641</b>	<b>129330</b>	<b>1184035</b>
LESS MATERIAL EXPEND	30440	43114	43788	15295	47584	52682	55248	53583	56831	65049	68495	64089	596198
LESS COSTS EXCLUDING INTEREST AND MATERIAL COSTS	15693	16129	15890	13505	15238	16186	16373	15649	19875	20760	20760	16996	203054
LESS 1991 A/P	0	0	0	0	15000	10000	10000	10000	0	0	5000	10000	60000
LESS LOAN REPAYMENT	0	0	0	0	0	5566	0	10666	10666	10666	0	5566	43130
LESS INVESTMENT	0	0	0	0	0	0	0	0	0	0	0	0	0
LESS INTEREST PAID	0	0	0	4600	0	2188	13800	0	0	12283	0	491	33362
TURNOVER TAX PAID	9416	8322	10669	12914	17953	19882	20999	20900	22158	25498	27240	25431	221383

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Tot 1992
LESS INCOME TAX PREPAYMENT	0	0	0	0	0	0	0	0	0	0	0	3054	3054
LESS DIVIDEND	172	172	172	172	172	172	172	172	172	172	172	172	2064
<b>TOTAL CASH OUTFLOW</b>	<b>55721</b>	<b>67737</b>	<b>70519</b>	<b>46486</b>	<b>95948</b>	<b>106676</b>	<b>116592</b>	<b>110970</b>	<b>109702</b>	<b>134428</b>	<b>121667</b>	<b>125799</b>	<b>1162245</b>
<b>NET OPER CASHFLOW</b>	<b>-17829</b>	<b>-12098</b>	<b>-39524</b>	<b>67888</b>	<b>11361</b>	<b>5262</b>	<b>-9129</b>	<b>-4029</b>	<b>3714</b>	<b>-4332</b>	<b>16974</b>	<b>3531</b>	<b>21790</b>
<b>CUM OPER CF</b>	<b>-17829</b>	<b>-29928</b>	<b>-69451</b>	<b>-1563</b>	<b>9798</b>	<b>15060</b>	<b>5931</b>	<b>1902</b>	<b>5617</b>	<b>1285</b>	<b>18259</b>	<b>21790</b>	<b>-</b>

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CENTRAL EUROPE TRUST

**Whole Enterprise Balance Sheet**  
(mln zl)

Assets	31.12.89	31.12.90	30.09.91
<b>Fixed assets</b>			
Tangible	10921	253708	245391
Intangible	12045	9275	11393
Separate fund	20587	256721	247288
Capital expenditure	7291	19341	26462
Share in others	229	5282	5280
<b>Total fixed assets</b>	<b>51073</b>	<b>544329</b>	<b>535814</b>
<b>Current Assets</b>			
Stocks	57355	192913	186204
Accounts receivable	66738	129145	135096
Cash	12042	16645	10368
Deferred charges	-	2965	7138
<b>Total current assets</b>	<b>136135</b>	<b>341668</b>	<b>338806</b>
<b>Total Assets</b>	<b>187208</b>	<b>885995</b>	<b>874620</b>

Liabilities	31.12.89	31.12.90	30.09.91
<b>Capital</b>			
Enterprise fund	17614	254703	266100
Founder fund	3231	19845	19167
Separate fund	20587	256721	247083
Workers fund	597	955	5416
Accumulated income	27	202	30204
<b>Total equity</b>	<b>42056</b>	<b>532426</b>	<b>567970</b>
<b>Short term liabilities</b>			
Accounts payable	81468	217356	383378
Other payable	-	-	-
Short term payable	8224	68256	77409
Short term loan	150	-	500
Overdraft	16	-	24334
Deferred charges	9	-	-
<b>Long term liabilities</b>			
Long term debt	5105	3399	3219
Long term loan	11447	14132	14132
Deferred income	324	-	97
Reserves	56	413	476
Non distributed income	32353	50013	(96895)
<b>Total liabilities</b>	<b>145152</b>	<b>353569</b>	<b>306550</b>
<b>Total</b>	<b>187208</b>	<b>885995</b>	<b>874620</b>

