Case Studies on Impediments to Exports in Small Transition Economies

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Volume I

János Gács (Editor)

WP-96-145
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1 Introduction

This series of enterprise case studies grew out from a 1995-1996 research of the Economic Transition and Integration Project of IIASA. This research program was called Impediments to Exports in Small Transition Economies. It acknowledged the importance of export development for the recovery of the economies of Central and Eastern Europe following their deep transformational recession in 1990-1994. The main goal of the study was a systematic empirical analysis of the different kinds of impediments to exports in various small East European countries.

The project included the coordinated elaboration of country studies for seven small transition economies (STEs) and the writing of three topical studies. Originally eight countries were selected: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Romania, Slovakia and Slovenia. The Czech country study, however, despite all efforts, was not completed successfully. Nevertheless, the topical studies (one dealing with government efforts in support exports, another with the impact of FDI on exports, and the third analyzing impediments to recovery of STE exports to Russia) took into account also the Czech experience.

The authors of the country studies and the author of the topical study on Russia were requested to base their work on 20 enterprise case studies each (eventually the Russian study was based on 10 cases). Before the start of the research a common scheme of the enterprise case studies was discussed and agreed upon with the authors at a workshop in January 1995 at IIASA, Laxenburg. After completing their work the authors were asked to supplement a short version of their case studies to their main text. The research results were discussed at a second workshop at IIASA on the Summer of 1995. It was found that not only the main studies were worth publishing but also the underlying case studies. It was decided that, due to the length of the full text, two related publications would be arranged, one book made up of the country studies and topical studies and another of the enterprise case studies.

The first book is being published by a commercial publisher: Cooper R. and Gács, J. (Eds.) Trade Growth in Transition Economies: Export Impediments for Central and Eastern Europe, Edward Elgar, Aldershot (forthcoming in 1997). The second publication is the present series of case studies published by IIASA which is available for readers of the Cooper and Gács (1997) book on request at the cost of post and package.

The Cooper and Gács (1997) book is considered an independent volume that can be read separately, without the accompanying case studies. The interested reader, however, would learn more about the topic and the world of enterprises in the respective countries if he or she reads some of the case studies either randomly or by systematic selection. The case study publication is obviously less compact and less analytical than the book with the studies. It is a background material that probably nobody would read from cover to cover. Its readers are strongly advised to get and read the Cooper and Gács (1997) book with the country and topical studies. Nevertheless, specialists of enterprise behavior or country specialists would probably be interested to read some of the enterprise case studies in themselves.

Because this series of case studies are considered an accompanying material to the Cooper and Gács (1997) book, and because of limited space we do not repeat here the assumptions and methodological considerations of the research project on Impediments to Exports. That is covered in the Introduction and Summary chapter of Cooper and Gács (1997). In order to understand the, sometimes hidden, structure of the case studies, we reproduce here, however, the common scheme of the Setup of the Enterprise Case Studies and the Checklist of Questions that the authors of the enterprise case studies were requested to use when preparing the cases.

Despite the common scheme that was used the readers may find the case studies highly diverse in respect to length, structure and content. This is due to several reasons: partly to differences in access to the enterprises and to enterprise data in the different countries; to differences in the development of the individual economies; and due to differences in the preferences and style of the authors. Since the case study publication was intended to be only an accompanying material the editor did not push the authors to further complete and refine their case studies and thus making the publication more homogenous. In fact, even language editing was minimal, just to ensure legibility.

Access to enterprise managers and enterprise data has become increasingly difficult in East Central Europe in the course of economic transition. The authors made strong efforts to get reliable, consistent and publishable information from those enterprises that were the target of the study. Many times enterprise managers declined to give information, especially if the enterprise was not successful in the course of transformation or in its export performance. For this reason it is obvious that our sample has an unintended bias towards better performing enterprises. Several enterprises did not agree to publish their names: in these cases the authors just gave numbers or abbreviations for the identification of the individual firms (see the Bulgarian, Romanian and the Slovenian cases). Due to technical reasons, the author of the Russian topical paper did not elaborate verbal case studies, but chose ten foreign trading companies and had their managers filled out a questionnaire about the characteristics of their trade with the selected East and Central European economies. In the last chapter the results of this survey are presented.

2 Common Schemes Used for the Elaboration of the Case Studies

(A) The Setup of the Enterprise Case Studies

1. Selection of enterprises

When selecting the enterprises the following criteria is to be used. (Of course, even these do not ensure that the sample will be representative.)

- Enterprises should be selected that are currently (or were in 1990) non-marginal exporters (at least 5% of output exported, some of the enterprises more than 20%).
- They are exporters of manufacturing products or services. Some of them should export their own products or services, some of them are exporters for others.
- Both exporters to western and former CMEA (USSR) markets should be selected.
- Some new exporters should be selected.
- Both state owned and private firms should be investigated; small, medium and large firms.
- At least one firm should be selected which operates outside the capital.
- At least two joint ventures or fully foreign owned companies should be selected.

2. Commodity orientation

Given their importance in exports, it is advised that producers/exporters of at least five of the following commodity groups should be selected where possible:

Manufacture of chemicals obtained from petroleum (petrochemicals) and from coal (NACE 252)

Iron and steel industry, excluding integrated coke ovens (NACE 221)

Manufacture and assembly of motor vehicles and manufacture of motor vehicle engines (NACE 351)

Manufacture of tools and finished metal goods except electrical equipment (NACE 316)

Manufacture of electrical machinery (comprising electric motors, electricity generators, transformers, switches, switch gear and other basic electrical plant) (NACE 342)

Manufacture of ready made clothing and accessories (NACE 453)

Knitting industry (NACE 436)

Manufacture of mass produced footwear (NACE 451)

Manufacture of wooden furniture (NACE 467)

Slaughtering, preparing and preserving of meat (excluding butchers's trade) (NACE 412)

Processing and preserving of fruit and vegetables (NACE 414)

The above 11 commodity groups made up 48% of the CEEC manufacturing exports to EC in 1993, and 46% of the growth of CEEC manufacturing exports to EC from 1988 to 1993.

3. Standard information to collect about the enterprises (see also check list below for details)

3.1 Characteristics of the enterprise in 1990–1994: Size, date of birth and consecutive steps of transformation, ownership and organization, main products, main markets, performance (output, employment, profit, indebtedness).

3.2 Export orientation: traditional or new; is exporting importance for the overall production and profits of the firm; East or/and West, target countries, direct exporting or through mediators, own product or production for contract (subcontracting), products how much developed for foreign markets, characteristics of export strategy in 1990–2000 (competition in price, quality, terms of delivery, finance; own brand, acquired brand, or generic product; structure of markets and mediators), assessment of competitive characteristics of products and the enterprise.

3.3 Domestic environment and exports: relation of domestic sales and export sales (similarly or complementary of products; comparative resource intensity, costs and profitability), export financing and insurance (production pre-financing, export revenue pre-financing, insurance against default or political risk), access to necessary inputs, the impact of government regulations, the relation to state administration.

3.4 Foreign environment and exports: relation to foreign customers, banks, competitors and other partners (subcontractors, license owners), nature of mediators (exclusive or competing agents at home or abroad, joint ventures abroad, assembly shop abroad), the system of collecting information on products and markets; foreign regulations impeding exports; market structure (of the foreign market), assessment of risks and prospects in the different markets.

(B) Suggested Checklist of Questions for the Enterprise Case Studies

1. Background information

(a) Date of establishment

(b) Output capacity, delineated according to main products

(c) Size of labor force

(d) Estimated size of the capital stock

(e) Traditional markets

(f) Total sales since 1990

(g) Size of profit since 1990

(h) Level of indebtedness

2. Structure of ownership

(a) Steps of transformation from 1988–1995

(b) Current structure of ownership

3. Export orientation now and in retrospect (1988–1995)

(a) How much of total sales are for export markets (in percentages)?

(b) To whom are you exporting (what kind of firms or organizations)?

(c) Where are exports going (by country and region)?

(d) Is exporting done through direct contact or through mediators?

(e) Do you export your own products or product on contract by your foreign partner (subcontracting, outward processing, job work)?

4. Production for export

(a) Is production oriented toward export markets? If so how, and to which markets?

(b) Is there a company strategy which is pushing for exports? If so then to which markets?

(c) What is the current competitive strength of your products/your enterprise in foreign markets and how do you expect these advantages change in the next five years?

(d) Are products produced for export different in terms of input usage (or factor intensity) than those produced for the domestic market?

(e) What is the difference between the profitability of goods produced for the domestic market versus those produced for the foreign market?

(f) Does production for the domestic market support exporting activities (through differences in quality, complementary relations, cross-financing)?

5. Domestic environment for exports

(a) Characterize the domestic environment for exports in terms of export licencing, the tax system, incentives for exports, availability of credit for exports, and availability of insurance.

(b) Are there impediments to get the necessary inputs? Is there preferential treatment when purchasing inputs for exports?

(c) What is the impact of government regulation on the choice whether to export or not, or for the choice of product?

(d) Do good relations with state administration help much when arranging export deals?

6. The foreign environment for exports

(a) What is the relationship between your foreign customers, mediators, and your firm?

(b) Who are your competitors abroad?

(c) How do you collect information about your foreign markets?

(d) Are foreign regulations impeding exports? If so how (directly through tariffs and quotas or indirectly through quality standards, dumping regulations, or health standards)?

(e) How much do conditions of payment by foreign partners affect your decision to export?

(f) Have the Europe (Association) Agreements of your country (if applicable) affected your choice of imports or your choice of targeted markets?

(g) How is the market structure of foreign markets affecting your export performance?

(h) Is your firm a joint venture or a fully foreign owned company? If so, how does your foreign partner's presence affect:

   a. Your financial situation?
   b. Your access to foreign markets?
   c. Your access to inputs, especially high technology inputs?
   d. Retraining firm workers with more efficient techniques?

3 BULGARIA

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Table 3.1 Profiles of the companies covered in the survey.

Company	Sector	Ownership[a]	Legal status[b]	Size[c]	Export/ sales ratio (%)	Main markets
B1	Trade	S	SOE	M	40–45	UK, USA, Japan, Canada, Australia
B2	Mechanical eng.	S	LLC	M	65–70	Germany, Italy, Greece Turkey, Algeria, Chile
B3	Clothing	S	JSC	L	95	Netherlands, UK, France, other EU
B4	Clothing	S	LLC	M	65	Germany
B5	Electrical eng.	P	P	M	20	Russia, Poland, Macedonia
B6	Trade	S	LLC	S	60–75	Russia, Turkey, Germany, Czech Republic, Netherlands
B7	Trade	P	LLC	S	95	Russia, Italy, Macedonia Albania
B8	Trade	P(JV)	LLC	S	100	Balkan countries
B9	Trade	P	LLC	S	100	Poland, Czech Republic, Balkan countries, Ukraine, Slovakia, Hungary
B10	Chemical ind.	M(P,S)	LLC	S	10	India, Ukraine, Jordan, Syria, Morocco, Italy
B11	Timber ind.	S	LLC	M	80	Germany, other EU
B12	Mechanical eng.	S	JSC	M	70	Russia, Ukraine, Albania, Macedonia, Kazakhstan
B13	Textile ind.	S	JSC	L	35–40	Germany, Italy, Greece, Syria, Hungary
B14	Metal products	S	JSC	L	25–30	Western Europe
B15	Textile ind.	S	LLC	M	95	Germany, Italy
B16	Footwear ind.	S	JSC	M	80	UK, Canada, USA, Russia, Germany, Arab countries
B17	Chemical ind.	S	JSC	L	90	China, India, Romania Brazil, Greece, Turkey, Macedonia
B18	Tourism	S	JSC	M	70	Germany, Italy, UK, USA

[a] S = State owned; P = Private; M = Mixed ownership; JV = Joint venture with foreign participation.
[b] JSC = Joint-stock company; LLC = Limited liability company; SOE = Unincorporated state-owned enterprise; P = Partnership.
[c] L = Large (>1000 employees; M = Medium-size (50–1000 employees); S = Small (<50 employees).

Company Code: B1

Background Information

Established: 1947.
Sector: Trade.
Product mix (main export products): glass and ceramic products, illuminants, souvenirs, carpets, household articles, luggage, small wooden articles, toys.
Performance Data:

		1993
Number of employees	(number)	110
Net sales	(mn. lev)	194.0
Net sales	(mn. USD)	7.02

Legal status: State-owned enterprise. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B1 was established as a specialized foreign trade company (typical of the period of central planning) and has preserved this profile. Since 1991 it develops its own warehouse distribution network; since 1992 it has established its own network of retail outlets. One strategic goal of the company is to expand the distribution network.

B1 is in relatively good financial state with traditional domestic and foreign markets. Thanks to its long-term business contacts, at present it has been able to capture some lucrative assignments such as the exclusive representation of several international brand names in Bulgaria.

Recently, due to the financial squeeze on manufacturers, B1 has made the rather unusual decision to provide finance to a number of its counterparts in order to keep them in operation. Under this scheme B1 pre-pays the value of the goods which it exports after the completion of the product cycle.

The company has an experienced management team which has been able to lead successfully during the turbulent first phase of transition.

Export Orientation

Share of exports in total sales: 40–45%.
Main export markets: before 1990: USSR; currently: UK, USA, Canada, Japan, Australia, Jordan.

B1 was established as a specialized foreign trade company and still maintains this profile. It is not a producer but a mediator for a number of Bulgarian manufacturing producers on the foreign markets. It does not envisage direct or indirect involvement in manufacturing activity.

The Domestic Environment for Exports

As a specialized foreign trade company, B1 reports that one of the main domestic obstacle to its activity is the lack of a system of export insurance or export guarantees in Bulgaria (as well as the lack of any stimuli to export). At the same time, due to the highly uncertain environment in the country, all exporters face serious risks. If the exporter is not able to share some of these risks through a system of export insurance, he may be prone to cancel some transactions.

In the latest years the volume of B1 exports has declined in spite of the fact that there are markets for the traditional export goods, the manufacturers have the capacity to produce and the sales would be profitable for them. B1 considers that one of the most serious problem for its local partners (manufacturers) is the financial squeeze. Many producers are indebted with bad loans and the banks are not willing to extend new credit to them; another problem is the very high cost of credit. As a result, producers face shortage of working capital which results in output decline. Besides, due to the unstable political environment in the latest years, many enterprise managers feel great uncertainty about their positions in the future. As a consequence, they avoid risky operations in general, and pay less attention to long-term decisions.

B1 considers that the existing regulations also create obstacles to exporters. The regulations related to VAT are especially appalling as the trade companies are obliged to prepay the VAT on the exported commodities while its reimbursement after the completion of the export operation usually takes place with substantial delay. In the cases when the merchandise is subject to licensing or registration, there exist many bureaucratic obstacles and formalities. The procedures are slow, the institutions are inefficient and some officials are corrupt.

B1 considers that most of the current obstacles to exports are beyond its control; it has not taken any specifically designed measures to alleviate such obstacles.

The Foreign Environment for Exports

As a traditional foreign trade company B1 has always operated in the conditions of high competition. As the range of exported products is quite diversified, B1 is not always able to keep track of all its competitors; new competitors emerge every day. Therefore the strategy to avoid risky operations is followed. The main policy is to maintain good relations and business confidence with its traditional foreign clients. B1 maintains direct links with its clients abroad and does not rely on mediators.

B1 does not claim obstacles to its trading practice stemming from foreign regulation. It follows closely the state and prospects of its main foreign markets and maintains an information system with marketing data.

Company Code: B2

Background Information

Established: 1892.
Sector: Mechanical engineering.
Product mix: design and manufacture of machinery for the extraction and preparation of ores, machinery for mines, machinery for the ceramic industry, foundries, etc.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	33.3	133.0	176.2	188.3
Total equity	(mn. lev)	14.5	99.0	98.9	98.9
Number of employees	(number)			640	579
Total revenue	(mn. lev)	33.2	41.9	25.8	38.7
Net sales	(mn. lev)	26.8	39.6	17.3	37.5
Net sales	(mn. USD)	1.60	1.70	0.64	0.69
After tax profit	(mn. lev)	0.4	–8.4	–40.5	–17.9
Leverage (commercial debt/total assets)	(%)	26.0	11.9	16.4	10.4

Legal status: Limited liability company (since 1992); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

Historically B2 was established as a typical socialist machine-building giant oriented to the CMEA (mainly USSR) market. It has six main production shops, a design unit and 40 warehouses. B2 is the sole producer of this type of equipment on the Balkans. After experiencing serious difficulties in 1991–1993, since 1994 the company has started to overcome the transformational depression by restructuring and reorientation to new markets. The company's strategy is to preserve its basic production profile, but also to raise its quality and expand the services offered to clients (including maintenance and spare parts).

B1 appears to have come through its most difficult period of transition and to have relatively good future prospects.

Export Orientation

Share of exports in total sales: 65–70%.
Main export markets: before 1990: USSR; currently: Germany, Italy, Greece, Turkey, Algeria, Morocco, Chile, Cuba.

The company is a direct exporter (no mediators). It exports its own products.

Exports are very important for B2 as the local market is very small for its products. After the collapse of the CMEA and the loss of the ex-Soviet market, the company is marketing aggressively its products to other markets and especially in the Balkans and in northern Africa.

Production for Exports

B2 exports both finished and semi-finished mechanical engineering products of its own design and products after the design of their clients (this is not typical outward processing, as B2 only "imports" the design but uses its own inputs).

The quality and the technological level of the export products is not different from those of the products sold on the local market. There is no difference in the input usage and the costs of output sold on the local and on foreign markets; the profitability of domestic sales and exports on average is comparable.

The Domestic Environment for Exports

The lack of export credits and/or export guarantees does not stimulate producers to export if they can market their output domestically.

B2 does not claim serious impediments to its exports stemming from domestic regulation. The most serious intrusions of the state administration in the latest years has been the changing of enterprise managers. There are no impediments to get the necessary inputs.

The company is facing domestic problems with the transportation of its export products which are bulky and require special treatment. The Bulgarian railroad monopoly is not flexible; it does not always meet the transportation requirements and causes delays. Sea shipments are also sometimes delayed. In trying to overcome these obstacles, B2 is re-designing the packaging of its merchandise with the goal to be able to ship all its products in standard containers.

The Foreign Environment for Exports

In general B2 reports good relations with its foreign customers. Lately it reports increased competition on the foreign markets, in particular by manufacturers from other central and eastern European countries.

It considers that its marketing information is insufficient but has not established yet a specialized system for such information. The risks and the prospects of its foreign markets are assessed mainly by expert judgment. Due to the high costs of and the problems related to transportation, the company places a special emphasis on the geographic proximity of its foreign markets and follows the strategy to increase the exports to the nearest markets.

As of the beginning of 1995, B2 does not claim impediments to exports stemming from foreign regulation. But a new EU regulation, due to enter into force in June 1995, is expected to create serious new obstacles to the company's exports to EU-member states. This regulation requires licensing of the exports of machinery set in motion by electrical power. The licenses are expected to be quite expensive and will only be valid for three months; they will have to be renewed subsequently for every quarter. B2 considers the new regulation as a highly restrictive (and protectionist) measure on the part of the EU as it is expected to raise the cost of exports and to reduce the competitiveness of B2's products on EU markets.

Company Code: B3

Background Information

Established: 1947.
Sector: Manufacture of ready-made clothing.
Product mix: men's and ladies' suits, ladies' overcoats, men's shirts, ladies' blouses, skirts, trousers, shorts.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	158.9	282.8	390.1	579.7
Total equity	(mn. lev)	13.6	111.8	157.4	164.8
Number of employees	(number)			1443	1386
Total revenue	(mn. lev)	54.3	73.4	163.4	296.3
Net sales	(mn. lev)	46.9	68.9	79.9	137.6
Net sales	(mn. USD)	2.82	2.95	2.89	2.54
After tax profit	(mn. lev)	-8.3	-33.2	-51.8	-36.1
Leverage (commercial debt/total assets)	(%)	81.5	55.8	46.3	53.5

Legal status: Joint-stock company (since 1993); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B3 is a specialized producer of ready-made clothing and in terms of size it is one of the largest in Bulgaria. It has 8 production shops, and a design unit which is equipped with sophisticated technology. In the past, when the company was oriented to the CMEA markets, most of B3's products were of its own design; now it is mostly outward processing. The company has large (inherited from the past) commercial debt which is now a serious financial burden. At present B3 still does not operate at full capacity and one of the reasons is the difficult access to bank credit. In principle, if the economic environment in the country improves, B3 has good chances to expand its output.

There are a number of manufacturers of ready made clothing in Bulgaria (B3 is one of them) and most of them have followed a similar strategy: to subcontract outward processing traffic with large western manufacturers or distributors of clothing. Most of the Bulgarian clothing manufacturers are not competitors to each other as they usually are linked to a single (and different) western partner. Such a strategy, however, makes the Bulgarian companies rather vulnerable to eventual disruptions on their single markets.

Export Orientation

Share of exports in total sales: 95%.
Main export markets: before 1990: USSR; currently: the Netherlands, UK, France and other EU-member states (almost all exports are directed to the EU).

B3 exports ready made clothing in the form of finished products; 95% of the exports consists of outward processing traffic; the remaining part is own production. The transactions are negotiated directly with the foreign customers.

The company is exclusively export-oriented; it cannot survive without exports. The local market is very limited (as compared to the capacity of the company); besides, local demand is quite depressed lately.

Production for Exports

The quality, the input usage and the costs of the export products is the same as those of the products sold on the local market; the profitability of domestic sales and exports is similar.

The export strategy relies on high competitiveness based on quality, competitive prices based on low costs (mainly labor), reliability of shipments to customers and brand name. B3 expects to maintain its competitive edge in the future.

The Domestic Environment for Exports

The main impediment to exports reported by B3 is the high cost of credit (the average nominal interest rates in commercial credit in 1994 were above 90%). Due to the technological nature of the production cycle (with an average duration of 6 months), the company needs substantial amounts of working capital which it cannot afford at the current level of interest rates. This limits the potential of the company to produce and export own production and is one of the reasons for the almost exclusive orientation towards outward processing (where the working capital requirements are lower). B3 does not report other domestic impediments to the supply of the necessary inputs or impediments related to government regulations.

The Foreign Environment for Exports

B3 has established and maintains good, long-term relations with a number of stable and reliable customers from EU-member countries (the EU is its main market now). The main competitors on these markets are manufacturers from other central and eastern European countries as well as from south-east Asia.

The company is expanding its marketing department which collects information from catalogues and other publications as well as from visits abroad.

The most serious foreign impediment to exports reported by B3 are the quantitative restrictions (export quotas) in the EU (on all ready made clothes) and in northern America (on some types of clothes). Some restrictions can be avoided through outward processing.

Another serious obstacle to B3's exports are the UN sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro) and, in particular, the ban of transit transportation through its territory. This causes delays in the transportation and raises its costs.

Company Code: B4

Background Information

Established: 1928.
Sector: Manufacture of ready-made clothing.
Product mix: ladies' suits and overcoats, blouses, skirts, ladies' trousers, accessories.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	28.5	71.2	69.4	101.8
Total equity	(mn. lev)	7.5	44.0	44.0	44.4
Number of employees	(number)			980	927
Total revenue	(mn. lev)	59.6	104.2	120.0	249.5
Net sales	(mn. lev)	54.7	103.4	119.0	244.6
Net sales	(mn. USD)	3.28	4.43	4.30	4.52
After tax profit	(mn. lev)	5.0	9.2	6.0	29.5
Leverage (commercial debt/total assets)	(%)	0.0	0.0	1.4	0.0

Legal status: Limited liability company (since 1991); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B4 is another large producer of ready-made clothing, specialized in ladies' garments. Its production facilities are located in a 5-storey building; apart from that it has a 4-storey warehouse and an administrative building. Similarly to B3, B4 is "linked" to one large western client (a German company) which constitutes its main market. A privatization procedure is underway with the company management as one of the main bidders.

Export Orientation

Share of exports in total sales: 65%.
Main export markets: before 1990: USSR; currently: Germany. B4 exports only finished products — ready made clothing — almost exclusively through outward processing. No mediators in exports.

Production for Exports

The quality and technological level of the goods produced for exports is the same as of those produced for the local market; no difference in profitability on the two markets.

The company achieves competitiveness through quality (and price/quality ratio) and brand name.

The Domestic Environment for Exports

B4 does not claim any serious domestic obstacles to exports stemming from the macroeconomic environment or regulation. The company is virtually debt free and is not affected by the high cost of credit. No impediments to the access to the necessary inputs has been reported.

B4 suffers, however, from lack of marketing skills and experience in operating in foreign markets. Aggressive advertising and marketing have been neglected. The main resulting problem is the lack of diversification in its exports which makes the firm vulnerable to external shocks.

The Foreign Environment for Exports

Currently B4's relations with its foreign clients are good and stable. They are based on long lasting past experience and mutual trust. The company's main competitors on the export markets are manufacturers from other central and eastern European countries as well as from Bulgaria. B4's competitive edge is the price/quality ratio.

B4 considers that its available information is not sufficient and that it should develop further its marketing and managerial skills which would enable to diversify its markets. It plans specialized training of its staff to improve performance.

The existing quantitative restrictions on textiles are obstacles to the further expansion of exports to the EU and northern America.

Company Code: B5

Background Information

Established: 1990.
Sector: Manufacture of telecommunications equipment.
Product mix: automatic telephone exchanges, telephone concentrators, peripherals, specialized telephone systems.
Performance data:

		1994
Number of employees	(number)	65
Profit is positive and growing		

Legal status: partnership.
Ownership: 100% privately owned.

Basic Profile

B5 is one of the few private Bulgarian manufacturers in the sector of telecommunications equipment. It was established by a group of engineers and managers who left a large state-owned company in the same branch. The company has one shop-floor; it operates its own design unit. All final products are of the company's own design.

Since its establishment B5 has focused its activity in a specific product niche: small telephone exchanges suitable for small settlements. Thus far it is the sole manufacturer of these products in Bulgaria; the company has been able to find external markets as well. At present B5 is well positioned on its markets but needs new investments in order to be able to preserve its competitive advantages.

Export Orientation

Share of exports in total sales: 20%, growing.
Main export markets: Russia, Poland, Macedonia. B5 exports finished products in the form of telecommunications equipment. Exports are negotiated directly with the customers.

B5 considers exports as vital for its future expansion. It follows the strategy of boosting exports to the current markets and entering new markets (especially in northern Africa).

Production for Exports

B5 is in essence an assembling company. It uses as inputs high-tech imported components and adds value in design and assembling. The company products are almost exclusively of custom-tailored design to reflect specific demand of different customers. This leads to certain quality differences in the products for exports and for the domestic market (as well as between products exported to different markets).

B5 considers that its competitiveness is based on a favorable for their customers price/quality ratio. The company strategy is to establish its brand name.

The Domestic Environment for Exports

B5's exports have not been subject to government regulation. The company has not been a recipient of export stimuli either. It does not report impediments in getting the necessary inputs (70% of the inputs are imported).

The main obstacle to the growth of exports is the lack of financial resource to finance the company's expansion. Since its establishment, B5 has not used bank credit and has financed its growth exclusively through its own retained earnings. Bank credit is: 1) very costly for investment purposes; 2) difficult to access, especially for small private firms which have little to offer as collateral.

According to B5, the state has done very little to stimulate small private manufacturing firms to grow and export; the government should consider certain preferential terms for new investment as well as some forms of export guarantees.

The Foreign Environment for Exports

B5 evaluates its business relations with its foreign clients as excellent. The company has found certain niches on the markets where there is little competition at the moment but this may change in the future.

B5 has established two branches in Russia which operate as its distributors on the Russian market. It plans to expand its exports to Russia and to some of the former Soviet Union states and to enter some new markets in northern Africa.

The company's exports have not been subject to foreign government regulations. It uses its own resources to collect and process the necessary marketing operations.

B5 does not report any serious foreign impediments to the growth of its exports.

Company Code: B6

Background Information

Established: 1965.
Sector: Trade (greenhouse agricultural products).
Product mix: cut flowers, seeds, greenhouse technologies.
Performance data:

		1994
Number of employees	(number)	15
Net sales	(mn. lev)	55
Net sales	(mn. USD)	1.02
Gross profitability of sales	(%)	15–20

Legal status: Limited liability company (since 1994); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B6 is an offspring of the monopolistic socialist foreign trade company in the branch. During the first phase of transition B6 managed to preserve and expand its foreign business contacts.

In this period B6 set in motion one substantial change in its business profile by undertaking a closer involvement in the production process and has transformed itself from a purely trading company into a producing-and-trading firm. This is done by subcontracting the process of flower growing to other companies under B6's trade mark. In this way B6 is able to supervise the production process and to monitor the quality.

Export Orientation

Share of exports in total sales: 60–75%.
Main export markets: Russia, Turkey, Germany, the Netherlands, Ukraine, the Czech Republic.

The company exports greenhouse agricultural products and seeds. Produce of better quality are selected for exports. The profitability of the export market is higher than that of the domestic market.

Exports are considered vital for the company due to its share in the sales and because of higher profitability. Its policy is to expand exports to its current markets and enter new markets (Spain, India, Slovakia).

B6 thinks that its competitiveness is generated by the quality of the exported products, the good technological level as well as by its favorable price/quality ratio. Also, some of the products are considered to possess unique qualities which are not matched by its competitors.

The Domestic Environment for Exports

B6 considers the domestic regulations on VAT (requiring the prepayment of VAT by exporting trade companies) as a serious impediment to its export activity. It results in raising the export price and reducing the competitiveness on the foreign markets.

The company finds the existing customs and administrative procedures rather bureaucratic and time consuming.

The Foreign Environment for Exports

The main competitors of B6 on its foreign markets are exporters of similar produce from other central and eastern European countries as well as other Bulgarian exporters. The company puts substantial effort in collecting marketing information from publications and catalogues as well as through personal contacts.

The EU protectionist measures in agriculture are an obstacle to the expansion of the company's exports to these markets.

Company Code: B7

Background Information

Established: 1992.
Sector: Trade.
Product mix: live animals, fresh and processed meat, processed fruit and vegetables.
Performance data:

		1994
Number of employees	(number)	12
Net sales	(mn. lev)	110
Net sales	(mn. USD)	2.02
Gross profitability of sales	(%)	10–15

Legal status: Limited liability company.
Ownership: 100% privately owned.

Basic Profile

B7 is a flexible and dynamic commercial company. It was established by a group of experienced sales experts who capitalized on their long-term foreign business contacts. B7 has established a network of its own sales representatives in the countries which are its main markets. This enables the company to have up-to-date information on the market situation, to work closely with its clients and to monitor its foreign operations.

Export Orientation

Share of exports in total sales: 95%. The company operates almost exclusively on foreign markets; sales on the domestic market are only occasional.
Main export markets: Russia, Italy, Macedonia, Albania. The company is trying to enter the markets of some EU-member states and of the USA.

B7 exports both processed and fresh agricultural products, including meat and meat products, processed vegetables and fruits, etc. The customers are wholesale importers. The company's competitiveness results from a favorable price/quality ratio.

The Domestic Environment for Exports

As many of the Bulgarian food and agricultural producers have financial problems, it is B7's practice to offer some of them futures contracts. However, the high cost of and the difficult access to bank credit creates very serious obstacles to these operations of the company. The financial gridlock in the country impedes also all other activities of B7.

B7 considers that the domestic restrictions on the exports of food and agricultural products are still quite strong (and growing). Besides, the frequent changes in the foreign trade regulations in Bulgaria also hamper the export activities of the company as they raise the riskiness of longer-term commitments.

The customs procedures are very inefficient, bureaucratic and time-consuming which is a serious problem for the exporters of perishable products.

The Foreign Environment for Exports

B7 is trying to establish long-term relations with stable clients. At the start of its activity the company operated on certain niches of some of its foreign markets (the former Soviet Union and the Balkans) but this may change.

The lack of flexibility of payments, the obsolete payment instruments and unreliability of the payments with the other former socialist countries (partly due to the inefficiency and unreliability of the banks) are obstacles to the expansion of exports to these countries (B7 usually insists on payments through direct hard currency transfers when exporting to these countries). The unsettled intergovernmental debts with some of these countries create additional obstacles.

Company Code: B8

Background Information

Established: 1993.
Sector: Trade.
Product mix: flour, fodder, vegetable oil, fruit and vegetable preserves, pharmaceuticals, furniture.
Performance data:

		1994
Number of employees	(number)	6
Net sales	(mn. lev)	45
Net sales	(mn. USD)	0.83
Gross profitability of sales	(%)	5

Legal status: Limited liability company (joint venture).
Ownership: Private; 50% Bulgarian and 50% foreign owned. B8 has a stake in a joint-venture in Albania.

Basic Profile

B8 is specific with the fact that it is a mono-market company: for the time being it operates exclusively on the Albanian market. Its niche their is based on the good business contacts and on the local demand for the exported goods. However, this export orientation makes the company vulnerable. Besides, the Balkan markets are highly uncertain and insecure. Special measures have to be undertaken for the security and the protection of the merchandise during transportation. B8 is aware of these threats and weaknesses and is planning to diversify its export orientation.

Another direction of strategic diversification is the involvement in manufacturing. Actually the joint-venture in Albania is a manufacturing firm producing food items under B8's trade mark. B8 is planning to expand its manufacturing activities.

Export Orientation

Share of exports in total sales: 100%.
Main export markets: the Balkan region; the company plans to start operations in Russia as well. No plans to operate on the domestic market.

B8 exports only finished products (foods, furniture and pharmaceuticals). The customers are wholesale importers. The company relies on competitive price/quality ratios.

The Domestic Environment for Exports

The company finds the domestic environment unfavorable for exporters. There is no system of export insurance or export guarantees (even there are no plans to establish such systems). The government regulation does not provide any incentives or stimuli for the exporters; on the contrary, there are disincentives (for example, the export taxes levied on a number of goods). The export regulations are very changeable and they change for the worse.

The Foreign Environment for Exports

B8 relies on stable foreign partners, in particular those related to its foreign co-owners. For the short period of its existence the company has not encountered impediments to exports stemming from foreign regulation.

Company Code: B9

Background Information

Established: 1990.
Sector: Trade.
Product mix: agricultural products (grains, fresh and processed fruit and vegetables).
Performance data:

		1994
Number of employees	(number)	5
Total assets	(mn. lev)	6.5
Net sales	(mn. lev)	80
Net sales	(mn. USD)	1.47
Gross profitability of sales	(%)	7–8

Legal status: Established as a partnership; in 1991 transformed into a limited liability company.
Ownership: 100% privately owned.

Basic Profile

B9 is a typical small Bulgarian private company. It is mainly a trading company but it also has a small processing unit. B9 was established at the start of the economic transformation and has grown moderately since that time. Its expansion into the European markets is facing difficulties due to the existing restrictions on the imports of agricultural products.

Export Orientation

Share of exports in total sales: 100%.
Main export markets: Poland, Federal Republic of Yugoslavia (Serbia and Montenegro), Ukraine, the Czech Republic, Slovakia, Hungary. The plans for future export expansion include Switzerland and Spain.

The company exports mainly fresh and processed agricultural products. The customers are wholesale importers. Competitiveness is based on price/quality ratio.

The Domestic Environment for Exports

As a specialized exporter of agricultural products B9 finds the inefficiency, inflexibility and the bureaucratic attitude of the customs and of other monitoring agencies (as those of sanitary control) as one of the most serious obstacles to its activity. This is especially damaging with regard to the shipments of perishable products.

B9 suffers seriously from the frequent changes in the Bulgarian export regulations which cause disruptions and sometimes direct losses in its operations.

The local banks are quite inefficient and this often results in substantial delays in payments. This also holds for the banks in the other former socialist countries.

The Foreign Environment for Exports

The main impediment to B9's exports are the restrictions on the imports of agricultural products in the EU and also tariff and non-tariff restrictions on such imports in some central European countries.

Company Code: B10

Background Information

Established: 1991.
Sector: Manufacture of chemical products for agricultural purposes.
Product mix: foliar suspension fertilizers and other biotechnological products.
Performance data:

		1994
Number of employees	(number)	25
Net sales	(mn. lev)	15
Net sales	(mn. USD)	0.28
Gross profitability of sales	(%)	15–20

Legal status: Limited liability company.
Ownership: Mixed: 60% private and 40% municipal.

Basic Profile

B10 was established on the basis of a technological innovation: a very efficient type of natural and ecologically clear biotechnological foliar suspension fertilizers. Since its invention in 1987 the fertilizer has been patented in the UK and B10 was established with the purpose of the commercialization of this invention.

The company has preserved its innovative profile and is continuing its R&D activities in the field of biotechnologies. Up till now B10 has not been able to expand its activities to their full potential mainly due to the difficulties in raising investment finance. Its market positions on the foreign markets (the most promising direction of expansion) are still weak.

Export Orientation

Share of exports in total sales: 10%.
Main export markets: India, Ukraine, Jordan, Syria, Morocco, Italy, USA.

Although the relative level of exports is not very high at present, the company considers exports as a vital element of its strategy for the future. The company has the capacity to increase its output substantially and will rely on the expansion of its foreign markets to do so.

Production for Exports

B10 is a specialized manufacturer of fertilizers of specific application. It exports them in finished or semi-finished form.

The quality, the input usage and the costs of the export products is the same as those of the products sold on the local market; however, there are differences in the packaging which is custom-tailored for the different markets. The export prices are higher than those on the domestic market; however this does not necessarily lead to higher profitability of exports due to the lags in payments and the high cost of credit.

The competitiveness of the company is based on quality, competitive prices, custom-tailored shipments and brand name.

The Domestic Environment for Exports

According to B10, the high cost of credit, necessary for working capital and running costs, is the main impediment to its activity and to its exports. Due to this, at present the company is forced to operate below its capacity; the volume of exports has declined.

B10 reports some difficulties in acquiring the necessary inputs for the various types of packaging required by the different foreign customers.

The company considers that its experience in operating in foreign markets is insufficient and that its marketing skills should be improved. Better advertising, tailored to the specific foreign markets, is also considered essential.

B10 does not report obstacles to exports resulting from domestic government regulation.

The Foreign Environment for Exports

B10 performs its export operations either directly or through mediators but has had problems with some of its clients who turned out not to be very reliable. Its main competitors on the foreign markets are German manufacturers of similar fertilizers.

The company considers that its access to information necessary for operating on foreign markets is limited and this is a hindrance to its operations.

B10 does not report obstacles to exports resulting from foreign government regulations.

Company Code: B11

Background Information

Established: 1935.
Sector: Timber industry.
Product mix: saw-logs, semi finished and finished wood products, joinery components, wood containers, toys.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	2.7	7.6		10.7
Total equity	(mn. lev)	1.1	4.7		4.7
Number of employees	(number)			60	68
Total revenue	(mn. lev)	6.6	7.7		10.7
Net sales	(mn. lev)	5.8	6.8	10	8.4
Net sales	(mn. USD)	0.35	0.29	0.36	0.15
After tax profit	(mn. lev)	0.0	0.0		-1.5
Leverage (commercial debt/total assets)	(%)	13.1	5.0		0.0

Legal status: Limited liability company (since 1992); before that subsidiary of a non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B11 is a traditional timber manufacturer. Historically it was established in a region of forest plantations. The local resources, however, are partly depleted now and B11 has to provide some of its supplies from other regions.

B11 has had serious difficulties in its market adaptation in the period of economic transformation. A more flexible management and a more aggressive strategy towards the potential foreign markets could enable the company to improve its positioning on the market.

Export Orientation

Share of exports in total sales: 80%.
Main export markets: Germany and other EU-member countries.

The company is predominantly export-oriented. The disbanding of the CMEA caused some reorientation of its exports but B11 had been present on the western European markets in the past.

B11 exports finished and semi-finished wood products of own design and manufacture.

Production for Exports

The input usage, the factor intensity and the quality of the goods produced for exports are comparable to those produced for the domestic market. There are no significant differences in the costs and in the profitability.

The competitiveness on the foreign markets is achieved mainly through the prices; the quality is not a decisive factor (in general, the quality of B11's products is considered inferior to the average quality on the western European markets).

The Domestic Environment for Exports

B11 considers the high cost of credit (necessary to cover the running costs) as one of the main obstacles to its performance and hence to its exports. The company reports also some difficulties in the supplies of raw materials.

B11 does not claim any serious obstacles to exports stemming from domestic regulations.

The Foreign Environment for Exports

Most of the exports are direct shipments to traditional foreign customers. Recently the company has attempted to perform additional exports through mediators but they have failed. B11 finds that it has to diversify its foreign markets but at present it lacks the necessary marketing skills. It considers its marketing information as insufficient too. At present, the company has given the highest priority to the task of gaining access to new foreign markets.

Some of B11's traditional export products are at the end of their life cycle and the company will have to upgrade its product mix in order to preserve its foreign markets.

B11 does not claim any serious obstacles to its exports stemming from foreign regulations.

Company Code: B12

Background Information

Established: 1965.
Sector: Mechanical engineering.
Product mix: machinery for food processing, equipment for public catering establishments.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	27.5	121.9	126.7	150.4
Total equity	(mn. lev)	18.7	109.9	109.9	109.9
Number of employees	(number)	505	425	406	372
Total revenue	(mn. lev)	31.0	54.8	56.3	96.6
Net sales	(mn. lev)	27.8	49.9	49.1	92.2
Net sales	(mn. USD)	1.67	2.14	1.78	1.70
After tax profit	(mn. lev)	0.9	1.6	–2.6	2.6
Leverage (commercial debt/total assets)	(%)	13.7	3.5	7.5	11.6

Legal status: Joint-stock company (since 1993); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B12 is the sole manufacturer of equipment for public catering establishments in Bulgaria. In the past it enjoyed a monopolistic position but now this has changed due to the import opportunities. B12 has stayed with its traditional product mix which at present occupies the middle and lower range of the market whereas the highest segments are taken over by high quality imports.

Due to its average quality B12 is only able to export to low-income foreign markets. The company would need substantial investments in order to upgrade its product mix and to compete successfully both on the domestic and on the foreign markets.

Export Orientation

Share of exports in total sales: 70%.
Main export markets: Russia, Ukraine, Macedonia, Albania, Kazakhstan.

The company is predominantly export-oriented. After the disbanding of the CMEA exports dropped but the company preserved its traditional export orientation of its exports.

B12 exports finished products of own design and manufacture.

Production for Exports

The input usage, the factor intensity and the quality of the goods produced for exports are comparable to those produced for the domestic market. There are no significant differences in the costs and in the profitability.

The competitiveness on the foreign markets is achieved by matching the quality requirements of the customers at competitive prices.

The Domestic Environment for Exports

The lack of export crediting facilities and export insurance is considered as the most serious domestic impediment to exports.

The Foreign Environment for Exports

The main export markets of B12 are featured by high political risks. There are also technical difficulties in the payments from the countries of the former Soviet Union.

Company Code: B13

Background Information

Established: 1969.
Sector: Textile industry.
Product mix: worsted tops, worsted yarns, upholstery yarns, hand-knitting yarns.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	90.7	479.1	537.7	552.9
Total equity	(mn. lev)	36.3	380.6	380.6	380.6
Number of employees	(number)			1361	1305
Total revenue	(mn. lev)	145.1	237.1	303.2	509.1
Net sales	(mn. lev)	120.2	206.9	267.1	505.8
Net sales	(mn. USD)	7.22	8.86	9.66	9.33
After tax profit	(mn. lev)	1.7	–5.8	–17.4	–12.2
Leverage (commercial debt/total assets)	(%)	29.3	12.9	7.5	9.0

Legal status: Joint-stock company (since 1991); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B13 is a textiles manufacturer specialized in some specific textiles items. It is the sole manufacturer of worsted yarns in Bulgaria and has a substantial share of the local market in other products.

Traditionally B13 was oriented to the Soviet market and after the disintegration of the CMEA it was not able to fully re-orient its previous volumes of export sales to other markets. One major problem is the quality of B13's products which is still below the average international quality, in spite of some improvement in recent years.

Export Orientation

Share of exports in total sales: 35–40%.
Main export markets: before 1990: USSR; currently: Germany, Italy, Greece, Hungary, Syria.

B13 exports both directly and through foreign mediators. Only few of the latter have exclusive rights; most of them are competing.

Exports dropped in the last several years (after the collapse of the ex-Soviet market). Some reorientation of trade took place but B13 considers that the further export expansion would be crucial for its survival. The main future orientation is towards European markets, including entry into new countries. Its export strategy is based on competitive price/quality ratio.

Production for Exports

The quality and the technological level of the export products are similar to those of the products sold on the local market. There is no difference in the input usage and the costs of output sold on the local and on foreign markets; the profitability of domestic sales and exports is roughly the same. B13 evaluates the quality of its products as "average European quality" (which should be interpreted as the lowest international quality range).

98% of the exports consists of own production and 2% is outward processing.

The Domestic Environment for Exports

B13 considers the high cost of credit as the most serious obstacle to the expansion of its production and exports.

The company does not report problems in the access to inputs; 90% of the inputs are of local origin.

The Foreign Environment for Exports

B13 considers that it is adversely affected by the UN sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro). The company considers that it suffers from lack of marketing information and poor business contacts in its potential markets which prevents it from further expansion. It plans to expand its marketing department.

The high transportation costs to some of the distant markets in Europe place it in an unfavorable situation as compared to some of its competitors.

Company Code: B14

Background Information

Established: 1968.
Sector: Manufacture of metal articles.
Product mix: rolled aluminium, aluminium joinery and household articles.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	362.6	1801.1	1861.6	2048.7
Total equity	(mn. lev)	132.1	1530.9	1488.5	1488.5
Number of employees	(number)			1515	1496
Total revenue	(mn. lev)	235.1	310.5	542.9	711.7
Net sales	(mn. lev)	195.2	286.6	464.6	632.1
Net sales	(mn. USD)	11.72	12.28	16.80	11.66
After tax profit	(mn. lev)	6.9	–33.8	–25.1	–1.1
Leverage (commercial debt/total assets)	(%)	8.2	9.4	9.2	17.6

Legal status: Joint-stock company (since 1992); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

The company had been established with the primary goal to operate on the domestic market. It used to be a basic (monopolistic) supplier of inputs to a number of Bulgarian enterprises from the food processing, tobacco, pharmaceutical and armory industries.

With the general recession in the Bulgarian industry since 1990, the domestic demand for the products of B14 declined substantially and it had to search for alternative markets.

B14 has had a number of difficulties in recent years. It has not been able to secure smooth supplies which, in turn, leads to delays in its own deliveries.

Export Orientation

Share of exports in total sales: 25–30%.
Main export markets: Germany and other western European countries.