Source: WZT Elemis, CET Analysis

**Whole Enterprise Income Statement**  
(mln zl)

	31.12.89	31.12.90	31.12.91
Sales	220988	997747	938629
Sales Tax	(44817)	(196423)	(116003)
Cost of Sales	(95781)	(610759)	(859236)
Gross Margin	80400	190565	(36610)
Less Depreciation	745	9281	22746
Operating Income (loss)	79655	181284	(59356)
Less Interest Paid	3484	44974	51332
Other Income (loss)	9202	(26372)	56072
Income (loss) before Tax	85373	109938	(166760)
Dividend	(1408)	(3113)	(3744)
Income Tax	(35109)	(52329)	-
Excessive Wages Tax	(3243)	(2062)	-
Other	-	-	-
	45633	52434	(170504)

Source: CET Analysis

Appendix...

**WZT ELEMIS USES THIRTEEN SEPARATED PROPERTIES. TEN OF THEM ON THE BASES OF EXTERNAL USAGE RIGHT, AND THREE ON THREE ON THE BASIS OF CIVIL LAW AGREEMENTS**

**External Usage Right**

Property	Area (m <sup>2</sup> )
Matuszewska 14	224,462
Zabraniecka	173,335
Zabraniecka 82	49,698
Kawęczyńska 36	9,381
Odróża 13	16,656
Wynalazek 4	10,426
Płońsk, Wyszogrodzka 59	26,290
Parczew, Stażacza 11	1,618
Parczew, Laskowskiej 1	50,807
Zakopane, Chotarz 1026	1,141

**Civil Law Agreements**

Property	Area (m <sup>2</sup> )
Stare Jablonki	34,500
Stare Kietbonki	38,000
Zabraniecka 37/41	13,000

Source: WZT Elemis, CET Analysis

Macroeconomic Factors... Introduction...

**MACROECONOMIC ISSUES AND OBJECTIVES DISCUSSED IN THIS SECTION INCLUDE THE FOLLOWING:**

- A. The world's industrial policy:
  - 1. Reasons behind industrial policy
  - 2. Selection of firms
  - 3. Ways and means of influencing industrial structure
  - 4. Japanese example:
    - Institutional support structure - MITI
    - Mechanisms behind long-term growth strategy
    - Proexport promotion methods
  - 5. Export stimulation in the US:
    - Role of the commercial section in the US embassies
    - Involvement of government agencies
  
- B. Poland's industrial policy:
  - 1. Development of an industrial policy
  - 2. Objectives of an industrial policy
  - 3. Policy of Polish government
  - 4. Assessment of other options

Source: CET Analysis

**ALTHOUGH A PRECISELY DEFINED NATIONAL INDUSTRIAL POLICY (LONG-TERM GROWTH STRATEGY FOR THE WHOLE ECONOMY), IS NOT PRACTISED WORLD-WIDE, SOME COUNTRIES (JAPAN, FRANCE, KOREA) EXPERIENCED SUCCESS USING THIS TYPE OF APPROACH**

These countries claim that government must take protectionist steps to increase employment and secure the development of diversified high-quality production in order to be competitive in the domestic and foreign markets. The possession of the latest technologies and methods of production and the ability to compete globally is more important for the country's success than benefits from specialisation in particular production. Industrial policy is aimed at influencing industry structure (promotion of some branches and de-emphasis of others) using different means and methods. The problem exists in selecting promising and declining branches. Following are some commonly used steps:

1. Primary ones:
  - high level of profitability in the domestic and global scale
  - critical role in scientific and technical progress and development
  - importance for competitiveness of the country in world markets
  
2. Secondary ones:
  - technological maturity
  - capacity to create new employment and improve the balance of payments
  - Investment efficiency
  - work productivity
  - Linkage with other branches

Offensive government activities also contribute to the overall protectionist policy aiding domestic producers against foreign competitors. Barriers can be raised in such areas as: product or plant safety, product testing, and pollution control. this policy should not consist of radical administrative solutions such as e.g. high customs duty for imports which can cause deviations in international trade.