B14's export expansion started in the late 1980s and increased in the 1990s, driven mainly by the shrinking of the domestic market. B14 exports only products of its own design and manufacture. The company exports both directly and through mediators.

B14 has been trying to diversify both its product mix and its exports relations through cooperation agreements with foreign business partners.

Production for Exports

The products for the domestic market and for exports are basically the same, using the same level and types of inputs. There are only differences resulting from custom-tailored design to meet the specific requirements of some clients.

The Domestic Environment for Exports

The main obstacles to exports reported by B14 are related to the difficulties in the access to some of the inputs (special types of non-ferrous processed metals) and other intermediates. The local production of these inputs is not sufficient while their import is subject to very high tariffs which raise the production costs and reduce the competitiveness of the company. B14 is trying to establish long-term contractual relations with some of its suppliers in order to deal with the supply problems.

Another reported domestic obstacle to exports is the lack of export insurance or guarantees.

The Foreign Environment for Exports

No specific difficulties stemming from foreign regulation or other impediments in the foreign environment have been reported by B14.

Company Code: B15

Background Information

Established: 1912.
Sector: Textile industry.
Product mix: knitted articles for leisure and sports.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	180.7	225.5	393.2	538.6
Total equity	(mn. lev)	44.5	44.5	117.1	117.1
Number of employees	(number)			927	793
Total revenue	(mn. lev)	67.6	105.0	115.5	191.3
Net sales	(mn. lev)	46.8	97.2	91.0	138.1
Net sales	(mn. USD)	2.81	4.16	3.29	2.55
After tax profit	(mn. lev)	0.0	-28.4	-91.8	-121.5
Leverage (commercial debt/total assets)	(%)	65.6	67.0	51.4	34.2

Legal status: Limited liability company (since 1991); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B15 is a specialized manufacturer of knitted articles for leisure and sports. As many Bulgarian manufacturers, B15 experienced serious difficulties in the period of transition mainly due to the loss of traditional markets and the shrinking of domestic demand. This resulted in low capacity utilization and deterioration of its financial position.

Thanks to the efforts of the company management, recently B15 has been able to establish some new and prospective business contacts with important western partners (PUMA is one of them). This is considered as an important step towards the future revival of the company.

Export Orientation

Share of exports in total sales: 95%.
Main export markets: before 1990: USSR; currently: Germany, Italy and other western European countries.

B15 used to be exclusively oriented to the ex-Soviet market. There is only a marginal demand for its products on the domestic market. After the disbanding of the CMEA it has tried to reorient some of its exports to western Europe but these exports are still well below the production capacities.

As the company had almost no previous direct business contacts with western European customers it exports mainly through mediators.

Production for Exports

B15 exports final products of own design and manufacture. Currently the company puts the emphasis on custom-tailored design aiming to match specific requirements of its clients.

The export strategy relies on price/quality ratio and reliability of shipments to customers.

B15 considers that the quality of its products meets international standards.

The Domestic Environment for Exports

The main problem for the company is the high cost of credit. B15 inherited from the past large debts which it has to service now at very high rates which creates a great financial burden for the company.

Another obstacle to its further export expansion is the lack of experience to operate on western European markets and insufficient business contacts on these markets.

The Foreign Environment for Exports

B15 is putting efforts into the establishment of long-term business relation with reliable and well positioned foreign clients.

No specific difficulties stemming from foreign regulation or other impediments in the foreign environment have been reported by B15.

Company Code: B16

Background Information

Established: 1940.
Sector: Footwear industry.
Product mix: men's shoes, slippers and accessories.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	88.5	237.1	297.9	245.8
Total equity	(mn. lev)	16.7	118.3	118.3	68.1
Number of employees	(number)			1784	794
Total revenue	(mn. lev)	146.6	208.6	286.8	497.7
Net sales	(mn. lev)	118.5	166.1	254.1	484.8
Net sales	(mn. USD)	7.11	7.12	9.19	8.94
After tax profit	(mn. lev)	−0.6	−3.1	−30.3	8.0
Leverage (commercial debt/total assets)	(%)	35.5	23.7	23.3	14.8

Legal status: Joint-stock company (since 1994); B16 exists as a autonomous legal unit only since 1994. Before that it was subsidiary of a larger company and the data for the period 1991–1993 refer to that larger firm.
Ownership: 100% state-owned.

Basic Profile

B16 is one of the largest Bulgarian manufacturers of men's shoes. It is a large-scale shoe manufacturer also by international standards: in 1994 it manufactured over 1 million pairs of shoes.

The company has relatively new and well maintained physical assets which enable it to meet high quality standards. After the political changes in the country B16 experienced certain difficulties in marketing its products to new markets as it had not been a direct exporter in the past.

Export Orientation

Share of exports in total sales: 80%.
Main export markets: before 1990: predominantly CMEA; currently: UK, Germany, USA, Canada, Russia, Arab countries.

B16 is a direct exporter (no mediators). It has both traditional and new business contacts. After the disbanding of the CMEA B16 managed to reorient a large share of its sales to other markets.

The company follows the strategy of diversification of its sales and of expansion of its distribution channels. Also it is attempting to upgrade the average quality level of its products so that it can reach broader market segments (traditionally it has been oriented to the low-medium income level segments).

Production for Exports

B16 is a large footwear manufacturer. At present there is no difference in the quality of products sold on the domestic and on the foreign markets. There is no difference in the input usage and the costs of output sold on the local and on foreign markets as well as in the profitability.

B16's competitiveness is based on a price/quality ratio which is acceptable for its customers.

The Domestic Environment for Exports

The high cost of credit is reported as one of the major domestic impediments to the export expansion. B16 exports products of own design and manufacture and the production cycle requires substantial working capital which is financed through bank credits. The high interest rates raise the operating costs and reduce the company's competitiveness.

B16 reports also difficulties in the supply of some domestically purchased inputs (due to unreliability of the suppliers and often changing market conditions).

The Foreign Environment for Exports

B16 considers that its main difficulty in operating in the foreign markets is the extremely high competition on the European and on the American markets. This high competition is exerting a constant downwards pressure on the export prices. The company's main competitors are Brazilian, Asian and other central and eastern European producers. B16 is trying penetrate new markets by using a comprehensive marketing information system and intensification of its business contacts with potential clients. To do this it is expanding its marketing department and is investing in its information system.

The company has a marketing department which collects information from catalogues and other publications as well as from visits abroad.

The company is also trying to diversify its suppliers by switching from domestic to foreign suppliers in order to reduce the pressure due to unreliability of local suppliers.

Company Code: B17

Background Information

Established: 1967.
Sector: Chemical industry.
Product mix: nitrogen fertilizers (urea, ammonia), gases (technical and pure grade), liquified gases, gas mixtures.
Performance data:

		1991	1992	1993	1994
Total assets	(mn. lev)	853.9	4108.6	4637.6	5598.7
Total equity	(mn. lev)	198.7	2699.8	2699.8	2699.8
Number of employees	(number)			2244	2209
Total revenue	(mn. lev)	1831.9	2815.6	2522.8	5980.7
Net sales	(mn. lev)	1667.2	2781.9	2503.9	5866.8
Net sales	(mn. USD)	100.1	119.2	90.6	108.2
After tax profit	(mn. lev)				59.2
Leverage (commercial debt/total assets)	(%)	26.3	14.8	7.9	15.7

Note: 1994 profit: 70.2 mn. lev.

Legal status: Joint-stock company (since 1993); before that non-corporatized state-owned firm. No subsidiaries or stakes in other companies.
Ownership: 100% state-owned.

Basic Profile

B17 is a large chemical manufacturer specialized in nitrogen fertilizers and a number of by-products. It is the sole producer in the country of a number of chemical products. Most of B17's products are standard chemicals which are readily marketable on the world market. The company has followed a cautious policy of market diversification and it has a relatively good standing on the international market.

Export Orientation

Share of exports in total sales: 90%.
Main export markets: China, India, Brazil, Greece, Turkey, Macedonia, Romania, etc.

B17 is predominantly export oriented; the domestic market is too small for such a large manufacturer specialized in specific industrial chemicals. B17 exports its products to customers in 60 countries. Its exports traditionally have been diversified and the company did not experience serious shocks after the disintegration of the CMEA.

The company exports both directly and through mediators.

Production for Exports

B17 manufactures standard types of industrial chemicals which are identical for the domestic market and for exports. There is no difference in the prices either.

The Domestic Environment for Exports

Many of B17's fixed assets are quite old and obsolete. B17 considers that it has to renovate its productive capacities in order to be competitive on the foreign markets. However, the company is not able to implement a large-scale investment under the current interest rates in the country. The access to foreign investment funds is also hindered because of the high investment and credit risks associated with Bulgaria.

The supply of some inputs is provided from Russia on the basis of intergovernmental agreements. Due to bureaucratic and other obstacles sometimes there occur stoppages of these supplies.

Transportation within Bulgaria (to the ports of shipment) is unreliable and sometimes also causes problems and delays in exports.

The Foreign Environment for Exports

No specific difficulties stemming from foreign regulation or other impediments in the foreign environment have been reported by B17.

B17 is putting significant efforts into maintaining up-to-date marketing information system.

Company Code: B18

Background Information

Established: 1969.
Sector: Tourism.
Product mix: hotel services (accommodation and catering).
Performance data:

		1994
Total assets	(mn. lev)	123.1
Total equity	(mn. lev)	65.0
Number of employees	(number)	280
Total revenue	(mn. lev)	112.3
Net sales	(mn. lev)	110.2
Net sales	(mn. USD)	2.03
After tax profit	(mn. lev)	3.5
Leverage (commercial debt/total assets	(%)	0.0

Legal status: Joint-stock company (since 1991); before that subsidiary of a non-corporatized state-owned firm.
Ownership: 100% state-owned; in preparation for privatization.

Basic Profile

B18 is a company which holds and operates one hotel. The hotel is very conveniently located in a central city district and traditionally it attracts a large number of foreign tourists. However, most of the physical assets are rather obsolete and the hotel needs a serious renovation in order to maintain its competitive positions.

Export Orientation

Share of exports in total sales: 70%.
Main export markets: Germany, Italy, UK, USA.

The company provides a wide range of tourist services, the main being lodging and catering. It is mainly oriented towards foreign customers (i.e., invisible exports). The export activity is organized through mediators (operators) which supply a large share of the foreign orders.

B18 is currently trying to diversify its export activity by seeking to regain some of its previous eastern markets (eastern Europe) and by entering new markets (Spain, the far East).

Production for Exports

B18 provides standardized types of tourist services. There is no difference in the quality of the products supplied to the domestic and to the foreign markets or in the cost structure of these products.

There is some cross-subsidization between the different products sold by the company but it is not related to their sales on different markets.

The Domestic Environment for Exports

The most serious domestic impediment to the growth of the company's exports is the credit crunch. The company's fixed assets (the building and its facilities) are in a bad shape and badly need refurbishment in order to provide the quality of the service required by foreign tourists. However, in the current macroeconomic environment there are little chances of doing this.

The delayed privatization also had a negative impact on B18's export performance. A vacuum of power is felt in this period. There have been numerous changes in the management and the managers have not been able to devote sufficient attention to strategic issues such as the expansion of the number of foreign tourists. There is an obvious necessity for an internal restructuring of the company (at present it suffers from excessive number of employees) but the management has not been capable of doing this.

The Foreign Environment for Exports

B18 puts an emphasis on the improvement of its access to business and market information. It expands its information network and the network of its foreign operators which it considers as necessary for its positioning on the foreign market.

As a response to the new market challenges, B18 is investing in the training of its employees and in the improvement of its personnel management system.

The company does not report any impediments to exports stemming from foreign regulation.

4 ESTONIA

by

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Table 4.1 Profiles of the companies covered by the case studies.

Company	Sector	Ownership[a]	Number of employees	Exports/ sales ratio (%)	Main markets
Lembitu	Clothing	State JSC	610	44	Finland, Sweden, Germany
Tondi Elektroonika	Electrical machinery	Private JSC	1,100	90	Russia, Germany, China
Emor	Market research	Private JSC Est. 60%	52	40–50	Finland, Sweden, Latvia, Lithuania
Baltic Tours	Tourism	Private JSC	30	23	Finland
Nagu	Trade	Private JSC	6	90	Germany
Saku Brewery	Food	Private JSC Est. 30%	194	10	Finland, USA, Latvia
ELCOTEQ Baltic	Electronic equipment	Private JSC Est. 40%	400	100	Finland, Sweden, Germany
Tarkon	Electronic equipment	State JSC	600	80	Russia, Ukraine, Belarus, Kazakhstan, Denmark
Eesti Talleks	Mechanical engineering	Private JSC	1,020	80	Russia, Finland, Sweden Germany
ARS-Juveel	Jewelry	Private JSC	85	10	Finland, Sweden, Denmark
Paide Piima-kombinaat	Food	Private JSC	250	50	Russia, Germany, Switzerland
Cibus	Food	Private JSC	176	5	Latvia, Lithuania, Russia
Pioneer	Metal processing	Private JSC Est. 34%	245	90	USA, Germany
Tööstus-aparaat	Mechanical engineering	Private JSC	600	90	Russia, Latvia, Lithuania
Estel	Electrical machinery	State JSC	500	80	Russia, Ukraine, China
Ilmarine	Mechanical engineering	Private JSC	300	70	Russia, Germany, Finland
Klementi	Clothing	JSC, pr. 80%, state 20%	809	90	Finland, Sweden, Germany
Tallinna Far-maatsiatehas	Pharma-ceuticals	JSC, pr. 67%, state 33%	210	90	Russia, Latvia, Lithuania, Poland, Hungary
Viisnurk	Furniture	Private JSC	830	85	Finland, Sweden, Norway, Russia, Canada, USA
Smarten	Trade	Private JSC	100	15	Latvia, Russia

[a] Private: JSC = Joint-stock company; State JSC = Estonian state holds 100% of shares in the company; Est. = Estonian owners; Pr. = Estonian private owners.

RAS[1] Lembitu (clothing industry)

Several cooperatives with mixed output of consumer goods (including clothes, fancy goods) were the predecessors of Lembitu in 1939–54. The manufacturing enterprise (combinate) Lembitu was formed in the process of centralization and merging of different small cooperatives in 1959 and specialized in sewing to order services (mainly clothes). Subsequently, sewing workshops located in the administrative centers of regional districts of Estonia were united with Lembitu in 1983. By then the enterprise included altogether 187 sewing workshops, 150 of them located outside Tallinn. The number of employees amounted to 3900.

An economic experiment was introduced in 1985. It consisted mainly of working out different forms of contracting out work for individual and collective partners. The firm's boutique was set up jointly with a firm from Hungary in 1987. Products of Lembitu but also clothes and accessories from Hungarian enterprises were sold in the shop. These contacts also made it possible to sell consumer goods prepared by Lembitu in Hungary. Self-financing and self-managing started in the framework of improvements introduced in the course of 'perestroika' in 1988. Several production and service cooperatives were formed on the basis of Lembitu, the production units located in different other cities separated from the main firm. The number of employees decreased rapidly. There were 1200 employees in 1991, 900 in 1992, 750 in 1993 and 610 at the end of 1994. Share capital was 500 000 kroons at the end of 1994. The turnover of Lembitu was 11.1 million kroons in 1992, 19.0 in 1993 and 29.6 in 1994. The net profit was respectively 0.4, 0.96 and 1.0 million kroons.

Mass-sewing (subcontracted sewing operations) was added to sewing-to-order service in 1990, which accounted for 60% of the turnover in 1994. Lembitu took a 2.7 million credit whose residue was 2.5 million in 1995. In addition, short term credits amounting to 0.37 million kroons were made use of.

Lembitu was until now a state-owned enterprise and it is included into the list of privatization for which offers had to be presented by June 1, 1995. A joint-stock company formed by workers of Lembitu is participating in the bidding process. Problems with the estimation of the value of assets were one of the reasons of delay of putting Lembitu into the list of enterprises to be privatized in the earlier rounds of public offerings. Also there have been problems with restitution. The main building of Lembitu is located in the old city and part of the land under the building belongs to an object of restitution claimed by the heir of the former owner of another plot. This problem was solved through compensation of the value of this part to the heir of the former owner in privatization vouchers.

Exports

Switching over to subcontracted work in 1990 brought along a rapid increase in the share of exports in the structure of Lembitu's output. Finland accounts for 60%, Sweden 30% and other countries (Denmark, Germany etc.) for 10 per cent of subcontracted work. The share of exports in the total output was 54 per cent in 1993 and 44 per cent in 1994. The value of exports increased from 9,6 million kroons in 1993 to 11.7 million kroons in 1994, but other components of the total turnover increased more rapidly. The received rental payments made up 2 million kroons in 1993 and 5 million kroons in 1994.

The relatively cheap and efficient labor (average wage was 1400 kroons in December 1994 in Lembitu) and exact implementation of the conditions fixed in contracts were the main advantages in competition for subcontracts.

The export strategy of Lembitu is to diminish the share of subcontracting and to increase the share of ready-made clothes by individual orders, but chances to realize this strategy will be clear after the results of privatization are announced.

[1]AS is an abbreviation for a joint-stock company (aktsiaselts in Estonian). RAS is an abbreviation for a state owned joint-stock company (riigiaktsiaselts in Estonian). State owned companies were transformed before privatization into joint-stock companies, 100% of shares of which belong to the state.

The firm is using different strategies to promote production in domestic and foreign markets. Lembitu tries to be among those who serve individual customers and to be a producer of high quality, quite expensive products in the domestic market. Mass production is performed in the export sector where the lower price mark-up is compensated by a larger turnover. Lembitu has direct contacts with Luhta OY, Rukka OY, and A. Fidrikson of Finland, Göte David Teko AB, and Scarlett of Sweden, George Rech of France, Gela Fashion of Germany and other firms. Fairs are used the higher quality production to advertize and Lembitu tries to make its trade-mark more known also with ready-made clothes.

Export of clothes has been realized mainly by subcontracting of several operations. One reason why export of clothes of Lembitu has been realized mainly by subcontracting has been import barriers. Though Estonia has a free trade agreement with several countries, it has not been profitable to sell there finished goods. Under the rules of origin that guarantees exemption from customs tariffs (which could be as high as 35 per cent), only clothes produced from material manufactured in Estonia or in the partner country (Finland, Sweden, but also Latvia and Lithuania) are exempt from this tax. Estonia and the other mentioned states do not produce materials of relevant quality, so these preferable conditions could be actually used.

Low wages have been one important factor promoting exports but the company meets quite strong competition from the other regions with cheap labor (China, India). The other Baltic states are also competitors in this field because the quality and price ratio of their products are close to each other.

AS Tondi Elektroonika (manufacture of electrical machinery)

The enterprise was founded in 1960 and was named Hans Pöögelmann Factory of Electro-Technical Equipment after an Estonian revolutionary. The main products of the enterprise were electrical parts from which a large share was used in the military industry. Employment amounted to 3500 in the mid-1980s. Nearly 100 per cent of the production was exported to the other republics of the Soviet Union.

After 1990 the Eastern market has been shrinking drastically. At the end of 1994 the enterprise employed 1100 people, the production was on the level of 20 per cent of what it had been in the mid-1980s. The output was 8 million kroons in 1992, 7 million kroons in 1993 and 10 million kroons in 1994. The enterprise did not make any profit in 1992, 1993 and 1994. In 1994–1995 the main products of the enterprise are integral switches, microblocks and hearing aids for people with impaired hearing.

Tondi Electronic was privatized in February 1994 by the joint-stock company Mikrel AS formed by employees of Tondi Electronic. The selling price was 18 million kroons; the new owner took over liabilities with a total value of 10.5 million kroons and took the obligation to invest into the enterprise 18 million kroons and keep 1050 of the labor force. The new owner paid 20 per cent of the price after signing the contract; during the next 10 years it will have to cover the remaining 80 per cent of the price by instalments and interests (in 1994 the interest rate was 15%).

A large part of the profit goes to cover the price of buy-out. The technology of the enterprise needs replacement in the whole production unit, it is not possible to innovate it with a step-by-step approach of changing machine-tools to improve the quality of production. The new owner did not invest remarkably, though, until the summer 1995.

Exports

Approximately 90% of the output was exported during the period 1992–94. The CIS (mainly Russia) accounts for 80 per cent, Germany for 15 per cent and other countries (China) for 5 per cent of the exports. Market niches in Western European and Far East countries are related to older type of microswitches which are no longer produced by large firms and which are no longer protected by patents. Nevertheless, these old-fashioned microswitches are required in large amounts. Tondi Electronic copied and introduced into production several microswitches (in 1994 four microswitches were introduced into production, introduction of further 20 microswitches for the Western market and 60 microswitches for the Eastern market was planned in 1995). Hearing aids are sold in Germany and are well accepted for their low price and acceptable quality.

The supply of materials came mainly from Russia and Belarus. Silicon bought from Russia is cheaper by a factor of 2.5–3 than in the Western countries but the price is increasing very rapidly also in Russia. Raw materials and semi-final products from East are of lower quality than their Western counterparts; moreover, the quality parameters are not the same for every shipment. The enterprise introduced its own internal control system to inspect all inputs. The management of the enterprise considers that it is necessary to increase the share of Western materials in the future. One business strategy of the enterprise foresees a combination of Western and Eastern inputs to achieve competitiveness with relatively cheap production which meets the required quality standards. An example of such a combination is hearing aids which contain silicon from Russia and several other units (microphone) from Germany.

The target of the marketing strategy for next years is to achieve an equal size of Eastern and Western exports and to sell only 20 per cent of the production in the CIS by 1999. However, to achieve this goal the company has to apply also ISO 9000 standards and certificates testifying that the technical operations are on the required level. Now the company has got a niche with its old-fashioned products but this strategy can not be reliable in future.

At the beginning of the 1990s the conversion of Russian military industry was considered to cause increasing competition in Tondi's market. However, the conversion was rather slow and

Tondi Electronic has not met tough competition of similar products in Russia. On the other hand, there are several companies in other East European countries which manufacture similar products at the same cost level.

Increasing the part of inputs imported from Western countries would be a prerequisite for expanding the amount of products exported to these countries, but presently the financial situation of the firm is not sound enough to introduce this strategy.

AS EMOR (market research company)

EMOR was founded as a private joint-stock company in 1990. Several owners of the new company had earlier worked for the consulting unit of the Estonian Ministry of Light Industry Mainor. A joint venture was formed in 1993 with selling 40 per cent of the shares of AS EMOR to the Finnish holding company MDC (Market Development Research Centre), which owns also the Finnish Gallup Institute. Close cooperation started with Finnish Gallup already in 1992. The know-how and general strategy of building up a set of services acquired from Finnish Gallup were even more important than investment made by the new partner into EMOR's share capital.

EMOR had 52 full time employees and about 250 interviewers in Estonia at the end of 1994. Its share capital is 750 000 kroons. EMOR's turnover has increased by 30–40 per cent every year. The turnover was 6 million kroons in 1992, 10 million kroons in 1993 and 17 million kroons in 1994. Total profit before taxes was 400 000 in 1994, before 1994 EMOR did not have any profit. EMOR created also subsidiaries Baltic Media Facts and Baltic Market Facts in Estonia and Baltic Market and Media Facts in Latvia and Lithuania. The company collects a wide range of information about the Baltic market. EMOR owns a part of the share capital of all these subsidiaries. EMOR is the largest market research company in the Baltics.

The economic activity of EMOR is divided into two groups, production and selling. Production covers panel research, questionnaires for sole and multiple (repeated) interviews, social analysis and report preparing block. Selling consists of product and advertisement tests, brand trackings, opinion polls, ad polls. EMOR is trying to develop an ideology of informational product, not just to work with occasional orders and interviews.

Bank credits have not been used as a rule, some short-term credits were taken in 1994 to cover costs related to several projects.

EMOR prepares finished reports but also makes fieldwork (interviews etc.) for other market research companies. Finished products make up approximately 50 per cent of the turnover, another 50 per cent is subcontracting to other media and market research companies. Maybe the most famous product is EMOR's opinion polls but these give only 1–2 per cent of the revenues.

Exports

The share of export has been between 40 and 50 per cent during the last three years. Finland's share in export was 55%, Sweden had 35 per cent and other countries (Latvia, Lithuania) 20 per cent in 1994.

Cooperation with foreign firms and export of products are organized in the following way: if market research is made in Estonia, field work is made by EMOR, statistical analysis of data and final report is realized by EMOR or also in some cases by the foreign partner. Trust of the foreign partner is an important factor when distribution of functions is decided but sometimes there are specific problems which influence on the working process. In particular, powerful international corporations prefer signing exclusive contracts, which means that the partner should not do similar research for another firm working in the same market sector. For this reason EMOR not to be restricted in choosing clients for other projects, sometimes prefers to make just field work, which does not imply binding relations with the customer, and the final analysis is then made by the foreign partner (Finnish Gallup).

Large Western companies order similar market research in the all Baltic states. As EMOR always uses the same methods, no matter where they do their research, it gives the customer every possibility to compare different countries. EMOR orders field work from local firms and writes a final report on the basis of information received. Latvian and Lithuanian firms also order field work which should be done in Estonia by EMOR. EMOR gives more work to Latvia and Lithuania than it receives from these countries.

EMOR's clients are ABB, Electrolux, Fazer, Felix, Kellogg's, Masterfood, Nokia, Philips, Schell. The strategy is to move with these clients to new areas. The Moscow region, Ukraine, Poland and Belarus are target countries. EMOR also acted as translator to large Western companies in advertising and testing their products for the Eastern market.

In 1994 EMOR had some problems with its clients, which did not happen during previous years. One reason might be that several Western companies established subsidiaries or representations in Estonia and some disturbance in distribution of functions occurred. Representatives are making also some analytical work which before used to be ordered from the market research company.

EMOR did not have big problems with foreign trade regulation. One such case was when 300 kg of chocolate was transported from Finland to Estonia for testing in the framework of market research. Estonian customs law determines that no VAT should be imposed on these goods. In this case the authorities first requested VAT payments, but after some negotiations the customs office gave the chocolate back and did not tax it.

AS Baltic Tours (tourism)

Tourism was state monopoly in Estonia like in the whole Soviet Union until 1988. Three all-Union tourist organizations were operating: Intourist, youth organizations tourist bureau Sputnik and the tourist bureau of trade unions. Baltic Tours was actually the first joint venture in the Estonian tourist business founded on April 3, 1989. Saaremaa's Development Centre (consultancy firm registered on the largest Estonian island Saaremaa), OY Sally Line AB and OY Silja Line AB registered in Finland were the partners founding Baltic Tours. The share capital of Baltic Tours is 10,000 kroons. Baltic Tours had 10 employees in 1991 and 30 at the end of 1994. Additionally, the firm hires 50 persons by contract for part time jobs. The firm has subsidiaries in Saaremaa and Riga (Latvia). Baltic Tours is an official agent of the shipping company Silja Line in Estonia. The turnover of the firm was 0.25 million rubles in 1989, 0.75 million rubles in 1990, 1.65 million rubles in 1991, 6.67 million kroons in 1992, 20.4 million kroons in 1993 and 31.1 million kroons in 1994.

Baltic Tours is the fifth among the 150 Estonian tourist firms by size and accounts for 7 per cent of the total turnover. The largest firm Estravel holds approximately 15% of the market. Baltic Tours has at the same time 30 per cent of the incoming tourism which is export of services from the point of view of the balance of payments. The net profit was 194 000 kroons in 1994. A relatively small amount of the profit was related to the accident with Finnish boat Silja Line in spring 1994.

The main services are: selling of tickets of Silja Line, selling of traveling packages, hotel reservations, air tickets, visas, travel insurance. The commission of tickets sold by Baltic Tours is 15 per cent (7.5–10 per cent of this revenue is paid to intermediaries). The commission of selling air tickets is 9–10 per cent.

Exports

Baltic Tours serves outcoming and incoming tourism. Incoming tourism earned 7.08 million kroons in 1994 or 23% of the turnover in 1994. In the early 1990s the share of incoming tourism was even higher, amounting to 60–70 per cent.

The main strategy of promoting incoming tourism is selling packages of tourism services like transportation, catering, services of guides, organization of different recreation services for tourists staying in Estonia for a longer time and holiday journeys.

The firm has a contract with the design firm Muldia AB, which includes consulting in the field of marketing strategy and creation the firm's Baltic Tours' image. Baltic Tours has applied for and is waiting for an IATA licence, which will make selling air tickets easier and will secure access to low price tickets of different air companies.

A contract was made with the largest Estonian hotel-chain to improve hotel services. The most promising area of export services is related to selling holiday packages to foreigners, including air or boat tickets, hotel services, travel insurance, and various recreation services (hunting, fishing, visits to national parks, tourist farms).

Estonia, Latvia and Lithuania signed a visa agreement in June 1995, which makes possible for tourists having a visa of the one Baltic country also to visit others without applying for visas for these countries. Citizens of EU countries, USA, Canada and Central European countries do not need a visa to enter Estonia. A special task is giving visas at the borders for those who did not arrange visas in their home country. Tourist firms are very much interested that this could be as easy and as simple as possible.

For Baltic Tours contracts with a Finnish partner in incoming tourism are of great importance. The Finnish side organizes tourist groups, ships for cruises while services in Tallinn and Estonia should be offered by Baltic Tours. The agreement with the Finnish partner determines rather exactly the framework of the operation for the Estonian side. On the other hand, this cooperation has improved substantially the level of services offered by Baltic Tours and helps acquire international standards.

Latvia, Lithuania and the St. Petersburg area are sometimes considered as competitive areas for incoming tourism. At the same time, a common set of tourist services will increase the number of tourists who want to visit different places during their journey to the coast of the Baltic sea. A considerably big problem for such arrangements is the difficulties at the Estonian-Russian border and the not very successful cooperation with Russian partners.

AS Nagu (trade)

Joint-stock company Nagu was founded by six persons in Tartu in 1993 to realize one business idea — to sell honey and products thereof to Germany. The share capital of the firm is 1000 kroons.[2] One founder of the firm worked in the 1980s as instructor of the Estonian Association of Bee-Keepers, and was responsible for some shorter period also for international relationships of the association. He founded in 1991 another firm which started to sell honey in a small pavilion in Tartu. The business strategy of this firm became mixed because other partners preferred also trade with consumer goods and lend out money. A new firm Nagu AS was founded to concentrate business mainly on selling honey and products thereof.

The turnover of Nagu was 1.2 million kroons in 1994. It is necessary to take into account that trading and business in this field is seasonal, so this economic result was achieved practically during five months. Most revenues were used to expand the firm. Mark-up of price for resold products is approximately 40 per cent. The net profit of Nagu was 100 000 kroons in 1994. Export of pollen gives 90 per cent of the turnover of the firm. Honey, wax and several instruments for bee-keeping are other items which are traded by Nagu and give 10 per cent of the turnover.

Contacts among the organizations of the Baltic bee-keepers inherited from the Soviet period were one important factor which enabled to build up a chain of supplies without credits and various guarantees. Nagu monopolized actually all export of pollen from the Baltic republics.

Exports

The own production of Nagu accounted for 0.3 per cent of its exports in 1994. The rest of the traded products was bought from other Estonian producers while re-export of products imported from Latvia and Lithuania accounted for 50%.

Representatives of Nagu estimate that they get approximately one tenth of the value of the product made from the inputs it trades. There is hope to get a higher price in the future, but also prices of supplies are increasing. Several bee-keepers have demanded a higher price than has been fixed in the contract Nagu has with every supplier. Nagu refused until now to raise the price and rather not bought the product. After some time most bee-keepers agreed with the initial conditions because at least presently it is not easy to realize large amounts of such products in the Baltic republics.

Especially at the beginning the firm had great problems with paying the 18 per cent VAT for pollen imported from Latvia and Lithuania (if a product is exported, the VAT will be returned) and also the 0.5 per cent export tax. Now the firm has customs documents proving that the imported pollen is to be exported from Estonia and this problem disappeared. At present only the 250 kroons tax for temporary entry for re-export is paid for every shipment.

Several firms have tried to find contacts in Western countries to organize export of honey and other products related to bee-keeping. Sweden was the initial target country. Some contacts were built up in 1992 when several Swedish businessmen visited Estonia and used services of hunting tourism. These people were interested in establishing a wholesale company in Estonia. As they were not interested in honey, they made a business contact in Germany with a firm which produces pharmaceuticals from extracts with honey and products thereof. A sample of pollen was sent and the German firm accepted the quality. One of the shareholders of Nagu has its own apiary in South Estonia and thus one incentive for organizing trading of honey and products

[2] Activities of joint-stock companies and other firms with limited liability were regulated in 1993 when Nagu AS was founded, by a government decree. Minimal requirements to establish a joint-stock company were at least two share-holders and 600 kroons (50 USD) of share capital. This paradoxically small amount of money was inherited from the time when Estonia belonged to the ruble zone. High inflation decreased the real value of the required capital. What a peculiar economic situation could be created by this low capital requirement could be described through the example of the largest privatization deal to date: this was the purchase of the Viru hotel for 145 million kroons (12 million USD), with the investment guarantee of 4.5 million kroons, by a two person owned joint-stock company Harmaron AS with the share capital of 600 kroons. The deal was covered by financial guarantees of Finnish banks.

thereof was to sell his own products. However, a foreign partner was interested in getting large shipments. Nagu has to organize a chain for purchasing pollen in all the three Baltic countries. Altogether 200 bee-keepers belonged to the chain in spring 1995, half of them from Estonia, and the other half from Latvia and Lithuania. The average amount of pollen received from Lithuanian bee-keepers is larger than from bee-keepers in Estonia or Latvia. Natural conditions for bee-keeping are better in Lithuania because the climate is warmer and the forest area is smaller than in Estonia or Latvia.

Competition in this field is specific. Latvian and Lithuanian bee-keepers tried to establish contacts with producers of pharmaceutical products in several Western countries but without success. One reason for this was the modest knowledge of foreign languages. Market is full of cheap honey exported from China and other developing countries. Only rather specific products can be realized with some profit.

Developing the payment scheme was the most complicated problem at the beginning of business. The own financial resources of the firm were very limited, the only possible solution was to borrow the first shipment to Germany from bee-keepers and pay the suppliers only after receiving payment from the partner. Former personal contacts and support of some influential bee-keepers in Lithuania made the first shipment possible. After the first successful attempt the scheme started to work. The two shareholders of Nagu, who are also the only employees (accounting services are rendered by a consulting firm), visit all apiaries and gather pollen. A week-long trip to Latvia and Lithuania is made once a month. When putting together a new shipment they also pay for the previous one. Products of different bee-keepers are packed separately with data and information indicated (period of gathering, plants which were flowering etc.). The German partner tests every packet. Pollen is transported to Pärnu port. Transportation from Pärnu by boat to Germany and insurance of the freight is organized by a one-man wholesale firm in Pärnu.

Saku Òlletehase AS (Saku Brewery Ltd.)

Saku Brewery (Saku is located 15 kilometers from Tallinn) is the largest and oldest brewery in Estonia founded in 1820. At the end of the 19th century it was the largest enterprise in Harju county. Monopoly in supplying Tallinn with beer was achieved in 1913. During the Soviet times Saku Brewery was also the largest state owned enterprise in the brewery sector.

Organizational changes and restructuring started in 1991. A joint venture was formed with the Baltic Beverage Holding AB. Half of the shares of the Baltic Beverage Holding AB belong to the Swedish company AB Pripps Bryggerier and half to the Finnish company OY Hartwall AB. The share capital of Saku Brewery Ltd., is 80 million kroons. Initially 40 per cent of the shares of the joint venture belonged to the Estonian state and 60 per cent to the Baltic Beverage Holding AB. The foreign partner bought additionally 10 per cent of the shares in January 1995. The Estonian state sold 20 per cent of the shares for vouchers in April and May 1995. One share with a face value of 10 kroons was sold for 25 voucher kroons. Shares were over-subscribed four times, the limit of 200 shares per buyer was used and within this limit every buyer got a quarter of the shares he or she had subscribed. By June 1995, the Baltic Beverage Holding had 70 per cent of the shares, Estonian private share-holders 20 per cent and the Estonian state 10 per cent of shares. The Baltic Beverage Holding owns majority shares also in breweries in Riga (Latvia), Panevezis (Lithuania) and St. Petersburg (Russia).

The quality of beer produced by Saku Brewery has improved and new brands were introduced during the last three years. After large investments during the last four years (an estimated 200 million kroons has been invested), the potential capacity of production increased to 40 million liters per year. However the Estonian beer market has been declining (total amount of beer consumed in Estonia was 37 million liters in 1994). Saku Brewery produced 20 million liters beer in 1992, 19.2 million liters in 1993 and 24.6 million liters in 1994. The firms share of beer produced in Estonia increased from 35 per cent in 1993 to 53 per cent in 1994. The total value of output was 100 million kroons in 1992, 140 million kroons in 1993 and 200 million kroons in 1994 (at current prices). The firm made 8.2 million kroons losses in 1992, its net profit was 1.5 million kroons in 1993 and 28.0 million kroons in 1994. The residue of the credits of banks was 1.17 million kroons and liabilities to the Baltic Beverage Holding amounted to 2.0 million kroons at the end of 1994. Tax exemption ended in 1994 (according to the income tax law which was in force before 1994 firms with foreign capital over 50000 USD were exempted from corporate income taxes during three years; the regulation continued to be in force also after January 1, 1994 for those enterprises which got the tax exemption before that date until the end of a period of three years. The new tax law does not envisage any special tax exemption for firms with foreign capital). The company employed 194 people at the end of 1994.

Exports

The first target for the business strategy of Saku Brewery was Estonian market. Through joint ventures in Latvia, Lithuania and St. Petersburg the Baltic Beverage Holding tried to get control over the beer market of the Baltic countries and the St. Petersburg area. However, breweries in which the Baltic Beverage Holding holds a majority share have a smaller market share in other areas than in Estonia.

The share of exports in total turnover of Saku Brewery has been approximately 5 per cent. Beer was exported in small amounts to Russia, Lithuania and Latvia. The difference of excise tax on domestic beer and on imported beer is large everywhere (also in Estonia this difference is eight-fold), so export is not profitable. Some amount of beer is sold in the tax free shops of boats traveling between Tallinn and other cities. Several salesmen emerged in Finland but also in the USA who started to buy Estonian beer for their restaurants, pubs and retail shops.

The export strategy of the firm is built up step-by-step. The first stage is related to moving the production of the brand Reval Luxus from Finland to Estonia. Hartwall produces this beer by licence valid in Finland and it is also sold now in Finland. The next step will be to export some smaller amounts of other brands to Scandinavian countries. All together Saku Brewery plans to increase the share of exports to 15–20 per cent. Russia is also a potential market, but customs tariffs should be lower to promote this business.

Competitors of Saku Brewery are other companies of different countries. The relatively cheap and high quality Czech beer is not sold in the Baltic countries but could become quite popular.

Finland's high taxes on imported alcoholic beverages are frequently mentioned as one obstacle to exporting beer to Finland.

ELCOTEQ Baltic AS (manufacture of electronical equipment)

Radioelectronic company RET, which could be regarded as the predecessor of ELCOTEQ Baltic, was founded before the Second World War. First it produced mainly radiotubes and assembled radio sets. After the war RET was renamed to Punane RET (Red RET). The production of the enterprise started to increase rapidly, new investments were made. Punane RET was known in the Soviet Union by its electron-voltameters and radiogramophones Estonia in the 1970s and in the 1980s. Approximately 70 per cent of the output was exported. Two thirds of the exports went to other republics of the Soviet Union, one third was exported mainly to East European countries (Poland, Hungary). The Tallinn Radio-Electronic Construction Bureau was developed on the technological basis of Punane RET. The bureau worked out also main elements of the CD player to be produced in RET (the company dropped the word Punane, (red) from its name in 1990). After the collapse of the CMEA and Soviet Union RET lost practically all its markets. Different departments of the enterprise oriented first to simple operations of metal processing. After some period a large part of metal processing tools was sold to cover costs of heating, electricity and tax arrears. There were 2200 people working in the enterprise in 1988 but only 500 were employed in 1993. RET was included into the privatization list in 1993. The main establishments of RET were located in the central area of Tallinn city. These large buildings could be rebuilt into trading centers or office space. An investment group bought this part of RET.

A new establishment of RET was built at the beginning of the 1980s at Lasnamäe, a new district of dwelling-houses of Tallinn. A new joint-stock company was formed on the basis of the Lasnamäe establishment of RET in the privatization process. The Finnish firm ELCOTEQ together with a Finnish investment group Finnfund bought 51 per cent of the shares and the Estonian state kept 49 per cent. ELCOTEQ owns four enterprises in Finland and the new Estonian firm ELCOTEQ Baltic AS is connected with the technological chain of these enterprises.

In Tallinn the assembly, tuning, loading and testing are performed on the electronic parts. The main products of ELCOTEQ Baltic are electronic modules of video monitors, parts of mobile telephones and electronic blocks of sewing machines.

The main business idea of such a technological scheme is to use relatively cheap and qualified Estonian labor. This is also profitable after subtracting transportation costs. ELCOTEQ Baltic hired a big portion of the employees of RET. ELCOTEQ Baltic started to operate in 1993. At the end of 1994 the enterprise employed 400 people. The firm plans to increase the number of employees up to 600 during the next two years. The firm does not need qualified engineers, but technicians able to control the parameters of the technological process are needed. The output of ELCOTEQ Baltic was 8 million kroons in 1994. If a reconstruction plan succeeds, the output is expected rise to 12–13 million kroons in 1995.

Electronic modules were assembled by hand until summer 1995. The firm planned to introduce automatic production line during the second half of 1995. This is expected to increase productivity substantially.

Exports

Hundred per cent of the production of ELCOTEQ Baltic is exported. Parts of video monitors and mobile telephones are exported to Finland. Electronic blocks for sewing machines are exported to Sweden, some part also to Germany. Export to Finland accounts for 80 per cent of the total export and output of the firm, Sweden's share is 15 per cent and Germany's share is 5 per cent.

A good location for transportation linkages was one reason why ELCOTEQ bought the building at Lasnamäe and introduced the Tallinn factory into its production chain. All technological machinery in the buildings were sold as a scrap metal and new technology was introduced.

Every morning a truck is transported by ferry from Helsinki to Tallinn (the distance between the two cities is approximately 70 kilometers). The same evening a truck with parts which have past the technological cycle in Tallinn goes back to Finland. Such an operative transportation scheme works thanks to very good cooperation with customs offices in Tallinn and Helsinki.

The technological scheme and all necessary special tools are supplied by the contractor. He gives also tools for testing the production. When the contract is fulfilled, all the equipment is returned to the contractor.

A certificate confirming adequacy of production to ISO 9002 standards will be given over to ELCOTEQ Baltic in November 1995 according to the expectations of representatives of the firm. This certificate will ease opening new markets and will give more independence for subcontracting different operations and products.

RAS Tarkon (manufacture of electronical equipment)

RAS Tarkon is located in Tartu. Tartu Telephone Factory founded in 1932 was a predecessor of RAS Tarkon, which was transformed to Tartu Factory of Control Apparatus at the beginning of the 1950s. The main products of the factory were control apparatus for aeroplanes (so called black boxes). State orders of the Russian military industry were fulfilled even in 1993 when Estonia was in its third year of independence and the withdrawal of Soviet troops from the Baltic countries was settled during the next months. The production of control apparatus stopped only in September 1994. This apparatus was produced for older types of planes, the manufacturing of similar apparatus for more modern planes was moved from Tartu already at the beginning of the 1980s. Another more important product of the factory is compact voltameters, known as Tartu testers. Inputs for testers were imported from Russia (St. Petersburg).

The number of people employed in the factory diminished substantially during the last five years. There were 2000 employees in 1990 and 600 in 1995. The total output has decreased by a factor of five. The output declined also in 1992 and 1993, but a dramatic decline occurred in 1994 when orders of Russian aeroplane manufacturing companies stopped. The total output was 4 million kroons in 1994, tax arrears and other liabilities were 1.2 million kroons in May 1995.

The collective of employees has a leasing contract with the representative of the state, the Ministry of Economy from 1991. The enterprise should be privatized in 1995.

The technology used in the enterprise was worked out by an applied institute of technology of the all-Union Ministry of Apparatus Manufacturing Industry. Not all technological blueprints, schemes and other information on the products are available now for representatives of Tarkon. This complicates innovation of production and after some period a new data base, reorientation toward Western quality standards and materials will be necessary.

Exports

Tarkon exported 80 per cent of its production in 1991-95. The main article of exports was control apparatus (black boxes) for older types of Russian aeroplanes. There was some hope that this type of black boxes would be taken into use also in subway trains and also on some bus-lines. This plan did not realize. As Russia stopped giving orders all exports and output declined rapidly. Now the main export item is a compact tester for measuring voltage, strength and volume of the electric current. Testers are exported to Russia, Ukraine, Belarus and Kazakhstan. A new design is needed to export testers to Western European countries. A new design in turn requires a new press to manufacture plastic. The enterprise does not have financial resources for such investments.

Managers of Tarkon foresaw the break in the orders from the CIS and started to look for foreign contacts with several West European enterprises already in 1993. The enterprise has a rather good technological base for manufacturing different non-ferrous metals. One advantage of the enterprise is that it has a special control service for military equipment (so called 'voennaya priemka') which guarantees the required technical level of production. Although the number of workers and engineers decreased substantially during the last five years, the enterprise still has enough skilled workers to restore the technological process.

The situation in the enterprise seems to be quite complicated also because of the (missing) foreign language skills of the managers and constructors. They are in principle very eager to co-operate with Western partners but estimate the present technical level of the enterprise too high and are not ready to accept organizational methods, attitudes and values of Western entrepreneurship.

Subcontracting to Western firms is considered to be the only possible way out from the present complicated situation. There is a contract with one Danish producer of bicycles. Tarkon produce for the Danish partner parts from titanium which must be strong and light. The share of the CIS in exports is 80 per cent, Denmark accounts for 10 per cent and Finland, Sweden and

Poland for another 10 per cent. Competitors with similar production are several East European countries, first of all Poland and Hungary.

Eesti Talleksi AS (manufacture and assembly of motor vehicles and engines for motor vehicles)

Eesti Talleksi AS developed from the Tallinn Excavator Building Factory. The latter was founded in 1960. Its main output was special excavators for ameliorative works and their parts. The factory exported practically 100 per cent of its production. The target countries for exports were other republics of the Soviet Union, several Asian and African countries (Iran, Congo, Egypt, Syria etc.). Exporting and service of exported excavators was organized and coordinated by the central foreign trade organization for export of machinery of the Soviet Union. In 1988 there were 1600 employees in the enterprise. Engines for excavators were imported mainly from Minsk (Belarus), other parts from Russia.