**JAPAN IS THE MOST SIGNIFICANT AND INTERESTING EXAMPLE OF A COUNTRY WHICH PREPARES AND IMPLEMENTS A DETAILED INDUSTRIAL POLICY PLAN. INSTITUTIONAL STRUCTURES WERE ESTABLISHED IN ORDER TO DEVELOP AND SUPPORT THIS POLICY**

The basis of the industrial policy are created by MITI (Ministry of Foreign Trade and Industry). MITI mobilises and allocates resources in the industry through various ways:

1. Direct:
  - A. By export and import controls
  - B. By anti-dumping regulations
  - C. By anti-monopoly laws
  - D. By restrictive state requirements concerning environmental protection
  
2. Indirect:
  - A. By providing the private sector with data about future industry growth trends. The information is gathered and transferred systematically with long-term development and structural changes analysed periodically. MITI suggest relevant steps to be taken by the affected firms. Such a system is driven the information revolution. Such information is useful for the private sector in developing short and long-term strategic decisions. The government, on the other hand, acts as an supporting instrument in the following manner formulating the principles of a fiscal, monetary policy, credit rates, value of domestic currency, customs regulations and strategic decisions regarding state investment in various industrial sectors and infrastructure projects corresponding to the long-term government policy
  
  - B. By using financial instruments such as: reductions in taxes and depreciation, lower-interest rate credits, government guaranteed loans
  
  - C. By offering permanent consultancy and information exchange between MITI and the management of private firms. These contracts are maintained "day by day".

## BEHIND THE SUCCESSFUL JAPANESE INDUSTRIAL POLICY IS ITS MULTI FACETED STRATEGY

Key factors:

1. Import of the latest technologies is paid by receipts from licensed goods sales. The application of the latest technologies was possible due to the government support which secured the transfer of licence fees and the existence of highly-qualified staff developed through considerable expenditures on science and staff training
2. Development of domestic technologies as a result of preferential credits, reductions in taxes, strategic government subsidies
3. Anti-monopoly regulations, liberalisation of trade and capital transfer
4. Mergers of companies to improve their international competitive position
5. Liquidation of unprofitable firms after the staff was retrained and qualified for new jobs
6. Introduction of new management system characterised by three aspects:
  - A. Capacity of increase employment as a result of improving efficiency
  - B. Permanent dialogues and consultations with employees on ways and means to improve productivity
  - C. Equal division of additional profits achieved through improvements in work productivity (gains are then divided among employees, management and owners)
7. Proexport promotion consists of the following:
  - A. Reductions in taxes and depreciation fro proexport production
  - B. Reductions in taxes for promotion of technology export
  - C. Credit preferences and insurance system for proexport production
  - D. Export discipline through anti-dumping laws
  - E. Precise definition of export and import firms status
  - F. Development of perpetual international marketing through "JETRO" -government agency does global market research through Japanese embassies

Source: CET Analysis

Appendix... Macroeconomic Factors...

**FOREIGN TRADE IS PERCEIVED AS A MAJOR FORCE BEHIND THE ANTICIPATED U.S. ECONOMIC RECOVERY. TO IMPROVE THE INTERNATIONAL COMPETITIVE POSITION OF AMERICAN FIRMS, THE U.S. GOVERNMENT IS SUPPORTING EXPORTS THROUGH THE FOLLOWING MEANS:**

In Japan, the American Embassy is increasing the number of commercial attaches to change unfavourable ratios presented below:

	U.S.	Britain	Germany	France	Italy
Business executives in Japan	3233	999	446	313	90
Number of executives per one commercial attache in Japan	62.17	21.26	9.30	5.80	2.31