Privatization of the enterprise started in 1991. Tallinn Excavator Building Factory was included into the list of enterprises to be privatized by the so called experimental privatization to the working collective for cash. However, a very strong conflict emerged between two groups of potential owners, both of them consisting of employees of the enterprise. The business plan of the group lead by the financial director of the enterprise was preferred by the Agency of State Property, which was responsible for privatization in 1991. Another group was led by the general director of the enterprise. Several legal proceedings followed because the privatization law made it possible to present two different applications. From the legal point of view, the definition of when the privatization process started exactly was the question. Different interpretations of this paragraph gave to the group led by the general director an opportunity to apply for changing the solution of accepted by the Agency of State Property. Several court proceedings followed for two years and finally the initial solution remained valid but the enterprise lost all potential investors.

Eesti Talleksi AS was formed as a result of privatization. Actually it functions like a holding company of 17 smaller companies. All production departments were reorganized into joint-stock companies. Eesti Talleks holds some part of the shares in every new joint-stock company which emerged from the Tallinn Excavator Building Factory. Its main role is managing the financial issues. Eesti Talleks is responsible also for book-keeping of the subsidiaries located in Tallinn. Eesti Talleks organizes also trading of production and distributes orders between the subsidiaries. The main output of Eesti Talleks is machines for peat processing (Mõisaküla plant makes peat pressing machines, Paide plant manufactures peat blocks harvesting machines), excavators (produced in Mõisaküla), hydro-cylinders and hydro-distributors, repairs of hydro-distribution and dividers, chroming work (plant in Viljandi), containers, loading mechanisms for Estonian small ports, several metal constructions (made in Tallinn). Several subsidiaries have rebuilt former production departments into shops and warehouses. Repairs have an important share in the turnover as well.

The turnover of the Eesti Talleks was 15 million kroons in 1992, 30 million kroons in 1993 and 90 million kroons in 1994. Altogether 1020 people were working in Eesti Talleks at the end of 1994. Eesti Talleks has a subsidiary Ross Talleks in Velikiye Luki, Russia.

Exports

Approximately 80 per cent of the output was exported in 1994. Subcontracting to Western firms is the main way to get orders. A contractor has a licence of the product and controls the quality of different operations. The quality of welding is the most critical issue for products of Eesti Talleks. At the same time, the situation in general is not so complicated in this enterprise as in other Estonian enterprises like those manufacturing electronic equipment. In this industry it is possible to change some machine-tools only, there is no need to replace the whole technology at the same time. This makes investment problems easier to solve.

Subcontracted products are totally exported and these accounted for 60 per cent of the total value of exports in 1994. Half of subcontracting was done for the Russian company Ross Talleks

(30 per cent of total exports), another half of subcontracted work was done for Finnish firms. Containers account for 30 per cent of the exports and are exported mainly to Finland, but smaller amounts have been exported also to Sweden and Germany. While excavators are mainly exported to the CIS, containers and several metal constructions are exported without exception to Western countries.

Eesti Talleks has tried to reintroduce contacts with former trading partners in Asia and Africa but without success. The former relationships were based very much on advantages of barter; under the new conditions it is very complicated to sell excavators in these countries.

Products of Eesti Talleks are metal-intensive, so the price of imported metal is a critical issue. Until 1994 metal imported from Russia was 2–3 times cheaper than similar metal from Western Europe. Metal imported from Russia has varying quality parameters but for large metal products made by Eesti Talleks this is not a problem. Special steel for more complicated constructions was bought from Finland. Metal trading firms from the Czech Republic, Bulgaria and Romania are also represented in Estonia. Their products are relatively cheap and competitive by quality. Several firms which export relatively cheap metal also produce from this metal similar products as Eesti Talleks and accordingly, they are competitors for the company.

During the last two years Switzerland, Austria and Benelux countries have been a target for export of different mechanisms. Co-operation with Ross Talleks makes possible closer contacts with Russian market and solves custom problems with Russia.

AS ARS-Juveel (jewelry)

AS ARS-Juveel was founded in 1946. A jewelry manufacturer, however, had been working in the same building from the beginning of the 20th century. The output of ARS-Juveel consists of jewelry (silver, gold, brass, copper, nickel), badges, medals and decorations. Jewelry of gold and silver is manufactured by designs of Estonian metal artists. Badges and medals are manufactured by customers' orders and sometimes they also offer the design. The firm has its own shop in the old city of Tallinn.

ARS-Juveel belongs to the Estonian Association of Artists. The financial situation of the firm was very critical in 1994 and a new executive director was appointed in December 1994. The chaotic situation characteristic of an enterprise without clear ownership relations was dominating the firm. Several employees used the company as their own to make products. The control over input use was also rather weak.

The output of the company was 4.6 million kroons in 1994. In 1993 the output was 5.5 million kroons and in 1992 7 million kroons. The share capital of the company is 250 000 kroons. A 100 000 kroons profit was reported in 1992, there was no profit in 1993 and 1994. There were 85 employees in the company at the end of 1994. The number of employed people has been rather stable in recent years.

Tax arrears and other liabilities were 600 000 kroons at the beginning of the year, but the new management started to investigate actively for new opportunities to sell products and also discipline became stricter. A new control system and a pair of scales were bought to measure more exactly the consumption of precious metals.

Badges and medals accounted for one third of the production. They were made by orders of customers, mainly Estonian state institutions.

Exports

Approximately 10 per cent of the production was exported. Half of the exports went to Finland, 30 per cent to Sweden, 10 per cent to Denmark. France, Russia and Germany accounted for the remaining 10 per cent of the exports. Badges and medals ordered by different organizations have been the main export articles.

Promotion of exports is the main strategy for the enterprise to survive. Subcontracting is one possible way to improve the financial situation of the firm. This method of cooperation with foreign partners has not been used in ARS-Juveel yet. But this is considered as an intermediate strategy for short term to improve the financial situation and to accumulate some resources for necessary investments.

Like in other places of the former Soviet Union gold jewelry in Estonia has a lower content of gold (14 carats) than in other countries (16 or 18 carats). This creates complications in trading.

Several persons in Finland started to act as salesmen for the Estonian company. Some of them were first of all orientated to short term business making use of poor information and qualifications of Estonian producers to get very high profits for the intermediation. Yet some people did very good work and introduced long-term contacts with sellers in Scandinavia. Contacts with galleries or boutiques should be better organized: until now meetings with theses buyers were casual.

Western mass-production of custom jewelry is very cheap and it is not possible to be successful in this market sector. Subcontracts of different foreign firms is the next step considered necessary to improve the financial position of the company.

Special fairs and exhibitions are market places where ARS-Juveel plans to introduce its products. First visits and first contacts have been made to this direction.

One source of problems seems to be lack of information on the level of the company but also in the Estonian Chamber of Commerce and the Estonian Association of Artists as to how to trade jewelry. An attempt was made with a small collection to trade in France. Boutiques did not accept the jewelry for the hallmark imprinted in Estonia and asked for the hallmark imprinted in France. The required hallmark was possible to get, in principle, but five weeks of waiting time was required. On the other hand, also Estonian boutiques are asking foreign firms for hallmark imprinted in Estonia. It is not too expensive to buy a hallmark in France and the price of jewelry would cover this additional cost.

Estonian jewelry was rather popular in Russia and also now the manager of the company is looking for restoration of former relationships. There could be a potential market because a new upper class has emerged who would demand these products.

Rather important for Ars-Juveel is the trade off between the quality and price of inputs. Copper and enamel received from Russia are of poor quality. The company imported such inputs mainly from Finland where they are on average 30 per cent more expensive.

Different precious stones (gems) have been offered by several sales persons at a rather reasonable price but the company has not bought them from Eastern salesmen and has preferred to import them from Finland. There is a plan to introduce a joint venture or just a co-operation with a similar Russian firm. This will create a possibility to get controlled cheaper inputs and to export at lower cost avoiding high customs tariffs.

Especially jewelry from Poland competes with those items which are produced and are planned to be produced by Ars-Juveel (silver, gold with amber).

AS Paide Piimakombinaat (dairy products, manufacture of food products)

Paide Plant of Dairy Products (Paide Piimakombinaat) was founded in 1963 in Türi town, central part of Estonia, in 1963 by connecting several small creameries. All production establishments were moved to Paide town (centre of Järva county) in 1979. The plant was included to the list of state-owned enterprises to be privatized in 1993. The joint-stock company Paide Piimatööstus (Paide Dairy Industry) bought 51 per cent of shares of the Paide Plant of Dairy Products only in October 1994. The other 49 per cent of shares is owned by the state and will be sold for vouchers to public.

The production departments of Paide Plant of Dairy Products were constructed during the second half of 1970s. The plant used technological equipment produced in Czechoslovakia. A cheese-making department was equipped with Swedish machinery in 1980. Output of production was 102 million kroons in 1992, 178 million kroons in 1993 and 238 million kroons in 1994. The plant had net profit of 6.7 million kroon in 1992, 15 million kroons in 1993 and made 6.4 million kroons losses in 1994. Main reason for losses in 1994 was the reduction from revenues those payments which could not be collected. Another reason for these losses was valuation of assets for privatization and clarification of the accounting balance of the company for this purpose. The company's own short term liabilities were 14.3 million kroons at the end of 1994 from which 4 million kroons were short term credits and 8.5 million kroons accounted liabilities to suppliers of milk. 250 people are employed in the company.

The company produces milk, butter, cheese, milk-powder, cream, curds. Sewages of Paide town are refined by the company and hot water for heating a housing district is distributed by the company in addition to the main activities.

Exports

The company exported 50 per cent of production in 1994. Earlier the share of exports was even higher. Approximately 90 per cent of products was exported to Russia, especially to the St. Petersburg area (cheese, butter, milk powder). Some small shipments of milk-powder were exported to Germany and Switzerland.

A very big problem for exports is the decision of the Russian government to increase customs tariffs. Russia doubled custom tariffs for countries which do not enjoy the status of a most favored nation treatment. This blocks especially the export of foodstuffs. The Russian government's decree of May 6, 1995 introduced new customs tariffs for imported goods, but for several goods and services high tariffs had been introduced already earlier. Some of new tariffs started to come into effect from October 1, 1995, but for most of goods new customs tariffs were introduced already from July 1, 1995. In this decree several groups of products are regulated which have an important share in the Estonian export. For butter exported from Estonia the new customs tariff is, for example, 40 per cent, for milk powder 20 per cent, etc. At the same time Estonia does not impose customs tariffs on agricultural products at all; if they are imported to Estonia, they are only object of 200 kroons lump-sum procedure tax for a shipment and the 18 per cent VAT.

The company has long term contacts with partners in the CIS but has not got long term contracts with them. It would be a fair set up it risk related to economic damages caused by unexpected behavior either government could be divided on the basis of conditions fixed in a contract between the two trade-partners.

The company's strategy of promoting exports foresees improving of design of packing of dairy products. There were introduced also some new technological equipments for pasteurizxiΦΦing and separating of milk and for producing of milk-powder in 1990s. But in general, several other equipments are old and need replacement.

Milk-powder was an important export item of Estonian plants of dairy products at the beginning of 1990 and to promote this production investments were made also by Paide plant. This is one item for which European Union quota is very small and as a consequence, the relevant Estonian enterprises suffer heavily. In this field the free trade agreement worsened the situation. During 9 months of 1994 by estimation of Estonian Ministry of Economy Estonian dairy plants exported all together 19,273 tons of milk-powder of which 18,088 was exported to the EU countries. Originally, import quota of milk powder for Estonia for the whole 1995 was 1,000 tons. Subsequently, here has been successful negotiations between Estonian Ministry of Foreign Affairs and the EU Agricultural Commission and the quota was increased.

AS Cibus (confectionery, food processing)

AS Cibus was founded in 1914 and was one of 18 confectioneries in Pärnu (West Estonia). Now Cibus is the largest producer of confectionery, bread and other similar products in this area. Cibus was privatized to the joint-stock company Pärnu Leib, which was formed mainly by employees of Cibus. AS Pärnu Leib bought 66.6 per cent of the shares, 33.4 per cent belongs to the Estonian state.

The share capital of AS Cibus is 1 million kroons. At the end of 1994 the company had 176 employees. Its output was 14.1 million kroons in 1992, 31.9 million kroons in 1993 and 39.5 million kroons in 1994. The net profit was 1.6 million kroons in 1992, 1.4 million kroons in 1993 and 1.0 million kroons in 1994. Short-term liabilities of Cibus accounted for 1.2 million kroons at the end of 1994.

Cibus is located very close to the centre of Pärnu. The firm has warehouses for flour and a refrigerating warehouse for several other products used in baking (eggs, butter etc.). For finished products the company has two warehouses. All these units are located on one premises. Cibus is renting land from the municipality.

The basic products of Cibus like black and white bread and confectionery are consumed mainly in the town and county of Pärnu. Pastry is sold also in other areas of Estonia. Roasted meal mixture (national Estonian meal) and dry kvass were the main export articles but are consumed also domestically.

Approximately 90 per cent of the production is sold directly to retail shops, 10 per cent is sold to intermediates. Cibus has two shops in Pärnu. A large share of grated white bread is sold by direct contracts to the fish and meat industries.

Exports

Altogether 5 per cent of the production was exported in 1994. One third of exports went to Latvia and Lithuania, 40 per cent to Russia and 20 per cent to Ukraine in 1994. In 1992 and 1993 the share of exports was high accounting for 10 per cent.

Cibus used to export large amounts of dry kvass to the other republics of the Soviet Union. Now this product is not exported to this region. This is one reason why the share of exports have diminished during last two years because dry kvass is the main article of export. Also high customs tariffs introduced by Russia is one reason why the exports of the company are smaller now. The contacts with wholesale and retail firms in Russia and Ukraine are still maintained, smaller amount of pastry is sold there.

Cibus introduced contacts with wholesale firms in Sweden and Germany. Some small amounts of black bread, roasted meal mixture and confectionery are sold in these countries. Sweden became a new home approximately for 70 000 Estonians after the Second World War who escaped avoiding the Soviet occupation. They founded several bakeries that produced black bread, which is not very common in Sweden and Germany. Most of these bakeries have closed down by now and export of black bread mainly to Estonian consumers in these countries has become one business idea of Cibus.

The export strategy of Cibus foresees widening the contacts with Russia, Ukraine, Latvia and Lithuania. Also smaller shipments of products to Scandinavian countries and Germany are planned.

Main competitors of Cibus are Latvian and Lithuanian similar companies. Also, the market of confectionery is highly competitive in Estonia and this is another reason why Estonian companies are looking for export opportunities.

Like several other Estonian companies producing mainly for domestic market Cibus is not satisfied with the situation that the domestic market is not protected at all against imports of confectionery. One reason why protectionistic measures supporting the home market have not been used is that local production and consumption relations were not legally regulated enough (the customs valuation law will be introduced only from January 1, 1996; antimonopoly and antidumping laws were also lacking).

One additional reason to export is seasonal variation of consumption at Pärnu. Pärnu is a summer resort with its beach and hotels. The number of consumers in summer time is at least two times larger then at winter. This is one more reason why Cibus is producing several more mixtures and other preservable products.

AS Pioneer (manufacture of tools and other finished metal goods)

Pioneer was founded in 1965. Large investments were made in the 1970s and 1980s, therefore the enterprise was one of the best equipped ones in Estonia. The main products of Pioneer are fixtures, powder metallurgy products, aluminium casting, plastic casting. In 1988 the number of people working for the enterprise was 350. The production was sold mainly to Russia (80 per cent was exported).

The worker's collective formed a joint stock company STS and made a leasing contract with the Estonian Ministry of Economy in 1990. In March 1994 Pioneer was privatized to the joint venture United Auto Radiators Eesti AS where 67 per cent of the shares belongs to representatives of the USA car industry and 33 per cent to Estonian joint stock company STS. The purchasing price of the assets of the company was 21.5 million kroons. In addition, the new owner took over 1.2 million kroons of liabilities of Pioneer, gave an investment guarantee to invest into Pioneer 8.3 million kroons during the next three years and keep jobs of 158 people. There were 245 employees in the company at the end of 1994.

The share capital of the company is 1.9 million kroons. The output was 10 million kroons in 1994. There was a 10 per cent increase of production in 1994 and 5 per cent increase in 1993. During 1990–92 the production decreased approximately by 30 per cent.

Exports

Thanks to the existing quite unique equipment the company managed to gain access to Western markets. Pioneer does not have problems with meeting ISO 9000 and ISO 9002 standards and the management expects that Pioneer will get a respective certificate in 1995.

Pioneer succeeded in creating contacts with the USA car industry (the General Motors) and most produced extrusion moulds for plastics are exported to the factories of General Motors. Approximately 90 per cent of the output is exported, in 1994 70 per cent of exports went to the USA.

Since the summer of 1995 Pioneer seemed to manage quite well although the company took quite a big, 21 million kroons loan from two Estonian commercial banks. As the company had a solid foreign partner and market for products, the banks were ready to credit Pioneer. However, a conflict emerged between the Estonian and the American owners. The Estonian partner did not accept the leading role of the foreign partner which the latter had thanks its larger investment and larger share in the stock capital of the company. The Estonian owner accused the foreign partner for paying a price for the products of Pioneer that is several times lower than the price paid for products of foreign companies that produce similar products. Also the Estonian owner started to look for other foreign partners. As a response, the American partner stopped investing into the company and accordingly Pioneer was not able to pay the principal sum and interests on loans. The Estonian partner reorientated itself to the German company Gesellschaft für Industrievertretung GmbH, which participated also with tender when Pioneer was privatized, but the American partner was preferred by the Privatization Agency. Now the German company was ready to substitute the American partner and cover some part of the liabilities. At the same time, as Pioneer was bought on installment, regular payments to the Privatization Agency also stopped and it was ready to abolish the old sales contract. In July 1995 a bankruptcy procedure was initiated by the owners of the company. During this procedure the assets of the company will be sold to cover the liabilities. The Estonian and German companies are ready to buy the assets to restart the company but there are also other potential buyers. The bankruptcy process is continuing still in October 1995.

Pioneer is an example how the company with the good equipment and solid export partner can fail if ownership relations are not accepted by the partners. There is a niche on market for products that Pioneer is producing and a new company will certainly emerge on the ruins of the old one.

AS Tööstusaparaat (manufacture of industrial instruments)

AS Tööstusaparaat was founded in 1960 and was among the enterprises administered by the all-Union Apparatus Building Ministry. In 1988 the enterprise had 1500 employees. Most inputs were imported from the other regions of the Soviet Union, production was also mainly exported.

The technology used in the enterprise was worked out by the applied institute of technology of the all-Union Ministry of Apparatus Building Industry. The technological blueprints, schemes and other information on the products are not available to representatives of Tööstusaparaat. This complicates innovation of production. After some period a new data base, reorientation toward Western quality standards and materials is necessary.

Tööstusaparaat was privatized in 1994 to the joint-stock company formed by employees of the enterprise. The purchasing price paid for the company was 17 million kroons.

The output was 5 million kroons in 1994, with only 600 people employed. In comparison with 1990, the output had declined by half by 1993, but in 1994 there was a 10 per cent growth.

At the same time Tööstusaparaat retained all production departments and the main traditional product — control instruments for measuring amounts of consumed fluid — is still produced.

Exports

The company exports 90 per cent of the production. Target countries for exports are Russia (80 per cent of total exports), other member countries of the CIS (10 per cent), Latvia and Lithuania (10 per cent).

The management of the company is convinced that the Eastern market is important and should be retained. Also Lithuania, Latvia and Poland are considered to be potential markets. There have been some contacts with representatives of Western firms but no real co-operation has been introduced.

The situation in the enterprise seems to be complicated also because of the (missing) foreign language skills of the managers and constructors. They are in principle interested to co-operate with Western partners but estimate the present technical level of the enterprise high and are not ready to accept organizational methods, attitudes and values of Western entrepreneurs.

Tööstusaparaat plans to continue production of control instruments for measuring amounts of consumed fluid; however, to get new orders the design of the product needs to be modernized.

High customs tariffs introduced by Russia are a factor influencing seriously the economic results of production. The company is using contacts with other sources from the CIS to diminish the economic damage these tariffs cause.

In the market of the CIS the production of Tööstusaparaat does not have strong competitors so far. Imported Western models of similar instruments are more expensive. On the other hand, relatively low wages (1500 kroons per month) and cheap inputs imported mainly from Russia keep production costs low and so products can be sold at low price. Of course, such strategy cannot continue forever. Wages are increasing, as are the price of electricity and heating costs. The company has tax arrears of 0.5 million kroons and investments are needed to improve the design and quality of products.

Estel RAS (manufacture of electrical machinery)

The enterprise was founded in 1958. In the 1980s it was called Tallinn Electro-technical Factory subordinated to the all-Union ministry. The number of employees was 3700 in 1988.

The company is still state-owned but the joint-stock company formed by employees of the factory has a leasing contract with the Ministry of Economy.

During the period 1990–94 production declined by a factor of 4. There were 800 employees at the end of 1994, but that number is expected to decrease to 500 during 1995. The total output was 5 million kroons in 1994, the main products are electricity transformers, high voltage converters and semiconductors.

Estel had been one of the largest companies in Estonia and this is also one reason why this company was adjusting to the new conditions so slowly.

Exports

Approximately 80 per cent of the production was exported in 1994. The CIS is the main market for products accounting for 70 per cent of the exports. One contract is with China, high voltage converters are exported to this country. China accounted for 10 per cent of the exports in 1994. The company has agencies in China and Egypt. These markets are important for future trading.

Estel is one example of the companies which in the former Soviet Union were very closely linked to each other through the chain of producers of electrical machinery items and which did not manage to reorient their products to other markets while the Eastern contacts collapsed. The company still sells in the old markets a certain amount of production but this is several times smaller than it was in the 1980s.

The expectation dominating in the company is that economic and political relations with Russia will be normalized. At the same time, while payment problems continue and several managers of the company still hope that these relations between enterprises will be rescheduled by state agencies of both countries. The state of relationships between Estonia and Russia leaves a rather small chance for such solution.

The company started negotiations also with the international corporation ABB. For Estel the main target is to become a subcontractor for the ABB and use its licence to have access to European markets. However, Poland is a strong competitor in this field: ABB has created in Poland more than 10 joint ventures with partly similar production as Estel RAS. In competition for subcontracts with firms in Poland and in other East European countries the geographical location is a disadvantage for Estonia. Crucial factors in this competition will be the relationship between costs and quality, and also how fast contracts will be fulfilled.

The market of the CIS is not solvent, and the former monopolistic position on the Russian market can never be regained. Now also high customs tariffs are blocking access to this market. Access to West European market is possible only by subcontracting of several technological operations.

AS Ilmarine (manufacture of tools and other finished metal goods)

Ilmarine is one of the oldest engineering enterprises is Estonia founded in 1883. In the 1980s the main production article of Ilmarine was soot blowers. The enterprise was a monopolistic producer of this equipment in the Soviet Union. Ilmarine was producing also oil and gas burners, reservoirs and several metal constructions. There were 1400 employees in the factory in 1988. During the period 1990–94 employment declined to 500 people.

The company was included into the privatization list in 1993. The department producing soot blowers was bought by Bergemann company from Germany as a stock of assets for 2 million kroons with investment commitment of 1.5 million kroons and a promise to maintain employment of 58 people.

The joint-stock company Ilmera formed by employees of Ilmarine bought other departments for 8 million kroons with investment requirement of 4 million kroons and guaranteed employment of 300 people.

AS Ilmarine continues producing oil and gas burners, reservoirs, cooking stoves and some other consumer goods. The output of Ilmarine was 6 million kroons in 1994. This number can not be compared with output figures of earlier years because a new AS Ilmarine consists only of one part of the former factory. The output of the whole Ilmarine declined by 30 per cent in 1992 and by 10 per cent in 1993. There was no further decline in 1994.

Exports

In 1994 the company exported 70 per cent of its production. Approximately half of the exports went to Russia in 1994. Another 30 per cent was the share of Germany and 20 per cent the share of Finland. The main export articles to the Western countries are several metal constructions.

Quality standards have been an obstacle for company experts. For production with very strong safety regulations and conditions (high pressure pumps, lifting mechanisms like cranes) special relationships and consultations with foreign authorities or private companies, as well as follow-up inspections were necessary. Estonia has relatively good relations with a relevant German organization of welder-operations. This organization first trained two Estonian specialists in Germany and later financed a project which introduced a special centre in the Lilleküla School of Mechanics. Now Ilmarine has a special certificate of this German organization testifying that the welder-operations have been done by workers having the required classification, the technical conditions in the enterprise satisfy German requirements, and the materials, control system and supervision meet quality standards. This certificate has been very important to get orders from German enterprises.

Machinery and equipment for more ordinary work (machinery used in agriculture), not connected with very strong safety requirements are not controlled so strictly. It is enough if a representative of the contractor makes a general observation on the quality of production and accepts it.

The export strategy of Ilmarine foresees promotion of Western exports. As the production of Ilmarine is not very unique, the former clients in the CIS found new suppliers and these orders are not available any more. So, even when the economic relationships between Estonia and Russia will be better, it will be rather complicated for the company to restore the former market in Russia. Additional source of problems is that for some products Estonian prices are higher than Russian prices because wages and some other costs are higher in Estonia than in Russia.

On the other hand, in comparison with the Western companies relatively low wages and cheap inputs imported mainly from Russia keep production costs low and so products can be sold in Western markets at relatively low price. Increasing prices of electricity and heating diminish this advantage rather quickly, though.

AS Klementi (clothing industry)

The predecessor of Klementi was Osta an underwear producing factory founded in 1945. Vilhelmine Klementi Clothes Factory, named after an Estonian revolutionary, was founded on the basis of Osta in 1950. As a result of uniting several enterprises the Clothes Combinate Klementi was formed in 1970. New buildings were constructed in the Tallinn suburb of Mustamäe where the combinate was located since 1973. At the end of the 1980s the combinate employed 1500 people. The state-owned joint-stock company Klementi was formed in 1992. In 1994 80 per cent of the shares of Klementi were bought by the joint-stock company Klementi Kaubandus (Klementi Trading) formed by the employees of the company, 20 per cent of the shares will be sold to public in 1995. The new owners decided to hold the name of the company, because it sounds good and has become to be a well known trade-mark in Estonia.

Several units of Klementi located in other cities of Estonia were separated from the main company. The share capital of Klementi was 18.75 million kroons at the end of 1995. The company employed 809 people in 1995. Among the producers of clothing in Estonia, Klementi was the largest by the number of employed people and second by the value of turnover. The turnover of the company was 45.1 million kroons in 1993 and 45.6 million kroons in 1994. During the first half of 1995 the turnover was 32.7 million kroons and a 40 per cent growth is expected for the whole 1995 in comparison with 1994. The company made 5.1 million kroons losses in 1993 and 2.1 million kroons losses in 1994 but during the first half of 1995 it had profits before taxes 2.7 million kroons. The efficiency of the production is directly linked to the privatization of the company in 1994. The effect of this act seems to be two-sided: first, the private owners made the company work more effectively and, second, as the buyers of the company were its employees, they were not interested in holding the profitability of the company too high before privatization because the sales price had a direct linkage to profitability.

The production of Klementi consisted of two parts: 1) subcontracting for foreign firms; 2) own production. Mass-sewing operations are subcontracted. The own products are several collections of men's and women's overcoats which are sold under five trademarks. Also the company started to produce working clothes in 1994.

Exports

Approximately 90 per cent of the production was exported in 1994 and 1995. Subcontracting makes up 50 per cent of the value of turnover and is realized totally to foreign firms of Finland, Sweden and Germany. At the same time by estimations of the representatives of the company subcontracting hires 80 per cent of the technological capacities. So the profitability of subcontracting is substantially lower than own products. From own production 75 per cent is exported, mainly to Finland, Sweden, Latvia and Lithuania. Sale of finished products is organized by agents in Finland and Sweden. In Latvia and Lithuania the company has direct contacts with retail sellers.

One of the main problems of exports is related to the short periods of contracts. The company has mainly one year contracts; only for production of working clothes to Finland is there a three year contract. For the rule of origin of goods Klementi has to use woven materials imported from the EU countries to export finished products to these countries at preferential terms. This makes the cost of materials rather high. At the moment Klementi could compensate this with its relatively low labor costs (the average wage is 2000 kroons in the company). On the other hand, the finished goods are sold rather cheaply in the Scandinavian countries now and profitability of exports depends on the potential of the company to make its trade-marks more well-known. This would help get higher prices and in this way to compensate the increasing costs of labor.

Klementi has introduced contacts with agents of big Scandinavian wholesale chains. Most of trading contracts are realized through these people. On the other hand, this means that the company has to export so called free-label goods. The seller of these goods uses its own trademark for selling the production of Klementi.

The managers of the company do not appreciate too much contacts introduced at trade fairs. The participation in fairs is very expensive and not very serious trading takes place there. They believe that trade fairs are more important for the companies which are interested in advertizing their trademark.

The managers of the company also complained that trade with Russia is restricted by the high customs tariffs. On the other hand, the company is selling more goods to Latvia and Lithuania now then it did last year. One part of these goods is re-exported by Latvian and Lithuanian wholesale companies to Russia.

The companies of Latvia, Lithuania and Russia are not strong competitors of Klementi in selling ready-made clothes but they could take over part of subcontracting because their labor costs are lower (especially in Lithuania).

Tallinna Farmaatsitehas AS (pharmaceuticals)

The predecessor of the company was the laboratory Ephag founded in 1914. Ephag moved into the buildings where Tallinna Farmaatsiatehas is located now in 1936. After the Second World War the enterprise produced several types of medicines in the form of tablets, ampullae and salve unguent. The main groups of medicines produced in the 1990s are analgeticums and antiflogisticums, antiinflammatory means and hypertensive drugs.

Two thirds of the shares of the company were sold to the private joint-stock company Magnum Pharma. One third of the shares is held by the Estonian state. The company employed 210 people in 1994. The turnover of the company was 12.5 million kroons in 1992, 40.7 million kroons in 1993 and 100.5 million kroons in 1994. The profit after taxes was 2.3 million kroons in 1992, 3.1 million kroons in 1993 and 16.3 million kroons in 1994. The share capital of the company was 10.5 million kroons in August 1995.

The firm sees as its strategy the introduction of new production lines for producing drugs in ampullae. Another new line is needed for the production of tablets. They also need acquiring the Good Manufacturing Practice standard which is a precondition of getting registered as a producer and exporter of medicines in foreign countries. Reconstruction of buildings and replacement of machinery could be necessary for this reason. To make access to finances required for these investments, the company asked the representatives of the bank which credits Tallinna Farmaatsiatehas, to be represented in the board of Magnum Pharma, the company which owns Tallinna Farmaatsiatehas.

Exports

The share of exports accounted for 90 per cent of production in the 1990s. Russia got 65 per cent of the exports in 1994. More important export partners are also other CIS countries and Latvia and Lithuania. The manufacture of products introduced in the 1980s is accepted by Russia because it is in accordance with the GOST (the unified system of standards of the former Soviet Union). New products need additional registration in order to be exported to the CIS. The export to Latvia and Lithuania is supported by the agreement between the Baltic states which established a simplified order for registration of pharmaceuticals produced in these states.

Foreign specialists visiting the company in June 1995 found that approximately 50 per cent of the production is on the level of quality standards of ISO 9000. On the basis of this estimation the managers of the company hope that big investments are not needed to produce products which could be accepted at least by clients in the other East European countries. Main investments should be done into laboratories of the company and for introduction of the new quality control system.

Main problem for the company is packing of the products. The company is importing all materials for packing from Finland. This is rather costly and it diminishes the efficiency of production.

Managers of the company complain that Estonian government institutions do not support their activities. This was mentioned in relation to technical assistance necessary for applying for official appreciation of quality of products, and to financial support for export activities.

The technology and production machinery employed now in the company and the lack of the Good Manufacturing Practice standard allows the firm to export to the Western countries only some medical drugs. One example is Viprosal, the salve unguent used to warm up muscles, already registered in several Central European countries (Poland and Hungary) and prepared for registration in Italy and Greece. The technical improvement will make it possible to apply the Good Manufacturing Practice standard. However, the complicated procedure of registration of drugs was forecasted to be a major problem for exports to the West.

On the other hand, the representatives of the company mentioned that they had problems also with exports to Eastern countries. They are not satisfied with the habit of Eastern clients not to pay on time. However, it also was mentioned that during the last months the liabilities of the Eastern partners had diminished.

Paradoxically, the introduction of new products simultaneously improves and worsens the export capabilities of the company. New products are necessary for access to Western markets. For trade with Russia they mean, however, that the new products do not automatically correspond to the old common standards. They should pass the long process of examination and registration to get a licence for being sold in Russia.

A new 20 per cent customs tariffs was introduced by Russia for pharmaceutical imports from Estonia since July 1, 1995. As Latvian and Lituanian companies do not have to pay this customs tariff due to most favored nations treatment between these countries and Russia, Estonian production became less competitive in Russia.

In general, the management of Tallinna Farmaatsiatehas is optimistic and argues that the market of pharmaceuticals is rather solid for long term activities and investments to expand exports should be efficient. However, these expectations are based on the optimistic forecast that relationships with the CIS would improve due to closer general economic and political cooperation.

AS Viisnurk (furniture)

AS Viisnurk was founded in 1958 as a result of merging several wood-processing cooperatives in Pärnu, a city 130 km south of the capital Tallinn. Furniture has been the main product of the enterprise from the very beginning. Skis started to be a new product in the 1960s. The production unit for processing fiberboard was introduced in the 1970s. These three items have been dominating among the production of the enterprise.

Viisnurk was included into the list of enterprises to be privatized in 1993. The process became rather painful for the company because the main bidders were two groups of employees of Viisnurk. The offer of the joint-stock company VAN Holding was preferred by the Privatization Agency and subsequently several managers of the other group left the company. The sales contract was signed in March 1995. The new owner took over also a substantial part of the liabilities of the company amounting to 37 million kroons. The company employed 830 people at the end of 1994. The number of workers declined in comparison with the 1980s when the employment was 1200, but this decline was not so sharp as in several other companies of the city. The turnover of the company was 113 million kroons in 1994, which was 10 per cent lower than in 1993. For 1995 the new management hopes to increase output up to 140 million kroons. The share capital of the company is 20 million kroons.

Skis account for 50 per cent of the output. Fibreboard accounts for 22 per cent of the production and the share of furniture is approximately as high. The production of skis and fibreboard increased last year but the production of furniture has declined more than half in comparison with earlier years. Viisnurk produces also 15 per cent of the thermal energy of the city of Pärnu. This field of production has been important for processing at other units of the company and the new owner started to invest especially into the reconstruction of the thermal energy producing unit of the company.

Exports

Viisnurk is second among the Estonian enterprises in this industry by output, but has the largest share of exports (especially thanks to the export of skis). The company exported 85 per cent of its production in 1994. From the produced skis 99 per cent was exported. Warm weather in Estonia during the last winters was an important reason for the high share of export of skis. Also a high share, 90 per cent, of fibreboard and 60 per cent of furniture was exported.

At the same time only 15 per cent of the skis were sold under the own trademark of Visu. The rest was sold under trademarks of Finnish firms Peltonen, Järvinen, Karhu, the French firm Rossignoli, etc. Its unknown trademark is a big problem for Viisnurk, because selling skis under trademarks of other firms means that the company loses sometimes even more than 50 per cent of the price. Skis are exported to Finland, Sweden, Norway, USA and Canada. One big but unavoidable risk faced in producing skis is related to changes in weather conditions of different years. Relatively warm winters in Scandinavia during the last years diminished the demand and forced the company to look for markets in North America.

From the exported furniture 30 per cent went to Finland, 25 per cent to Russia and 20 per cent to Latvia and Lithuania. Russia has been a target country for export of furniture but the high customs tariffs (since July 1, 1995, the tariff for furniture imported from Estonia to Russia is as high as 60 per cent) emerged as a sizable impediment. Nevertheless, the company continues exporting to Russia. This export does not bring profits but the strategy of the company is based on the assumption that the relation between the two countries will become warmer and then it is important to have a worked out access to the big Russian market.

Ukraine was seen as another possible market for Estonian furniture. Estonia has a free trade agreement with Ukraine. The unstable monetary environment of Ukraine has been a main obstacle to this trade. Barter trading is a possible solution as refrigerators and other household appliances could be imported from Ukraine for the furniture sold. Viisnurk is not interested in organizing such a barter trading; accordingly, there is a need for a government agency which could arrange such transactions.

Another problem with the export of furniture to the CIS is related to differences in taste. Dark furniture is preferred in these countries. The white wooden furniture, which is popular among the consumers in Scandinavian countries, is not widely accepted in the CIS.

AS Smarten (wholesale)

Smarten was founded in 1993 by three Estonian young persons (two of them were then students of the Tallinn Technical University). The share capital of the company was 1.3 million kroons. The turnover of Smarten was 30 million kroons in 1993, 130 million kroons in 1994 and for 1995 the expected turnover is 300 million kroons. The profit before taxes was 2.5 million kroons in 1994 and it is expected to grow up to 4 million kroon in 1995. The company started with 10 people employed in 1993, in 1994 the number was 70 and in 1995 100 people. Smarten is by turnover the second largest company in Estonia, but among the private wholesalers it is the largest. The Union of Cooperatives which is a successor of the pre-Second World War and Soviet time cooperatives was still leading wholesales by volume of trade in 1994.

As the structure of trading in Estonia is only emerging, the roles of different agents are not as specialized as in Western countries. Smarten is specialized mostly in trading of food products in which it acts as an ordinary wholesaler. On the other hand, Smarten functions as a distributor on the market of industrial goods. Smarten as a distributor contracts with the US company Procter & Gamble for selling washing powder in Estonia (Tide, for example), which excludes selling of similar products of other companies. The competition among companies in wholesale is tougher than in retail sale, as the executive director of Smarten estimates. The company also tries to have a linkage to retail sale partners. Smarten owns fully two shops and has some part of shares in several retail-sale firms.

Exports

During the last two years the share of export (actually mainly re-exports) has been on average 15 per cent of the turnover. Main trading partners are in Latvia, but a part of products are also re-exported from Latvia to Russia.

Smarten also introduced a subsidiary in Latvia, but had to close it down in 1995. The problems were related to undefined responsibilities of local staff in Latvia. Smarten recognizes that they failed in their first attempt at Latvia, but after some preparations they are planning a new project there. Now they try to find people in Estonia and to prepare them for activities in Latvia.

Another business strategy of Smarten is to go to the CIS with Estonian big companies like Paulig-Estonia (a subsidiary of the Finnish coffee company), Kalev (sweets), Liviko (producer of alcoholic beverages). However, at the moment the customs tariffs of Russia for imported goods from Estonia are too high for such business.

The partners in Latvia have been private agents, who transfer the goods to retail sellers and also sell them on the market. The representative of Smarten admits that seemingly some of their Latvian partners are active in smuggling these goods into the CIS without paying any customs tariffs.

The export is very much related to booms of buying different articles in Latvia and Russia. There was a boom in coffee sales. Latvians have been always known as the big consumers of instant coffee. Now ordinary ground coffee from Sweden and Finland seems to be more popular. Also washing powder has been sold in big amounts during a short time. Before Christmas there is a big boom of sweets. Some of these booms of trading could be forecasted, but several others have a sporadic character. This complicates the activities of the company.

One problem of re-export is related to payments of VAT on imported goods that the company has to pay before re-selling the goods to Latvia. At the moment there is a rule in trading with clients that they pay half of the VAT to Smarten in advance for the whole shipment. Later Smarten will return this payment. This scheme has been working relatively well with Latvian partners but it has been impossible to introduce it with partners from the CIS. On the other hand, trading in Latvia and also in the CIS gives Smarten larger profits because the amount of re-traded goods is much larger. So, this argument supports interest in being involved in the CIS market.

5 HUNGARY

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Table 5.1 Profiles of the companies covered in the survey.

Industry/ company	Ownership[a]	Export/sales ratio (%)	Number of employees	Other characteristics[b]
Food processing				
Ringa	100% state owned	50	1,600	Debt consolidation
Gallicoop	DP	50	120+300[c]	–
Komáromi	100% state owned	8	817	Eastern exports
Győri Keksz	JV	7	1,100	Eastern exports
Clothing				
ZAKO	JV	90	1,800	OPT
Hunostyl	DP + MBO	66	250	OPT
Sal-kon	DP	85	550	OPT
Glovita	JV	45	300	No OPT
Elegant	JV	90	311	OPT
Elit	JV	75	1,400	OPT
Agora	100% state owned		370	Disabled workers
Engineering				
Lehel-Elektrolux	100% foreign owned	50	3,284	Tax rebates
Ganz-Ansaldo	JV	60	1,600	Loss maker + OPT
Chemicals				
Borsodchem	100% state owned	–	4,074	Debt consolidation
Taurus	100% state owned	58	1,043	Debt consolidation
Richter	63% state owned	66	4,623	Eastern exports,
	+ stock exchange	–	–	tax rebates
Glass				
Hunguard Float	JV	73	327	–
Metallurgy				
Csepel Metal	100% state owned	50	1,300	Debt consolidation
Textile				
Gardenia	JV	70	650	–
Footwear				
Bonsa	JV	100	–	OPT + tax rebates
Wood processing				
Kecskeméti	MRP	80	–	–
Other light ind.				
Graboplast	Stock exchange	50	1,000	Eastern exports
Rico	DP	7	510	Eastern exports

[a] DP = Dominant private ownership; JV = Joint venture; MBO = Management buy-out; MRP = Employee share buy-out program.
[b] OPT = Outward processing traffic.
[c] Permanent staff plus leased blue collar staff.

RINGA Meat Processing Co.

The company has three plants, that made HUF 8 billion sales revenue in 1994. It was restructured into a joint stock company in 1993, and is 100% owned by the State Property Management Agency (SPA). As RINGA was unable to repay the debts that it raised for export promotion and partly disbursed by the World Bank, in December 1993 the company was involved in the accelerated debt consolidation program. The outstanding burden of the company, exceeding HUF 100 million, was assigned to the SPA by the creditor (the Hungarian Foreign Trade Bank). Hence the company, besides being fully owned by the SPA, was also mortgaged for the SPA. Such mortgage prevents obtaining further credits and gradually makes impossible the financial management of the company.

Presently (in the middle of 1995) the maintenance of solvency is a day-to-day problem of the company: RINGA is late with payments and all its efforts are oriented towards avoiding a bankruptcy procedure which would seriously harm its market value.

The company's exports represent 50% of the total output, ranging at USD 26–27 million over the recent years. Its most important markets are: USA (ham exports), EU — primarily France, Germany, Spain, Greece and Sweden. Export profitability varies around 0 and if the export subsidy system does not improve, their exports may collapse. According to the view of company managers, the export subsidy rates are low and declining; in fact subsidies stimulate the exports of products with low level of processing. They also believe, that the real appreciation of the Hungarian currency is also responsible for the low profitability of exports.

In the domestic market a continuous decline in the sales volume has been recorded over the recent years, the same is envisaged for 1995 and for the medium term. Demand has dropped primarily for carcass meat, while in the field of meat products a stagnation is observed. Besides the decline of the purchasing power of the consumers the reason for the demand drop is also the specific competitive situation. Ringa Meat Processing Co. is running under EU conform hygiene/environment protection standards and this, quite understandably, increases its prices. Smaller regional meat processing companies, placing their products solely in the domestic market or perhaps exporting to Eastern Europe based on occasional licences, do not have such additional costs in their cost structure. So they can offer lower prices than RINGA, preventing the firm from being competitive in the domestic carcass meat market.

The firm's view is, that its product portfolio basically varies according to the changes in the subsidy system.

RINGA cannot fully utilize its existing capacity. The cattle slaughterhouse is operating at 40% capacity, while the pig slaughterhouses are running at 50 to 60% capacity loading. Company managers think that the underlying reason is partly the shortage of live stock, and partly the reduction of exports due to the lack of appropriate subsidies. The staff level is 1,600, 100 less than RINGA had in 1990.

Laying off people is a continuous process, in 1995 the envisage a staff reduction by about 150 employees. White-collar staff level is at the possible minimum, hence the present staff release will affect really the blue-collars, that is again related to the low capacity utilization. A general practice is to send people on forced holiday. By mid-February most of the employees had to utilize half of their annual holidays.

With all those measures, the financial management of the firm showed a minimum 2% profit in 1994. They are trying to cut their costs and improve profits primarily via productivity, energy saving and saving on telephone costs. Because of postponed upgrading/maintenance, facilities are old and worn, hence no savings can be made on maintenance costs. So the one possibility left for the firm is laying off people. In general, RINGA expects any improvement in its financial position only via an improved subsidy system.

In spite of the rather distressing future, it must make investments to maintain existing markets and export levels. Currently RINGA expects to obtain a packaging machine line based on a lease contract.

For the mistaken exchange rate policy, bad subsidy system, excessive interest rates and the shortage of finance the firm holds the government's economic policy responsible for this situation.

GALLICOOP Co.

GALLICOOP Co. was set up in 1992. Its predecessor was a cooperative that was transformed into a limited liability company, raising equity by 30–30% of the shares to a foreign and a domestic company. Its main profile is processing turkey.

Both the domestic and export sales are dynamically growing due to the fact that turkey consumption has increased in the Hungarian and Western European markets, following the general trend of healthy nutrition.

Domestic sales in 1992 amounted to HUF 720 million and in 1994 they achieved HUF 1,300 million. Over the coming years, the production volume may increase by another 10 to 15%. The consumption of turkey in the domestic market has increased not just because of the change in the public perception, but also because its price is more advantageous than that of the pork, for instance. The breastless and legless carcass, as well as the giblets are perceived especially low price products, but those can be placed only in the domestic market. The higher value parts are mostly exported. Also the level of processing is being raised, further processing the raw material into sausages and fillings for the domestic market. The time needed for a turkey to grow suitable for slaughtering is half-year, compared to the 6 weeks, required for a chicken. The full production process (from the farming up to the processing) is highly capital intensive, that has a moderating effect on any intentions of potential competitors to enter the market.

The proportion of domestic/export sales has been mostly 50/50, and it is expected to stabilize also at this proportion in the future. The main export markets are Germany, Austria, Slovenia, France. In the case of turkey the price of South American exports do not achieve dumping levels in the European markets, as in the case of Broiler chicken; although Brazilian exports enjoy preferential tariff rates in the EU. A competitive advantage of Hungarian exporters is that they can supply pre-cooled turkey meat which can be sold in the Western European markets for another 8 to 10 days, if stored at a 0–4°C temperature. No overseas producer can use this advantage. Another important advantage of GALLICOOP's exports, is its attractive prices. Profitability is an important motivation of exports.

Over 1993–1994 the plant achieved a 5% profit before tax over the sales revenues. This profitability can be sustained also in the long term.

The total processing capacity of GALLICOOP is 24,000 tons/year. In 1992 the company was running at 40% capacity, in 1994 at 60% capacity utilization. The major obstacle to the full utilization of the existing capacity is the feeder industry whose production is lagging behind turkey production. Due to lack of financing, this problem cannot be resolved in a rapid manner. The processing facilities are new and modern. Should the feeder industry capacity be able to expand at a faster rate, the opportunity for expanding exports could be exploited.

The main change in the product structure is the growth of the level of processing, but in the future it needs some new investment. A modern packaging machine line will also be needed, in order to expand the scope of ready to cook products.

Blue-collar staff — some 300 people — has been supplied for years now by an external company. This firm acts as a "buffer", always sending in people for the production according to the real needs. Hence, the full time staff at the company is only about 120 people, distributed across office, feed mixing plant, maintenance shop and further processing plant. Only a small increase of employment is expected due to the expansion of the production.

70% of all costs is made up of raw material (that is turkey) buying-up. It may have a price raising effect, if the competition offers higher prices for the turkey, which is available in the market only in a limited volume. Cost cuts can be achieved primarily by feed mixing and by upgrading the feed mixing facility. Further specific cost reduction could be achieved by better capacity utilization.

Domestic debt amounts presently to HUF 400 million for current assets and HUF 70 million for investment projects, but the company does not wish to increase those, because of the high interest rate. Development projects are mostly financed using own resources such as depreciation and profits. The company does not intend to obtain international credit.

The company claims that the feeder industry should be financed by banks, rather than by the processing plants. For instance, in Israel the turkey farmers obtain credit directly from the banks.

The managers believe that for the consolidation of the market interest rates and taxes should be reduced and a drastic elimination of the black economy is required.

In the export markets the major obstacle is while Brazil is allowed to transport into the EU 6,000 tons of turkey with no duty at all, Hungarian exporters have to face, besides the customs duty, a 17% surcharge. (At the same time, all inputs in Hungary such as the energy, feed, etc., are available at world market prices.) A special problem is, that for the breed eggs and breeding stock the same duty is imposed, as on normal eggs for eating (i.e., 30%!). On the other hand, the breed eggs could be produced in the Hungarian farms instead of importing, but it would require government support.

Komáromi Mezögazdasági Rt. (Agricultural Ltd.)

The former Komáromi State Farm was transformed to a shareholder company in 1993. The equity capital amounts to 835 million of HUF. This company belongs to the 24 member group of state farms that will remain under state governance, because the company is a large supplier of seeds and breeding stock. The company lost a third of its territory in land restitution, and its industrial and construction activity was also shut down.

The company cultivates wheat, barley, pea, mustard, sugar-beet and corn for feeding of the animals, and grapes for wines. The livestock consists of pigs and cattle. The company runs a slaughter-house, primarily to slaughter its own stock, but also animals from farmers and from abroad are bought for slaughtering. Exports cover wine, meat-products and seeds.

The total turnover in 1994 amounted to 2.3 bn HUF. Exports accounted for 8% of the turnover. The volume of exports is much less than in the former years, mainly due to reduced territory and activity of the farm and bad weather, not because of lack of demand.

In 1989–1990 the company exported frozen half-pigs to the Soviet Union and Yugoslavia. These contacts ceased to exist in 1991–1992, and new markets had to be found. Current exports are made up of processed meat products to Sweden (30% of total exports), wines (35%), seeds and live animals to Germany. The company implemented a new, modern technology for preparing wines which opened a large market for their products. There is a perception of invigorating demand in CIS countries, but the lack of slaughter-pigs and cattle prevent the company to expand its exports. The end of the Yugoslavian war would open new markets for meat products.

Company managers argue that bulk production is not competitive in western markets. Products of intensive cultivation technologies can be sold at reasonable prices.

Parallel with the reduction of activities, the number of employees declined from 1,600 to 817. The dismissal of another 30 workers is also planned.

The company invested into modernization of production technology in wine processing, and replaced the depleted equipment in cultivation and in stock-breeding. Although the slaughtering capacity is utilized up to 50%, investments had to be made into a packaging machine. All these investments aim at preventing the decline of the current level of production, not at expanding capacities.

The company faces persistent liquidity crises. Investments are financed from subsidized credits provided by the Ministry of Agriculture. The managers consider the interest on working capital credits too high, especially in the case of agricultural production where the asset turnover is slower than in industrial activities.

The company made losses until 1993, then they turned to small positive results.

The managers do not think that the devaluation of the currency can promote exports, because it also increases the prices of imported components. They would prefer one, larger devaluation than a series of small ones, because in this case they could prepare cost comparison on the basis of fixed exchange rates.

The managers of the company consider agricultural export promotion subsidies biased towards low quality products. They hope improvement in their market position due to the establishment of the Councils Agricultural Products, that, according to their hopes, would limit domestic and import competition.

Győri Keksz-és Ostyagyár (Biscuits and Waffles Company)

The company produces cereal products, candies, and snacks. In all the three product lines the company has a dominating role in Hungary. With long tradition in producing sweets the company was bought out by a multinational company in the early 1990s. It is currently organized as an affiliate of United Biscuits. The technology transfer and know how provided by the parent company ensure the high quality of their products.

The bulk of their products is sold on the domestic market, the share of exports is 6–7%. The kinds of products produced by the company are produced in every country; this imposes a constraint on expanding the revenues from exports.

Sales declined in the domestic market in the period of 1992–1994, although the contraction was smaller than the decline of overall domestic demand. Due to the improving quality of its products and to its pricing strategy the company could increase its market share. Compared to the quality, the products of Győri Keksz are cheaper than competing products.

In 1995 the company expects a growth in total turnover, mainly in exports. Biscuits and snacks are exported to the Eastern countries, particularly to CEFTA and CIS countries. Candies are sold on Swiss and Holland markets. Demand is perceived to recover in the Eastern markets. The parent company restricted exports to Poland, where it has another affiliate; exports of snacks and biscuits to Western Europe are also prohibited, because they try avoid internal competition.

The product line has changed. Snack production was started and the company became the largest producer in Hungary. Biscuits keep their importance, whereas candies and waffles are loosing ground.

The net income of the company is 10% of the total turnover, although profits before taxes were negative in 1994 due to selling a plant well below its price in the books.

Having one plant sold, they fully utilize their capacities. The company employs 1100 workers. Efficiency was improved in production by implementing cost and quality standards. The price of inputs could be reduced due to the market power of the parent company.

The physical capital stock can be characterized as up to date partly due to the slow technological development in this branch, partly due to the large investments that were implemented in the last years. New machinery to produce snacks was installed and in biscuit-production the equipment was modernized to match the quality requirements. Exclusively from internal resources are used for investments, bank loans for investment purposes are considered to be hazardous.

The company would appreciate the implementation of higher agricultural tariffs according to the Uruguay Round, instead of the application of quotas. The company considers preferential import quotas for CEFTA and EU member countries too large. Györgi Keksz was adversely affected by the change in export subsidies for snack products. Snack export enjoyed a 30% subsidization in 1993, and that induced an export expansion, but the subsidization was cancelled in 1994.

The black economy was indicated as the main impediment to increase sales on the domestic market. The company is hit by smuggled products, and by products coming from developing countries. These products are made in Europe, but bought by a company from a developing country with the support of EU, and resold in Hungary.

ZA-KO Clothing Factory Co.

Zalaegerszeg Clothing Factory was transformed into a joint stock corporation in 1990. Its equity was raised via a USD 2.7 million direct foreign investment and is presently operating as a joint venture. The company produces ready-made garments, men's suits and ladies' costumes. Based on the total turnover, in 1994 it was positioned as the 43rd largest exporter in Hungary with its USD 27.5 million export sales revenue.

Over the 1980s ZA-KO placed half of its production in the domestic market, 25% went to the Soviet market and the rest to the Western markets. Similarly to the majority of clothing firms, the company had to write off a significant market loss due to the collapse of the Soviet market and the shrinking domestic market demand. Thanks to its relatively flexible adjusting capability and existing good relationship in the traditional job-work export area, the company was able to survive the change in sales pattern without a significant fall in its activity. In 1993 90% of its net sales revenues were made up of exports and, within that, 90% came from job-work activities. In 1994 the volume of exports were increased by a further 9%, while in 1995 a further 15 to 17% increase is envisaged. The company supplies customers world-wide.

The domestic market has shrunk due to the deterioration of the overall standard of living. The output volume of ZA-KO for the domestic market has been reduced every year. A future expansion of the domestic market would not affect the export potential, because the existing capacity exceeds by far the demand in the domestic market. However, the so-called global import quota system, which is in use in Hungary for consumer goods, does not provide sufficient protection for the domestic market of indigenous garment producers. Also "black imports" tend to be high, with dubious origin/quality, but with a low price.

The "price" of shifting market orientation was to change batch sizes: instead of the earlier 400 to 500 thousand units batch size the present average is 20 thousand units, but with a much more demanding quality. Traditionally, the company's products were positioned in the marketplace as medium quality/price category ones. Due to the high labor intensity of the present products, however, it is becoming increasingly difficult for the company to get the increasing wage costs plus the increasing cost of other inputs (such as energy, transport, etc.) accepted by the customers in the prices. In spite of the increasing labor intensity, the staff of the company was reduced from 2,000 to 1,800, i.e., by 10%. The direct foreign investment allowed ZA-KO to substantially upgrade its machinery and equipment. Following this improvement 60% of the machine park became less than 5 years old. The number of existing competitors and new Eastern entrants present a limitation to the expansion of exports. The major disadvantage of ZA-KO in this edging competition is its high wage cost. The Eastern competitors offer 20 to 50% lower prices for job-work. Hence, the increase in exports is really due to the combination of an active market policy of the firm and the advantageous impact of the devaluation of the local currency.

Due to the edging Eastern competition, the products of ZA-KO are pushed downwards to lower price market segments. Domestic customers are not willing to accept higher prices.

The managers see new business opportunities for their own non-OPT products as well. The main obstacles are the lack of domestic inputs, and the lack of working capital. The company is not liquid enough to buy the necessary inputs on its own account.

HUNOSTYL Clothing/Trading Co. Ltd.

The legal predecessor of the company was the Clothing Cooperative of the Bács-Kiskun county council; then it was transferred to the Charmeuse Company in 1974, along with all assets, machinery and equipment, products and customers. The present company was broken off the Charmeuse Company in 1991, when it bought back the buildings, earlier passed over to the parent as an in kind contribution. The present ownership structure is the following: 48% management and employee, 26% Tricotex and 26% Hungarocoop (both foreign trading companies). Following privatization the company spun off some of its loss making plants, either by selling those out or through liquidation. Presently the registered centre is at Kiskunfélegyháza, and they also have facilities at Tiszakécske, Bugac and Tömörkény. The staff was cut by 100 people to the present level of 250. The sale of facilities contributed to the present declingΦing trend in their production. (1994 sales revenues were 23% lower than in 1992.) The share of exports and domestic sales, however, did not really change: exports have been about twice the domestic sales. 95% of the output is job-work: men's and ladies' clothes — suits, jackets, blazers and sports wear. Major markets are Germany, France, Finland, Austria. Earlier the second largest customer was Canada, but the Canadian customer left Hunostyl for a Ukrainian partner who offers lower wage based charges.

No significant market and product structure changes have happened at Hunostyl, except for the loss of the mentioned Canadian customer. The company cannot change its business from job-work agreements, because the domestic production of textile fabric nearly completely ceased to exist, and whatever was left is not suitable from quality and fashion points of view. The same is true for the sportswear items manufactured for the domestic market.

Along with the reduction of the number of its sites, the company's production capacity was also reduced, but the sold out machinery and equipment was so outdated and worn down, that the company's existing markets could not have been serviced from those anyway. The repurchase of the buildings at the central site, however, completely exhausted the financial sources of the company. When the payment for the legal predecessor — the Charmeuse Co. — shall be accomplished, the company will have to implement a continuous upgrading programme of its machinery and equipment in order to maintain its competitiveness and to protect its existing markets from the edging competition represented by the lower price Romanian, Ukrainian and Far Eastern companies.

Based on its market opportunities, Hunostyl could double its exports. However, such capacity expansion has a limitation of labor availability. Should the firm be capable of increasing its present 250 staff to 500, the existing machine capacities could be loaded for two shifts. Yet the firm is unable to recruit a sufficient number of apt employees, in spite of the help of the local labor office and of the fact, that the company is located in a region suffering from a bad unemployment problem.

The same way as earlier, the company is training its own skilled people, but only a fraction of such trained people stays with the company. A large number of new business and black business cheat with their taxes and offer higher wages in cash than Hunostyl is capable of paying. (Such black businesses do not pay Social Security contributions either, generating a further advantage for themselves and a long term disadvantage for their employees, who do not understand the consequences.)

The availability of labor is also subject to the agricultural environment: in the spring season the number of people "retiring" for health reasons is so high that in March the workers of two sites are just sent for a forced holiday, rather than operating the plant at a clear loss.

Within the existing staff a streamlining was implemented by re-training the white-collar people, for instance to skilled sewing operators. Hence the administrative staff could be reduced by 40%.

In order to further reduce costs, an internal privatization is being implemented. The sites are transformed into independent limited liability companies, hence motivating them to manage their business in a more efficient manner.

Also the 26% and 26% shares of Tricotex and Hungarocoop is planned to be purchased. As currently Tricotex is facing a liquidation procedure, Hunostyl hopes that it can negotiate an advantageous price. Hunostyl plans to carry out itself the job-work related foreign trading activities, for which preparations were made in due time.

Upgrading the facilities cannot be postponed any longer. Yet the company is unable to obtain domestic credit at acceptable interest rates. It has to seek credit from Italian and German banks via the involvement of its international customers. Hunostyl also conducted negotiations with the equipment manufacturers on installment payment schemes or a joint proposal with them for international credit. The continued and unknown schedule of devaluation of the local currency makes any medium term planning difficult.

The firm could not implement its modernization program using widely publicized Italian and Japanese government credit facilities because, according to the view of the managers, the local commercial banks were counter-motivated by the low interest margin and did not further the utilization of these credit lines to the necessary extent.

Interests and banking costs, paid by the company in 1994, exceed HUF 17 million. This means, that they could generate significant reserves if just banking costs and interest charges would be reduced simply by cutting the time a cash transfer is made. Accordingly, the company believes that banking processes should be substantially streamlined.

A significant cost factor is that the customs inspection of the incoming raw material and the outgoing finished goods takes place in the Kecskemét Customs Office premises 35 km away. The additional cost of transport, fuel and the stand by time for the trucks is very high. The company now plans to establish a local customs inspection area.

In the view of the firm, the continuous devaluation of the Hungarian currency is a weak tool of stimulating exports because their customers are most aware of such exchange rate changes. Every year the price raising negotiations end with refusal of the initiative of the Hungarian firm because the customers always claim that the increase of the exchange rate change should be enough to cover cost increases. The managers of the company assert that a preferential interest charge on current asset credits would be much more efficient for the stimulation of exports than the devaluation of the local currency.

SAL-KON Clothing Factory Co.

SAL-KON Co., the earlier Salgótarján Clothing Factory, in 1994 became a owned 100% by private persons, who obtained their shares using "Existence" credit, the preferential privatization credit available for private persons to establish or buy out small enterprises. The equity of the firm is HUF 137 million (USD 1.4 million). In 1994 its sales revenues amounted to HUF 380 million (USD 3.8 million); some 15% of that was made in the domestic market, while 85% came from exports. A bulk of the exports is made up of job-work. The product profile is made up of skirts, pantaloons, blazers, ready-made dresses, production of special textiles and technical textile products, primarily for defence and police purposes (sabretaches and braking parachutes for MIG fighter aeroplanes).

Over the 1992–1994 period its domestic sales declined, especially in the field of defence/police supply. Clothing sales remained stabilized albeit at a low level. In 1995 SAL-KON envisages a further reduction in the domestic sales. As opposed to that, a robust increase has occurred in exports, and this is expected to be maintained also in 1995. Primary export markets are: France, USA, Italy, Germany and the UK.

The product/market structure has changed. To expand its product portfolio, the firm started producing also ready-made blazers. The share of export markets has increased; within exports Swiss exports decreased and French, USA and Italian exports increased.

The profits in the 1992–1993 period were still negative. Following the privatization, however, the company achieved a turn-around into significant profitability, with a HUF 1.5–2% profit over sales revenues. In 1995 it will be able to maintain this level only with sheer luck, due to the rapidly increasing energy prices. From 1996 on, however, managers expect profit improving again. A forcing reason behind this is that the owners must repay their "Existence" credits.

Over the last year the company invested a HUF 20 million equivalent. It purchased grading machinery to expand the existing product portfolio with new products such as blazers. Thanks to such investments, productivity has increased; since staff level also increased the production output increased at a much higher rate. SAL-KON still has excessive capacity, which is utilized when it is necessary for the orders, otherwise they are regarded as stand-by. In the textile industry subsector, which is a strongly fashion oriented one, it is obvious, that no such thing exists as 100% capacity utilization.

Staff levels are stabilized around 550 employees, distributed across three sites. 40 employees are commuting from Slovakia, because no sufficient number of skilled people could be recruited in the relevant region of Hungary. For the sake of cost reduction the management tries to rationalize energy costs and wages, primarily through the implementation of work organization measures. Wage management aims at improving wage levels, but only part of the productivity yield is utilized for such purpose thus reducing the specific wage per unit of sales revenue.

For the development project only own resources were used, but the company obtained current asset credit from a domestic bank. SAL-KON does not want to raise credits disbursed in foreign currency because of the devaluation risk.

As far as the managers can judge the economic policy of the Government, they hold as a grievance, that black economy is "legalized". In addition, slow and bureaucratic customs assessment and tax procedures cause a lot of losses to the company. Yet the biggest problem in their view is caused by the high interest rates. They regard the exchange rate policy basically mistaken i.e., the policy of real appreciation instead of strengthening competitiveness of Hungarian export products. Due to the devaluation rates falling behind the production costs export profitability decreases. Exports are made not because it is a great business, but because the company could not reinforce its position in the domestic market. They believe, that trade liberalization was too fast and went too far. Hungarian import quotas were defined too broad. They know precedents in other countries, that quotas for import from Hungary were reduced: that happened in Germany, where job-work quotas were reduced which hurt Hungarian subcontractors.

The firm is unhappy with the level of skilled worker/vocational training. It is believed, that much more money and attention should be spent on vocational training. Due to the bad situation, the firm cannot recruit sufficient skilled labor in the Salgótarján region, where otherwise unemployment is extremely high.

GLOVITA Glove Factory

GLOVITA was set up in 1929, it was transformed into joint stock company in 1991. Presently it has German and French owners, with some management ownership involved. Its product portfolio includes knitted gloves, work safety and sports gloves, glove linings made of textile or knitted fabric. The production output is some 7 million and 300 thousands pairs of gloves, but only a small part of this would be qualified as so-called fashion gloves. During the COMECON years 35% of the output were fashion gloves, which are the highest value and most attractive products in their product range. This share has been reduced by now to only 10%, while the other 90% is mainly made up of work safety gloves. There are a great number of different types within this product segment, pending upon the different industrial demands, but they produce such gloves also for the agriculture.

In 1994 the firm's sales revenues achieved HUF 434 million. In spite of loosing the COMECON demand, its exports are constantly growing, achieving 45% of the output. The major markets are the respective countries of the two foreign owners, i.e., Germany and France, but they also make sales into the Scandinavian countries.

Domestic demand keep decreasing. The main reasons behind this are the appearance of the competitors and the edging import competition. The company itself also contributed to the loss of its markets. In order to cut its costs, it sold out the oldest and most worn out machines. The private entrepreneurs, who bought these machines, now produce also gloves, hence the firm managed to create a low cost competition to its products. By now this move is regarded as a very bad strategy. Managers assert that the tools of market protection are insufficient. The firm knows about specific cases, when full truckloads of gloves are smuggled into the country with forged declaration, avoiding the payment of VAT and customs duty.

It is very difficult for GLOVITA to understand, how comes that Chinese shops are selling the ready gloves at a price for which the firm cannot obtain even the yarn? The company would like to see the use of anti-dumping actions or duty raises in the case of thin, cotton work gloves. Imports from Pakistan are less expensive, in spite of the better quality cotton, but not because of lower wages and good supply, but due to the heavy export subsidy policy of the Pakistani government.

In 1994, this firm, that earlier was making losses, the profit before tax was 6 to 8%.

Production is strongly seasonal, due to the nature of the product. Capacity utilization at present is 80%, which is regarded a good ratio in the fashion business. When selling some of the machinery the company also reduced staff (in a friendly way, i.e., utilizing fluctuation, retirement, and subsequently no replacement of those). The present staff is 300. The management is aiming at cost cuts by implementing production streamlining measures. Reducing the number of unnecessary transport, the level of stock holding and implementing organizational measures, are part of these measures.

The management does not see scope for further growth. In the lack of own resources they need to obtain bank credits. Once (in the early 90s) already a development project was implemented using bank credit, but as GLOVITA was unable to repay the credit, the new facility had to be sold out.

ELEGANT Fashion Clothing Co.

The legal predecessor of ELEGANT was the Komló facility of the "1st of May" Clothing Factory, that was set up back in 1968. The transformation into a joint stock corporation took place on January 1, 1990. The share of the USA partner was 30%, while that of the earlier domestic owner 70% of the equity capital. Initially the domestic shareholders were exclusively state owned enterprises, later on, however, private persons and (partly) private companies took over this part of the ownership. The HUF 19.5 million equity capital of the joint stock company is rather low, compared to the production output value; to date it has remained at the same level.

Since its setting up, the company produces a definite product, namely men's wool overcoats, which in domestic production has no competitors. Due to this fact, the company doesn't envisage any substantial changes, albeit it started to produce some additional products (such as woollen blazers, coats, etc.). However, the share of those within the total production output is and will remain negligible, compared to that of the core product.

Already before transformed into a joint stock company, ELEGANT mainly produced for the Western market. The company's export activity is nearly exclusively job-work, including the supply of trimmings. Of the total sales volume, domestic sales represent 10%, and exports 90% since. From the very beginning, external markets were concentrated to two countries: the US and the UK; the former represents 70% and the latter 30% of total exports.

When the transformation into a joint stock company happened, an organization operating under extremely bad financial conditions was taken over. Ever since the company was turned around into a profitable one. In 1994 a 5–7% profit before tax was achieved over the total sales revenues and the present aim is to maintain this level. Achieving this goal is supported by the fact that the Komló region suffers from an extremely bad unemployment situation and ELEGANT is in a monopolistic position as an employer there.

The company has never had unutilized capacities. The product portfolio has been expanded to the minimum extent, as discussed above, to fit the demands of customers. 98% of the output is prime quality, that is readily accepted by the foreign customer. Some 2% of the production is only, that they have to keep in stock, due to seasonality. Thanks to the very strictly controlled production practically no reject is produced.

The number of employees has not changed much since the transformation (presently 311 people). Due to the labor position of the city and its vicinity the fluctuation rate is very high, primarily among semi-skilled labor; the number of skilled staff tends to be rather stabilized. A significant factor in this fluctuation is, that the wage paying capability of the company is rather limited.

The company sees no scope for reducing production costs any further, it is believed, that all hidden resources have been fully utilized in this field. Energy consumption was reduced to the possible minimum level, the telephone use is checked via counters and the routing of the use of their fleet was streamlined.

For a future expansion/modernization the managers plan to utilize partly own resources and partly domestic credit. In the course of negotiations with the foreign partners they could not achieve success as yet concerning the involvement of direct foreign investment.

In the meantime, the economic environment for the foreign partners has changed. The foreign partners have always exploited their advantageous position as the main buyers of the products, but now all involved parties feel that the deterioration of the general economic conditions is substantially undermining their further cooperation.

ELIT Clothing Factory Co.

ELIT Clothing Factory was transformed into a joint venture in 1993. British investors obtained 29% of the shares via an initial equity raise, then obtained by now a total of 65% by implementing a second equity raise. The company produces ready-made garments, mainly men's suits.

Until 1986 10% of the total output was placed in the domestic market, 30% in the soviet market and 60% was Western exports. The collapse of the soviet market caused the total ceasing of exports into that region, and the company's production decreased by 25%. However, as the lion's share of their production already was oriented to the West, this fact didn't undermine the existence of the company. By the 1994 year the export turnover grew to more, than the double of that in 1992 (USD 19 million). Presently the exports represent 90% of the total output, and 75% of the net sales revenues. 95% of such exports consists of job-work, mainly for Dutch, British, American, French, Belgian and Swiss customers. For the year 1995 a further growth of the export sales is envisaged.

In the period of 1992 1994 domestic sales revenues increased from HUF 194 million (USD 2.5 million) to HUF 368 million (USD 3.7 million). The growth in the domestic sales revenues, however, was not completely due to the increase of sales volume. In 1993 there was a HUF 116 million, while in 1994 a HUF 84 million sales revenue made on activities, other than the sales of products such as the sale of old machinery, rental/lease fees, sale of assets. Over 1995, however, the volume of domestic sales shall also increase. Thanks to the implementation of development projects, the high quality products can be also better positioned in the domestic market.

The equity raise, made by the foreign partner, enabled the company to implement development projects, that increased productivity via modern technology and production engineering. Since the implementation of those the ready-made garments are produced in one, uniform quality as opposed to the earlier attitude (i.e., quality for domestic or export sales). The company has implemented asset development projects in the value of GBP 1.5 million, and also an process integrated quality assurance system was implemented guaranteeing the quality of the products. The Design Department, that was only a dream one year ago, was again set up, while the penetration of markets and the formulation of agent network is supported by the British partners. Such support is intended to be used for the penetration of new, mainly the US, markets with own brand products.

Over the 1993 year that is in the development period the firm was a loss maker — HUF 70 million — but in 1994 they managed to make a HUF 20 million profit.

Presently the company is running at a one-shift production rate, but in this shift the capacity is fully utilized. The British partners upgraded and mechanized the production process via an equity raise and, when restructuring the production, the existing staff of 1,664 was reduced to 1,400 people i.e., by some 25%. This process, however, is still in progress, they plan a further 10% reduction in staff reduction. Due to the restructuring, however, the company faces a lack of labor, because they find it hard to recruit labor for a second shift, although market demands would support the expansion of their production. All 4 factories of the company are located in rural areas, but — in spite of the high unemployment rate and the fact, that earlier the factory was running at two shifts — people in the region are not willing undertake a second shift.

The import contents of the inputs have increased over time. Domestic fabric can be used only for the garments to be placed in the domestic market. A problem in this field is, that there is hardly an indigenous textile manufacturer, that is able to supply a guaranteed even quality fabric even after two years. The Richard's company, that is able to provide such even quality, is not capable of adjusting to the volume needs of the company. In order to improve their profitability, the company now is trying to penetrate the US market with own non OPT products.. This, however, induce a large increase in the necessary working capital to cover the import bill.

The sources of finance of the company are partly made up of domestic credit, but obtained in terms of foreign exchange. The need for credit has increased to a significant extent: from

USD 2 million to a present USD 3.6 million. The interest rate of such credit is libor +2%, that is further worsened by the devaluations of the local currency.

AGORA Industrial, Trading and Service Co. Ltd.

The firm was founded on January 1, 1988 as a local council owned organization. The basic mission was to provide jobs for people with reduced work capabilities. It remained a local authority owned facility until March 31, 1993. Since 1993, the 100% owner is the State Property Management Agency (SPA). Privatization has come up several times, but — due to the nature of its mission and original objectives — it would be very difficult to implement and carry on with the same operation of the firm. Basically the company is a non-profit organization, yet it has production and even exports, that generate profit. Also due to the nature of the business, budgetary subsidies have a decisive impact on its operation. According to the practice so far the subsidies cover 40% of its costs.

Over the recent years the market structure of the firm has significantly changed. Earlier it sold the bulk of its output (bed linen, bed sheets) to large domestic trading companies (such as RÖLTEX, SKÁLA, etc.), partly as job-work, partly as own products. The elimination or insolvency of these customers made the firm to cooperate and link its domestic sales to several smaller firms, mostly concentrated to the Baranya county.

When the company first started exporting the major customers were German firms. In 1994 it got in touch with Canadian, French and Italian firms. Such export relationship usually means either own material based job-work, or a clear sale of capacity, because they are made to do job-work due to the relative shortage of capital and the continuously raising input prices. Main export products are leisure dresses, thermal-coats, etc. The firm managed to penetrate the Canadian market with golf gloves that "pushed out" the earlier Hong-Kong and Taiwan suppliers based on better quality and price. All foreign customers are paying reliably on time. Earlier AGORA had much problem with the solvency and paying willingness of its domestic customers.

Before switching over to job-work, and even after that, the firm has employed sub-contractors whenever it had a large order, but due to quality problems the connections had to be stopped. The production expansion was recently motivated by the market demand for golf gloves. New machinery was purchased and now, excluding any sub-contractors, AGORA is able to fully meet the demand of the foreign (Canadian) market, both in terms of quantity and quality.

Any further expansion of the production is subject to the extent of the mentioned budgetary subsidy. For the moment it seems that the existing conditions allow even some expansion of the markets. Due to switching to job-work the number of non marketable products has been reduced to a negligible level. The fair and strictly controlled relationship with the commissioning customer makes sure, that hardly any scrap occurs in the production.

The nature of the firm limits the potential for staff reduction (i.e., the fact, that the firm employs people with reduced work capabilities). In some activities AGORA has to employ a high number of seriously handicapped people, but in some areas it can employ more capable labor. In 1992 their staff was 300, in 1994 370 people.

It would be difficult to implement cost cuts in the production of the company, hence such measures are usually implemented in the administration field such introduction of computers. The linking of the mainframe computer to the individual work stations is in progress.

Also the fact, that last year and this year less own material was used, contributes to the relative reduction of costs. The underlying reason is the increased price of domestic input materials, and that the German partner is much better positioned in its purchases. AGORA cannot compete in this field, because it is small, it can only buy small batches, and anyway, it does not have the necessary market know-how. The only exception is the golf glove production for the Canadian market.

A further cost cutting measure was, that the replacement of all their petrol engine trucks with diesel engine fitted road vehicles.

The profitability of production should be viewed keeping in mind the special position of the firm. Such special position means, that the company pays the same taxes as any other business, with the exception of the corporate profit tax. Corporate profit tax is being paid only if the firm pays out dividends.

The future plan of the firm is to keep the earlier source of finance, i.e., the so called Rehabilitation Fund, promised by the Ministry of Welfare. In 1994 the amount received this way was HUF 5 million. The firm had some negotiations with the foreign partner about a potential direct investment, but the foreign partner's reaction was negative.

LEHEL-Electrolux

The Jászber`eny Lehel Refrigerator Factory was bought by the Swedish Electrolux firm in 1991. The Swedish partner obtained 100% of the shares of this HUF 3 billion equity company. Electrolux is the second largest refrigerator manufacturer in Europe, having 18% of the market.

Prior to privatization, the product portfolio of the Hungarian company also included products other than refrigerators, such as automotive coolers, soda water making equipment, radiators, etc. After privatization Electrolux eliminated all non-core activities. At the same time, however, it also implemented a large development project to create an individual product portfolio for their Hungarian factory. The Jászberény facility is currently specializing in 50 liter and smaller capacity refrigerators and through this concentration they wish to become a world leader. It is expected, that LEHEL-Electrolux shall supply one-third of the world market demand.

In 1991 the company's sales revenues amounted to HUF 12 billion, which by 1994 exceeded HUF 17 billion.

In spite of the sharp competition, the firm's products maintained and even increased their share in the domestic market. In the refrigerator market the share of the firm increased from the 68% in 1991 to 87% in 1994, while in the market of deep freezers the market share in 1994 was 73%.

Presently 50% of the total output is exported via the distribution network of Electrolux, but the plan is to increase this share to 60%. Exports are dynamically growing; in 1993 they amounted to USD 60 million and in 1994 they achieved USD 76.5 million. With this volume of exports the company became the 16th largest exporter in Hungary. The present aim of the management is that, based on its traditional connections, Lehel should increase its market penetration into the ex-CMEA countries.

Since its establishment, the company was always profitable. Profits before tax amount to some 5–6% of the sales revenues. In 1994, due to the company's participation of the government's export expanding development project, the government granted a five year exemption from the corporate profit tax, and for a further five years the company is expected to pay only 40% of its profit tax.

Since privatization, the productivity of the company doubled. One of the main sources of this development was staff reduction. Also a very strict cost management was implemented. At the same time, some HUF 3 billion was spent over the recent three years for the procurement of new machines. A further HUF 2.6 billion shall be invested for environmental purposes, although this is not to be covered from internal sources of finance. 40% of the purchase price was retained by Electrolux to cover environmental liabilities, originating from before the privatization.

The company finances its development using equity raise, retained earnings and the issue of bonds. It issued short and long term bonds in 1994 in the value of HUF 1.2 billion, and sold those for large investors.

Ganz Ansaldo Villamossági Rt. (Electrical Engineering Company)

Ganz Ansaldo was founded as a joint venture in 1991. 49% of the equity capital was provided in kind by the Hungarian partner Ganz Electrical Engineering Company. Those premises of the Hungarian partner that were not incorporated in the new joint venture are under liquidation procedure. From 1991 the Italian partner Ansaldo raised equity capital twice, and increased its share from 51% to 82%. Main products are high tension transformers for power stations, turbo generators, and engines for electric locomotives.

Formerly, the Hungarian company used to be a large exporter of electrical engineering products with a sales pattern oriented towards the markets of CMEA and developing countries, although Western sales were also significant. On the domestic market the company produced electric components of power stations for the Hungarian Electricity Company. The company exported its products under the coordination of Transelektro, a foreign trade company specialized in high tension electric engineering products. Ganz successfully participated also in projects for installation power plants in the developing countries.

Since the time the company came under foreign ownership control total production declined to a half. The drop of sales was more pronounced on the domestic markets, while exports declined more modestly. Consequently, the share of exports rose from 40% (before privatization) to 60%. Both the shrinkage of domestic market and increasing import competition contributed to the declining domestic sales. Employees of the company blame the new foreign management for destroying the traditionally good contacts with the most important domestic customer of their products. This was reflected in the fact that the Hungarian Electricity Company (responsible for power generation and distribution in Hungary) turned to buy imported products from their major competitor, Siemens.

The partner company Ansaldo fell short of expectations concerning marketing of the Hungarian products. On the contrary. Privatization brought considerable restructuring of the product line. The share of upmarket products is declining, while sub-contracting for Ansaldo has a growing importance. The company has lost most of its traditional external markets in CMEA countries and western markets, while countries of the Third World kept their importance. Poor performance of the company persuaded the management to revise its market strategy. They start to penetrate the former CMEA markets again. On the domestic market they try to strengthen their market position by lobbying for public orders.

The company was loss-maker both in 1993 and 1994. The operating result is better, although it could break even if the production level was twice as high as it is. The losses are covered by credits of the parent company disbursed in foreign exchange. Credits were capitalized at the end of the year.

The Italian partner is seemed to be interested in large scale losses. It tries to threaten the Hungarian government by closing the company, if the government does not provide enhanced market protection and subsidies for infrastructure investments. On the other hand strategy of making losses let the Italian partner buy out the Hungarian stake. The company can utilize half of its capacities.

International quality standards (ISO 9001) were implemented at the end of 1994, a prerequisite for export expansion on the Western markets. The management intends to modernize the production technology, while the product line remains the same.

In 1991 the company employed 2600 workers, but out of this 1000 has been dismissed. A lot of highly qualified workers were seduced by newly founded foreign companies. Ganz Ansaldo now has to employ foreign guest workers from Poland and Ukraine. The company management decided to move the company out of the capital (it is located in a residential area), but they will face lack of skilled workers in the new location (90 km from the capital).

BORSODCHEM Co.

This firm has been one of the 12 enterprises which were selected for special treatment by the government. These twelve companies are considered as extremely important from the point of view of production culture, employment etc. In 1993, within the framework of a crisis management programme, a substantial part of the firm's debts were consolidated (i.e., written off). Such crisis management can be now regarded successful in the sense, that the 1994 year was already closed with a positive cash flow, and in 1995–1996 the company is about to be privatized. It is producing different chemicals and plastics materials. In 1994 it was the 11th largest Hungarian exporter with its export of USD 115 million.

Borsodchem places its products in the international chemicals markets, competing against mostly multinational firms and similar profile companies of the ex-socialist countries both in the domestic and international markets.

Earlier the company processed inputs imported from the Soviet Union, and the products were placed in the domestic and Western export markets. At the end of 1990 the company sold the MDI plant (processing the main component of polyurethane), which was also designed to process aniline imported from the Soviet Union. The crisis of the company was caused partly by the substantial price increase of raw materials and the large debt they incurred, when implementing the last development project. This was toppled over 1992/93 by the falling demand for chemicals.

In 1994 the company achieved a peak in exports. The basis for that was the prosperity in both the domestic and international markets. With changes in the market structure for chemicals and processed plastics, a further 15 to 20% export growth is forecasted for the year 1995. Besides such increase of the production and export volumes, however, a substantial price increase is also expected to occur in the domestic and export markets compared to 1994.

Domestic sales shall further increase in the field of plastics raw materials, hence the export volume may fall back because of the limitations in available production capacities. In the case of chloride alkali products — due to the recession of the aluminium processing industry and particularly that of the Hungarian aluminium industry — a significantly lower domestic sales and higher exports are envisaged. In the field of such products, however, the specific transporting costs tend to be high. Increases of the transporting costs and energy prices are expected to erode the advantages of the vigorous external demand or may even totally outmatch those in some markets. In the case of so called bulk products, produced and marketed in large volumes, profitability is varying widely as prices tend to follow momentary smaller variations in the balance of supply and demand by extreme variation. At enterprise level a small profitability increase is envisaged. The extent of profitability is greatly depending upon the change in energy prices.

The expansion of exports for Borsodchem Co. is hindered by its supply of raw materials and the lack of production capacity, that is due to past failures of implementing development projects. Borsodchem Co. is operating at a high capacity utilization level. The key uncertainty factor is that the production of the Hungarian chemical industry is hectic and uneven: basic chemicals are missing from the market (such chemicals are: ethylene, aniline, formaldehyde, methanol, softeners, plastics processing auxiliary materials, etc.). The traditional domestic suppliers have been gradually divested hence increasing the import content of the end products continuously.

In 1994 the volume of imported raw materials achieved USD 70 million. The supply was mostly originating from the chemical plants of ex-socialist countries, sometimes through agents.

Free trade area agreements do not represent special advantages as far as the product groups of the company are concerned, on the contrary, they are rather disadvantageous. The reason is, that while imports are practically completely liberalized, exports to both EU and CEFTA regions are still protected with the possibility of imposing duties or effectively applying those.

TAURUS Truck Tyre Co. Ltd.

Taurus Truck Tyre Co. Ltd. was created by one of the divisions of TAURUS Co. becoming independent. The original company produced different rubber products. Main product segments were truck and farm tyres, which represented more than half of sales revenues.

Before 1989 TAURUS used to have a monopoly position in the Hungarian market. It exported some 60% of its output to advanced and developing countries, using its own dealer network. 60% of its technical rubber products was exported into the CMEA countries. In that period the increase of export revenues was the major aim, so even loss making exports could be financed using the revenues generated in the domestic market. At the late 80s TAURUS implemented a major development project using a World Bank loan to meet the increasing demand in the Russian market.

In 1989–1990 a lot of imported products appeared in the domestic market TAURUS lost is monopoly position and had to face an unexpectedly sharp competition. The Eastern markets collapsed and even in the rest of the marketplace a recession was experienced in the rubber industry. From 1989 the sales revenues of the firm gradually decreased, but the existing interest charges and repayment commitment of the existing debts pulled down the company into an impossible financial position.

In order to maintain the operating capability of the company, the government involved it in its 1993 debtor consolidation program. HUF 8,3 billion debt to banks was written down, the tax and customs duty arrears were re-scheduled. As the result of such crisis management, the loss was reduced in 1993 to half and in 1994 the company was break even.

In 1994 the company's exports amounted to USD 33–34 million, and with this amount it was the 35th largest exporter that year in Hungary. Exports made up 58% of the total sales revenues. Over 1994 exports further increased by some 30%, but it still did not achieve its original level. In 1993 the firm started to upgrade its sales policy, with the initial step being exports with low profit content scrutinized to be made more profitable or to be stopped. As a result, the company retreated from few markets, penetrated new ones, while in the existing ones new distribution channels are investigated. Also the product mix was streamlined, so now the company produces higher value products with longer life, better wear resistance and a better fit to the environmental standards. An advantageous coincidence was in 1994, that a boom occurred both in the domestic and international markets. In the world market the upswing was due to the increase in automotive output, the large number of road vehicles in the roads, the vivid trucking activity in transporting goods.

The reason of the domestic market prosperity was, that starting from the second half of 1994, following the request of TAURUS, an import quota was imposed on Russian and other CIS country imports of tyres, limiting the number of units of tyres to 40 thousand. This import limitation made its effect already in the second half of the year, demand increased for local products. The imported tyres do not meet the Hungarian standard specifications, they have a very short life, so their imports are disadvantageous also from the environmental point of view. The present market share of TAURUS is 53% in the domestic truck tyre segment, which represents a substantial increase compared to the 44% in 1994. The objective for the company is to achieve a 60% market share.

The company argues, that one of the factors that reduced domestic sales was the recession in the domestic road vehicle production.

The increase of domestic sales would be desirable, also because this market is the most profitable one. In the export markets profitability is highly varying, some markets are even loss makers. Instead of retreating from such markets the firm tries to find alternative distribution channels, find a better product structure and adjust to the special demand in a flexible manner.

Sales abroad are carried out via TAURUS brand dealers, with whom the firm has special contracts. Nearly in every export market exclusive contracts were granted to one or two dealers. However, in Italy, Spain and Portugal distribution takes place via a car service network which requires punctuality in order to keep their delivery deadlines. In the traditional markets traditional distribution channels are still maintained such as importers, wholesalers or other trading organisations. At the procurement end, the firm generally buys inputs directly from the manufacturers, with the exception of natural rubber which being a commodity can only be purchased via brokers.

A characteristic feature of rubber processing costs is the high material content (some 60%). The majority of the raw materials has to be imported. 70% of the material purchases is direct imports, 30% is bought from domestic sources (such as carbon black, special textiles, metal components, etc.). The import content of such Hungarian product is also so high, that they could well be regarded as straight imports.

Taurus Truck Tyre Ltd. finds financing one of its biggest problem, because the raw materials must be bought in advance. The company did not feel the effect of the big devaluation of March 1995 because imports and exports represented almost completely the same value.

Richter Gedeon Vegyészeti Gyár (Pharmaceutical Company)

Richter Gedeon (RG) is the largest pharmaceutical firm in Hungary. It was founded in 1929. It is organized as a shareholder company. From the total equity capital (17.6 bn HUF) the State Property Management Agency (SPA) holds 62.3% of the shares, 4.8% is owned by the workers, the remainder is belonging to other owners. In 1994 the equity capital was raised by selling shares to domestic and foreign investors.

Main products of the company are human drugs. RG also produces cosmetics, veterinary products and agrochemicals, but these products account only for 5% of the total output.

In 1990 total turnover amounted to 17 bn HUF, 20% was sold on domestic market, 40% was exported to Western markets, and the remainder to the CMEA. After the collapse of the CMEA RG exports suffered a great decline. But their position on domestic market was maintained, and from 1993 Eastern sales also recovered. In 1994 the total turnover amounted to 21–22 bn HUF, 18% higher than in 1993. Domestic sales accounted for one third of the total turnover. In exports CIS and the Baltic states account for 41%, Japan 9%, Poland 9%, Czech Republic 5%, Iran 4%, US 4%, UK 2%, Slovakia 2%, France 2%. RG hopes to maintain the current level of sales on both the domestic and export markets, but enhanced competition impedes expansion.

Officials estimated that in the 1980s the firm had had about 15% of the Soviet market for pharmaceuticals. Sales to the USSR started to decline in 1989 from 250 million transferable ruble to 90 million. Turning to dollar payments the sales dropped to 30 million USD (30 million transferable ruble), because prices were settled at low level. Despite this drop RG made the decision to remain in the Soviet (later post-Soviet) market. From 1991 to 1994 sales to the CIS countries doubled (to app. 60 million USD). RG set up its own distribution network with consignatory warehouses. The company invested 200 million HUF into the CIS distribution network. RG is facing increasing competition on CIS markets. Indian companies and large multinational companies can provide preferential payment conditions to customers. RG applies for governmental assistance to keep its market position in this huge potential market.

The net income of the company was continuously positive in the last five years. In 1994 it enjoyed a 100% corporate tax rebate which increased net profits considerably.

The domestic product line has been reduced. RG passed the production of several human drugs to smaller new companies. The range of the export products was also squeezed, mainly due to the change in the system social insurance in Poland. On the other hand new products were introduced as well.

Currently RG can utilize 64% of the capacities. The capacities to produce ready to sell products are fully utilized, but these can produce products that meet only Eastern quality requirements. RG can not expand its sales to the West from ready to sell products until the necessary modernization is accomplished.

In 1991 RG employed 5,654 workers; this number declined to 4623 in 1994. RG closed several smaller plants, the plant producing cosmetics was sold to Colgate. On the other hand, the staff of the marketing and sales departments is growing.

The company started a large investment project in 1994 to upgrade the technology of production. On the basis of this project RG they got tax rebate: 100% in the first five years, and 60% in the following five years.

They would like to see effective for government assistance in marketing on Eastern markets.

HUNGUARD FLOAT Ltd.

Hunguard Float Co. Ltd. was set up at Orosháza in 1991 as a Luxembourg–Hungarian joint venture. The core product is float glass, used mainly in buses as windshields, and in construction projects.

In 1994, 73% of the total production output was exported, while the rest remained in the domestic market. Compared to the earlier figures, the share of domestic sales increased by 2 to 3% over 1994. From the HUF 3.8 billion annual turnover in 1992–1993 domestic sales revenues increased in 1994 to HUF 4.8 billion. In 1995, the sales revenues may increase by some 30 to 35%, calculated at current prices, due to the increased demand in the automotive/construction markets. Hunguard managed to expand its domestic sales by some 30% in 1994, due to the competitor, the Salgótarján Sheet Glass Factory, closing down its production.