Increased commercial staff is necessary to assist and promote American businesses abroad by such means as, among others, low interest government loans or legal advice

American export policy is focusing on the following areas:

- A. Budget of every export programme needs to be increased
- B. Development and implementation of an overall strategy
- C. Formal coordination between the public and private sectors

Export activities are supported by 10 government agencies concentrating on the following:

- A. Encouraging exports to less developed nations
- B. Constantly searching for new export opportunities
- C. Providing export insurance
- D. Promoting exports by particular sectors such as agriculture or small business
- E. Financing exports through such institutions as the Export-Import Bank of the US which gives favourable loans and loans guarantees to exporters
- F. Supporting export efforts thorough active involvement of government trade advisers and analysts for specific industries

American agriculture benefits greatly from huge export promotion programme. Food accounted for one-tenth of the U.S. exports, but received three-quarters of the government's export assistance outlays

Source: CET Analysis

CENTRAL EUROPE TRUST

**TO PROMOTE EXPORTS AND PROTECT VULNERABLE DOMESTIC PRODUCERS, THE GOVERNMENT SHOULD DEVELOP A COHERENT INDUSTRIAL POLICY ENCOMPASSING KEY INDUSTRIAL SECTORS**

The process of creating a national industrial policy should consist of the following steps:

- A. Establishing the main ministry (e.g. the Ministry of Economy or the Ministry of Industry) responsible for providing incentives and coordinating policy with national industry
- B. Creating negotiating groups responsible for the nature of this policy. This may include government members, industry experts, trade unions representatives, main parties leaders, local authorities, academic figures etc.
- C. Developing foundations of the industrial policy and agreeing on firms to receive promotion efforts and protectionism
- D. Development of long-term industrial policy strategy through information gathering and sharing with management of firms

The main objective of a coherent industrial policy is the urgent task of ensuring stability for the whole economic system such as providing market players with information about conditions and requirements for long-range activities. This information should favour lowering of investment risk, gradually increasing production, and encouraging foreign capital investment in Poland. It must be stressed that the basis of a long-term strategy are not only addressed to the market players, but also serve as a benchmark for government. As a result of this policy, the government has an impact on policies concerning fiscal, credit, foreign trade, rate of exchange that influence free market activities and long-term growth of the whole economy. Government's policy should be addressed directly to the firms in particular branches and not to the sectors as the whole. The task is to choose the best and the worst enterprises and use appropriate methods.

## AN EFFECTIVE ECONOMIC POLICY IN POLAND SHOULD INCLUDE A VIBRANT EXPORT SECTOR

Policy proposed by the Olszewski government in February 1992 and rejected by the parliament consisted of the following:

- A. Return of turnover tax for exporters
- B. Reductions in excessive wages tax for exporters (0.5% for each per cent of exports share in total sales)
- C. Easier access to foreign sources of capital with foreign credits guaranteed by the government
- D. Decrease in dividend level charged from state owned enterprises to 10% of the enterprise fund
- E. Simplifying privatisation procedures and solutions to the reprivatisation problem
- F. Restructuring of state owned enterprises' indebtedness involved in export
- G. Commercialisation of companies where revenues from exports exceeds 30% of total revenues from sales
- H. Reductions in income tax for companies undertaking activities in high unemployment areas
- I. Raise turnover taxes on alcohol, tobacco, petrol and luxury items to improve state budget

Other possible measures to support export involve:

- A. Temporal reductions in custom duties fro imported machinery and equipment not produced in Poland with simultaneous increase in duties for consumer goods
- B. Monitoring rates of exchange that is crucial to an effective export policy
- C. Investment reductions in income taxes fro domestic export firms
- D. Fiscal equalisation of state owned enterprises and private firms
- E. Lowering interest rates for investment credits. Banks taxes can be reduced to compensate for lower profits from lenders
- F. Replacing regulations regarding depreciating useless assets
- G. Further reductions in excessive wages tax
- H. Preferential interest for loans involving restructuring projects
- I. Extension of credit repayment period