Major export markets are Germany, Poland, Italy, Belgium, the UK. The export markets are constantly changing. Greece was recently lost, Italy's share is shrinking because in Israel a float glass factory started operating, and maritime transport costs tend to be more advantageous. Another glass factory is being built in Poland, hence the demand from that market shall also be reduced. The float glass quality of Orosháza is equivalent to (or better than) that of the other factories in Western Europe, the prices are also the same, hence in penetrating a new market, the decisive factors are distance and transport costs.

The factory is running at a 24-hour round the clock utilization; since it was started up the kiln was never stopped. The 3 shifts, week-end and holidays therefore are fully utilized. The total available capacity is 450 tons/day, and it is fully loaded. Within the total production capacity (which cannot be further expanded as far as the total tonnage is concerned) the product structure is being now changed in favor of 2 mm thick glass. The reason is, that there is increasing demand for this product (for automotive or picture framing purposes), and hence a higher sales revenue can be achieved on the same volumes production. So the tactics of the firm is, that it shifts the emphasis to products with more specific profit content within the existing portfolio. The company also does the edge grinding of the produced sheet glass, to make the product more attractive.

The production capacity is given and it is fully utilized. No capacity needs to be spun off. In 1991 Hunguard Float Ltd. was started up with exactly the same staff level as that of the Luxembourg parent company. The staff level has basically stabilized around 327 people, which increased to a small extent last year, due to introducing a higher degree of processing.

Manufacturing glass is a capital intensive activity, and the relatively high sales revenue of some HUF 5 billion is achieved by the firm with a small number of employees. The yield is at its peak, specific costs cannot be reduced any further. The price of raw materials, including sand, has recently increased by 25%, because of the higher transport costs (transporting the sand from the Trans-Danubian region to the site costs as much, as the sand itself). The key cost factors at the firm, therefore, are energy and transport costs. Overall a small saving can be achieved by a more streamlined organization of raw/auxiliary material purchases.

Ever since its existence, the firm has been a loss maker, which is a paradox, because its cash flow has been continuously positive since 1993. According to the view of the managing director, this is caused by the Hungarian Act On Accounting, because the registered capital must be recorded in the Balance Sheet at the HUF 68/USD exchange rate, prevailing at the time of the foundation, while the existing foreign currency credit, received every month from the parent company, has to be revalued in HUF every month according to the ongoing currency devaluations. In 1995, however, the owner shall convert its credit into capital. Sources of finance may be equity raise and international credit, but only for purposes of investments in fixed assets.

Csepel Metalwork

The medium size company produces semi-finished copper products and steelbands. Formerly the company belonged to the Csepel conglomerate, a big vertically integrated state-owned company. Restructuring of the Csepel Metalwork was impeded by the problems of the separation from the conglomerate. Firstly, the State Property Agency (SPA) intended to privatize the whole conglomerate in one block. The separation process started in 1991 when these privatization efforts had failed. As a consequence of the debate over property rights, the distribution of debt and how to share common public utilities, the independent joint-stock company was founded as late as in 1993. At present it is owned by the SPA. As the company was unable to repay its inherited debt it was involved in the debt consolidation program of the government in 1994. HUF 70 million debt was cancelled, and other 200 million was rescheduled.

In the period of 1989–93 total turnover of the company decreased from HUF 12 billion (USD 200 million) to HUF 7.5 billion (USD 83 million). The decrease was partly due to the drop of domestic demand in 1992 (more than 50% in real terms). Moreover, liberalization of the imports of copper created competition. Before liberalization took place, the company enjoyed a monopolistic position on the domestic market (89% market share). Currently new Eastern entrants distribute highly subsidized copper products on the Hungarian market. Despite sharp-edged competition the management expected the recovery of domestic sales in 1995. Their forecast was based on the increasing demand by their main customers (MKM-Siemens, Tungsram-General Electric). The latter companies were sold to foreign investors and the new managements implemented new product lines favoring metal parts from Csepel Metalwork.

Mitigating the effects of decreasing domestic demand the company increased its export activity. The share of exports in total production increased from 20% in 1989 to 50% in 1993. The company sells parts for machinery and semi-finished metal products to large distributors and final consumers in developed countries. Although Csepel Metalwork tries to establish long-term cooperation with foreign partners their product portfolio varies according to the frequent shifts in demand. In 1994 the company experienced a boom in exports. It increased its sales by 20% and a further 7–8% exports growth was forecasted for 1995. The basis for that was the recovery of international markets. For a marginal supplier on the world market (they provide 0.2% of the total world production) a slight increase in total demand opens large opportunities, because it can adjust to the special demands in a more flexible manner than large traditional suppliers.

During the transition period the company also made adjustment efforts. It sold a plant producing electrodes to a Swedish investor, and introduced new products as plastic coated copper wires for the construction industry. The company also signed a sub-contracting arrangement in Ukraine.

As a result of declining production the level of capacity utilization is low. Laying off people is a continuous process. In the period of 1989–1993 the number of employees declined from 2,120 to 1,300. At the same time the company faces a specific shortage on the labor market: it finds it hard to recruit unskilled labor for metallurgical work. The last investment project of the company was finished in 1986. Strengthening its market position would require technological development, but the lack of financial sources prevent investments.

Due to the low level of capacity utilization the company makes losses. With regard to profitability, the domestic market is the best, but the increasing energy prices and sharp competition deteriorate profitability. The profitability of export is highly varying, although the product structure is improving and the recovery on metallurgical markets allows for a slight price increase. Nevertheless, the high share of material costs (75%) restrains significant improvement in profitability.

The necessary raw materials have to be imported: the company buys copper from Poland and Russia, zinc from Sweden and Poland and other alloys from Western European countries. Increasing uncertainty regarding former Eastern European vendors encourages the company to contract with intermediaries instead of contracting directly with producers. The company would welcome governmental assistance to maintain cheap Eastern imports, e.g., bilateral trade and credit insurance agreements with Russia and Kazahstan.

Expansion of the production implies higher imports. The company must pay for raw materials in advance and this requires new credit lines. The high interest rates charged by banks significantly deteriorate the profitability of Csepel Metalwork. The managers of the company calls for subsidized working capital credits, they consider it as the most effective export promotion measure.

The EU agreement facilitated market penetration of the company, although the profits had to be shared with foreign partners. The managers of the company consider that existing import regulation is rather disadvantageous. High tariffs are levied on their imported inputs which are not available on the domestic markets. At the same time the market of their final products is fully liberalized. The CEFTA agreement is especially disadvantageous for the company, and they call for a renegotiation of the tariff regulation.

GARDÉNIA Lace Curtain Co.

GARDÉNIA is the largest Hungarian curtain manufacturer. Its annual sales revenue amounts to HUF 2.1 billion by manufacturing the following product profiles: curtains, textile products and ready-made products. The firm was privatized in 1992 by selling shares to domestic and foreign investors. Its shares are listed on the stock markets. Presently it has a majority international (among others Austrian) ownership. The 90 years old, but modern technology factory employs 650 people.

Some 65 to 70% of GARDÉNIA's sales are exports. The export markets require gradually and continuously increasing volumes. Exports are made to 32 countries. Recently, prices could be increased by 3%. The profitability of the company is appropriate. GARDÉNIA does not intend to open up new markets, because the managers believe they are in all markets already, that would count. A most recent development is, that the company started to export into Slovakia and to Poland. According to the long term plan, the company wishes to become one of the first three leader curtain factories in Europe by the year 2000. Their major markets are: Germany, France, the Scandinavian countries, UK and the above mentioned two CEFTA countries.

Demand for curtain products is shrinking in the domestic market.

For 1995 and for the 1996–1998 period a stagnating sales volume is forecasted for the domestic market. According to the company stagnation and fall in this market is due to the general fall in the purchasing power, but also to the sudden increase of imports. It is true, that in the field of GARDÉNIA's product segments imports are subject to licence, but curtain textiles are practically already treated as liberalized products. Moreover, the importers tend to save VAT and duty burdens by stating lower than real values in their invoices.

The company has been able to increase its domestic sales because the devaluation of the currency made imports more expensive, and because the other significant domestic competitor also started exporting and reduced its supply on the domestic market.

In order to further increase domestic sales, the company aims at finding connections with large hotel-chain development projects, rather than targeting individual consumers as customers.

The company's product mix contains 5,000 items. Developments are implemented on a continuous basis. It is the first in Hungary and the only one in Europe of the textile plants, that has in place a quality assurance system complying with the ISO 91 standard specifications. In the summer of 1994 GARDÉNIA received a reward for that, financed jointly by the PHARE Programme and the National Committee for Technical Development (OMFB).

No excess capacities or outdated machinery exists at the company. GARDÉNIA continuously implemented development projects, maintaining a high technological standard for its fixed assets. These projects partly were financed by subsidized export promotion credits provided by the government.

An important source of finance for such developments was the Export Promotion Project providing investment credit at a subsidized rate. Any further production expansion requires an investment for expansion in the facilities. Presently 152 hours are worked a week, that is hard to increase because of the maintenance requirements involved. In order to expand export capacities, the company is now planning a significant construction project and the replacement of the existing packaging machine lines with new ones.

Staff levels are increasing. In 1984 the number of employees was 500, while in 1994 650. The underlying reason for this expansion is that both production and exports increased and activities organized earlier in a sub-contracting arrangement such as grading and cutting, were integrated into the company's own activity. Wage costs represent therefore a significant amount within the cost structure. Wherever possible, the company replaces labor with machines to help cost reduction. Further savings are aimed at via better process engineering, trying to find an optimum distribution between jobs inside the company and subcontracting. The management feels some reserves still hidden in their stock management. Wage costs will increase again, because blue-collar employees need to be recruited for the expanded production. Other cost items are attempted to be managed in the most rational manner.

The company wishes to improve its profits, planning for 1995 some HUF 200 million profit before tax. By 2000 — as the company's long term plan spans until that year — the managers wish to double, treble or quadruple the present profits.

Among the significant sources of finance the firm envisages direct foreign investment via selling shares held in GARDÉNIA raising the equity capital, and the involvement of other own sources. They also plan to obtain credit. The company still doesn't know, whether such credit should come from domestic or international sources, but due to the continuous currency devaluations they would like to avoid foreign currency credits.

BONSA Shoe Ltd.

The company was set up in 1990, its legal predecessor was the Bonyhád Shoe Cooperative. The company got into touch with the German Salamander company, and since 1993 they have a contract based co-operation agreement, renewed every year. According to the contract, Salamander is the exclusive buyer of the products of the company. The ownership structure of the limited liability company is as follows: 69% of the shares is owned by the earlier Shoe Cooperative and 31% belongs to Salamander.

Since its setting up, BONSA provides job-work against the firm orders of Salamander. Hence they have no domestic sales since 1993, because Salamander takes over even the rejects or scrap production.

The initial capacity was 900–1,000 pairs of shoes per day, but through a continuous development it was increased to the present daily 2,400–2,600 pairs output. The firm's present contract is valid until 1998, hence no change is expected to happen until that date. Considering, that the cooperation has satisfied both partners so far, and provided that no dramatic changes shall occur (in the economic conditions and regulations), the contract shall be renewed again.

No changes have happened in the product portfolio, only style and type changes are implemented, which are necessary to follow market trends and fashion changes. The firm does not expect changes in the product mix in the foreseeable future. The reason behind their production development was the increasing purchase demand of the foreign partner. Due to the nature of job-work the production volume is always defined by the market demand, hence no substantial expansion is envisaged. As technological discipline is strictly observed at the company, there is only a minimum scrap.

The firm wishes to expand its present capacity. In 1995 the sewing room capacity is to be expanded in a joint structure with the German partner. The expected value of the production is some HUF 60 million. The agreement is, that the Hungarian partner shall develop the building, while Salamander shall provide the necessary machines. The partners plan to involve capital in this development project and shall aim at providing own finance, avoiding domestic credit.

Since the setting up of the joint venture a gradual restructuring of the work-force has taken place. Practically this meant, that people were re-trained to be transferred from the administrative staff to the production, hence shifting the emphasis to the blue-collar staff. They see, however, no scope for any cost reduction this year, because in spite of the strictest rationalization measures they cannot offset the inflation based cost increases.

Considering the costs, the firm feels it a real threat that, maybe not in the short term, the German partner shall move on to the East and shall search for a cooperation potential in Ukraine or Russia. Experience shows, that the Western companies gradually move their production facilities to the East.

In 1994 the firm's profit before tax was very good, it would be difficult to surpass that in 1995. An increase is expected according to the rate of inflation.

By nature, job-work is made advantageous by the continuous devaluation of the local currency.

The experience drawn from this several years cooperation is, that the state administration should provide more support to the involvement of direct foreign investment. As an example, the managers of the firm mentioned, that at the time of concluding the cooperation agreement in 1993, the joint venture enjoyed a 10-year tax holiday. This was cancelled in 1995. Ture, the tax imposed since then is also preferential.

Kecskemét Parquet Co. Ltd.

The Kecskemét Parquet Co. was one factory within the Building Carpentry and Wood Processing Enterprise. It was privatized in 1992 via the employee buyout scheme and it was transformed into a limited liability company.

Besides such change in the ownership, a significant change occurred in 1992 also in the structure of domestic and export markets. This was the year when the traditional customers such as the county chain of "Tüzép" companies and the network of ÁFÉSZ organizations got into a difficult financial position, hence the orders fell back to only a fraction of what they had used to be.

State sponsored and co-operative housing were dramatically reduced, the large construction companies went bankrupt and were liquidated or were split into small businesses that were short of capital. For these reasons the earlier shares of markets in sales — 80% domestic and 20% exports — had to be changed. In fact, it was turned around and in the 1992–1994 period 80% of the production was exported and the rest was placed in the domestic market. Major export markets were Germany, Finland, Spain, and Egypt.

For 1995 some 10–15% growth of the domestic sales was forecasted.

The firm's product portfolio has not changed, it still manufactures the traditional range from semi-finished parquet down to lacquered wood panels. Changes in the internal proportions happen from time to time, though, as required by the interior design fashion and market demands. As there is still demand for the traditional range of parquet the the firm manufactures no substantial change is envisaged in the product mix.

In the market structure, however, the changes in solvent domestic demand may cause a shift the company wishes to maintain its old international customers and providing them with on time delivery and high quality goods.

Over the last three years the company was profitable, its profit before tax amounted to 10–12% of the sales revenues.

The Kecskemét Parquet Co. presently is running at a 1.2 shift capacity loading, although 2 full shifts would make it more cost efficient. This has two limitations. One limitation is the capacity expansion needed for the drying plant. There is not sufficient financing for this purpose. The company could obtain credit from its account holding bank, with an interest charge of 32%, but such high rate cannot be covered by the operations.

The other limitation is the availability of suitable labor. The company can offer a monthly HUF 25 thousand for semi-skilled people, but that is simply not accepted by the labor market. Since the customers refuse to accept any price rises, no significant wage improvements can be implemented either. Labor could be replaced by mechanization to some extent, but in the lack of finance it is impossible.

To cut costs, the company developed waste recycling methods over the last three years. The result is, that practically it has no waste that could not be processed into some kind of useful final product (such as sawdust, briquette, fuel for their own boiler plant, children's toys, etc.).

Another problem for the Kecskemét Parquet Co. is the shortage of current assets. The company must obtain short term credit, but the high interest charges significantly deteriorate profitability. In order to resolve such problems the company tried to find a financial investor partner but the international candidates all wanted to obtain more than the 30% of the shares offered by the company.

In spite of its high exports, the Kecskemét Parquet Co. does not regard the devaluation policy an efficient export promotion tool. The foreign partners are well aware of the exchange rate changes and refuse price rise proposals. At the same time key raw materials that are EU conform must be imported such as the formaldehyde free lacquers and grinding materials, their rising cost due to devaluations are not easy to pass over on the customers.

According to the view of the managers of the firm a new export credit line should be developed to mitigate the interest burdens of exporters in financing current assets. The Hungarian banking system would also find it advantageous, if the financially sound local companies did not need to seek credit outside the country.

The Kecskemét Parquet Co. would also welcome if severe control measures were introduced against workers employed in the black economy; this would help them to attract the suitably skilled people.

GRABOPLAST Ltd.

Graboplast was transformed into a joint stock company in 1990. Before the transformation the equity of the company amounted to HUF 1400 million. The Austrian Creditanstalt Bank raised the equity up to HUF 2000 million, and the shares of the company were launched at the Budapest Stock Exchange. At present the shares of the company are traded on the stock exchange and distributed among appr. 4,000 owners. Most of them are private agents, however financial institutions and investment companies also have stakes.

Graboplast is the largest producer of artificial leather in Central Eastern Europe. Its product portfolio ranges from artificial leather for construction purposes (carpets, wall papers and insulating materials), to artificial leather for clothing apparels and upholstery. The company enjoys a close-to-monopolistic position on the domestic market.

The artificial leather industry can be characterised by large demand fluctuations. The demand for products for construction purposes has been growing continuously, while the demand from the clothing and shoe industries exhibit a decreasing trend. Sales for producers of leather articles (bags, etc.) show an upward trend, but upholstery is also in a downturn. After years of declining sales for the car industry the company expects an upward turn, as they signed a long-term contract with Suzuki, the Japanese multinational company which manufactures cars also in Hungary.

Until 1991 62% of total output of Graboplast was sold on the domestic market, 20% was exported to Western Europe and 18% to the CMEA countries. The most important Western markets were: Germany, Austria, the Netherlands and France. In CMEA trade the company had special export quotas. After 1991 the traditional trade links of the company collapsed and exports into the countries of the former Soviet Union temporarily ceased. Exports to other Central Eastern European countries, however, were maintained. In the period of 1991–1994 domestic demand also decreased from USD 37 million to USD 25 million and no substantial expansion is envisaged for the following 5 years.

Since 1993 the company has experienced an invigorating demand in the CIS countries and in the Baltic states. In 1994 the revenues from exports increased by 17%, and amounted to USD 20 million. On the basis of the prosperity occurring in Eastern markets a further growth of exports was expected in 1995. In 1995 exports represented more than half of the total revenues of the company, and a third of its production was sold on Eastern markets.

As a consequence of shrinking domestic and Eastern demand in 1990 the company made losses and faced a liquidity crisis. The tough situation was resolved by the restructuring of the company. As a first step debt was rescheduled to maintain continuous operation of the company. Next, Creditanstalt raised the equity of the company by HUF 600 million. A professional consulting company facilitated the reorganization of the activity of the company. The performance of the workers is now evaluated according to efficiency norms, and the promotion system is also based on these norms. As a result, per capita output amounts to USD 40 thousand, which is comparable to western standards.

In 1990 the number of employees was 1890, and it declined by 8–10% in every year until 1994, when it reached its bottom with 1,000 employees. The reduction of labor force was most intense among the administrative staff. To achieve a growing capacity utilization an increase of employment is expected in the following years. In 1995 50 new workers were hired.

Consolidation of the position of the company is reflected in the fact that the company turned profitable in 1994. A further increase in profitability is expected in the next 5 years.

The factory is running at a 24-hour utilization in 3 shifts, although production is stopped for the week-ends. In case of some production bottlenecks the introduction of 6 or 7 days operation is under consideration. No excess capacities exist at the company because all outdated machinery were sold in India and Pakistan. Any further production expansion will require investment into new facilities. The company intends to enlarge its existing product portfolio and introduce 4 meter wide PVC floors used to cover large fields. This kind of PVC floors is facing growing demand. The managers of the company wish to penetrate this segment of the domestic market and get back from foreign suppliers. In order to expand its capacities, the company is now planning to acquire companies in Eastern European countries, probably in Bulgaria and Romania. Graboplast would export its modern technologies, sales promotion methods and new designs, and try to conquer new markets. Acquisitions will be financed from raising equity capital. This plan is supported by the institutional investors who hold large stakes in the company. The management rules out the possibility of debt financing, because the interest rates are higher than the company could accept.

Both the management of the company and the large institutional shareholders try to avoid professional investors obtaining majority stake in the company. At present they are threatened by a western company pursuing a very aggressive business policy.

The management considers cheap, low quality imports as the main obstacle to Graboplast's domestic expansion. They suspect, that most of these products are smuggled into the country with forged declaration, avoiding in this way the payment of customs duty and VAT. Simultaneously, large multinationals attempt to penetrate the domestic market with temporary cut-offs in prices.

RICO Textile Co.

This company was transformed into a joint stock corporation in 1992. The distribution of the shares is as follows: a 50.1% majority is owned by external private persons, 8% by the Employee Share Ownership Program (ESOP), 7.5% by managers, 9.1% by the local authority and 25% by the Fund of National Social Insurance. RICO has two main product segments: health care products (bandages) and hygiene products. Earlier it enjoyed a practically monopolistic position in the domestic market, but along with the political system change this was eliminated. New domestic entrants and liberalized imports created a sharp competition. The company's market position was also affected by the restructuring of the trade sector. Hungaropharma, which provided marketing in the earlier times, was disintegrated and instead the company had to develop direct contacts with its customers. RICO has three market segments: hospitals, pharmacies and retail general stores. Due to all these factors, the output of the company dropped by half over the 1991–1994 period.

Earlier the exports of the company were negligible, representing only 3% of their total output. (This was mainly made up of cotton-wool supplied to Italy.) Recently, however, exports have been growing, in they 1994 represented 7% of the total production and in 1995 the envisaged proportion is 9%. The prime aim is to penetrate the CIS markets.

Of the international markets the company regards the CIS countries as its natural target. The reason behind is partly the fact, that its products are not the most advanced ones. The contacts with CIS partners were not initiated by the company itself, but by intermediate organizations. RICO also aims at entering the sales network of the large Hungarian export-import company of sanitary products, Medimpex. RICO's long term strategic plan is to establish own sales network. However, RICO does not have the necessary finance at hand, and it would also need to increase its turnover.

Apart from smaller upgrading projects, the company does not intend to change its production structure. A strategic objective is that, besides their own products, they would also market the products of third producers. They purchase mainly hygiene products from Western markets, marketing those partly in the Eastern and partly in domestic markets. The role of this activity shall be strengthened in the future.

The company upgraded its production facilities. Implementing a HUF 200 million project over 1991–1992, RICO introduced GMP (Good Manufacturing Practice for Medicinal Products) in their production process, hence they now fully meet the hygiene requirements prevailing in the EU. This fact has increased the production costs of some products by about 15 to 20%, which the company is unable to incorporate into its sales prices. Compliance with GMP is compulsory in most Western countries, but not in Hungary yet. Because of this, RICO has become loss makers in these products, since competitors not implementing GMP offer lower prices. They claim that it would be a proper approach if the application of GMP would be a basic requirement in the case of public purchases in Hungary.

Capacity utilization at the company is 50 to 60%. Although some products are rather inferior, they can be still successfully marketed in the CIS countries and in the domestic marketplace. In 1991 the number of employees was 650. The present staff is 510. Earlier private persons and cooperatives were employed as sub-contractors; recently all these were laid off.

In the field of raw material imports, the company sees an opportunity in establishing direct contacts with the vendors, instead of going through agents. The sources of supply are: China, India, Austria, CIS. By a temporary reduction of its production the company will be able to reduce its banking costs, and also aims at reducing its credit requirements.

In spite of the low capacity utilization, the company is profitable. Major part of the profits is used to cover development projects and to reduce credits. In 1993 no dividends were paid out, rather earnings were retained. In 1994 already dividends were paid. The annual spendings on developments and paying back credits is HUF 60 to 100 million, although in 1994 no such spendings occurred. To support its imports, the company obtains foreign currency credits; from international vendors they negotiate longer credit periods to avoid the use of expensive bank credits.

6 LATVIA

by

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Table 6.1 Profiles of the companies covered by the survey.

Company	Sector	Ownership[a]	Main markets (percent of sales)[b]
Latvijas Finieris	Woodworking (plywood)	JSC	WE (90)
Mêbeļu serviss	Furniture production	JSC, lease with redemption	CIS (40), WE (30)
Vidzeme	Furniture production	State company	WE (≈40)
Juglas Manufaktūra	Textiles (cotton spinning)	JSC, lease with redemption	WE (68), Lithuania (15)
8 March	Textiles (fabrics)	State company	WE (58.6), CIS (2.3)
Aurora	Clothing (hosiery)	JSC	WE (68), CIS (10)
Latvija	Clothing	JSC (S 29%)	WE (90)
Venezia	Footwear	JV, LLC (S 67%)	Former CIS
Meteors	Footwear/ chemicals	State company	CIS (40), Baltics (14)
Laima	Food (candies)	JSC (S 30%)	FSU (≈25)
Kaija	Food (canned fish)	JSC	FSU (71.8), CEE (11.3)
RVR	Transport vehicles (railcars)	State company	CIS (100)
Rīgas Motorūpnīca	Transport vehicles (mopeds)	State company	CIS (48.4), Baltics (11.7), WE (28.2)
Rīki	Mechanical appliances	LLC, lease with redemption	WE (15)
RINAR	Mechanical appliances	State company	CIS (84.2); Baltics, devel. countries (15.8)
RAR	Electric components for automobiles	State company	CIS (90)
Vermerk	Electric lamps	JV, LLC (S 14%)	WE (71.8), FSU (19)
VEF KT	Telecommunications	State company	FSU (90)
Ausma	Chemicals (plastics)	JSC	Total exports (10)
Olaine Pharmaceutical Plant	Medicines	State company	FSU (64.8); WE, Poland (19.2)

[a]JSC = Joint-stock company (private); LLC = Limited liability company; JV = Joint venture; S+% = Latvian state share of fixed assets.
[b]CEE = Central and Eastern Europe; CIS = Commonwealth of Independent States; FSU = CIS + Baltics (Lithuania, Estonia); WE = Western Europe.

Latvijas Finieris (Woodworking Industry)

Background Information

Date of establishment: The oldest of 3 enterprises now forming Latvijas Finieris (LF) was established in 1893; in 1975 the 3 enterprises were merged. Now "LF" is the largest plywood exporter in Latvia.
Size of labor force: 1700.
Size of the capital stock: Ls 6 m.
Products manufactured: (in % of sales) plywood sheets 75%; shaped and glued components (press elements) 20%; finished furniture components, ready for assembly 5%.
Output and sales (1990–1994): In the 1970s company produced 100,000 cub.m of products per year. Development during 1990–1994 is represented in the table below:

	1990	1992	1993	1994	1995, est.
Output (in thousands of cub. m)	30	40	55	60	—
Sales (in million Ls)	—	9	14	18	20

Profits: Company has high profits (about 20%).
Debts: "LF" has only old debts. As regards government budget, it is one of few enterprises which settle their liabilities with the budget on time. Company has sufficiently large claim on customers (some are unrecoverable, which appeared in the first years of transition; some are current claims: company receives payment for production within 30–60 days after delivery).
Structure of ownership: In 1992 it transformed from state enterprise into joint stock company with 200 shareholders. Redemption of state assets took 3 years. Company has foreign partner, but for some reasons it does not advertise its presence.

Export Orientation

Traditionally company bought 2/3 of needed raw materials in Russia; the same part of finished products was sold in Russia. However, since Latvia regained its independence in 1991, relations with Russia were broken. During 1990–1994 the company gradually reoriented its activities from FSU market to western markets. This trend is reflected in the table below:

in % of total sales	1990	1991	1992	1993	1994
Latvia	48	67	39	8	9
Eastern countries	45	9	9	5	1
Western Europe	7	24	52	83	90

Currently 50% of plywood export is sold to one customer in the UK. 20% is sold in Germany; 27–28% is exported to Scandinavian states, the Netherlands, Belgium, France, Italy and Poland. The rest (about 2–3%) is sold in other Baltic States and CIS. First contacts with foreign partners were established in all possible ways: some with the assistance of Association "Latvijas koks" which, in turn, cooperates with LDA; some through catalogues; some at the international exhibitions in Hanover and Köln. Sometimes foreign partners found the company themselves. Now company has well developed net of agents in major countries of Western Europe where company's foreign partner played a positive role.

Production for Export

Company manufactures both standard products developed by its own designers, and non-standard products, using drawings or samples provided by customers. Since 1991 company steadily increases assortment of production making more emphasis on manufacture of products with higher value added than the traditional plywood sheets (such as curved press elements and finished furniture parts).

Till now company succeeded in exporting to the West, as it could offer a bit lower prices and approximately the same quality of manufactures as western producers. However, producers of Belarus, offer a bit worse products for much lower prices. As a result, if current exchange rate policy continue, company will face serious competition, especially taking into account the tendency of costs to increase.

The only technical problem of "LF" is that company still has grinders with 4 rolls, while in the west 8-roll grinders are employed. However, the state of general equipment is not so bad, compared to Latvian standards.

Earlier it was more profitable to export production than to sell in domestic market. Now, with appreciation of the Lat, this price difference does not exist anymore.

Domestic Environment for Exports

Positive aspects: (1) assistance of association "Latvijas koks" ("Latvian tree"[3]) at initial stage of establishing contacts with foreign partners; conclusion of FTA with EU.
Negative aspects: (1) exchange rate policies; (2) high credit rates which force company to avoid taking credits, if possible. Short term needs (for instance purchase of raw materials) are often financed from delaying payments of dividends to shareholders; (3) due to insufficiently good relations between Latvia and Russia company has very difficult situation in getting raw materials, as Latvian forestry can hardly provide needed amount of wood; (4) lack of accredited certification laboratories in Latvia.

Foreign Environment for Exports

"LF" succeeded to create a lot of stable contacts abroad (in Western Europe) that will allow to increase output also in future. Company produces quite standard range of products and it does not face as serious problems of market access as furniture producers. Competition from the East does not affect seriously company's operations abroad, as CIS producers very often cannot meet needed quality of production and delivery terms. However, in future competition may become stronger.

[3] Its members are more than 20 of the largest woodworking and furniture enterprises of Latvia.

Mêbeļu serviss (Furniture industry)

Background Information

Established: in 1975 as a factory manufacturing furniture for children and school.
Size of labor force: about 300 (in 1992 it was 650).
Size of the capital stock: 21,500 Ls.
Products manufactured: Cots (the major item sold); school, kindergarten furniture; office furniture; upholstery furniture.
Output (1990–1994): During 1990–1993 diminished by 50%; in 1994 stabilized; in 1995 could increase. In 1995 only 40% of capacities are employed.
Sales (1994): about 1.1 m Ls.
Profits: Company operates without profits as it lost about 0.5 m Ls during 1992–1994 on exports to Russia (causes of this were currency reforms in 1992–93; payment defaults; exchange rate fluctuations). Due to seasonal nature of demand for school furniture, company had to take high interest credits for production, paying 7% per month.
Debt: Company has sufficient debt to the budget. In 1994 it paid only 4% of the calculated sum of taxes.
Structure of ownership: Since 1992 — private joint stock company leasing state assets.

Export Orientation

Traditionally (till 1990) company served only Latvian market, supplying all schools and kindergartens with furniture. Since 1991 no new school or kindergarten was built; existing schools and kindergartens had too little financial resources for buying new furniture. As a result, company had to find alternative outlets for its production as well as to expand assortment. In 1991 CIS share constituted 30% of total sales; that year company began to export also to the West (0.5% of sales). Following difficulties caused by transition fall in purchasing power of the population sales diminished in the local market. Situation of sales for 1993–1994 is revealed in the table below:

	Latvia	CIS	EU
1993	20%	50%	30%
1994	30%	40%	30%

Many contacts with CIS partners were established through annual furniture exhibitions in Pskov. Some partners sought the contacts with the company themselves. Export partners in Russia are primarily regional authorities dealing with provision of schools. Contacts with German partners were established thanks to company's president's personal relations. Very large assistance in the first years of transition came from Association "Latvijas koks". Information was distributed by Latvian Chamber of Trade, while LDA provided assistance in arranging export related documentation. Company's prospectuses were distributed through Latvian embassies abroad. For three years company had orders from a German partner. Company exported up to 1,000 cots a month. In the last quarter of 1994 this cooperation ceased because partners could not come to agreement regarding price. "Mêbeļu serviss" could not accept 35$ price per cot taking into account that costs reached 60$ per unit due to sharp rise of prices of sawn timber. The same happened with exports to the Netherlands, Denmark, Norway and Sweden. However, company maintained good contacts with partners in Europe and hopes to resume active cooperation with them as it is doubtful whether they will find any enterprise that will offer cheaper furniture of the same quality. Now, at least for time being, company has to concentrate on CIS markets.

Production for Export

During last three years company expanded its assortment by approximately 30% to increase its competitiveness in both domestic and foreign markets. In the western market most demanded became company's massive wood manufactures (traditionally company produced only standard furniture from chip board plates). As regards Eastern market, positive factors for expansion were company's ability to supply full range of school furniture starting with simple chairs for pupils and ending with furniture sets for director's room. None of Russia's enterprises has at its disposal such rich assortment. The other advantage of the company in the Russian market is better exterior of its furniture compared with Russian analogues, thanks to imports of decorative elements from Western Europe. These advantages allow company to compete with Russian producers, despite the price disadvantage (customs duty and VAT amount to 62%, which were added to higher costs in Latvia and transportation expenses). Already in 1993 company has reached average Western European level of quality that allowed European producers to sell the company's furniture under their own brands. One of the advantages of the company is that the average age of its production equipment is not so high, 15 years (some equipment was bought in 1994).

Domestic Environment for Exports

Positive aspects: Activities of LDA and LCTC. These activities should be further developed.
Negative aspects: (1) Absence of Latvian trading houses abroad. This kind of government support to manufacturers could be more effective than any direct aid; (2) Exchange rate policies: furniture manufacturers were the most affected through exchange rate developments as they based their production on domestic raw material; (3) High credit rates: due to seasonal demand for school furniture company has to take this high interest credits; (4) Unfair distribution of international credits: company did not get credit for renewing its kilning and sanding equipment even after positive report of the Ministry of Economy on company's business plan; (5) Inactivity of Latvian Export Crediting Company.

Foreign Environment for Exports

In sales to CIS large problems could arise due to unstable relations between Russia and Latvia. According to company's management they have to pay double customs duties when exporting to Russia, notwithstanding most favored nations status granted by Russia to Latvia in 1994. Furthermore, Russian companies need annually renewed licenses when they to import furniture into Russia. In the future company can face increasing competition in the Russian market as it has very large furniture industry.

As regards Western markets, a lot of money and time is needed to get quality certificates. However, the largest problems are caused by overproduction in the West and difficulties in finding own niche in Europe. Foreign investments inflow into the company is hampered by unsettled land ownership problems and overpriced state assets.

Vidzeme (Furniture Industry)

Background Information

Established: 1921.
Size of labor force: 132.
Size of the capital stock: 6,713 Ls.
Products manufactured: Company specializes in producing chairs: 40% — standard range of domestic dining chairs; 40% — baby chairs; 5% — shaped plywood and spindle back chairs; 14% — turned component parts.
Output (1990–95): During last years output sharply decreased, and now only 10% of capacities are used. In 1994, 28,576 chairs were produced (in 1990 about 300,000 items). 1994 can be characterized as a year of stabilization.
Sales: in 1990–1992 NA as the enterprise was part of a big furniture production association "Riga", in 1993 Ls 312,400; in 1994 Ls 399,500.
Profits: in 1993 32,174 Ls, in 1994 42,321 Ls.
Debts: 150,224 Ls (mainly to the budget; in 1994 company paid only 50% of calculated tax payments; claims on customers are 27,543 Ls.
Structure of ownership: Since 1992, after the collapse of production association "Riga", Vidzeme is an independent enterprise still owned by the state.

Export Orientation

The company traditionally depended on the USSR market until the independence of Latvia, with only about 12% of sales being exported to Hungary and Yugoslavia. Since 1991 the company had to find alternative markets. In 1993 distribution of company's sales by different regions was as follows:

Latvia	Russia	Germany	Azerbaijan	Netherlands	Denmark	Canada	Finland
64.7%	10.4%	6.9%	5.9%	5.0%	4.6%	1.5%	1.0%

In 1994 the share of export sales continued to grow and by January 1995 it has reached 40% of total sales. During 1994 company increased its orientation to Western markets. The main reason was the decrease of company's competitiveness in Russia due to continuous appreciation of the Lat. Exports to Azerbaijan were stopped due to bitter experience of 1993 when Azerbaijan partner did not settle its liabilities with the company. Currently company's production is mainly exported to EU market (Finland, Denmark, Norway, and Germany); small portions of output are exported also to Canada, Israel and Japan. Company's main partners abroad are wholesale organizations with which company has direct contacts. However, some of contact persons abroad are furniture producers. Company has its own designer and only seldomly are drawings of foreign partners used.

Production for Export

At present the efforts of the management are concentrated on expanding exports in the West. At the same time it recognizes that with the current assortment it is difficult to acquire stable position in Europe. During the last 10 years assortment practically was not changed (except for one new and really good chair model), only color performance of upholstery was varied. To a large extent the reason was the lack of modern equipment. Very large share of equipment remained from the 1940s and 1950s, and many complicated curved or twisted details simply cannot be manufactured due to technical limitations. In such a situation company's current advantages, that enhance sales abroad, are: (1) the use of pine saw-timber, contrary to use of chip board plates by many other Latvian furniture enterprises (most demanded are company's baby chairs as well as chairs without upholstery for kitchen or summer houses); (2) low prices (for the time being company's products can satisfy only low-income layer of population). There is no difference between manufactures produced for local or foreign markets in terms of inputs usage, however, quality control is a bit stricter for exported goods, because in foreign markets even small failure can be very costly. As regards price, it is much more profitable to sell production in the local market. Company does not make profits on exports. Currently the export is important only because it helps company to maintain working places. Company needs large capital investments in kilns and the finishing process that, together with further development of marketing functions, would enable the company to offer a more middle market, less price sensitive range of products.

Domestic Environment for Exports

Positive aspects: assistance of association "Latvijas koks" (made up of the 20 largest domestic woodworking and furniture enterprises) at the initial stage of establishing contacts with foreign partners.
Negative aspects: (1) Exchange rate policies; (2) High credit rates that are prohibitive even for short-time financing. Last year company lost one order from Germany simply because it had not enough working capital to fulfill it. As regards long-term investments, company prepared a comprehensive business plan to get low-interest loan of $150,000 from a Japanese bank. However, neither any commercial bank, nor the government found it possible to guarantee it. At the same time, guarantees for huge credits are provided to far less reliable firms. (3) Absence of government support to exporters.

Foreign Environment for Exports

As the main obstacle to exports unfavorable payments conditions has to be mentioned. Practically no customer agrees to pay in advance, which poses a lot of problems particularly because of shortages of working capital. Usually clients pay the bill 30–45 days after delivery. Another problem is that the company has to rely on the honesty of its partners since it has not enough resources to initiate lawsuit abroad. Recently company had a negative experience with customers in Azerbaijan and Canada which defaulted.

Juglas manufaktúra (Textile Industry)

Background Information

Established: in 1911; till 1993 — one of 7 enterprises forming large production association "Rìgas manufaktúra".
Size of labor force: 230.
Size of the capital stock: 52,800 Ls.
Products manufactured: Ring spun cotton yarn (50–54 Nm); open-end cotton yarn (8–28 Nm). The company is the most modern cotton spinning mill in Latvia.
Output (1990–95): Diminished from 3000 tons in 1990 to 1299 tons in 1993. In 1995 50% of capacities are employed.
Turnover (1994): 1,691,000 Ls.
Profits: In 1994–1995 company operates practically without profits. Reasons for this are large depreciation deductions and maintenance of premises (including non-employed ones), as well as the real appreciation of the national currency and the fall of the value of the US dollar against other hard currencies.
Indebtedness: Company has only small debt to the electricity company. The positive aspect is that company has own boiler-house. As many other companies Juglas manufaktuúra (JM) has unrecoverable claims on customers from 1992–1993 because of collapse of the USSR and deterioration of relations between Russia and Latvia.
Structure of ownership: "JM" has been a private joint stock company since June 1993 and leases its facilities from the State. Its redemption agreement does not include the land which belongs to the local government.

Export Orientation

Traditionally company worked only for highly developed net of domestic textile enterprises ("Aurora", "Lenta", "Sarkanais rìts" etc.). Due to decline in Latvian textile industry company had to seek for foreign outlets for its production. During 1993–1994 company's management made significant efforts establishing new contacts. In 1994 sales distribution was as follows:

Latvia	Germany	Lithuania	Belgium	France	Others
17%	50%	15%	8%	7%	3%

The most significant company's export partner is Switzerland's mediator company "Remey" which has consignment warehouse in Germany. Other partners abroad are textile enterprises. Initially contacts were established thanks to own efforts (offers by fax; ads in catalogues). Now in most cases potential partners contact "JM" themselves. In this field considerable support comes from first partners which recommend company's production to others. Up to now company did not take part in any international exhibition. As company manufactures very standard production, it does not receive any sample from abroad; it receives only prescriptions of needed technical parameters of yarn.

Production for Export

Company has strong intention to expand its export performance in Western markets. Till now company did not consider possibility of exporting to CIS as it has enough stable contracts in the West, taking into account limitations on working capital and raw materials. Another problem is that most of Russia's knitting enterprises stopped their operations at least for the time being.

Current competitive strengths of the enterprise are: (1) a bit lower price of yarn, than e.g., yarn from Pakistan; (2) high quality (higher than Indian yarns); lower transportation costs for importers in Europe. As regards price, rise of input prices and gradual increase of wages can use up this advantage in the coming years. High quality of yarn was achieved to a large extent due to change of equipment. Company has 5 years old German equipment that, according to Latvian standards, is very good. Positive aspect is stability and high qualification of staff.

Production, that is exported, doesn't differ from production sold in the local market, neither in terms of quality, nor in terms of price.

Domestic Environment for Exports

- Insufficiently good relations between Latvia and former Soviet republics of Central Asia, notwithstanding MFN agreements with them: it is very difficult to obtain licenses needed for exporting of cotton from these republics, that leads to shortages of raw materials in Latvia. Furthermore, this cotton is imported through Russia which causes additional problems, taking into account the disorder in Russia's customs system. Recently company began to import cotton from the same republics through Switzerland.
- Exchange rate policy is unfavorable for exports.
- Monetary policy; despite tight policies company has quite real opportunity to get interest-free loan from EBRD.
- Delays in refunding VAT on raw materials (cotton) plus 1% import duty, which has to be paid on imported cotton, leads to problems with working capital.
- Lack of government support to exporters in organizing exhibitions.

Foreign Environment for Exports

Company has succeeded in establishing new contacts with foreign mediators, and some of them seem to become stable. Among them the best contacts are with "Remay" and Lithuanian producers of knitted garments. Business relations with France and Belgium are very irregular; payments settlement is usually prolonged, sometimes by 4 months; penalty payments are not paid. As a result, company is forced to take short-term credits with high interest and to avoid, if possible, contracts with these enterprises.

The latest information on changes in foreign markets are obtained from clients and catalogues and the company tries, if possible, to adjust to these changes in terms of technical parameters, price and destination country.

Among the main competitor countries textile companies from Pakistan, India and Turkey were mentioned. Competition from Russia is not dangerous for the nearest future, notwithstanding existence of very large Russian enterprises: most of them have very obsolete equipment which makes it impossible to meet western quality standards; most Russian competitors practically stopped operations.

Due to free trade agreements there are no formal barriers to company's exports either in Western Europe or in Lithuania. Nevertheless some inconveniences are caused by the requirement to have phytosanitary certificate, as this requires a lot of money and time; arrangement of customs declarations is very cumbersome as well.

8 March (Textile Industry)

Background Information

Established: 70 years ago as a chemical works, but transformed gradually into a textile factory by 1936.
Size of labor force: 170.
Size of the capital stock: 130,000 Ls.
Products manufactured: The enterprise undertakes all stages of the processing of woolen fabrics. Company produces yarns of count Nm 5–12; woven and finished fabrics in wool and blends for dresses, suits, coats, furnishing fabrics and blankets.
Output (1990–95): Diminished from 1.5 mn m of fabrics in 1990 to 0.22 mn m in 1993 and 1994. In 1994 only 15% of capacities were used. In 1995 10% growth is possible.
Profits: Company sustains losses due to fluctuations in currency market, irregular orders, rise of fixed costs per production unit (energy).
Indebtedness: High debt to the budget (social tax); at the same time company has high unrecoverable outstanding claims toward customers from previous years.
Structure of ownership: The company is still a state enterprise but has been included in the list of companies scheduled for privatization by the Latvian Privatization Agency (LPA); this creates sufficient uncertainty.

Export Orientation

Traditionally 50% of production was sold in Latvia, the rest was sent to other republics of the USSR. During the first years of transition exports to the former Soviet Unit (FSU) republics reached 60% of the total output. For the last two years the picture was as follows:

Sales	CIS	Western Countries	Latvia
1993	167,000 Ls	128,000 Ls	163,000 Ls
	36.4%	28.0%	35.6%
1994	7,400 Ls	190,000 Ls	126,000 Ls
	2.3%	58.6%	39.0%

Company's main partners in the West are Denmark, UK, Finland and Austria. In UK most demanded are company's coat fabrics. In Denmark — furnishing fabrics (company "Richters", which constantly increases orders). Finland is also very important partner: last year its share was especially large thanks to state procurements. Company exports fabrics that were developed by own designers; only color is adjusted to the customers' specific desires.

New contacts with foreign partners are established through Latvian Development Agency (LDA) (it has information desk with offers from abroad) and through company's ads: last year the company spent 4000 USD for advertisement in one of the Eurocatalogues. Very often foreign clients find company's address through Latvian consulates abroad; some — with assistance of Latvian Chamber of Trade. Unfortunately, company has no possibility to take part in different presentations and international exhibitions because of financial constraints.

Production for Export

Company has strong intention to expand its exports in Western markets. This orientation is influenced by gradual contraction of domestic market. Such situation is to a large extent determined by developments in the Latvian clothing industry, enterprises of which in many cases choose to export the capacity of their low priced labor force (through sub-contracting) instead of own production.

Very important competitive advantage of company's manufactures abroad is the relatively low price which, in combination with high quality of products, could provide company with good offers in the long run. Usually standard quality criteria needed to be met when exporting into EU are surpassed by 20–25%, as all chemicals needed for production are purchased in the West. To satisfy customers' needs company carried out substantial assortment change during 1992–93. However, in the nearest future serious problems can arise because of high rate of equipment depreciation (about 67%). New machinery especially is needed in finishing (color control and instrumentation). Furthermore the company has not got scouring facilities and has to rely on imported supplies of scoured wool.

In terms of quality there is no difference between fabrics sold in domestic or foreign markets. Only color performance is a bit different: if in Western Europe most demanded are fabrics of pastel tones, while in Latvia black is more in demand.

In terms of prices it is more profitable to sell production in the domestic market than abroad, because in contracts with foreign partners prices are fixed in USD for a period of 3–6 months; taking into account revaluation of the domestic currency against USD this very often causes smaller revenues and even losses.

Domestic Environment for Exports

Positive aspects: assistance of Association of Textiles and Clothing manufacturers; activities of LDA and the Latvian Chamber of Trade and Commerce (LCTC).
Negative aspects: (1) absence of government concept for textile industry, that fueled destruction of the sector; (2) exchange rate policies; (3) high credit rates that are not suitable even for short-term financing. The only credit that company have taken recently, was provided by an Estonian bank under guarantee of company's foreign partner.

As regards purchase of raw materials, main problems are caused by increase in prices for wool and export duties in the Commonwealth of Independent States (CIS) countries.

Foreign Environment for Exports

CIS: problems with hard currency assignments; contacts with former largest partners in Russia — clothing factories "Kaluzanka", "Slovyanka" and "Vologda" are stopped for the time being, due to lack of working capital in these enterprises. Decrease in contacts with Russia was fueled by the war in Chechnya as well. Very significant impediment to exports in Russia is also high (20%) customs duty for imported fabrics plus a 28% VAT. Last year "8 March" sold only wool blankets for some hotels in Moscow (state procurement).

Exports to the West are mainly hampered by existing traditions and system of relations, and not by formal barriers such as tariffs or certification. Company needs many years to create its image, to persuade customers about company's reliability in terms of quality and delivery. However, even under such conditions company achieved some progress in establishing contacts during 3 years of export practices in the West.

Terms of payments also pose serious obstacles for company's operations, as payments are settled not earlier than 30–60 days after delivery, causing shortage of working capital. Inflow of foreign investments is practically impossible in the nearest future, before company is privatized.

Main competitors are the UK, Italian and Pakistan producers. In the future serious threats could be posed by competition from Asian FSU republics, whose development potential is very high.

Aurora (Textile Industry)

Background Information

Established: in 1946; in 1956 it was expanded to supply other USSR markets.
Size of labor force: 1600.
Size of the capital stock: NA.
Products manufactured: Hosiery products: panty-hoses, stockings, tights. Main product — synthetic panty-hoses.
Output (1990–95): Diminished from 70 mn units in 1990 to 45 mn in 1994. Shop producing synthetic panty hoses is working in 3 shifts, while department producing cotton panty-hoses for children and other manufactures is only partly employed due to the fall in demand.
Turnover (1994): Ls 4.8 million.
Profits: At present company operates without profits. Reasons: fluctuations in currency market, rise of fixed costs per production unit.
Indebtedness: High debt to the budget (Ls 0.9m). The sums of claims on customers and company's own debt are approximately the same. Reasons: unrecoverable claims on customers from 1992; debts of apartment houses around the premises of the company for heating (company has own boiler-house).
Structure of ownership: As a joint stock company was registered in 1994 and is in the process of privatization, state assets are being bought out over a period of 5 years. Private equity capital currently accounts for 24% of the total.

Export Orientation

Traditionally company sold 20% of total output in Latvia; the rest was sold to other USSR republics. As many other enterprises, company has to change considerably markets after the break-up of the USSR. In 1994 the situation with sales was as follows:

Latvia	Russia	Estonia	EU (Germany, Holland, Austria, etc.)
20%	10%	2%	68%

Company does not employ services of any Latvian export-import firm. At the same time company's all partners abroad are wholesale organizations. The largest market is Germany, but it is very difficult to determine further distribution of sales in the EU. Large portion of output is sold through OTTO catalogues, Gerkens & Co. and other famous firms. Contacts with western partners were established through different presentations and ads in catalogues. As regards Russia, no efforts had to be made to advertize, as company preserved its good name in all CIS states from times when it was dominant seller there. Company has its own production collection and only color and sizes are adjusted to the needs of the customers.

Production for Export

In the long run company plans to expand its export performance in both Western and CIS countries. However, in the nearest future, while exports to the East are hampered by political and economic instability and payments problems, EU states are considered as the main target countries for exports. For a while company doesn't need to expand its activities in CIS states also because it is not in a position to fulfill even all current orders.

In terms of quality there is no difference between manufactures produced for domestic or foreign markets. Only color performance is adjusted to peculiarities of each region: for Latvia and Russia company produces mainly brown or black panty-hoses while for Western Europe more gray and bright (red, green, etc.) panty-hoses are manufactured. Packing is better for Western Europe.

In terms of price it is much more profitable to sell production in the domestic market (with at least 6–7% profits), but domestic market simply cannot absorb company's whole output. The market is very small, and it is also flooded with illegally imported (i.e., without paying VAT and customs duties), low quality manufactures from other FSU states.

Current competitive strengths of the enterprise are: low price; quality, completely meeting western standards (all dyes are imported from Switzerland); good packing design which does not differ from European packaging. As regards price advantage, company intends even to increase its competitiveness in this field. It has prepared business plan for obtaining $15 mn low-interest credit needed to buy 100–150 computer controlled knitting machines and to renew existing capacity. Such undertaking will increase current productivity level some 5–6 times and significantly lower costs. It seems that company will succeed in attracting these funds, as it already has got many offers from Germany. The only obstacle is that agreement between Latvia and Germany on mutual protection of investments up to now has not been ratified.

Domestic Environment for Exports

Positive aspects: Activities of Association of Textile and Clothing Manufacturers, LDA, LCTC. *Negative aspects:* (1) exchange rate policies; (2) credit policies of Latvian banks: company is not in a position to take even short term loan to finance purchase of raw materials to fulfill current orders because of high interest rates.

With purchase of raw materials company has no particular problems as largest part of them is bought in Latvia and in EU countries.

Foreign Environment for Exports

The main competitor country in its sector is Italy. Competition from Russia is not considered dangerous for the nearest future, as its producers very often cannot meet not only quality standards but also delivery terms.

There are no formal barriers to company's exports neither in Western Europe, nor in Estonia (Latvia has free trade agreements with these regions). Some inconveniences are caused only by the requirement to have quality certificates, as this needs a lot of money and time (but not additional efforts to improve quality). Company has received tariff-free import quota (50 mn pairs per year) to EU states under EU-Latvia free trade agreement (FTA). Currently "Aurora's" exports to EU are well below this quota.

Notwithstanding absence of direct barriers to company's exports to the West, there are some very strong informal barriers. First of all it is customers' traditions to maintain their loyalty to certain brands. There is also an informal distribution of influence spheres by certain producers. As a result, company can elbow its way in overcrowded EU market only under brands of famous trading companies.

Latvija (Clothing Industry)

Background Information

Established: in 1964.
Size of labor force: 3,200 in five plants constituting the enterprise: three in Riga; one in Daugavpils and one in Krâslava.
Size of the capital stock: NA.
Products manufactured: Upperwear: suits (major product), costumes, warm jackets, coats.
Output (1990–95): Diminished by more than a factor of two in 1992–1993, in 1994 output was stabilized, achieving 1 m articles per year. Now the output is slowly increasing. Presently capacities are used by some 30–35%.
Turnover (1994): 1.3 m Ls.
Profits: At present company operates without profits. In 1992 it suffered 1m Ls losses on products exported to Russia. For part of delivered production the company simply did not receive payment. Other manufactures produced for Russia could not be sold due to delay of most favored nations agreement ratification between Russia and Latvia: double customs duties were applicable to Latvian goods that together with additional export related expenses increased the price by 100%. Furthermore, company had to pay high interest payments on credits which was taken for the purchase of fabrics.
Indebtedness: Company still has not settled debts, caused by the difficulties mentioned above. Furthermore, it accumulated some new debts owing to the state budget.
Structure of ownership: Since 1991 joint stock company 56% of shares belongs to employees, 29% to the Latvian state, the rest (15%) belongs to company's partners. One of them is the largest bank of Latvia "Unibanka". This partnership did not help the company in financial matters. Vice versa: company still pays high interest on old credits.

Export Orientation/Production for Exports

Traditionally company sold 15% of total output in Latvia; the rest was sent to Russia and other USSR republics. However, after negative experience in 1992 and general weakening of economic and political ties with Russia, company had to change markets considerably. 1993 and 1994 were the years of establishing contacts in the West. As a result, last year sales distribution was completely different from that observed in Soviet period:

Latvia	Germany	Others: Sweden, UK, Finland, France, Denmark
10%	65%	25%

Also the nature of production completely changed: earlier company exported only own production, now it exports the services of its cheap labor force. As a result, company's main partners abroad are clothing producers. Some producers deal with company directly, some through mediators (foreign); part of production is sold through catalogues of OTTO and QUELLE. Some contacts with present foreign partners were inherited from late 1980s when company exported very small portions of its own production to Western Europe. Some contacts were established at international exhibitions. However, more often foreign partners sought contacts with the company themselves as they were interested in cheap labor force: they chose "Latvija" because it is one of the most modern and largest clothing companies in Latvia. The main reasons why they prefer to deal with the Latvian company, notwithstanding a bit higher price level than in the rest FSU, are: (1) Higher technical level of production in comparison with many other FSU producers. In 1988 when company still was a state enterprise, four of its plants (especially the main factory in Riga) were reconstructed and received modern equipment from Italy. As a result, company can provide high quality that meets western standards. (2) Stable terms of delivery. (3) Lower risk, due to more stable political situation and relative macroeconomic stability.

"Latvija" receives a growing number of orders from different European states, but sometimes company has to reject them as envisaged remuneration does not cover production costs. The five plants constituting "Latvija" enjoy large independence in their operations. Each enterprise is free to sign production contracts with foreign customers. However, largest part of potential partners come to the major plant of the company in Riga. The main plant, however, often readdresses orders to plants in Daugavpils and Krâslava.

Actually company uses the easiest and may be the only possible way of stabilizing its financial situation. It engaged practically in risk free business, but this also means that the company practically has no perspectives for further development. Exporting the services of its labor force, company hardly can compensate costs and can gain only little profits. At the same time for exports of own production company simply has not got enough working capital needed for initial purchase of fabrics and other inputs. It is doubtful whether through export of its services company will succeed to accrue needed funds. The other problem is establishing market access.

The company makes all efforts to find its way out of this situation: it seeks serious foreign partners for establishing joint venture that would help to solve both problems, financial and market access problem. Company has already started preliminary talks with some of potential investors. Forming a joint venture would be profitable for all sides as no serious reconstruction of the enterprise is needed in the nearest future (excluding the plant in Krâslava). Company succeeded to maintain its experimental laboratory for the local market where it sells its own production. (However, development possibilities in local market are very limited). It has good contacts with fabric producers and distributors: QUELLE, OTTO (e.g., for viscose silk), various Lithuanian producers (for fabrics for cloaks), "Astotais marts" (for woolen fabrics). Company has advantage of getting state procurement orders (production of uniforms for police). The success in attracting foreign investments may be dependent on company's possibility to divide into smaller units. At least the five factories now forming the company have to become legally independent.

Domestic Environment for Exports

Positive aspects: Local unfavorable conditions for development connected with illegally imported low quality, but cheap products, and with still very low purchasing power of population. These conditions simply force company to seek other outlets. However, profits per unit sold in the domestic market are much higher than in exports. Another positive factor is the free trade agreement with EU.
Negative aspects: (1) High price of energy which have a negative impact on costs; (2) Tight credit policy of Latvian banks; very low possibility of getting international credits; (3) Exchange rate policies which deprive company of its traditional eastern market.

Foreign Environment for Exports

As regards eastern markets, exports are hampered both by formal and informal barriers: import tariffs (about 25%), high VAT (28%), as well as low purchasing power of population and increasing competition from Asia. Besides, companies in many FSU republics are also involved in job work for western companies, and thereby increasing competition in the West. There are also sizable difficulties to enter the market under own name.

Venezia (Footwear)

Background Information

Established: in October 1991, on the base of the former state enterprise "Pirmais maijs" which was split in two joint ventures: "Venezia" and "Pirmaden".
Size of labor force: 110.
Size of the capital stock: NA.
Products manufactured: Sandals, shoes and boots (mainly for women).
Output (1990–95): One can only compare data of Venezia and the old enterprise "Pirmais maijs". At its height the old company produced some 3 m pairs of footwear per year (low quality simple footwear). Venezia overtook about 20–25% share of the enterprise. The figures for the last two years are given below:

	1992	1993	1994
thousands of pairs	115	76	27

Last year production capacities were employed only by 20%.
Sales in thousands of Ls:

1992	1993	1994
547.0	591.5	189.9

Profits: Company had sufficient profits only in 1992.
Indebtedness: Company has substantial debt to the budget.
Structure of ownership: Since 1991 the structure of ownership has not changed: 33% of shares belong to the Italian partner; the rest (67%) belongs to the Latvian state. (In the other successor of the old enterprise 4% belongs to a German partner and the rest to the State).

Export Orientation/Production for Exports

In the "best" years of the Soviet regime "Pirmais maijs" sold much more than half of the output to the rest of the USSR. In the first real year of "Venezia's" operations (in 1992) the new company was also quite successful in terms of exports: approximately 30% of production was sold in Russia. Practically all capacities were employed. Company's big success that year can be explained quite simply: foreign (western) production that began to appear in the FSU market was too expensive for ordinary people, at the same time most of state enterprises still continued to produce old fashion footwear. As a result, "Venezia"s products (like the products of many other joint ventures) quickly won consumers' recognition due to very high quality, design, and reasonable prices. That was the main strategy of Venezia's foreign investor (an Italian footwear producer): to conquer Eastern markets by expanding production in one of the FSU states. Exporting finished products from Italy, Italian partner could not reach this goal due to sharp depreciation of currencies in all transition economies. In the period from October 1991 till mid-summer 1992 the foreign trade regime was not yet liberalized in Latvia either. However, since then situation changed a lot. The bank of Latvia set its course for stabilization of national currency, which very soon led to steady increase of Lats rate. Besides, it seems that government went too far with the liberalization of trade in 1992, because new or recently restructured enterprises lost opportunity to strengthen their financial situation, to reorganize their production before meeting the competition from abroad. As a result, Venezia not only had to stop expansion but even cut production. The markets in Latvia and the rest of FSU became more and more flooded with cheap medium (if not low) quality, mainly leather footwear from Chinese, Taiwan and Italy (at least products with Italian labels). Due to such unfavorable developments company's exports fell to 5% of product in 1993 and had to be stopped in 1994 at all. Practically the same happened with the other enterprise "Pirmaden". The difference was that Pirmaden's German partner used "Pirmaden" also as a cheap labor force for its own production. However, with appreciation of Lat, Pirmaden could not work anymore for the same remuneration, which eventually turned away its partner. As a result, despite a lot of positive for developments both companies are in deep crisis.

As the first advantage should be mentioned availability of cheap leather from Latvian farmers as cattle breeding is quite well developed in Latvia. Company produces only natural leather shoes. Due to unsatisfactory work of Latvian leather processing enterprise "Komèta" in both price and quality respects, company established good contacts with a Lithuanian company, that allowed Venezia to obtain high quality leather with minimum costs (In Lithuania wage and price levels are lower than in Latvia). Furthermore, company has good equipment thanks to investments by the foreign partner. Only 20–30% of the equipment remained from "Pirmais maijs". Company is also small and flexible, and has very good design laboratory and does not need assistance in design from its foreign partner any more. Product prices are not high if one takes into account high quality: in average one pair of shoes costs 7 Ls (without 18% VAT). However, for Russia even such price is too high, taking into account additional payments for transportation, customs and higher VAT. Former partners and other business in Russia keep expressing interest in company's products, but the price is decisive.

Notwithstanding company's very straightened financial situation, Venezia is active in marketing and sales. Company has well developed network of sales agents in Latvia. It also has 6 own shops in Latvia. If possible, company participates in international exhibitions (in Moscow, Leipzig, and Poland). However, participation in these exhibitions helped only in establishing good contacts with suppliers of raw materials (chemicals, decorative elements, other components), and not to get new contracts for sales.

Domestic Environment for Exports

Positive aspects: Activities of LDA (earlier it provided assistance in establishing some contacts with Russia).
Negative aspects: (1) Exchange rate policies; (2) Very low customs tariffs for imported footwear; (3) Poor border control that cause large inflow of illegal imports (without paying VAT and customs tariffs); (4) Absence of government strategy in respect to footwear industry. Latvia has many footwear factories, most of them not bad factories, which could supply footwear to five such countries as Latvia. However, in present situation none of them can sufficiently expand its operations and, as a result, to cut costs. Capacities are utilized at 20%; fixed costs per products steadily rise. None of these companies have sustainable financial situation. As a result, also payments to the budget are ignored. In such situation the Latvian government has to take some steps to ensure civilized liquidation or stimulate reorientation of some of these enterprises, and to provide support for the rest to survive as footwear producers.

Foreign Environment for Exports

In Russia, main obstacles to company's export development are 20% customs duty and high VAT, as well as inflow of low quality cheap products from China. In the west the main obstacles are overproduction and the consumers adherence to well-established brand names.

Meteors (Chemicals/Footwear)

Background Information

Date of establishment: 1864.
Size of labor force: 350.
Size of the capital stock: 700,000 Ls.
Products manufactured: footwear made of rubber, PVC, polyurethane, fabric, natural and imitation leather for men, women, teenagers and children for everyday use (all seasons), and sports — about 300,000 pairs per year.
Turnover (1994): 991,600 Ls.
Output (1990–95): diminished by a factor of 4 to 5 (largest fall was observed in 1992).
Profits: Substantial financial losses due to the currency reforms (e.g., in 1992 240,000 Ls; in 1993 170,000 Ls).
Debts: 810,000 Ls (mainly to the state budget and to electricity suppliers), however, if compared to claims on customers plus the value of raw material stock with companies debts, the two values are practically the same.
Structure of ownership: Since 1990 state lease company. Privatization has been applied for. Company has to be divided at least in 4 parts (now it maintains huge unexploited assets, that causes losses).

Export Orientation

In 1990 15% of production was sold in the domestic market. Export markets were Afghanistan (18%), Russia (12%), Lithuania (8%), Estonia (3%), Ukraine and Belarus (4%). The rest (about 40% of output) was sold in the Republics of Georgia, Azerbaijan, Uzbekistan and Kirgystan. After the collapse of the USSR production drastically diminished; due to disturbances in payments mechanism with the FSU republics largest part of output was sold in Latvia. In 1994 the distribution of company's sales was the following:

Latvia	Other Baltic republics	Uzbekistan	Russia
50%	14%	10%	30%

In 1995, according to preliminary estimates at least 10% of manufactures will be exported to Denmark.

At present exports to Russia are stopped, at least for the time being, due to very unstable financial situation there: a lot of wholesale organizations went bankrupt. At the same time deals with retailers are unprofitable as orders usually do not exceed 300 pairs of footwear. Furthermore, within 3 days after bringing goods into Russia 20% customs duty and 28% VAT have to be paid. In such a situation the only possible solution is to rent some of customs warehouses in Russia and to deliver goods to the customer directly from there. But for this purpose company has to imburse USD 50,000 guarantee payment and a regular rent to the owner of the warehouse. Present financial situation does not allow the firm to realize such undertaking.

Company does not employ services of any export-import firms.

Company exports footware elaborated by its own designers.

Contacts with foreign countries are established in a variety of ways: some remained from Soviet times, some were recently created thanks to personal relationships in republics of Central Asia: in some cases potential customers contact the company themselves. Besides, company puts ads in relevant international catalogues (e.g., "Eurocatalogue"). If possible, company participates in international fairs. The last time it took part in Düsseldorf exhibition, where the contacts with Danish partner were established. Company's manufactures are offered in all largest cities of the three Baltic republics; sometimes contracts are signed even with retailers (department stores). All company's everyday activities are directed towards expanding outlets for sales. Managerial staff very often undertakes business trips with company's collection in Baltics as well as in other FSU republics.

Production for Export

Current advantages of the products of "Meteors" are first of all low prices: the largest part of manufactures are priced below 10 Ls. The other advantage is very rich assortment of practical everyday footware. 2/3 of present assortment was elaborated during the last few years, and they are produced in more than 120 different models. Color performance is very good, especially for children's footwear. Due to management efforts a substantial technical reconstruction could be accomplished recently. During 1992–1994 the company invested 600,000 Ls to machinery and equipment notwithstanding persistent financial problems. However, further large investments are needed in plant to meet higher Western quality standards.

In terms of price it is more profitable to sell production in the domestic market. However, domestic market is too small, especially taking into account excessive inflow of legal and illegal imports of footwear. The other problem is the small purchasing power of the population.

Domestic Environment for Exports

Positive aspects: none.
Negative aspects: (1) credit policies of Latvian banks; (2) incomplete settlement of payment issues even with other Baltic states: payments are usually settled trough third countries' banks (e.g., Swedens banks); (3) absence of permanent Latvian trade centers in EU; (4) distribution of G-24 credits through commercial banks, which raise credit costs up to 50%; (5) slow pace of privatization that does not allow company to get free from huge unutilized premises and other assets; (6) delays in refunding VAT on inputs.

In general there are no problems with getting inputs. The terms of delivery do not cause problems as about half of all raw materials are imported from Italy.

Foreign Environment for Exports

There are no other enterprises in Baltics producing the footware of the same type; this is very lucrative from the company's point of view. Italian company "Simons" was mentioned as the largest competitor in the West.

Import tariffs in CIS countries as well as payment conditions very often impede company's export expansion. This applies especially for Belarus where payments are settled in national currency, which is sharply depreciating and is difficult to convert to other currencies. The other problem is underdeveloped legal system in all FSU states, which makes it difficult to recover claims on customers. This is a very important obstacle since most of the company's partners import only under condition that payment is made after the realization of supplies.

Till now conclusion of free trade agreement with EU has positive impact on firm's activities only in terms of the imports in inputs.

Laima (Food industry)

Background Information

Established: in 1870.
Size of labor force: 700.
Products manufactured: Chocolate candies — 6372 tons; Toffees — 498 tons; Chocolate — 130 tons.
Output (in tons):

1990	1992	1993	1994
13,000	4,000	4,500	7,000

Profits: Company has large profits, but precise figure is NA.
Indebtedness: Company has not significant debts.
Structure of ownership: By the end of 1993 transformed from state enterprise into joint stock company. 30% of stock capital belongs to the state, 32–35% to employees, and the rest to other investors (there are no foreign owners). Ownership structure has not changed during 1994.

Export Orientation

Company always worked mainly for domestic market. Exports never exceeded 20% of output. From these 20% approximately 90% were sent to Russia, 2% to Bulgaria (earlier also many inputs were imported from Bulgaria), the rest was sent to other FSU republics. In the last years situation with export was as follows:

	1992	1993	1994
Exports in per cent of total sales	11%	15%	26%

As earlier, practically all export is sent to Russia; the rest is sold in Kazakhstan, Lithuania, Belarus, Germany and the USA. "Laima" does not use services of any Latvian export-import company. However, all business partners abroad are wholesale organizations, and about one third of them are stable clients over long period of time. "Laima" is one of few Latvian companies that have a well developed marketing unit. In Latvia, the company launched a large promotion campaign: company's advertisements can be seen on TV, in newspapers and in the streets. It has opened dozens of shops around all Latvia and it is popular as never before. However, the company is not so active in foreign markets. "Laima" has not got its shops abroad, and advertisements appear very seldom in foreign mass-media. Nevertheless, company participates in all relevant international exhibitions (in Russia, Lithuania and Germany) and its ads are placed in some international catalogues. "Laima" is one of few companies which have become member of Electronic Article Numbering Latvia.

Production for Export

The company produced very high quality chocolate even in Soviet times and it succeeded to maintain this low quality till now. Moreover, recently the company expanded assortment by nearly 30%. During the last years only two types of candies were withdrawn from production due to lack of demand, and now it produces dozens of different candies, chocolates and toffees. It prepares something special for each large holiday (Christmas, Easter, etc.). Also design of packaging was significantly improved. It has acquired good reputation not only among Latvian customers, but also in other FSU republics due to pretty good taste and originality of its products and natural ingredients of high quality.

All these positive changes were achieved without renewal of equipment: some equipment remained from the days of company's establishment, some were bought in the 1950s and 1960s.

On average the age of equipment tends to be more than 15 years. But that is not considered a serious problem because company earns enough money and it will be in a position to gradually renew equipment without inflow of capital from outside. Moreover, company's management strongly objects foreign participation, and it has serious reasons for that. Western producers do not want to share their market with someone else, and company received even some warnings. In fact a lot of Laima products are much better than products of "Mars", "Fazer" and others. It had never had problems with acquiring quality certificates in EU.

The only problem for company's expansion in FSU is low purchasing power of population in all republics. For the time being Russian partners buy only cheapest products of the company (average retail price of company's products is 2 Ls per kg). As a result, more than half of capacities are not employed. Company works in one shift.

There is no difference in terms of profits between production sold in the domestic market or exported, as company has standard list of prices. The company has no losses from collecting payments abroad because foreign partners have to pay in advance. May be it is not good policy in terms of increasing sales, but company secures itself from defaults.

Domestic Environment for Exports

Positive aspects: Conclusion of FTA with EU, activities of LCTC.
Negative aspects: (1) Insufficiently stable relations with Russia; (2) Exchange rate policy, which steadily decreases competitiveness of Latvian goods abroad; (3) delays, often exceeding 3 months, in refunding 18% VAT paid for inputs; (4) high credit rates that are not sustainable even for short-term needs.

Foreign environment for Exports

"Laima" has not succeeded very much in expanding exports to western Europe, notwithstanding the excellent characteristics of its products. One reason for this is overproduction in Europe, and the informal distribution of influence spheres by local producers. Such obstacles as import tariffs and procedures of getting the necessary certificates are not decisive. "Mars" was mentioned as the main competitor. Exports to Russia are hampered by low purchasing power of population, 28% VAT, and relatively high import duty — 0.6 ECU per kg (about 20% in ad valorem terms).

Kaija (Food industry)

Background Information

Established: in 1883.
Size of labor force: 650.
Products manufactured (in % of total output): tinned fish 60.5%; preserves (packaged salted fish) 29.3%; fish cookery (incl. smoked fish) 10.2%.
Output (1990–1994) (in tons):

1990	1992	1993	1994
10,000	7,000	5,000	6,800

Sales (1994): about 7,7 m Ls.
Profits: NA.
Indebtedness: According to company's management, company has debts, however, claims on customers are higher.
Structure of ownership: Recently company was privatized through tender organized by the Latvian Privatization Agency (it was one of the first enterprises privatized in such a way). Company has become joint stock company with a major shareholder (company "Avelux") having 71% of shares while 25%, in accordance with present legislation, was offered for privatization certificates to the public.

Export Orientation

Unfortunately, precise data on situation in 1990 were not available, however, it is clear that no significant changes in export structure happened during transition period (in 1993–1994, for instance, sales distribution was completely identical). As earlier, main customers of "Kaija"s production are FSU states. Approximately one ninth of production is exported to other East European states. Distribution of sales for 1994 is given below:

Latvia	CIS + Lithuania	Czech Republic, Poland, Bulgaria
16.9	71.8	11.3

Among CIS importers most important are Russia, Kazakhstan and Belarus. Company has customers (wholesales firms) even in such distant Russian towns as Murmansk, Arhangelsk and Vladivostok. Very small deliveries are sometimes sent to Germany and the USA (obviously for emigrants from FSU).

It is necessary to mention, that for different groups of products, also sales distribution is different. If we take tinned fish, 72% are sent to CIS and Lithuania and 15% are sold to other East European states (primarily the Czech Republic, Poland and Bulgaria); the rest is sold in Latvia. Salted fish, in turn, is exported only to Russia (71.2% of total output of salted fish). Other production is sold only in Latvia, because of short storage term.

Till now company was not enough active in sphere of marketing and sales. Company participates only in domestic exhibitions; only once it took part in international exhibition in Germany. Small advertisements are given only in local newspapers or magazines. Most of customers find the company themselves, as they remember company's name from the Soviet times. Only recently has the company ordered prospectuses for propaganda.

Production for Export

Company has not change assortment in the last years. Only labels became more bright to attract customers' attention. It still produces canned fish with bones that is disadvantage in comparison with western products where only fillet is used. Nevertheless, this does not mean that company's production would be bad. "Kaija" had never had problems with getting quality certificates when exporting to Western Europe or USA. Kaija's production has its own range of reliable customers. Very important factor is habits (earlier many consumers in FSU simply have not got other alternative to buy canned fish). Other factor is that Kaija's production practically does not contain preservatives. However, it seems, that after recent change in ownership structure, situation will improve because "Avelux" privatized the company under the condition that it will invest 1.3 m Ls for modernization of the enterprise. The first thing, that "Avelux" plans to realize is to install vacuum packing equipment that would allow company to export also products other than tinned or salted fish (for instance its high quality smoked fish). Besides, it is possible that company will resume production of smoked sprats in oil, as demand for this type of tinned fish is especially high. Many years ago, in accordance with state plan, this production was moved to collective farms on the seashore. Very important thing is also cans, which are inconvenient in use, as they cannot be opened without key. All the aforementioned features indicate that company has to change its production fundamentally if it wants to be successful also in Western Europe and the rest world. The problem of prices is also very acute as prices for such inputs as tinplate, oil and tomato-paste more than doubled in the last two years. As a result it became more difficult to keep prices low. Now the standard price in the world market for tinned fish for one 250g can is 0.53$; this is much lower than the company gets for conserves sold in the domestic market. However, when production reaches the final consumer abroad very often its price is twice as high as the initial price, due to high transportation, storage costs, other mediator-services and import tariffs, applicable in Russia and the rest of Eastern Europe.

Domestic Environment for Exports

- Insufficiently stable relations with Russia and with other CIS states.
- Strong real appreciation of the Lat against USD (most frequently used currency in transactions) that when combined with the depreciation of CIS currencies leads to the decrease of Kaija's competitiveness.
- Absence of Latvian trading houses abroad.
- Lack of financial support by the government to Latvian exporters (subsidies, low-interest credits for export operations).

Foreign Environment for Exports

Largest obstacles to company's exports to FSU countries are high VAT in FSU countries, inflow of subsidized products from western Europe, extremely low purchasing power of population (especially in Ukraine), transportation and mediation costs and import tariffs (in Russia the latter is 15%). What concerns Western Europe, the company is simply not ready to begin its expansion there, due to inadequate assortment and other drawbacks mentioned above.

RVR (Riga Carriage Plant) (Mechanical engineering)

Background Information

History: Founded in 1895 and manufactured a range of products including tram cars and assembly of Ford cars. During the Soviet period the plant manufactured 90% of the passenger rail cars used in the USSR, including both electric and diesel power cars. The RVR company manufactures the carriage and mechanical parts for the product, but electric controls are bought from the other Latvian company RER.
Size of labor force: 3056.
Size of the capital stock: 5.4 m Ls.
Output (1990-1994): diminished from 600 carriages in 1990 to 120 in 1993. Since 1994 output began to recover: in that year 201 carriages were produced. However, it is clear, that previous levels of output will never be achieved again. (The best result achieved during the Soviet period was 680 carriages per year when company produced also large number of trams).
Sales (1994): 11 m Ls.
Profits: NA.
Indebtedness: There are debts of some $ 3m which incurred when demand dropped sharply in 1992–1993. There are also problems related to a train set for Macedonia (value $1 m) which has not been delivered and remained in Bulgaria as a consequence of an embargo on deliveries to Macedonia at the request of Greece.
Structure of ownership: State enterprise, has to be privatized: company's management seeks partners for privatization itself, as it fears of placing company's future in the hands of the Latvian Privatization Agency.

Export Orientation

Company always worked for exports, sales to other FSU republics. However, till 1991, the disintegration of the USSR only supplies to former Yugoslavia, constituting about 4% of total output, were considered as exports. In the meantime contacts with Yugoslavia were stopped due to the Yugoslav war. Latvian railway company, in turn, never bought more than 5% of RVR production. Due to lack of financial resources the railway company's purchases decreased from 2% in 1990 to 0% of RVR production in recent years. As a result, company has become a 100% pure exporter. Current distribution of company's production between different countries is following:

Ukraine	Belarus	Russia	Kazakhstan
51%	24%	18%	5%

Earlier Russia was the major importer of company's production, its share was well above 50%.

Company did not make significant efforts establishing new contacts as the market for trains is well-known. There are not so many producers in this sector and they know each other very well. All current customers are from the Soviet times.

Export operations take place in a very interesting way, with the assistance of mediator-firms. Between the foreign railway companies and RVR no cash flow exists. That has quite a simple explanation: foreign railway companies simply have no money for buying new trains. At the same time they have very large claims on customers who, in turn, also have not got money. Railway companies sign contracts with intermediaries, in accordance with which mediators get the right to gather these claims from the customers (it is done in kind, in coal, fuel, metal etc.), in exchange for which they supply the railway companies with trains. As a result, RVR signs contracts with mediators which subsequently transfer money on RVR's account, RVR, in turn, sends carriages directly to the foreign railway companies. Such kind of operations are practically impossible to arrange with domestic producers of FSU republics; this gives RVR an advantage in comparison with railcar producers of Russia.

Company's managerial staff very often attends international exhibitions of mechanical engineering, but such trips practically are important only for broadening their outlook, not to conclude contracts.

The company believes that while its products would not be suitable for western markets, they could have good opportunities in developing countries. However, RVR finds it difficult to join consortia bidding for contracts in developing countries. These deals usually require to secure credit for customers; Western companies have better access to these sources of credit. The main opportunities for the company are seen to be in developing collaborative arrangements with a foreign partner. Such partner could be Sweden's ABB which expressed interest in cooperating with RVR because of desire to conquer markets in FSU and developing countries.

Production for Export

Company's main advantage in the eastern markets is that it can supply cheaper trains by a factor of three than western producers of analogous trains. As regards other FSU carriage producers — producers of Demihovo and Torýok (Russia) — till now company succeeded somehow to coexist with them peacefully. These producers have more problems with settlement of payments and, according to RVR management, with their lower technical level.

Overall most of the premises and equipment of the plant are in good shape (during 1987–1991 company carried out reconstruction), although there appear to be opportunities to improve efficiency and reduce work in progress.

During last years neither quality nor assortment of production was changed by RVR. However, taking into account the lack of qualified labor force (despite the problem of overmanning), it is good that company succeeded at least to maintain former level of quality. Company's management complained on unreliable delivery and poor quality of the otherwise cheap imported steel from Russia and Ukraine.

Domestic Environment for Exports

Positive aspects: Conclusion of collaboration agreement in mechanical engineering sector with Russia. As a result, imports of raw materials and exports of finished goods to Russia are free from export-import duties.
Negative aspects: (1) Ill-considered exchange rate policy: Lat is pegged against SDR, notwithstanding still relatively high inflation (in 1994: 26.3%). Small decrease of prices for some imported raw materials, thanks to appreciation of national currency against USD (this currency is most frequently used in transactions with Russia) could not compensate for increase of other costs (wages, taxes). As a result, company has no choice but rise prices; (2) High credit rates forcing RVR to deal only with companies which agree to pay in advance, taking into account that production is very costly and production cycle is very long.

Foreign Environment for Exports

Negative effects: (1) Increasing competition from two Russian plants which formerly manufactured only cargo wagons, but now involved in the production of electric rail carriages. (2) Difficult financial situation of FSU railway companies. (3) Very strained political relations between Russia and Latvia that could negatively influence business conditions in the future.

Positive effects: It is possible that the company will establish joint venture with ABB in the course of privatization. This could help company to diversify production as well as to maintain stable positions in FSU markets and enter the developing countries.

Rīgas Motorūpnīca (Motor vehicles)

Background Information

Established: in 1927.
Size of labor force: 395 (1992 — 1200, 1983-84 — 2400).
Size of the capital stock: NA.
Products manufactured:

	% of Sales
Mopeds (manufacturing a range of moped frames, wheels, etc., assembly of mopeds; engines are imported from Lithuania, Russia, Poland and Slovakia) — company produces about 60% of the value of the product.	90
Exhaust systems for 7 types of cars	10

Sales (1994): 785,000 Ls.
Output (1990–95): diminished from 100,000 mopeds in 1990 to 10,900 mopeds in 1994. In 1983–84 365,000 mopeds per year were produced. In 1985 output was administratively cut by more than half due to overproduction.
Profits: Company operates without profits.
Debts: Company has large debt to the budget (social security tax); debt for electricity is 220,000 Ls; debt for heating is 70,000 Ls.
Structure of ownership: Company is still a state enterprise; some ownership problems exist, as part of the land, currently occupied by company belongs to former owner of the plant. This uncertainty with ownership, and privatization of the company impedes reconstructuring of the plant and hinders inflow of foreign investments.

Export Orientation

Traditionally 5% of production were sold in the domestic market; the rest was sold in other USSR republics. Distribution of sales by different regions for 1992 and 1994 is given below (in thousands Ls):

	Latvia	Other Baltics	Russia	Other CIS	Other Countries (Germany, Czech Republic, Denmark, Holland, Sweden)
1992	353	99	546	700	47
%	20.2%	5.7%	31.3%	40.1%	2.7%
1994	92	92	348	32	221
%	11.7%	11.7%	44.3%	4.1%	28.2%

Company does not employ services of any Latvian export-import company. As regards company's customers abroad, some are wholesalers (e.g., in Russia, Sweden), some (in CEFTA states) company has more close collaboration also in production sphere. For instance, company exports to Poland carriages without engines, which in turn are installed by Poland's producer and are further exported. Company also has contacts with wholesalers in these states. Some contacts with foreign partners remained from Soviet times, others are established through international exhibitions (e.g., in Köln) or using catalogues.

Major European moped markets such as Spain are not covered. The company lacks agents, working capital and market information to enable it to expand sales.

Production for Export

Company has strong intention to expand its exports in both Eastern and Western markets.

Exported mopeds range from a very basic Russian engined moped with an ex works price of 130$ to a range of more upmarket mopeds. These include a motorbike styled moped with an engine from Poland and a small wheeled monkey bike moped with a Slovakian (Jawa) engine. The company has also recently introduced a small three wheeler with a Polish 80 cm^3 engine which is intended to be sold to street vendors and for local deliveries.

The Jawa powered monkey bike which is certified to West European standards is sold to a range of export markets, including Germany, the Czech Republic, Denmark, the Netherlands and Sweden. This has an ex works price of $302. The other moped types are sold to Eastern markets including Russia where the company was traditionally the leading supplier. Exhaust systems are mainly exported for Russian company "Ýiguîi".

Current competitive strength of company in the foreign markets is low price and good look of its manufactures. Quality, however, could be better. Price advantage can be illustrated with the following sample a low-class "Honda" in Sweden costs 1200$. The company's Swedish partner imports Latvian mopeds for 302$ per unit and sells for 600$. Notwithstanding such big price margin these motorcycles are quite competitive in low-class moped sector.

The main disadvantage is limited product range, particularly for Western markets, that is determined by underdeveloped design capacity in the company.

Serious obstacle to improving quality is obsolete production equipment (on average 20 years old). Moreover, machining, paint and assembly facilities are installed in old multi storey buildings. Quality is negatively influenced by staff inconsistency and low salaries (40–60 Ls per month). Furthermore, there is an increasing aging of their employees as young people are attracted into other areas of the economy.

Domestic Environment for Exports

Positive aspects: Conclusion of collaboration agreement with the engineering sector of Russia. As a result, imports of raw materials and exports of finished goods to Russia are free from export and import duties.

Negative aspects: (1) exchange rate policies; (2) high credit rates; inaccessibility of G-24 and other international credits; (3) delays and sometimes even failures to refund 18% VAT on inputs for exporters.

Foreign Environment for Exports

Company succeeded in establishing new long-term contacts with foreign partners. However, some of them, especially with Western partners, are discriminatory.

There are no competitor producers in FSU (in Soviet times the company had monopoly in producing mopeds). The only mopeds producer in CIS — an Ukrainian enterprise — stopped its operations in 1993–1994. The same situation is with Slovakian producer "Babetta". As a result, company has good prospects in Eastern markets, however, increasing competition from China, India, etc should not be neglected.

For a while, very large payments problems exist with many CIS states. For instance, payments from Belarus can be settled only through the central bank of Belarus (due to regulations of conversion of currency); with Kyrgistan only barter is possible. Such problems as low purchasing power of the population and depreciation of CIS currencies are also painful.

Overproduction in Europe and insufficient quality of company's manufactures were mentioned as the largest obstacles to exports to Western countries. The impact of free trade agreement with EU has not yet been evaluated by the company's management.

Rīki (Tools) (Mechanical engineering)

Background Information

History: Initially the company was one shop of the large state enterprise Riga Radio Plant, supplying it with the necessary tools. Part of the production was sent also to another enterprise Electro-Mechanical Plant in Kandava.
Size of labor force: 120.
Products manufactured: Press molds about 5 units per month (60% of total sales); Punches (including punches for publishing houses) about 10 units per month (30% of total sales); Equipment for wood working, non-standard technological equipment (e.g., complicated cog-wheels) (10% of total sales).
Output (1990–1994): diminished approximately by a factor of four; now it is stabilized and further improvement in 1995 is expected.
Sales (1994): about 115, 000 Ls.
Profits: NA, however it seems that company has small profits.
Indebtedness: There are debts to the budget from 1991 and 1992 due to difficulties with payments and losses through currency reform. Another reason is that the company paid excessively high salaries to its employees during late 1980s and early 1990s.
Structure of ownership: Since 1991 private limited liability company leasing state assets.

Export Orientation

Traditionally "Rīki" worked only for Latvian enterprises — primarily for enterprises of large production association "Radiotehnika". Since 1991 it has started business with Russian enterprises, as the economic transition seriously affected the radiotechnical industry in Latvia. During 1991–1992 company maintained most active collaboration with Russia's car building giant "ZIL". However, after huge losses through currency reform, the company stopped exporting to Russia. In 1993 "Rīki" did not export at all; it was the year when company experienced the largest fall in output. 1994 was the year of establishing contacts with western partners. Initially large assistance was provided by Latvian Chamber of Trade thanks to its contacts with the analogous German institution. Company established contacts also with partners in Sweden, the USA and Israel through putting advertisements in different catalogues and participating in international exhibitions (e.g., in Hanover). Swedish and USA partners were mediators which bought standard details for punches from the company. The current major partner is a German producer, that uses part of the imported articles (punches, small non-standard metalworking benches) for its own production, the rest is sold under its own brand. Approximately the same relations were established with a firm in Israel. Exports constituted 15% of company's sales in 1994.

At the last exhibition in Hanover company established contacts with a famous Luxembourg company, a monopolist in production of hydraulic systems. Rīki has already received drawings of standard parts for hydraulic systems from Luxembourg, and if it can meet quality requirements, long-term contract will be signed. Company uses also sources other than international exhibitions and present contacts to get more information on foreign markets. The company's management has very good experience with the periodical "Latvia in the world" published by the Latvian Development Agency where offers by foreign entrepreneurs who want to establish partnership with Latvian companies as well as other important information is published.

Production for Export

"Rīki" has strong intention to develop further its contacts in the West. Now company has no problems producing equipment of average complexity that meets western quality standards. The company's major partner in Germany was understanding to Rīki's difficulties especially to the fact that its production had been based on the USSR Standard System (UJCN). The only requirement by the German partner was that the equipment had to fulfill its necessary functions. Now company gradually adjusts production to FASCO standards. To a large extent company reaches sufficient level of quality due to high labor intensity of production. The company's equipment is quite old: some benches remained even from 1939; largest part of equipment was bought in the early 1980s, few benches were bought in 1989. Premises are also insufficient; large problem is heat insulation, which is a common issue for Latvian enterprises. Notwithstanding aforementioned disadvantages, company can compete in the western markets due to still very low labor costs: while a German toolmaker earns 10,000 DM per month, the Latvian worker only 540 DM.

Unfortunately company's profits from exports and lucrative domestic orders are used up by by commitment to provide the old Riga Radio Plant with tools. The Radio Plan dictates unreasonably low prices as it works with losses and is seriously indebted. "Rīki" has to accept the conditions of the Radio Plant as it leases the premises and equipment from that company.

Domestic Environment for Exports

Positive aspects: Activities of LDA, International Trade Center Riga, LCT; conclusion of free trade agreement with EU.
Negative aspects: (1) Land ownership problems that block foreign investments; (2) Government's inability to ensure civilized liquidation of highly indebted state owned enterprises-giants (such as Riga Radio Plant); (3) Exchange rate policies; according to company's management better solution would be to devaluate the Lat. (4) Delays (exceeding 3 months) in refunding VAT paid on raw materials.

Foreign Environment for Exports

"Rīki" is still in the process of establishing stable contacts with western producers and mediators, and it seems that company will succeed in this undertaking. As regards Russia, exports are impeded by unfavorable exchange rate and a strong Russian mechanical engineering sector (many new enterprises appeared in the course of conversion of military factories). Visegrád countries (the Czech Republic, Slovakia, Hungary and Poland) were mentioned as the main competitors with respect to exports and foreign investments. Exports to EU are impeded by prejudice that producers of FSU can not produce high quality goods and deliver them on time, rather than by some formal barriers.

Rinar (Mechanical engineering)

Background Information

Established: about 100 years ago, but the company has its present specialization for 30 years.
Size of labor force: 300 (in 1990 it was 1,000).
Products manufactured: Pumps and valves for chemicals, food, and for biological substances. Products are protected from aggressive fluids by plastic coatings. Electromotors and reduction gears come from the Ukraine.
Output (1990–1994): The company was formerly the main monopoly supplier to the Soviet Union and has a capacity of 7,000 dosage pumps and 320,000 pipe sets per annum. During years of transition output fell more than a factor of five with the largest fall in 1992. However in 1994 output stabilized. Now company works only 3 days a week.
Turnover:

1992	1993	1994
577,105 Ls	1,132,000 Ls	1,284,000 Ls

Debt: The company has debt amounting to 450,000 Lats mainly for nonpaying for energy and taxes. Energy costs constitute at least 14% of the total expenses. A major problem is the large stocks (about the value of 600,000 Lats) of finished products. The reason is continued manufacture of output after the demand fell.
Structure of ownership: The company is still state enterprise but it is included in the privatization list. Problems may emerge with former owners in Germany.

Export Orientation

Neither the share of exports in total sales nor export distribution between different regions has significantly changed during last years. As earlier, local market constitutes only 5% of total sales while the rest is exported. The distribution of exports is the following:

CIS (Russia, Ukraine, Belarus)	Lithuania, Estonia, China, Pakistan, Iran, Cuba, Hungary, Bulgaria
84.2%	15.8%

From time to time company has small orders also from other countries in the West (e.g., Sweden). It has good relations with German pump producer "Haucke" which has an intention to establish joint venture with "Rinar" after stabilization of economic situation and ownership. The main aim in this case would be capturing the eastern market by the German company.

All partners abroad are industrial enterprises, mainly chemical and oil-processing enterprises. Some are enterprises of the food industry (for instance, champagne producers). The largest part of present partners abroad have been inherited from Soviet times. However, some contacts were established recently: company distributed its prospects, participated in international exhibitions (Kairo, China). All export operations are done directly, without mediators.

Production for Export

Company produces pumps and valves elaborated by its own design bureau. Unfortunately, linkages with technical universities in the rest of FSU are practically lost. Nevertheless, company steadily tries to improve the quality of produced articles and to broaden the assortment of products. Since 1990 company increased its assortment by some 30%. For example, it introduced production of centrifugal pumps in addition to plunger pumps. Company constantly seeks new spheres for application of pumps and makes necessary modifications. In recent years it began to supply customers in the food industry (earlier it worked only for the chemical industry). The company recently started manufacturing parts (gear housings) for Hungarian Ikarus buses. The company also started production of plastic skis for children with the mould produced inhouse.

Company practically has no competition in the eastern market (CIS) as there are few enterprises of such type. Western producers, in turn, offer more than twice as expensive pumps as Rinar. The western products, although have a bit higher quality, do not sell in the major markets of Rinar. There is no quality difference between exported production and that sold in the local market, as only 5% of pumps and fittings are sold in Latvia. The same is with price. Company has to ask practically all customers to pay in advance to secure its operations and to avoid defaults and losses connected with changes in exchange rates. Unfortunately, for the time being in all the current markets the situation is far from stable in legal and financial respect but the company has to accept this.

The company used to manufacture to the Soviet GOST standards but is now using both Western European and Eastern standards. Rinar would like to get assistance in developing an ISO 9000 quality system.

Company understands how important is to have up-to-date equipment to improve efficiency and quality of production; when it becomes possible it tries to renew equipment. There are two Computer Numerical Control machining centers bought in 1991. However, company has no CAD (computer aided design) system. The company has one of the best pig iron foundries in Latvia and it supplies even other companies. In general, equipment is not new, it is some 10–15 years old.

Domestic Environment for Exports

Positive aspects: (1) Conclusion of collaboration agreement with the engineering sector with Russia that allows company to import raw materials and export finished goods to Russia duty free; (2) Informative materials provided by LDA, LCTC and World Trade Centre Riga. They provided assistance in organizing participation of Latvian producers in international fairs and exhibitions.

Negative aspects: (1) Changes in "Law on foreign investments in Latvia" that removed incentives (tax breaks) provided earlier for foreign investors. (2) Credit problems: company operates with constant lack working capital, and excessively high credit rates (about 50% a year) dictated by commercial banks. (3) Absence of Latvian trading houses abroad. (4) Absence of export quarantee mechanism.

Foreign Environment for Exports

Company has maintained many old and created some new contacts abroad. However large problems could arise due to unstable relations between Russia and Latvia: most favored nations status granted by Russia to Latvia in 1994 operates on a temporary basis. Very soon also for exports in Russia certificates will be needed (now these are needed only for Western countries). Large problems could be created by the competition of the military enterprises in Russia which start producing civilian products.

For a real expansion in the West company needs to find good foreign partners.

RAR (Auto-electric) (Electrical engineering)

Background Information

Established: in 1946 to manufacture auto-electrical instruments and other components. It enjoyed monopolistic position in supplying USSR vehicle manufacturers.
Size of labor force: 1815.
Size of the capital stock: 4 m Ls (under revision).
Products manufactured: for vehicle builders: speedometers, tachometers and drive cables; instrument panels with electronic instruments (10–15,000 units per month); pressure sensors (Italian license); steering column switch clusters; blades and mechanisms. Other products include a range of building locks and padlocks (these are sold in the domestic market and constitute no more than 10% of total sales).
Output: beginning with 1991 fell by more than a factor of 6.
Sales (1994): about 3.6 m Ls, 1993 10.8 m Ls.
Profits: NA.
Debt: RAR has significant debt to the budget from 1992, which arose in the course of currency reform. When implementing state procurement orders, company had to supply Russian clients. Originally the exchange rate of the interim currency Latvian Ruble (LVR) to the Russian Ruble (SUR) was 1:1. When the payment was received, the SUR/LVR rate, determined by the Bank of Latvia was 1:3, and this led to huge losses. Taxes, in turn, were calculated from the initial sums. Now it seems, that government will take a decision on the liquidation of Latvian enterprises' debts, which arose due to currency reforms. Company has large (4 m Ls) unrecoverable claims on customers such as the bankrupted car makers "ZIL" and "Zaporoyec".
Structure of ownership: state joint stock company, included in the list of privatization by the Latvian Privatization Agency.

Export Orientation

During the last years export orientation practically has not changed. As earlier, only 5–10% of output is sold in the local market, the rest is sent to the CIS. However, many former partners were lost, due to crisis of car industry in the CIS and payment problems with some CIS states. During 1992–93 contacts with producers in Ukraine and Belarus were lost. Company's real exports to Russia fell after sharp decrease in output of major car manufacturers. The bankruptcy of "ZIL" also had a negative impact on company's exports. Now company works only for Russia, for such enterprises as "Moskvich", "Lada", "Togliatti", Moskow Tractor Plant and others. Very small deliveries are sent to Hungary and the Netherlands — spare parts for old cars produced by aforementioned enterprises. In the nearest future the collaboration with these enterprises can become even stronger than before, as many of them expressed their intention to buy company's shares. Now the only problem, which has to be solved, is valuation of the assets of the enterprise. Afterwards, even joint venture creation will be possible.

Western producers (VW, BMW, FORD etc.) also express their interest in company's production, but till now company did not get any serious offer, although very low prices were quoted. Last year company received an investment offer from a German enterprise. However, RAR rejected this offer, because investment was to be provided under the condition that RAR imports microschemes from the German company, for its production. That was entirely unprofitable, taking into account the price dictated by German side. The other obstacle for active collaboration with European automotive companies is that present production of the company is mainly designed for the given Russian carmakers. Therefore it is possible that in the nearest future production will be reoriented, at least partly, towards more universal apparatus. Recently company's management begins to attend semi-annual car maker's exhibitions in Hanover: currently such trips are valuable to obtain the latest information on changes in car industry but not to conclude contracts.

Production for Export

Company has succeeded to maintain its strong positions in the Russian market after the collapse of USSR, because it offered lower prices than western producers and often even lower than Russian manufacturers (may be thanks to economy of scale). The other factor is quality which ensures larger demand for Latvian production than for Russian analogues (e.g., products of a plant in Vladimir). The variety of production diminished significantly during last years. Earlier RAR produced more than 200 different articles, today this figure is well below 100. It is mainly connected with cessation of operations by many Russian tractor producers. Company cut production of fuel gauges and windscreen wiper arms as well. However the remaining range of articles are steadily improved (company has its own design bureau). Development is not very easy as equipment is quite old: more simple prototypes are produced on equipments from the 1960s and 1970s, while more complicated ones are produced on equipment from the late 1980s.

Domestic Environment for Exports

Positive aspects: Conclusion of treaty on collaboration in sphere of mechanical engineering between Latvia and Russia that allows to import raw materials and export finished goods to Russia without paying customs duties.
Negative aspects: (1) Lack of government concept on industry development in Latvia. Ten national programs were prepared by the government but industry is not included in any of them. Government hesitates to identify which industries will be considered priority industries, which industries will have government's support; (2) Peg of national currency against SDR in comparison with still high inflation; depreciation of USD; (3) delays in refunding VAT on inputs, meaning that exporters provide the government with interest free credits; (4) lack of production certification centers in Latvia. As a result, production must be sent to Russia for attestation; (5) Formation of standardization institutions still is at initial stage.

Foreign Environment for Exports

Company has very good relations with business partners in CIS. At least for the time being company does not face serious competition in CIS. Excessively politicized relations between Latvia and Russia is a serious problem, which can lead to disturbances economic relations still falling output of Russia's car industry.

As regards competition from abroad, foreign producers cannot compete with RAR in the Russian market due to price differences; at the same time RAR cannot compete in the West due to lower quality and specialization of production for the Russian market).

Vermerk (Electrical engineering)

Background Information

Established: in 1992 as a joint venture between a German partner and the old Riga Electric Bulb state company (shop of filament bulbs; other 2 shops practically stopped their operations) which was originally a subsidiary of the company VEF and reported directly to Moscow.
Size of labor force: 372.
Size of the capital stock: 249,500 Ls.
Products manufactured: Prior to a review in 1991 main products were high pressure xenon lamps and quartz halogen types with filament lamps planned to be phased out. However, the review concluded that filament lamps required least investment to become competitive and these lamps now account for more than 90% of the output.
Total sales (1994): 1.7 m Ls, (in 1993: 1.5 m Ls).
Output (1990–95): During 1990–1993 diminished approximately by a factor of two; in 1994 it increased by 15%.
Profits: NA.
Debts: Company has some unsettled liabilities with the budget and energy suppliers, but for a while these debts do not threaten the operations of the company.
Structure of ownership: Initially 50% Latvian state property and 50% German property. The partnership has now been extended with additional participation of a Dutch company. The current structure of ownership is 39.5% German, 39.3% Dutch, 14% Latvian state and 7.2% by private Latvian company Latlux.

Export Orientation

Traditionally 20% of production was sold in the domestic market, 12% in Lithuania, while the rest (68%) was supplied to other USSR republics (Russia, Belarus, Ukraine, and republics of Central Asia). After the collapse of the USSR, the Russian market was practically lost and this forced company to seek for new contacts in the West. As a result, distribution of sales by different regions in 1994 sharply differs from that observed in 1990:

			EU				
Latvia	Other Baltics	Russia	Germany	Netherlands	Finland	Sweden	UK
9.2%	14.4%	4.6%	31.0%	23.0%	11.5%	4.0%	2.3%

Even in most difficult years company's export share did not fall below 75% of the total output.

Vermerk's partners abroad are wholesale firms as well as other producers of electrical bulbs which sell company's manufactures under their own brands (AIRAM, CALEX, NOWA etc.). A large part of production is sold through German co-owners, which act as intermediates. However, company does not use services of any Latvian export-import firm. Initially contacts with foreign partners were established with the assistance of co-owners. Later company's management began to be more active seeking new partners through catalogues and international exhibitions (e.g., in Hanover). Contacts with neighboring states, Estonia and Lithuania, were maintained from Soviet times.

Company exports own production, using only own know-how.

Production for Export

Company has strong intention to expand its exports in Western markets while maintaining its sales in the huge CIS market.

Current competitive strength of company in foreign markets is 10–15% lower price for the same quality as western analogues have. Furthermore, company tries to react as soon as possible to customers' demands. Recently company began to produce candle-type bulbs, mini-bulbs and other types of bulbs. At the same time, the 1991 review which led to the emphasis on filament lamps also revealed the high cost of producing glass envelopes in-house, partly because of high energy costs and also the costs necessary to comply with environmental regulations related to glass etching. As a result, the glass making line was closed and glass envelopes are now imported from Poland and the UK. Manufacturing now consists of higher value added activities including filament winding and assembly.

Company has its own rail connection and dock.

There is no difference between manufactures produced for the local market and foreign markets neither in terms of quality nor in terms of input usage. However, production for local market is more profitable.

Domestic Environment for Exports

Positive aspects: Conclusion of free trade agreement with EU.
Negative aspects: (1) exchange rate policies: decrease in prices for some imported raw materials thanks to appreciation of national currency cannot compensate for decrease in prices for exported production accounted in Lats. It is frustrating that Latvian state enterprises "Latvenergo" and "Latvijas gâze" do not lower prices of energy and gas following the appreciation of the Lat against the US dollar; (2) high credit rates which significantly limit company's possibilities. Company has an order from the USA for production of 20m bulbs per year, but it cannot fulfill the order due to lack of working capital; (3) inaccessibility of G-24 and other international credits; (4) delays and often even failure to refund VAT on raw materials to exporters; (5) insufficient efforts on the government level to recover economic collaboration with Russia.

Foreign Environment for Exports

Company has created a sufficient number of stable contacts abroad among which the most important are with co-owners of the enterprise. The foreign partners' presence was mostly affected by the possibility to produce low-price products with sufficiently high quality, with the investment of minimum sum of money. There are a lot of small unstable customers as well, which make orders very irregular.

There are no more formal barriers impeding company's exports to the EU thanks to free trade agreement between Latvia and the EU. However, such aspects as customers' attitude and traditions have to be taken into account as well. To cope with this problem, the company has to use services of other producers selling the products of Vermerk under their own brand. In such a way huge portion of company's profits has to be shared with mediators.

As regards competition, in the future serious problems can be caused by competitors from the Czech Republic and Poland.

VEF KT (Electrical engineering)

Background Information

History: VEF KT was the largest part of the old VEF company (initially established in 1921) manufacturing telephone exchange equipment of which it supplied more than 80% of the needs of the USSR.
Size of labor force: in direct production 2,008; in management and administration 546. At its peak in 1988–1989 total employment was some 6,000.
Size of the capital stock: 4 m Ls.
Products manufactured: Since 1989 company gradually reorients from production of analogue exchanges to digital types of exchanges. Current range of products derives partly from in-house design, and partly from collaborations with designers including Kvant Intercom (Latvian company dealing with telecommunications equipment design). Main products: "Kvant digital","Cirulis" — electronic automatic digital exchanges for CIS countries; AOS, PABXs — small rural digital exchanges; "SETO" — for office and hotel applications; "SAUS" — maintenance and control system equipment; Telephone hand-sets-systems and equipment for call billing including a cordless type.
Output: (in conventional units) in 1991 — 600,000; in 1992 — 350,000, in 1993 — 235.000, and in 1994 — 100,000.
Sales (1994): about 6 m Ls.
Operating profitability: 1990 — 20%, 1991–1992 — 18%, 1993 — 1.2%, 1994 — negative.
Debt: Company has sufficient debt to the budget, to energy and raw material suppliers, and a small debt to credit institutions.
Structure of ownership: till 1992 it was part of large enterprise "VEF", then it became independent state owned enterprise. Privatization is not anticipated for the nearest future.

Export Orientation

During the last years export orientation practically has not changed. As earlier, only 5–10% of output is sold in the local market, the rest is sent to FSU republics. There was a gradual decrease of contacts with Ukraine due to difficulties with payments arrangement: during 1990–94 Ukraine's share in company's sales decreased from 20% to 5%. Russia's share, in turn, increased from 55% to 75%. The rest is exported to other Baltic states.

Company's main clients abroad are former ministries of communications. A part of the sales contracts is concluded with mediators. Company has a contract with an enterprise in Moscow (Digital Electronics Company) for collaboration. Under this contract VEF delivers the largest part for telephone exchanges, Russian partner, in turn, produces the rest of components, assembles and provides guarantee and afterguarantee services to users. Company has no problems establishing contacts in the FSU republics as it has well-known name and there are no significant rivals in the market. Each year company participates in communications equipment exhibition in Moscow. As regards Western countries, till now company did not target Western markets as its production is adapted to Russia's specific needs. However, the recent exhibition in Hanover showed, that many foreign companies are interested in the products of VEF KT. This interest is mainly determined by the desire to conquer CIS markets.

Production for Export

Company has a very stable position in CIS markets as its production is specially designed for this market. Furthermore, the company's products are sold for half the price of western analogues. Most of VEF KT's plant and equipment is up-to-date and results from investments made between 1984 and 1990. Facilities include: parts store equipped with elevators; highly automated plating shop, extensive test equipment and equipment derived from contract manufacture for the company Tele Nokia, including "Optron" semi-automatic assembly equipment. Company has a sufficiently good research base. In the nearest future company intends to develop surface mounting technology and gradually move to ISO 9000 quality system.

The only problem is difficult financial situation, that does not allow company to grant enough funds for advertising and market research. Undoubtedly, in the coming years the costs will rise, and if the Bank of Latvia does not alter its exchange rate policy, the company's competitiveness in CIS markets will decrease. Currently it is more profitable to sell production in the domestic market than in the CIS, because in export operations losses are suffered due to exchange rate fluctuations. However, in the domestic market company has no opportunities for expansion, as Latvian market is very small. Moreover, the implementation of a large project aimed at reconstruction of Latvia's telecommunications system was awarded to an English-Dutch company "Tilts communications".

Domestic Environment for Exports

Positive aspects: Assistance of Latvian embassies in CIS in organizing exhibitions.
Negative aspects: (1) Exchange rate policies: decrease in prices for some imported raw materials, thanks to real appreciation of the national currency cannot compensate for the decrease in export prices (accounted in Lats). (2) delays in refunding 18% VAT for raw materials to exporters, mounting problems with working capital; (3) high credit rates; (4) insufficient efforts on the government level to recover economic collaboration with Russia.

Foreign Environment for Exports

Company has very good relations with business partners in the CIS. Company does not face serious competition in CIS despite price its disadvantages comparing with CIS producers because of high quality of VEF KT's manufactures. However, large problems could arise due to unstable political relations between Russia and Latvia. Up to now Russia did not ratify most favored nations treaty with Latvia, signed in 1992. Most favored nations status granted by Russia to Latvia in 1994 operates on a temporary basis, and can be removed any time. As a result, company's future depends to a large extent on political relations between the two governments.

Ausma (Chemicals)

Background Information

Established: after the war.
Size of labor force: 114 (68% are engaged in manufacturing).
Size of the capital stock: USD 2.3 mn.
Products manufactured:

Thermoplastic articles	% of Sales
Household articles and packaging	58
Bathroom fittings	11
Toys	6
Stationery	5
Items for personal hygiene	4
Sports equipment	2
Kitchen articles	1
Telescopic fibreglass fishing rods	13

Turnover (1994): 155,605 Ls.
Output (1990–95): diminished by a factor of 4–5 (largest fall was observed in 1992); production capacities are employed by 15–20%; 1994 — year of stabilization; prospects for 1995 — small increase of output.
Profits: NA.
Debts: to creditors — 600,000 Ls (mainly to the budget); debtors' liabilities 310,000 Ls (bad debts, emerged mainly in 1992).
Structure of ownership: In September,1992 company was transformed from state enterprise into joint stock company. Currently 73% of shares are owned by large shareholders, including 10% held by French company "Eurotrade".

Export Orientation

Traditionally 10–12% of production were sold in the domestic market; the rest were sent to other FSU republics (mainly to Russia). After the collapse of the USSR situation dramatically changed: FSU markets were practically lost.

As regards 1994, the distribution of company's sales was following:

Latvia	Other Baltic States	CIS States	Other Eastern States	Other Western States
90%	4%	2%	2%	2%

The company has good partners in South Africa, Australia and the Netherlands which mainly import fishing rods for middle class customers. In Russia highly demanded are Ausma's folding boxes for transportation of goods, that is a new product of the firm.

In future company's most significant partner could be French firm "Eurotrade" which plans to participate together with "Ausma" in the Latvian National Catering Services Programme. The task of "Ausma" will be to produce heatproof plasticware that could endure up to 170°C temperature. Total sum of needed investments for the project (USD 2.7 mn) will be financed from state guaranteed loans and partly by the French partner. According to the contract "Eurotrade" will export all remaining heatproof plasticware. SHELL and TEXAS are interested in future cooperation as well (containers for petrol and lubricants).

Most of company's present foreign business partners are wholesale companies. It does not employ services of any Latvian export-import companies, though. Company is co-owner of two shops in Russia. Company mainly produces manufactures developed by its own personnel.

However, some products are made in accordance with specific needs of the partner, using the customer's samples. An example is plastic parts for mowers, exported to Germany.

Company uses all possibilities establishing contacts with foreign partners: it places its ads in such catalogues as "Data Control", "Nordic Business Guide"; besides it cooperates with LDA and International Trade Center Riga.

Production for Export

Company has strong intention to expand its exports both in Eastern and Western markets. However, detailed business plan is developed only for the Public Catering Program.

For the time being main competitive strength of company in foreign markets is low price. Taking into account such factor as real appreciation of Lats and rising costs (wages, electricity, raw materials), such advantage could if not lost, seriously diminished in coming years. Company's flexibility is limited by its excessively large share of obsolete, not employed equipment (the newest equipment was bought in 1987). Due to financial constraints the company cannot afford to keep necessary number of designers. Nevertheless, situation can change, thanks to planned investments from abroad.

As regards inputs usage and assortment, there is no difference between production sold in the domestic and foreign markets; might be quality control is a bit stricter for exported goods. In terms of profitability it is more lucrative to sell production in the domestic market; however, Latvian market cannot provide sufficient expansion possibility for the company.

Domestic Environment for Exports

Positive aspects: activities of LDA, World Trade Center Riga, LCTC.
Negative aspects: (1) exchange rate policies; (2) still high credit rates, that are not suitable even for short-term financing, (3) unfair allocation of G-24 and other international credits; (4) delays in refunding VAT on inputs for exporters (in such a way large sums of money are frozen); (5) absence of government support to exporters.

Foreign Environment for Exports

Company enjoys preferential treatment both in respect of imports of raw materials (plastics) and exports of finished goods to Russia because it somehow became a member of Russia's Union of Manufacturers.

Company has succeeded in establishing new contacts with foreign mediators, and some of them seem to become stable.

As the largest obstacle to exports to Western countries was mentioned saturated markets and informal distribution of influence spheres, rather than some formal barriers. Conclusion of FTA with EU till now did not influence company's activities abroad. May be to some extent the situation will change with assistance of the French partner, which, in turn, hopes to conquer the Latvian market.

Olaine Pharmaceutical Plant (Pharmaceuticals)

Background Information

Date of establishment: in 1972.
Size of labor force: 956; peak employment was 2,500.
Products manufactured: Initially main products were raw drugs: Central nervous system agents; non-steroidal anti-inflammatories; peripheral neuromediators; cardiovascular system agents; spasmolytic medicines; diuretic, antidiabetic, antibacterials, antiviral, antihelminthic, and anticancer drugs. Currently the main products are tablets, among which the most important by value are ortophene (14% of sales), theobromine (10%), pyracetam and fencarol (7% each). In total company produces 35 types of tablets.
Output (1990–1994): Diminished by half after collapse of the USSR; production of raw drugs decreased by a factor of 4.5 while production of tablets increased 2.8 times. fall in 1992.
Turnover:

	1992	1993	1994
Sales (in million Ls)	3.4	3.65	4.0

Profits: In 1994 company suffered Ls 1.6 m losses. 0.3 m Ls of losses, for instance, came from the maintenance of biological purification system as it has to deal additionally with waste water from other Olaine industrial enterprises and from Olaine public services.
Indebtedness: The company has significant debt to the budget (Ls 0.7m) and to energy suppliers.
Structure of ownership: The Company is owned by the state (Privatization Agency). The intention is, if possible, to privatize into a holding company, and than attract a Western pharmaceutical manufacturing company to form a joint venture.

Export Orientation

In 1972 company was established under auspices of the Kiev Institute for Synthesis of Biological Substances, and on such a scale that it could manufacture thirty pharmaceutical products to supply the entire USSR. Initially company produced only intermediate products, which were sent for tabletting in Russia. Later the company was gradually engaged in production of finished products. By 1990 the distribution of company's sales between different regions was the following:

Latvia	Other republics of USSR	Czechoslovakia
5%	90%	5%

USSR republics were supplied with both raw drugs and tablets, Czechoslovakia with raw drugs. Very small portions of finished products were sent to Yugoslavia, Bulgaria and Mongolia. After the disintegration of the USSR the pattern of trade significantly changed:

	Latvia[a]	FSU	Austria	UK	Germany	Poland
1993	8.7%	60.5%	10.3%	8.3%	9.5%	2.7%
1994	16%	64.8%	4.9%	4.4%	6.6%	3.3%
1995, forecast	10%	85%			5%	

[a] — Figures for Latvia are very unprecise as large part of production sold to the domestic companies is further exported.

Why so pessimistic forecast for 1995? Company simply can't anymore compete with its prices. Up to now company supplied Western market with raw drugs. It could compete with price because it had huge reserves of cheap components needed for production from Soviet times. Now these stocks have been practically exhausted. The reason why the company cannot increase price following the rise of price for raw materials is that company cannot meet GMP (Good Manufacturing Practice) standards. Such situation is typical for all pharmaceutical enterprises in Latvia with the only exception of the company Grindex.

Other markets (such as the Baltics, CIS) are supplied with finished products, i.e., tablets. Company does not export raw drugs to the East, because it is more profitable to supply tablets and also because Russia has begun to import extremely cheap but low quality raw drugs from India and China.

Unfortunately, company does not visit international fairs, and the reason is not only its difficult financial state, but also still "Soviet orientation" of the thinking of managers. Most of the present partners in FSU collaborated with the company also earlier (organizations changed, but people are the same). In 1991 some new contacts were established with the assistance of Latvian Chamber of Trade. For unknown reasons company does not initiate cooperation with LCTC and other Latvian organizations, that would be able at least to help with provision and distribution of information. Western firms find the company through catalogues. All partners in the East and the West are wholesale companies. Olaine does not know anything about final consumers.

Production for Exports

The main advantage of the company in the Eastern market is that the company is the only producer of seven medicines. However, these medicines are of very narrow specialization. To enter western market with these products, company has to pass cumbersome registration procedure lasting much more than a year and costing thousands of dollars. Taking into account also fact that the company cannot meet GMP requirements, it would be very risky to engage in this undertaking. Actually, the quality of produced substances and tablets is very high and company has never received any complaint neither from FSU nor from Western partners in respect to chemical parameters of medicines. It has to be admitted that some equipment remained from days of establishment and production premises are also far from ideal. At the same time, secondary production facilities are mostly new, (i.e., built after 1992). During transition period the company succeeded to expand its assortment by 18 types of tablets, using substances that were produced earlier only for other products; also dosage forms significantly changed. Company has some contacts with a research institute in St. Petersburg; it maintains also some contacts with Latvian Academy of Sciences, but in general collaboration with scientific centers is insufficient. As the main disadvantage should be mentioned absence of market research, which very often limits orientation of production. Sales activities are also insufficient. The other disadvantage is that the entire vast complex was intentionally built as an integrated concern with a central energy supply. This makes it difficult to split off efficient smaller scale primary and secondary production units.

Domestic Environment for Exports

(1) Privatization problems; (2) insufficient or even negative stimulation of foreign investments, which would be urgently needed for modernization of production; (3) exchange rate policies. The only positive moment is that the company does not have to pay import duties on imported components for production.

Foreign Environment for Exports

Negative aspects of this environment are GMP standards which actually serve to protect EU market; increasing competition from low cost India and China; Russia's bureaucratic customs procedures; the requirement to have permit from Russia's health protection committee for each delivery. Besides, in Russia all regulations are changing so frequently that company very often has to pay for storage of products in customs warehouses, while getting additional documentation which is needed according to the latest regulations. Ukraine, in turn, claimed that Latvia as well as other FSU republics has to reregister medicines they are exporting to the Ukraine. Taking into account that the procedure of registration is very costly and the purchasing power of population still is extremely low (e.g., average pension in Ukraine is 4$), it is doubtful whether the company will continue exports to Ukraine in the nearest future. Quite stable relations are with Kazakhstan; company even agrees to receive payment in local currency tenga as its rate is relatively stable and there are no problems with conversion of tengas in Latvia. Relations with Russia are reciprocal, as company imports part of raw materials from there. However, the problem is that company is forced to accept unfavorable payment conditions (about 30 days after delivery), while for raw materials it has to pay in advance.

Working Paper

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Table 7.1 Profiles of companies covered in the case studies

Company	Sector	Ownership[a]	Legal status[b]	Size[c]	Export/sales ratio in 1994 (%)	Main markets[d]
COMP1	Porcelain	Majority private	JS	M	50	EU
Automobile Dacia	Compact cars	SO	JS	L	40	EU-associated countries, Latin America
ARO	Off-road cars	SO	JS	L	34	EU-associated countries, Latin America, China
Autocamione Roman	Trucks	SO[e]	JS	L	2.5	Latin America, China
Rocar	Buses	SO	JS	L	4	EU-associated countries, CIS, Middle East
COMP6	Fertilizers	SO	JS	L	67	Middle East
COMP7	Fertilizers	SO	JS	L	62	EU, EU-associated countries, China
COMP8	Man-made yarns	JV	JS	M	86	Middle East, EU-associated countries, EU, USA
COMP9	Porcelain sanitary equipment	SO	JS	M	27	EU
COMP10	Cement	SO	JS	L	26	EU
COMP11	Cement	SO	JS	L	7	EU-associated countries
COMP12	Equipment	SO	JS	M	25	China, CIS
COMP13	Wooden furniture	SO	JS	M	85	EU, Middle East, CIS
COMP14	Wooden furniture	SO	JS	M	80	EU, CIS
COMP15	Household refrigerating appliances	SO	JS	L	50	EU
COMP16	Wooden furniture	SO	JS	L	70	EU, CIS
COMP17	Men's suits	JV	JS	M	98	EU, Canada, EU-associated countries
COMP18	Men's trousers	Private	JS	M	95	EU
COMP19	Foreign trade ready-made clothes	Private	JS	S	32	EU, China
COMP20	Foreign trade ball bearings	SO	JS	M	68	EU, USA, Southeast Asia

[a]Ownership: classification based on nationality and control rights of majority shareholder; SO = *State-owned company* – majority owner is the State, via the State Ownership Fund; *Private* – private shareholders retain majority; JV = *Joint ventures* – majority retained by foreign private investors.
[b]JS = Joint-stock company.
[c]Size: L = Large; M = Medium; S = Small. Classification is not based on the absolute number of staff; rather, number of staff of the companies in the sample was related to staff sizes of other companies in the same sectors.
[d]EU = European Union; CIS = Commonwealth of Independent States.
[e]Included in the Mass Privatization Program.

General Explanatory Notes

The expression *commercial company* used in the case studies needs some explanation. According to the Company Law of 1990 enterprises were classified as either commercial companies or regie autonomes. Commercial companies were to function as commercial firms and were declared privatizable. Regie autonomes remained fully state-owned in strategic areas as utilities, mining of natural resources, etc. These companies were declared not privatizable, but they could lease out some of their activities under concession contracts.

In each case study we attempted to establish a constant price time series of the turnover of the given company. The turnover was calculated for all firms at 1994 prices using the producer price index (PPI). The reason for using 1994 prices instead of 1990 prices is the desire to show all turnovers in USD. Since the only year in the period 1990–1994 when a really free exchange rate was in place was 1994, we preferred this method, in spite of the criticism it might generate.

COMP1

Background Information, Structure of Ownership

The company was established in 1971. In December 1990 it was turned into a commercial company. In 1993 the company was privatized and in 1995 it had the following structure of the shareholders: 39% of the shares were held by the employees, 22% by Dacia Felix Bank, 10% by Ion Tiriac Bank, 12% were jointly held by the Private Ownership Fund Arad and Private Ownership Fund Craiova, 17% by other shareholders (small investors).

The company can produce about 5000 tons of porcelain products per year. Its main products are china-made tableware both for households and hotels. The production capacity was constantly fully used throughout 1990–1994. The number of staff was maintained around 2,400 people throughout 1990–1994, with 2,343 people employed in 1994. The turnover calculated in USD was 10.55 million in 1990, maintained itself at the same level in 1991 and increased to a peak of 11.6 in 1992, to decrease afterwards to 11.46 in 1993 and growing to 15.19 in 1994. Capital stock was 3953.3 million lei as at end-1993.

The traditional export markets of the company are almost exclusively in the EU (mainly Germany, Italy and the UK). The price per ton grew by 35% in 1993 as compared to 1992, showing a substantial upgrading process. The profit margin was constantly higher than the Romanian average, although decreasing — from 36% in 1990 to 22% in 1994. However, the profit rate was constantly under the rate of inflation.

The company has relatively low bank credits in the working capital. This ratio has however increased from 11.42% in 1990 to 41.46% in 1994, mainly as a result of the de-capitalization produced by FIFO stock accounting system in a very inflationary environment and the very abrupt increase of the interest rates at end of 1993. The company has no arrears payable.

Export Orientation

The Association Agreement with the European Union stimulated a boom in exports, as export share in total output grew to 40.5% in 1993 and 50% in 1994 from 24.1% in 1992, showing a growing share of COMP1 in the total Romanian exports and a declining share in the domestic market. Most of the exports (95%) go to the European Union (mainly Germany, Italy, UK) while 5% of the output is exported in the USA.

Exports are done mainly through intermediaries (60%). The company works to a large extent according to specifications and designs supplied by the foreign partner. It also benefited from supplies of special inputs such as colors, glazing products, etc. The foreign partner also supplies packaging materials. The company managed to maintain its trademark in most of the cases.

Export Strategy

The company plans to diversify in the upper end range of products and to benefit from the relatively fast-growing EU market. It also plans to expand its exports to the USA (the world's most important importer of chinaware) up to 10–15% of the output in 2000. The targeting of a position in the upper end of the market requires the diminution of the specific weight of the products which are about 15% heavier than the equivalent products in the EU.

The company plans to turn towards a higher share of automatically-cast products in order to assure uniformity and high quality of the output. COMP1 sees as its main strengths the highly qualified workforce, the good position in the relatively close EU markets, and its long-standing relationship with EU importers that allows it to fully observe the demanding West-European standards. Its major weaknesses are the price and quality of Romanian components and the price of raw materials, both imported and domestically-purchased.

Company managers assert that there is no difference in factor usage between the exported and the domestically sold output. The statement is probably true as the opening of the domestic market led to ceramics imports from virtually zero in 1989 to USD 10 mil. in 1993 as compared to an export of USD 13 mil., a significant proof of an increasingly competitive domestic market.

There has been a growing gap between the profit rate for the sales on the domestic market and the export markets: in 1994 the former attained 21% while the latter was 25%. The incentive to export was thus substantial, although somewhat lowered by the higher number of days needed for the cashing of invoices for the exported output (30 vs. 20 days for the domestically supplied output in 1994).

Domestic Environment for Exports

The firm is substantially harmed by the high import duties for inputs, especially modern technologies and equipment, although only a very little part of these equipments are also produced domestically. The firm is also harmed by the high interest rates (in 1995 about 60%) and it is for this reason that it would very much welcome the diminution of interest rates for export credits. The firm often had difficulties in paying the bills for the imported inputs due to the great delays in payment operations by banks. The situation improved somewhat in 1994 but the cashing periods for the exported output still substantially exceeds the one for domestic deliveries. The company also complains about long waiting periods at border crossings as most of its exported output is delivered on road. The last difficulty leads occasionally to tense relationships with the Customs Department. It is hoped that the new border crossings at the Romanian-Hungarian border would facilitate the transit. The company has generally good relationships with the Ministry of Trade, thanks to the relatively fast issuing of export licenses.

Foreign Environment for Exports

Due to the fact that most of the export is performed through intermediaries the company has little information about its competitors although managers know that the main competitors come from China and South-East Asia. There is an over-dependence on foreign partners for market information. It is actually for this reason that the company indicates as a substantial weakness the lack of a permanent representative abroad and it would welcome government support for establishing offices abroad.

The company openly recognizes that it has little information about the price level on the export markets, the commercial legislation on foreign markets and of the business rules abroad.

The Association Agreement did not have a major impact on the strategic choices of the company, as it already enjoyed a tradition in exporting to the EU.

AUTOMOBILE DACIA S.A. PITESTI

Background Information and Ownership

The company started its operations in 1966. In 1990 it was turned into a commercial company according to Law 15/1990. The firm is still state-owned, with 70% of the equity owned by the State Ownership Fund and 30% by the Private Ownership Fund Pitesti. The company is at an advanced stage of negotiations for a joint-venture with Peugeot.

The plant started producing in 1966 (under a Renault license) a 1100 cm^3 car. The production was discontinued in 1973 when the production of Dacia 1300 started under the Renault 12 license. Dacia is an average class car, 4.3 meters long, 1200–1400 cm^3 engines. This license was used with minor technical changes up to now. While keeping the same basic design the range of products was somewhat diversified with a pick-up, a break and a sport model. The firm benefited until 1989 from a quasi-monopoly on the domestic market given the other Romanian auto-maker, Oltcit, was mainly export-oriented. The firm exported mainly to the East European countries presently Associated with the European Union and to other "soft" markets such as Latin America (Colombia, Uruguay, Argentina), Turkey and China. Exports were also supplied to developed countries (Canada mainly) at dumping prices.

The projected capacity was 96,000 pieces a year but it was never attained. The capacity utilization followed somewhat the general evolution of the Romanian economy after 1989: it decreased from 81.4% in 1990 to 65% in 1992 and it recovered to 90% in 1994. The labor force was halved in 1991, from 30872 in 1990 to 15321 in 1991, as an effect of the strong contraction of domestic demand and it increased only slightly since, to 15902 people in 1994. The productivity lags far behind European auto makers, but the comparison is not easy, as 40% of the inputs are internally produced and not subcontracted. The technology is at the level of the 1960s. The turnover amounted to USD million 165.59, fell to 153.01 in 1991 and grew steadily ever since to 171.03 million in 1992, to 235.77 million in 1993 and to 267 million in 1994.

The company made losses in 1990 (this was the main reason for the subsequent substantial lay-offs) and afterwards it recorded low profit rates, much behind the inflation rate, the best year being 1993 with a 9.9% profit rate. It is however to be mentioned that prices for the firm's cars are still controlled by the Ministry of Finance which only admits a "legitimate" profit rate. The company managed to improve its credit rating. This might be explained by the fact that the firm remained liquid (in spite of the negative cash flow) "thanks" to the high and accelerating inflation coupled with real-negative interest rates for deposits throughout 1990–1993 that created a strong pressure towards investment in durable goods as a reliable store of value. The liquidity of the company allowed it to have virtually no arrears payable.

Export Orientation

The export accounted for 41% of the output in 1990 (25,316 cars), decreasing to a lowest 26% in 1991 (15,414 cars) and increasing afterwards to a highest 57% in 1993 (48,817 cars). The slight recovery of the purchasing power of the population in 1994 decreased the share of exports in output to 40% (36,000).

In 1989 84% of the exports were headed towards the present EU associated countries: Hungary, Czechoslovakia, Poland, Bulgaria. Exports to this area decreased dramatically to zero in 1992 and the market did not recover yet. The export to the EU became zero in 1994 from a peak of 13% of total exports in 1990, mainly due to the fact the Dacia 1300 does not comply with the EU CO_2 pollution standards (the car complies with the ECE-UNO 15 anti-pollution norms — presently expired). Exports were thus reoriented to China which absorbed in 1994 65% of the exported output, with Mercosur (Argentina, Uruguay, Paraguay, Brazil), Colombian and Turkish markets absorbing the remaining 35% of the exported output.

Exports are mainly done directly. About 10,000 cars were exported by MASINEXPORTIMPORT, a specialized foreign trade firm performing exports of machinery and equipment.

Production for Export

The company is aware of the fact that it cannot penetrate "hard" markets such as the EU and USA with the products it can currently offer. This is why it developed a two-level strategy:

1. It recently launched a new car, Dacia Nova, a 2000 cm^3, four-seated, transversal engine car with ABS brakes that complies with the EU pollution standards thanks to the equipment with cathalitical filters. The developmental costs for this model amounted to 414 million USD in five years. The company declared the car would sell for about 3000 USD (tax non-included). It is however hard to believe this is a price that can be maintained without "cannibalizing" the sales of the older Dacia models.

2. It plans to invest 450 million dollars by the year 2000 to increase its capacity to 135,000 cars per year. 40–50,000 cars are planned to be exported in 2000, although the export might substantially increase with the launch of the Dacia Nova and the planned joint-venture. The investment money are supposed to be partly generated internally and partly allocated by the State Ownership Fund who is the major shareholder. The planned joint-venture with Peugeot might substantially alter upwards these plans as the plant would very probably mirror the plans of Daewoo who recently bought Oltcit, the second largest Romanian automaker. The model planned to be produced by the Dacia-Peugeot joint-venture is the newly-designed Peugeot 306.

The company considers its main strengths lie in the price and in the high qualification of the workforce as well as in the quality of the components supplied by foreign subcontractors. On the contrary, company's competitiveness is seriously harmed by the outdatedness of equipment and technologies and the low quality of the Romanian-made components. Consequently, the gas consumption is up to 20% higher than for the equivalent cars, the durability is half of those, and the reliability is variable and decreasing.

The importers of second-hand cars made major inroads in the Romanian markets in the last years threatening the lower-end segment Dacia competes in. As an effect, there are no differences in the quality of inputs used in the production of Dacia cars for domestic and foreign markets.

The company charges somewhat higher prices for the exported output but the difference is claimed to be rather a marketing tool (maintain a certain reputation of the trade mark that would otherwise be harmed by excessive low pricing) than a systematic approach. Consequently the profit rate for the exported output is not systematically higher than the average. It has even been lower in 1990–91 and in 1994 (5.4% vs. 6.4%), down from the 1992 (31.4% vs. -2.2%) and 1993 (15.8% vs. 3.4%) levels. The gross profit was 28661 million lei in 1993.

Domestic Environment for Exports

The car competes abroad with equivalent cars of its class: Fiat Tempra, Peugeot 309, Renault 19 or Citroen ZX.

The main domestic impediment to exports is claimed to be the high interest rates. Managers would like to see low-interest credits (at least 30% under the market rate), low interest export credits and high export primes. The company is also seriously affected by the low quality of railroad services which affects the credibility of the firm through the delays in deliveries and by the high customs duties for imported inputs. The inputs the company is most in need (and which are generally very costly) are anti-pollution devices needed to export in the EU and modern equipment for technological upgrading of the company.

The company is harmed by the large delays in the reimbursement of VAT and customs duties for those imported inputs that are incorporated afterwards in the exported output. The supply of a bank letter of guarantee is not an alternative either, as banks block the accounts of the company for an amount equivalent to the value of the guarantee. The best solution would be the

Customs Authority to accept written commitments concerning the re-export of these imported inputs instead of bank guarantees, considers the company.

A domestic impediment is seen to be the too fast liberalization of foreign trade. Managers show a very strong bias towards the protection of the domestic markets: they strongly support the idea of an extended transition period as concerns the implementation of the Association Agreement and the admission to the domestic markets of only 2,000 cars a year. They also propose increased customs and excise duties for imported cars.

The number of subcontractors increased somewhat from one for a majority of the inputs in 1989 to 2–3 for each of the inputs. Still, some 90% of the inputs are domestically produced. Competition is still far from intense and the company can not afford yet to import a more substantial part of its inputs; accordingly domestic producers still hold a substantial leverage and can raise prices to follow inflation rate. The dollar depreciated very little in 1994, much behind the inflation rate, so that in fact the dollar prices of inputs increased. The company would thus favor price controls over the domestic component suppliers in order to avoid the erosion of its export positions; it proposes in fact price increases for components only in line with the devaluation of the leu.

The company keeps a good relationship with the Ministry of Trade allowing it to have quick access to export licenses.

Foreign Environment for Exports

The major foreign impediment to export is by far the level of customs duties on export markets. No other major impediment is seen as harming the competitive position of the firm.

The company has good relation with its clients although negotiations on the price are traditionally very bitter as it is generally the situation at the lower-end segment of the car market Dacia is serving. The only area of major involvement by foreign clients is transport. The firm has relatively diversified sources of information. It is not only relying on personal contacts with business partners but also on a permanent representative abroad (in China) and on specialized publications.

The company is seriously harmed by the lack of liquidity on markets such as China or the CIS. This is the reason why it would be very much in favor of more facilities for barter.

The company does not seem to fully understand the impact of the Association Agreement on its situation on the domestic market. Although demanding high protection the firm declares the Association Agreement has neutral effects on its business, in spite of the fact that the Agreement would threat its market share in Romania in the near future.

The most dramatic changes in the structure of the market occurred in the East European Associated countries of the EU. The success of Fiat Cinquecento in Poland, the purchase of Skoda by VW, the emerging of Hungary as a producer, as well as Slovakia's and Bulgaria's new car making industry would make competition at the lower-middle segment extremely tough. It is however to be noticed that the scale of the investments is very substantial only in the Czech Republic and Poland. Hungary, Slovakia and Bulgaria host mainly small plants, probably directed towards the domestic market.

ARO S.A. Off-road vehicles, Cîmpulung Muscel

Background Information and Ownership

The company was established in 1957 as an assembler of a Soviet-designed off-road car (GAZ). Starting from 1970 the integrally Romanian designed ARO 240 is manufactured. Several types of body are offered. The car is equipped with either gas or diesel engines. In 1978 the range or products was completed with a 1.3 liter engine car, also offered in several types of body and engine, either gas or diesel.

The projected capacity is 20,000 cars per year. Capacity utilization declined drastically throughout 1990–1993, from 17,371 cars in 1989 to 11,559 cars in 1993. The size of the workforce did not follow as fast, as it declined from 12,300 persons in 1990 to 10,600 in 1994. The turnover was 61.7 million USD in 1990, decreased to 51.42 million in 1991 and 51.5 million in 1992, up to 52.7 million in 1993 and down again to 43.6 million in 1994.

The same as in the case of Dacia, the most important market in 1989 was the presently East European Associated countries of the European Union. The destinations of exports were however substantially more diversified with a quarter of the output going to the EU and another quarter to Latin America. China was also an important market. The company sold some 35,000 cars in 1990–1994. The rate of profit was very low and the company even made losses in 1993–94. The level of indebtedness diminished towards 1994, with short-term credits representing only 53% of the working capital, as compared to 83% in 1990. The explanation might be the same as for Dacia.

In 1995 the company was still state-owned, with 70% of the shares held by the State Ownership Fund and 30% owned by the Private Ownership Fund Muntenia.

Export Orientation

Exports decreased both in absolute figures (from 15,600 cars in 1989 to 3,934 cars in 1993) and relative figures as share of exports in output (from 90% in 1989 to 34% in 1993).

Exports were distributed almost evenly in 1989 between EU (23.9%), associated countries of the EU (35.2%), China (13%) and Latin America (26.2%). Exports towards the associated countries in total exports increased substantially in 1991 and 1992 (to 52% and 36% shares, respectively) while decreasing to marginal figures after 1992. Exports to CIS increased also substantially after 1989 (43% in 1992 although decreasing in 1993–94 (11.8% share in 1994). The only markets where the share of sales in total exports increased are the EU (36.4% in 1994) and China (47.9% in 1994). 70% of the total exports is done directly and 30% via intermediaries.

Production for Export

The company has two alternative strategies for capacity extension. The first is supposed to bring the productive capacity to 35,000 cars a year in 1998 using only the present facilities and a second aiming at extending the facilities with the objective of increasing the productive capacity to 45,000 cars a year in 1998. The market research undertaken by the firm establishes a total demand (domestic and foreign) of more than 45,000 cars a year in 2000. For the time being only the first strategic alternative is currently being implemented as the financial resources for the second one are not yet assured. 18,000–20,000 cars out of the total 35,000 (as in the first alternative) are planned to be exported in the year 2000.

The production of a new car under a foreign license is planned to start at ARO. The car would be endowed with a 2500 cm^3 engine, 85–90 HP or 115–120 HP turbo). The engine is planned to be produced by ARO itself, after a foreign license. In this respect, negotiations are being carried on with Peugeot, BMW, and VW. It is planned to produce about 15,000 engines of this type a year, out of which a certain number shall be sold to ROCAR (the Romanian passenger vehicles producer) in order be used for a new van.

It is also planned to start the production of a new 115 HP engine for the ARO 24 model.

The investment effort for this objective to be attained is about 280 mil. USD until 2000. About 80 mil. USD can be assured from domestic resources. The remaining part is to be assured from foreign credits with governmental guarantee, as well as the participation of foreign financial institutions such as the EBRD which seems interested to invest in the Romanian car industry.

Negotiations are also being carried on for a joint-venture with an Italian partner whose identity was not disclosed.

Company's position is mainly built on the price of the product and on the quality of the workforce, the quality of the imported inputs and the capacity to satisfy the specific standards of the export markets. The company indicates as the main competitive disadvantages the price of the raw materials and the high price of the components, either imported or Romanian made. They also complain of the low quality of the Romanian supplied components, outdatedness of the technologies and the difficult access to distribution channels.

The company claims to use equal quality raw materials, components, workforce and equipment for the exported and domestically supplied cars. The technologies used for exported cars, however, are different. Reliable data allow us to doubt whether really equal quality components are used. According to our data, the share of Romanian made components reaches 95% for the domestically supplied cars while it may decrease to under 50% for the exported cars especially in the EU where in many cases the engines are completely foreign (mainly Mercedes).

The company declares no difference in the profit rate between the domestically delivered and the exported output. It is difficult to assess the reliability of this statement. It seems that at least the average cashing periods for the exported output are shorter than the ones for the domestic deliveries, ensuring by this simple fact a somewhat higher profitability.

Domestic Environment for Exports

The main domestic impediments to exports are according to ARO S.A. the customs duties on the import of inputs, the cost of domestic credit, the long duration of banking operations and the price controls over the inputs. This is why the company supports the simplification of the input imports formalities and the export formalities (such as automatic issuing of licenses up to a certain value), the extension of the export credit facilities granted by Eximbank (the Romanian export credit banker), quotas on the import of cars, indexation of the prices for inputs with the price of the dollar, and low interest export credits. The company is also harmed by frequent modifications of the Romanian commercial legislation, the low quality of telecom services and the long duration of border crossings.

The company is harmed by the costly bank guarantee (mainly in terms of cashflow mainly) for the imported inputs that are to be incorporated in the exported output. Moreover, the Eximbank is supposed to disburse subsidized credit for launching the production and exporting it; the subsidy for interest is, however, disbursed after the actual export is performed while for the company it would be essential to have a good cashflow in order to start production for export in good conditions. Subsidized credit should thus be disbursed on the grounds of firmly signed export contracts.

The reduced purchasing power on the home market, the growing inter-enterprise arrears in Romania and the desperate need for technological upgrading let a company such as ARO little chance to grow by other means than exports. One could thus say that with the delays in restructuring the economy the government is actually forcing the company to export.

The company has good relationship with governmental bodies responsible for exports although it judges this factor as playing no role in export competitiveness.

Foreign Environment for Exports

The company has good relationships with its customers although these have sometimes a strong bargaining position over prices. The main competitors of the company are the companies producing cars of the same class, such as: Lada Niva, Suzuki Samurai, Suzuki Vitara, etc., for ARO 10, and Mitsubishi Pajero, Toyota Land Cruiser, Isuzu Trooper or VAZ 469 for ARO 240. Thus, the only competitor in the former COMECON zone is the Russian producer VAZ while in the West the number of competitors is much higher. ARO does not have a competitor intelligence system.

The company's exports are mainly harmed by high customs duties on the export markets, as well as by quotas, the lack of a permanent representative abroad and the difficult access to distribution channels. All the clients pay in hard-currency so the payment conditions play no role in the decision to export.

The main sources of information about the foreign markets are the specialized publications and personal contacts with the business partners.

The European Agreement seems to be an unknown opportunity and threat for the company, as managers declare they do not have enough information to judge its impact.

AUTOCAMIOANE ROMAN S.A. Brasov

Background Information

The company was established in 1921 under the name ROMLOC. The company started producing trucks on a MAN license in the early 1970s. The company is state owned, with the State Ownership Fund owning 70% of the shares and the Private Ownership Fund Brasov another 30%. It was turned into a commercial company in 1990, on the grounds of the Law 15/1990.

The company produces trucks, road tractors between 7–33 tons, 120–540 HP diesel engines, cabins, cast parts, specialized processing equipment, etc. The company also produces the engine-equipped chassis for the production of buses, vans, and various other containers. The company's productive capacity is 18,000 various trucks, 28,000 diesel engines, 26,000 engines chassis; this capacity puts the company among the biggest producers in Europe. Presently, in order to compensate the fall of sales, the company is increasingly oriented towards producing parts for export in Germany and the USA.

The capital stock was in 1993 of about 60 billion lei. Company's turnover was 139.56 million USD in 1990 and fell continuously to 117.22 million in 1991, 82.22 million in 1992, 72.88 million in 1993 and moved to 77.11 million in 1994. The capacity used, however, declined from 76.3% in 1990 to 37.7% in 1994. The labor force declined substantially from 20,095 in 1990 to 17,456 in 1994. It did not keep the pace, however, with the dramatic fall in capacity utilization.

In 1990 the traditional markets of the company were in Latin America (where more than half of the exported output was sold), China (a third of the exports), the current East European Associated countries of the EU and to a very little extent the USSR.

The profit rate was low and declining throughout 1990–1994, with a peak of 17% in 1992. In 1994 the company recorded losses. The share of the short term-credit in the working capital was 33% in 1994, down from a 38% in 1993 but up from a 13% in 1992, the year posting the highest exports. In 1993 the company posted 960 million lei exports while arrears payable accounted for more than 14 billion lei and stocks for more than 30 billion lei.

Export Orientation

AUTOCAMIOANE ROMAN S.A. Brasov is a very good example of a company that failed (at least so far) to adapt to the new market environment. The share of the exported output in total sales declined from 7.7% in 1990 to 1.7% in 1991. In 1992 the company posted the highest exports: 27.9% of the total output. Exports fell again to marginal shares in 1993 (5.2%) and in 1994, when the capacity used was at its lowest (37.7%) exports were only 2.5% of the total output.

Exports were mainly oriented towards Latin America and China. After 1990 China over took the sales to Latin America absorbing some 80% of the exports throughout 1990–1993. In 1994 Latin America (30%) became again a major export market; in the meantime the EU emerged as the main importer (40%) and South-East Asia (Thailand and Malaysia mainly) as the third market (15%). Middle East countries account for another 10%. This shift is, however, hardly relevant and its importance should not be overestimated as the absolute volume of exports was extremely low.

90% of the exports are performed directly and only 10% via intermediaries.

The major area of involvement for importers is the supply of technical specifications, projects, designs, and standards. Overall, the importers have a certain involvement for some 30% of the exported output.

Production for Export

The company undertook comparative studies concerning the markets of transport means in various regions of the world. The conclusion was that Eastern Europe, Asia, Latin America and

Africa lag largely behind developed countries in terms of equipment with transport vehicles. The purchasing power there is generally lower so the markets are price-sensitive. The specific combination of factors that characterize the Romanian truck producers might thus find good commercial opportunities.

The company seeks the increase of exports by:

- starting the production of 150–425 HP diesel engines in line with the international ecological standards EURO 1 and EURO 2 together with a foreign partner, selected through tender;
- increasing the guarantee for the cabins and chassis;
- finalizing the association with plants in Bashkiria and Russia in order to sell there truck and bus engines for the KAMAZ company;
- enlarging the small and medium capacity trucks, introducing the 3 and 5 tons trucks equipped with 90 and 110 HP EURO 1 diesel engines in co-operation with AVL Austria. The whole cost of all of this restructuring program is planned to amount to 86 million USD throughout 1995–2000.

The main competitive strengths of Autocamioane Roman is the low cost and high qualification of labor, together with the price of raw materials. The positive impact of the low-price Romanian supplied components is compensated by the negative impact of the low quality of the same inputs. On the contrary, the high price of the foreign inputs is compensated by their high quality. The company also complains that the access to the distribution channels is difficult.

The outdatedness of the equipment and technologies impedes quality improvements (the company estimates at 75% the degree of wear and tear of the fixed capital). Thus, the ratio between the weight possible to be carried, the weight of the vehicle is 1.2–2.1 as compared to main competitors' 1.4–2.2; the specific power reaches 8–9 HP/ton as compared to competitors' 11–13,5 HP/ton. The fuel consumption is 10–15% higher than by vehicles of competitors and the brake system and the de-pollution equipment are inferior. Moreover the engine upgrading program undertaken together with a specialized research institute (INAR Brasov) is much behind the schedule. In such a context the company cannot capitalize its position on the domestic market in order to increase its competitive advantage on the foreign ones.

The company declares that no difference exists in terms of input usage between domestically supplied and export output, except for the components included in the products.

The profit rate was systematically higher for the exported output all over the years when the company made a profit. The biggest difference was recorded in 1992 when the ratio was 31.6%/11.2%. The cashing period was generally longer for the exported output although the situation changed in 1994.

Domestic Environment for Exports

The main domestic impediments to export are the price controls over certain inputs, the long period for border-crossings and the low quality of road and railroad transportation. The company is also harmed by customs duties for imported inputs and the cost of domestic credit. The restrictions on barter trade are seen as paramount in impeding the expansion in less liquid countries such as the ones in the ex-Soviet space.

A major competitive disadvantage for the firm is the outdatedness of the Romanian banking services and the high inflation that makes banks reluctant to extend long-term loans. Consequently, second-hand truck importers made major inroads in the company's domestic market thanks to much more advantageous credit facilities.

As domestic transactions can only be performed in lei and since the interbank market became less fluid in the last 2-3 months, the company has problems in getting the high quality steel alloys from a specialized company in Romania which prefers to export the steel in order to get hard currency for technological upgrading. Obviously, importing the steel would either diminish the profit margin of the company or make the products less competitive. It is for this reason that by the beginning of June 1995 the company was about to lose a very important export contract for parts delivered in Germany.

This is why the company would welcome the following measures:

- the elimination of the customs fee (presently 0.5% of the value of imported merchandise);
- the elimination of customs duties and VAT for imports realized in the system of barter trade;
- the payment of VAT and customs duties for inputs imported and incorporated in the goods produced to be performed only after the sale of the output;
- low interest (10–20%) export credits (the current interest rate hovers around 55%);
- the elimination of customs duties for components not produced in Romania;
- full exemption from customs duties for the imported high-power engines;
- possibility to pay its domestic suppliers in hard currency.

The relationships with the state administration are good except for the Customs Department with which the relationships are very tense.

Foreign Environment for Export

The relationships with the foreign customers and mediators are generally good, also because the capacity of the importers to exert pressure over export prices is judged as medium.

The company does have a competitor intelligence system and its level of efficiency is judged as satisfactory. The products produced by the company are of the same class as the ones produced by KAMAZ or LIAZ in Eastern Europe or RENAULT, IVECO, DAF in Western Europe. The lower quality of the ROMAN trucks is compensated by the 2–2.5 times lower prices than the similar Western trucks. The problem is that all producers from the ex-COMECON (especially LIAZ and KAMAZ) are willing to prop up their exports via aggressive rebates in order to build market share. The same behavior can be noticed with producers from third world countries such as India. Thus ROMAN is forced to sell at prices which are 25–30% under its costs just to maintain a minimal market share on its traditional markets.

The main sources of information for the company are the personal contacts with business partners and specialized publications. The company also uses market research studies but to a limited extent.

The main barriers to exports faced by the firm are ecological and safety norms, the difficult access to distribution channels and the stagnant market for trucks. Thus, in 1993, the output decreased in Europe by 30–50% and the plants are working in a single shift, to a certain extent due to the constant increase in retail prices which squeezed the markets with lower purchasing power. All the other impediments are connected with the lack of information: about the price level on foreign markets, the business rules and the commercial legislation there, etc. Much of these could be solved had the company a permanent representative abroad, something also seen as a major barrier.

As to the conditions of payment the company would very much welcome the possibility to extend the barter operations with such less liquid partners as the ones in CIS and even China. The company is aware of the prospects that it can hardly penetrate Western markets at the current quality level of its products and it looks forward to capitalize on softer markets.

The European Agreement is judged to have a neutral effect on the company's performance. The company does not seem to foresee an erosion in its market share on the domestic market, although it is not very optimistic about its prospects to strongly penetrate West-European markets in the near future.

ROCAR S.A. Bucharest

Background Information

The company was established in 1951 as "Intreprinderea Autobuzul Bucuresti". It was turned into a commercial company in 1991 on the grounds of the Law 15/1990. The company is still state-owned, with 70% of the shares retained by the State Ownership Fund and 30% by the Private Ownership Fund.

The main products of the company are: urban buses 12 and 17 meters long, long distance (inter-city) buses 9 and 12 meters long, 15-18 seats vans, 12 and 17 meters long buses, 2.5–3.4 tons freight vans.

Capital stock at end of 1993 accounted for 4100 million lei. The capacity utilization hovered around 40% throughout 1990–1994, with 45% in 1990, 37% in 1991 (the lowest level in the period) and 46% in 1994. The turnover was 37.91 million USD in 1990, decreasing continuously to 37.67 million in 1991, 29.43 in 1992, 22.32 in 1993 and moving to 26.4 in 1994.

The number of personnel decreased substantially throughout the period, from 5,690 in 1990 to 3,900 in 1994. The profit rate was constantly under 5% throughout the period. The company made 1919 mil. lei profits in 1993. In the same year, arrears receivable reached 3500 million lei and stock building over 5000 million lei.

Company's exports were directed until 1989 towards the present East European associated countries of the EU (50% of the exported output), the CIS (30%) and the remaining 20% was sold to Middle East.

Export Orientation

Exactly as ROMAN, ROCAR is the type of company which did not manage to adjust quickly to market changes and it is still looking for its proper direction. The company exported 21% of its output in 1989 and only 4.6% four years later, exports hovering around 4% of the total output throughout 1990–1994.

After 1989, the market share of the associated countries increased rapidly and as a result of the efforts to diversify the export markets the share of Middle East increased also rapidly. In 1994 the company was exporting 75% to the associated countries and 25% to Middle East. The company exported 1.206 million USD worth goods in 1993, representing 89,3% of the 1992 level and 37.9% of the 1989 level.

The export is entirely done directly. Although the management would not admit it, since professional foreign trade specialists are hard to find, the lack of expertise of the firm's staff might explain some of the abrupt fall in exports.

The only area where the importers get involved in the manufacturing of the product is the supply of specifications, designs, projects, standards.

Production for Export

The company is making substantial efforts in order to modernize and diversify the range of its products; this effort is actually seen as the only viable source of growth in the longer run. The company is in the course of implementing a cooperation agreement with De Simon company by starting manufacturing for urban and inter-city buses equipped with MAN EURO 2 engines and with Renault RVI using Renault ecological engines. It also plans to start manufacturing the R-207 vans. An agreement for the joint production of transport vans with Peugeot is to be concluded. The whole cost of restructuring is planned to amount to almost 38 million USD throughout 1995–2000.

The strengths and weaknesses of the company are very similar to the ones of ROMAN.

The company sees as its strengths the monopolistic position on the domestic market which might be capitalized on in order to build stronger export capacity. The cost and quality of labor is seen as a major advantage, as well as the cost of raw materials. The competitive advantage is further strengthened by the quality of the imported components as well as by the new technologies developed internally.

On the other side, the company is affected by the high degree of wear of the fixed capital: it is 25.5%. The price of the imported components as well as the quality and price of the Romanian supplied components are also substantial weaknesses of the company. In the case of the exports to Latin America long distance to this market harms the expansion of sales since it leads to lower price competitiveness. All the other technology-connected weaknesses as well as the difficulties related to the stagnating demand are very similar to those already described in the case of the company ROMAN.

The company admits that the quality of inputs, labor and technologies used for the production of exported goods is higher than in the case of the products delivered to the domestic market. Only the equipment used are of equal quality for both destinations. This shows a substantial bargaining power of importers abroad, valued as medium by company's management.

The profitability is 3–4 times higher for the exported products than for the domestically-delivered ones. However, due to the marginal share of exports in the total output this much higher profitability cannot be capitalized on for a higher profit rate overall.

Domestic Environment for Exports

The company is impeded to expand exports first of all by the customs duties for imported inputs. The company actually would welcome the exemption of customs duties for imported inputs to be incorporated in exported products in order to improve its weak cashflow position. The company is also harmed by the high cost of domestic credit and the frequent modifications of the commercial legislation. The long duration of banking operations seems to represent another concern and the company proposes the multiplication of the banks able to disburse export credits.

The still very rudimentary credit system undermines the company's position on the domestic market and hence its ability to export in the longer run as it does not allow ROCAR to accumulate the resources for technical upgrading. Foreign suppliers of second-hand busses and vans offer attractive credit schemes and rapidly erode ROCAR's domestic position.

The company is stimulated to export by the high level of arrears both payable and receivable. Even if higher profitability is enough to stimulate exports, the simple fact of having a liquid client became essential for recovery.

The company has good relationship with the Ministry of Trade and the Chamber of Commerce and Industry. Its relationship with the Customs Authority is neutral.

Foreign Environment for Exports

The firm has good relationships with the importers. It has very good information about the company's competitors in Europe and less information about Latin America, a market harder to monitor. The main competitors of the company in Eastern Europe are the Hungarian firm Ikarus and the Czech Karosa.

The company has a balanced information system, ranging from specialized publications, market research realized by specialized institutions, to personal contacts with the foreign partners. The permanent representative of the company abroad is seen as the main and the most reliable source of information.

As far as the foreign impediments to export are concerned, the most important among them are the high customs duties, the lack of information on the price level on the export market and the banking conditions imposed by the importer. Company's performance on the export market is also affected by its poor compliance with the ecological and safety norms, the lack of a permanent representative on the specific export market, the lack of information on the commercial legislation on the export market and the stagnating demand for the products of the firms. Moreover, it is often the case for the importers to obtain the import licenses (in fact, with much difficulty), especially in the associated countries.

The conditions of payment play a big role in the expansion of exports on less liquid markets such as CIS. The elimination of the barriers to barter would thus give the firm an extra chance to recover and prosper.

In spite of the foreseeable danger for its sales on the domestic market the firm considers that the Association Agreement is going to have a neutral impact on firm's performance. The loss of large shares on the domestic market, however, might put the firm in deep trouble and increase the chance to go bust rather than prosper on the large European market, as it would lack the money to adapt.

COMP6

Background Information

The company was established in 1969 and it was turned into a commercial company in 1991, on the grounds of the Law 15/1990 on the transformation of state-owned firms in commercial companies and regies autonomes. The company is still state-owned, with 70% of the capital with the State Ownership Fund and 30% with the Private Ownership Fund.

The company produces nitrogen based fertilizers, such as: ammonium (capacity 600,000 tons per year), diluted azotic acid (240,000 tons per year), urea (700,000 tons per year), ammonium azotate and nitrocalcar (300,000 tons per year). Most of the equipment dates back to 1972 when the plant was put into operation; only one ammonium and one urea installation date back to 1980. All the equipment is considered to be equivalent to the so called third generation equipment (i.e., technologically rather modern). Virtually all the equipment was imported from Germany, France and USA. The technology was assimilated domestically and used to maintain the equipment. In the 1980s all technology imports were cut off and what was once modern equipment is now an outdated plant.

The capacity used increased throughout the period analyzed from 65% in 1990 to 74% in 1994. The number of staff decreased substantially in the same period, from 2,410 in 1990 to 1,561 people. No further reductions of the workforce are planned. The capital stock of the company was by the end of 1993 around 18.7 billion lei. Company's turnover amounted to 29.25 million USD in 1990, followed by a drastic fall to 20.56 million in 1991. A strong recovery of sales started in 1992 with a turnover around 54.06 million USD followed by 40.16 million in 1993 and 55.48 million USD in 1994. The profit rate increased very slightly, from virtually nil in 1990 to 5.6% in 1994, much under the inflation level, though. Thanks to the exports the company managed to be liquid enough to pay its suppliers and banks, and invest in new technologies. The company registered an increase in stock-building from 4.8% of the total turnover in 1992 to 11% in 1993, amounting to 5.4 billion lei. The company was heavily indebted in 1993 with payables amounting to 6.7 billion lei, although in net figures it is profitable, as the receivables amount to 7.8 billion lei.

Until 1989 the company's traditional markets were China (36% of total exports), the EU (29%) and the Middle East (26%).

Export Orientation

The company has traditionally been serving mainly the export markets. The share of exports in total output increased from 55% in 1990 to 67% in 1994, as demand on the domestic market shrunk to its lowest levels in the last 20 years.

Company's core market became after 1990 the Middle East markets (the countries around the Mediterranean) whose share in total exports increased from 26% in 1989 to 52% in 1993 and down again to 40% in 1994, while the exports to the EU, after a trough in 1992, recovered to pre-1989 levels. It is encouraging that exports to South-East Asia increased from zero in 1989 to 19% of the total in 1994, although at the expense of the exports on the Chinese market which declined from 36% in 1989 to 3% in 1994. Thus overall a focusing of the business on the surrounding region may be noticed, while exports on fast-growing Asian markets declined.

Only a marginal (3%) share of total exports is done directly, all other exports being performed via various foreign trade firms.

Foreign partners only get involved in securing proper transport means.

Production for Export

The company sees Asia as its main target market after the EU. The Asian market shall increase its share in global demand to 53% by 2000 (on a 92.8 million tons total market) as compared to 45% in 1990 (on a 79.1 million tons total market).

The company enjoys important competitive strengths: cheap and highly qualified workforce and a reasonably good level of technologies and equipment, allowing it to export perfectly competitive products as far as technical standards are concerned. The company has also easy access to distribution channels. The company plans to detach itself from the cost of primary factors such as workforce by investing a substantial part of earnings from exports in modern technologies.

The company was consuming 10.8–12.4 Gcal/1 ton of ammonium 100% in 1993, much under the industry average, offering the company an extra competitive edge.

The company uses rigorously the same inputs for the exported output as for the domestically delivered products. Company's negotiations with its clients is much facilitated by the specific features of the output: bulk, homogeneous output, traded in the commodity exchange, meaning that prices are actually a given entry data in commercial negotiation.

The company declares no difference between the profitability of exported and domestically-supplied products exists (5.6% in 1994) while the duration for the cashing of exported output versus the domestically delivered one is relatively longer, indicating that exports are to a certain extent liquidity driven rather than profit driven. The company claims there is no difference in price levels between foreign and domestic markets as the commodity exported is homogeneous and traded in the commodity exchange.

Domestic Environment for Exports

The company is most of all disturbed by the customs duty and VAT on imported inputs which are to be incorporated in the exported output. In case of inputs' inclusion in the exported output, VAT and customs duties are reimbursed although with considerable delays, aggravated by relatively high inflation, as well as by the long duration of banking operations and the low quality of railroads transport which is used for most of its exports on the European markets.

COMP6 is also harmed by the frequent alterations of the fiscal legislation.

The company is thus stimulated to export in order to get rid of the illiquid clients. The company has generally neutral relationships with the Ministry of Trade and the Customs Authority and does not consider this relationship as being a competitive advantage.

Foreign Environment for Exports

COMP6 has good relationship with its customers, as the management put an emphasis of avoiding excessive dependence on one single intermediary. Consequently, as already stated, in spite of its dependence on services rendered by intermediaries to export, the company is not confronted with major pressure over prices.

Among the ex-socialist countries the main competitors are Poland and the Czech Republic (although having much lower production capacities than Romania) and in Western Europe companies in France, Germany and UK. Export to China declined sharply and are threatened by the fast emergence of this country as a major producer, as well as by the tough competition from India.

The company does have a competitor intelligence system and it considers it as being an effective one. For market information the company is mainly relying on specialized publications and on personal contacts with business partners.

Probably as a result of its almost exclusive dependence on intermediaries in order to perform exports, the company does not seem to be particularly disturbed by any barrier on the main export markets. The payment conditions have also no role in determining the decision to export as all importers pay in hard currency within reasonable terms.

The Association Agreement is considered to have very positive effects on exports. In fact, the free access to the EU market can only strengthen the reorientation of the company's core business towards Europe, a tendency already dating back three years ago.

COMP7

Background Information

The company was established in 1961 and in 1991 it was turned into a commercial company according to the Law 15/1990. The company is fully state-owned, with 70% of the shares with the State Ownership Fund and 30% with the Private Ownership Fund.

The company produces ammonium (500000 tons per year installed capacity), diluted azotic acid (720,000 tons per year), ammonium azotate (600,000 tons per year), urea (400,000 tons per year), complex fertilizers-nitrophosphates (100000 tons per year).

Most of the equipment dates back to the 1960s with only some of the equipment dating back to 1976–77. The same as in the case of COMP6, the equipment was generally imported, with licenses assimilated domestically. As no technology imports were in the 1980s, the outdatedness of the equipment became a substantial competitive disadvantage.

COMP7 is organized in two different sections: the inorganic zone, where all fertilizer and intermediary inputs for fertilizers production installations are located and the organic zone, dealing with intermediate products and organic synthesis.

A capacity of about 100,000 tons of urea shall be discontinued for being non-efficient. An equivalent 100,000 tons of ammonium nitrate capacity shall also be discontinued, as well as an 200,000 tons capacity of ammonium and a 100,000 tons of azotic acid capacity.

The company used a decreasing percentage of its capacity throughout the analyzed period, from 67.6% in 1990 to 37.7% in 1994. The employment decreased accordingly, from 7,438 in 1990 to 4,229 in 1994, with the productivity only decreasing slightly. After the long-term (1997–2000) restructuring plan, the company plans to keep only 2,986 employees. The capital stock of the company was around 66.4 billion lei. Company's turnover amounted to 48.09 million USD in 1990, followed by a strong growth in 1991 (67 million USD), declining in 1992 (61.8 million USD) and 1993 (51.28 million USD) and growing again to 86 million USD in 1994.

The company registered an increase in stockbuilding from 10.6% of the total turnover in 1992 to 24% in 1993, amounting to 13.3 billion lei. The reason for this increase in stockbuilding was the absence of adequate warehousing facilities at the main customers.

The company was heavily indebted in 1993, with payables amounting to 13.2 billion lei; overall, the company was making great losses, as the receivables amounted to only 3.5 billion lei. Moreover, short term credit accounted for 75–80% of the total working capital throughout the period.

Company's profitability was disappointing throughout the period. After a profit in 1991 two years of losses followed in 1992–93 with a slight recovery in 1994 when the company had a 3.3% profit rate, much under the inflation rate however, not to speak about interest rate.

Before 1989 the company used to export mainly in the Middle East, Africa and Latin America.

Export Orientation

The company is increasingly export oriented as the export share in total output grew from 18.32% in 1990 to 61.63% in 1994. In fact, most of the fall in capacity utilization was due to the contraction of the domestic market, while the value of exports was rather stable.

Export markets diversified after 1989. The dependence on third world markets declined as exports to the EU increased dramatically (from 2% in total exports in 1989 to 22% in 1994) while a substantial increase was registered on the South-East Asian markets (from 8% in 1990 to 15% in 1994). The company is actually not doing business in the CIS and the importance of the markets of East European Associated countries is growing (from 1% in 1989 to 6% in 1994). China is another destination whose importance is growing, although slowly (from 5% in 1989 to 8% in 1994).

80% of the exports are performed directly and only 20% via intermediaries. The same as for COMP6, importers get involved mainly in transporting the output and to a very little extent in other respects. Thus, the exported output is 100% produced with the firms' internal resources.

Production for Export

The company sees Asia as its main target market after the EU. In order to increase the company's export competitiveness the management sees the decrease in specific costs (especially energy intensity) as paramount, since the company is substantially above the average in this respect.

Company's main competitive strengths are the cost and qualification of its workforce as well as the quality of the imported inputs. The company considers it is capable to meet at satisfactory levels the quality standards on the foreign markets. On the contrary, the company is harmed by the high price of the imported raw materials and components. A somewhat expected weakness for a product sold in bulk is the distance to the export markets as well as the not easy access to distribution channels. Company's energy intensity increased slightly throughout 1990–1993, especially as far as natural gas was concerned. The company was consuming 12,35–14.38 Gcal/one ton of ammonium 100%, much above the industry average.

Inputs used for the exported output are not different from the ones for the domestically-supplied output.

As already mentioned above, the company recorded losses for three of the five years between 1990–94. In the years when the company made a profit the profit rate was, however, higher for the exported output, although the cashing period is substantially longer in the case of the exported output, implicitly diminishing the profitability of exports.

Domestic Environment for Exports

Domestically, the company is mainly concerned with the barriers created by the customs duties for imported inputs, cost of domestic credit, as well as price controls and the frequent alterations of the fiscal legislation. The company is also harmed by the low quality of railroad transport (the main way to export to Europe). Customs duties for high-tech equipment which is not produced in Romania are thus highly disruptive for company's efforts to upgrade its productive base.

As in all the other cases the company does benefit from customs duties exemptions for the imported inputs incorporated in the exported output only after the actual export was performed.

The company is largely forced to export by the growing domestic inter-company arrears, due indirectly to the delays in resolute reform measures by the government. COMP7 has good relationships with the Chamber for Commerce and Industry, allowing it to have some access to information while the relationships with the Customs Authority are considered as bad.

Foreign Environment for Exports

The company boasts good relationships with customers and intermediaries, thanks to a policy of diversification that does not offer to the latter too much leverage in the negotiation with the firm. The same as COMP6, the company has a competitor intelligence system which is considered satisfactorily efficient.

Among the ex-socialist countries the main competitors are Poland and the Czech Republic (although having much lower production capacities than Romania) and in Western Europe companies in France, Germany and UK. Export to China is threatened by the fast emergence of this country as a major producer, as well as by the tough competition from India.

The company does not face major foreign impediments to export. It is somewhat disturbed by high tariffs, quotas and tariff quotas. The access to the distribution network is somewhat difficult although the most important concern is produced by the limited space for expansion on a market where the demand is declining (at least on the rich markets), due to an overall trend towards more nature-friendly farming.

The payment conditions have also no role in determining the decision to export as all importers pay in hard currency within reasonable delays.

The Association Agreement is considered to have very positive effects on exports. In fact, the free access to the EU market can only strengthen the reorientation of the company's core business towards Europe, a tendency already dating back to three years ago.

COMP8

Background Information

The company was established in 1973, being one of the oldest joint ventures in Romania. Only minority foreign shareholdings were accepted at that time, so that the Italian partner owned only 48% of the shares, out of a total 2.333 million USD equity. In February 1992 the Italian partner provided an equity addition in order to arrive at a total equity of 3,359,520 USD out of which the foreign partner now holds 55.56%.

The company is producing colored poliacrylic yarns.

After a slump in the anarchical year of 1990 (70% of the capacity used) the company came back to 100% capacity throughout 1991–1994. Turnover was 12.3 million USD in 1990 and grew continuously to 18.3 million in 1991, 20.7 in 1992, 25 in 1993 and almost 24 million in 1994.

Employment grew only slightly in the company, from 450 in 1989 to 470 in 1994. The management asserts that even in case some excess of manpower emerges, they can use it by increasing the number of shifts.

The profit rate was 8.6% in 1990 and increased steadily to 17.4% in 1994. The company has virtually no arrears, receivable or payable, explained to a large extent by its overwhelmingly export-oriented activity. The share of short-term credits in the working capital decreased from 25% in 1990 to almost zero in 1993 and up again to 15.5% in 1994.

Until 1989 the company was exporting roughly 3/4 of total exports to the Middle East and Cyprus and 1/4 in the EU.

Export Orientation

The company has traditionally exported most of its output. In 1990 the share of exports in total output was 68.7% while in 1994 it grew to 86.2%.

The company's dependence on Middle East exports decreased (from 80% in 1990 to 27.4% in 1994, although the company consolidated a 70% market share in Cyprus) as exports increased towards the EU (from 20% of total exports in 1990 to 35% in 1994), USA (from zero in 1989 to 25% in 1994) as well as towards the East European Associated countries (from zero in 1989 to 11.9% in 1994).

The company exported some 1,000 tons of yarn in 1992 and about 1,200 tons in 1993.

Overall, the Romanian export of colored polyacrylic yarn is the only subsector within the synthetic yarn industry where sales exceed the 1989 level by 155% both for export and for the domestic market. A 135% growth of exports in 1993 as compared to 1989 for poliacrylic yarns was also registered. These results are also a result of the efforts of COMP8 who is the second largest domestic producer.

Export is entirely performed directly. There is virtually no involvement of importers in the production or transport of the exported output.

Production for Export

The company made substantial efforts to enhance its strengths on the export markets. Thus, in 1991–1992 it invested heavily in new equipment managing to replace 70% of the old one with state-of-the-art equipment. The company would need some extra 5 million USD in new plant but, although it has the resources, it is still reluctant to go ahead with the investment due to the aggressive competition on the export markets and the already compressed profit margins which might not properly absorb the new depreciation costs.

The expansion prospects are good and the company plans to double or triple its output by 2000. The company sees as its main strengths the cost and quality of the workforce, as well as the quality of the equipment and the internally developed technologies. The major weakness the company has to cope with is the low quality and high price of the Romanian supplied components.

Inputs used for the exported output are not different at all from those used for the domestically supplied output.

Most surprisingly, the profitability of the domestically supplied output is higher than that of the exported output and the gap increased from a 10.8/8.4 ratio in 1990 to 24/15.7 in 1994. The company explains this by the following factors:

1. Its position on the domestic market (it has only one domestic competitor to share the market with) in a context where domestic customers are almost without exception in financial difficulty and are unable to mobilize the needed resources to buy hard currency for imports of acrylic yarn.

2. The need to charge a premium in order to protect itself to some extent against the risk of non-payment, as most of the customers are caught in the chain of inter-enterprise arrears.

Moreover, the cashing period is much longer for the exported output, further strengthening the idea that the export is subsidized via the position the company holds on the domestic market.

Domestic Environment for Exports

The main domestic impediments to export are the cost of domestic credit, the duration of banking operations and the frequent changes in the financial legislation.

Company's major concern is the growing gap between the domestic prices for inputs which increased by roughly 60% between March 1994 and March 1995 and the slow growth of foreign prices for the exported output (due to the devaluation of the leu) in the same period by only 11%. The profits are squeezed while demand on the domestic market did not take off yet. Moreover, for many inputs customs duties are higher than for the finished products, artificially offering foreign producers an additional competitive edge.

The company is harmed by the slowness in the draw back of the value of customs duties for imported inputs included in the exported output (which actually made it to shift towards the guarantee system which is considered as less harming since the company has excess liquidity), as well as by the tiresome procedure for participating in the interbank market to buy or sell hard currency. The Eximbank is also reproached for its slowness in the delivery of the subsidy for the export credits.

The company would be very glad if RENEL (the national electricity authority) would allow it to import entirely its electricity input. The company can import electricity at 30% lower price per KWH, although electricity in Romania is substantially cheaper than in most of the European countries. The explanation resides in the residual character (for the producer) of the electricity imported which would otherwise be completely lost.

As already mentioned, the company is stimulated to export by still illiquid domestic demand, although the profitability of exports is lower.

The company considers that its present relationships with public institutions do not offer either a competitive advantage or an impediment to export.

Foreign Environment for Exports

The company has good relationships with its importers. Their bargaining power is considered as acceptable. COMP8 is, however, often forced to squeeze profits in order to resist aggressive Asian competition (especially from Thailand and Indonesia), which is accused of "buying" market share.

The company declares it has a good quality competitor intelligence system. Most of the information the company has at its disposal is sourced from the foreign partner and firm's representative abroad. The picture is very typical for a joint venture fully controlled by the foreign partner. The information provided by business partners has also a great value.

The main foreign impediment to export is the stagnating demand for the exported products.

The firm gladly welcomes the Association Agreement as it gives it the chance to expand exports in the EU.

As to the impact of the joint venture, it is considered to have improved only to a limited extent the financial situation of the company. It had, however, an important impact on access to new foreign markets and training the employees in using more efficient technologies. The joint venture was essential for the access to high-tech equipment and up-to-date know-how as well as for the access to raw materials and components.

COMP9

Background Information

The company was established in 1970 and it was turned into a commercial company on the grounds of Law 15/1990. It is currently state-owned, 70% of the shares being controlled by the State Ownership Fund and 30% by the Private Ownership Fund.

The company produces porcelain sanitary equipment for bathrooms and kitchens.

The company employs 2600 people, a number that did not change throughout the analyzed period. The capacity used oscillated from 92% in 1990 to 100% in 1992 and down again to 87% in 1994. Company's turnover was 9.35 million USD in 1990, growing strongly to 14.3 million in 1991, 13.5 million in 1992, 15.4 million in 1993 and 18.3 million in 1994. The profit rate was the highest in 1991 (29%) to decline abruptly afterwards to 11.6% in 1992, 8.6% in 1993 and 3.7% in 1994. The company is heavily indebted, with short term credits exceeding the value of the working capital, showing the company is seriously short of liquidity. Outstanding payables to clients decreased somewhat from an equivalent of 62% of the working capital in 1993 to 26% of the working capital in 1994.

The traditional markets of the company before 1989 were the EU (with 80%), the remaining exports being distributed among Israel, Kuwait and Cote d'Ivoire.

Export Orientation

The company exported 31% of its output in 1990. This share fell in 1991 (15% of the output) and started afterwards to increase steadily, reaching 26.6% of the output in 1994.

The distribution of exports only slightly changed all along the period analyzed. The EU "stubbornly" maintained its 80% share of total exports while the share of Kuwait was eroded as an effect of the war, and for the first time the East European Associated countries and CIS came into play in 1992. Their share in total exports increased only very slowly, so that in 1994 the figures were 5% for the Associated countries and 3% for the CIS.

The export is mainly performed by intermediaries who sell 80% of the exported output. The remaining 20% is done by the firm, mainly towards Hungary where company's sales personnel knows the market best.

The only way importers get involved in export operations is by assuring in many cases the transportation of the goods to the destination. Thus, the products exported are 100% the result of the internal manufacturing resources of the firm.

Production for Export

The company wishes to expand its exports to the European Union mainly in order to accumulate the resources needed for the modern technology it needs so badly. With this objective in mind, the company also strives to reduce its dependence on natural gas as the single energy resource and build new electrical kilns, combined with a continuous casting system of the various kaolin mixtures. The company is still contemplating the possibility of entering the US market (the largest in the world) although it is somewhat discouraged by the aggressive competition there, mainly from lower-end producers with similar factor combinations as Romania's, such as Taiwan, China, Thailand, and Mexico.

The main strength of the firm is seen to be the price and quality of the workforce and the technological level of the equipment. The proximity of the export market also ranks high in the hierarchy of the strengths.

The main weakness of the company is seen to be the price of the raw material, mainly kaolin, imported from Germany and the UK. The company managed, however, to reduce its dependence on these sources starting to inport kaolin from the Czech Republic and Ukraine. The technical outdatedness of the equipment ranks second in the hierarchy of weaknesses. Thus, the degree of wear of company's kilns is 30% to 45%, resulting in products with a specific weight 15% bigger than that of the foreign competitors. The energy consumption is almost double as compared to Western European producers.

The profitability of domestically supplied and exported output is hardly relevant. There are small differences but their sign change from one year to another, suggesting it is hard to jump to a conclusion about who cross-financing. The cashing periods for the domestically delivered output are systematically longer than the ones for the exported output.

There is no difference between the input usage for the domestically delivered and the exported output.

Domestic Environment for Exports

The company is most of all harmed by the domestic impediments represented by customs duties for imported inputs (fortunately, for the main input, kaolin, customs duties are zero) and to a very large extent by the high cost of domestic credit (not surprising given the high indebtedness of the firm). COMP9 management finds unacceptably high the customs duties for modern equipments which are not produced in Romania. The company is also harmed by the low quality of roads, especially as far as exports to the neighboring countries are concerned.

The company has good relationships with the Ministry of Trade, the Chamber of Commerce and the Customs Authority, something that offers it an additional competitive edge.

Foreign Environment for Exports

The company has generally good relationship with its customers. It has relatively often problems with partners in the East European Associated countries who have often difficulty in paying the freight in due time. None of these partners, however, has problems in obtaining the hard currency.

The company has no competitor intelligence system, a lack that might be explained by the overwhelming dependence on intermediaries for the carrying out the exports.

Company's main competitors come from the Czech Republic (a major exporter in the EU), Italy and Spain.

The most painful impediments in the external markets are considered to be the difficulty to get access to distribution channels (something already suggested by the importance of intermediaries) as well as the lack of information over the price level on the export market and the commercial legislation there. The lack of a permanent representative on the export market is seen to be a prime cause for this lack of information and for the over dependence on intermediaries.

The conditions of payment only affect the decision to export in the case of Ukraine, where more barter facilities would expand trade; this is why the firm requests the authorities more facilities for barter trade.

The company is already exporting mainly to the EU so that the Association Agreement does not have a special significance. The expansion of exports to the EU is now mainly a matter of company strategy and management than of commercial facilities.

COMP10

Background Information

The company was established in early 1950s. It was turned into a commercial company as a result of the Law 15/1990. The company produces cement, chalk and asbest/cement roof tiles. The company is still state-owned with the shares distributed between the State Ownership Fund (70%) and the Private Ownership Fund Muntenia (30%).

The company is producing:

- cement using the following capacities: two production lines with rotating kilns which were put in operation in 1974–1980 and are using the dry technology and have a capacity of 3000 tons clinker per day;
- chalk using the following capacities: 1 regenerating kiln put in operation in 1975 with a 200 tons/day productivity.

In 1990 COMP10 was employing 3,311 people. The number decreased steadily to 2,958 people in 1994. The capacity utilization decreased as follows:

- for cement, from 71.5% in 1990 to 46.1% in 1994;
- for chalk, from 97.1% in 1990 to 16.8% in 1994;
- asbest/cement tiles from 64.4% in 1990 to 39% in 1994.

On yearly basis the company can produce: 1900 thous. tons/year cement 80% clinker equivalent, using the dry technology; 270 thous. tons/year chalk; asbest/cement pipes (by line), etc.

The turnover of the company was 18.65 million USD in 1990, increasing to 27 million in 1991, 30 million in 1992, falling to 24.3 million in 1993 and 29.13 million in 1994, as a result of better prices (due to price liberalization) and the elimination of certain inefficient capacities.

The capital stock evaluated at the end of 1994 was 164 billion lei.

Between 1990 and 1994 the profit rate oscillated between 1.8% in 1990 and a peak of 6.75% in 1994. The indebtedness increased throughout 1990–1994, as the share of bank credits in total working capital decreased from 71.7% in 1991 to 35% in 1994.

Until 1989, the company was traditionally exporting towards the EU (3/4 of total exports) and to the Middle East and Africa.

Export Orientation

The share of exports in total sales increased from 25% in 1990 to 40% in 1993, to decrease again to 26% in 1994. The company managed to keep its traditional markets, even increasing the share of exports to the EU from 73% in 1989 to 85% in 1994.

Exports are 100% performed by intermediaries (actually the private foreign trade company VITROCIM).

Importers get involved to a large extent in supplying consumables and components and also in supplying packaging materials.

Production for Export

Export Strategy

In order to boost exports, COMP10, together with two Romanian and two foreign companies, established in 1991 a joint venture with the objective to produce and export cement and other raw materials. The Romanian party has 75% of the shares.

The quality and cost of workforce are seen as prime competitive advantages for the company, as well as the capacity to comply with the standards of the foreign markets. The company has also easy access to raw material sources.

The price of raw materials is a major competitive disadvantage for the firm, together with the price for components, both Romanian supplied and foreign. The long distances to the export markets and the difficult access to the major distributions channels are also weaknesses of the company on foreign markets. The outdatedness of the equipment combined with the fall in sales (no more economies of scale) led to and increase in specific fuel consumption after 1989 by 7% for clinker and 2% for chalk. The same figures for specific electricity consumption are 10% and 5%.

In order to diminish the competitive disadvantage resulting from the outdatedness of the equipment, the company is in the course of introducing a technical upgrading plan.

As an effect of all these measures the company estimates productivity in chalk production and packaging shall double and substantial savings of natural gas and fuel oil shall be obtained.

The whole cost of this technical upgrading might amount to some 20 million USD, out of which more than 11 million will be paid from the company's own sources.

The company asserts that no differences between the quality of the domestically supplied and exported deliveries exist.

There is a sizable gap between the profitability of domestically supplied and exported deliveries — the former are more profitable than the latter. Thus, in 1994 the profit rate for domestic deliveries was 9.13% and only 5.7% for the exported output. This higher profitability on the domestic market is somewhat attenuated by the slightly longer cashing period for the domestically delivered output.

Overall, we can conclude that the exports are somewhat subsidized by the domestically delivered output.

Domestic Environment for Export

The major domestic impediments to export are the high cost of credit, the poor quality of railroad transport (vital to the company in terms of both capacity and price in order to transport the exported output to the port of Constanta where the only specialized loading terminal exists) and the limited availability of transport capacities. In order to cope with these difficulties the company would very much welcome the distribution of subsidized export credit via the specialized institution (Eximbank) and a flexible fare system for railroad transport, with a regressive fare per carriage according to the total number of carriages included in a convoy; presently, the price of domestic transport represents 35–40% of the FOB price of the exported cement.

The company would benefit much from an exemption of customs duties for imported inputs, including packaging materials. After almost a year of reasonably good functioning the interbank market starts to create problems again to companies which want to buy hard currency, mainly by substantial delays in the execution of purchase orders. The company would thus welcome the authorization of payments in hard-currency domestically, in this case made by the foreign trade company VITROCIM, in order to get rid of the interbank market.

Participating at international fairs and exhibitions is much beyond the means of the company. The company would thus welcome governmental support in this respect.

Government regulations do not a have substantial impact on the choice whether to export or not. The only exception is the recent Governmental Decree 605/1994 offering lower interest credit for the realization of construction, which is expected to produce a certain increase in cement demand from big construction contractors.

The company considers an important competitive advantage its good relationship with the Ministry of Commerce, the Chamber of Commerce and the Customs Authority.

The Foreign Environment for Exports

The company has good relationship with VITROCIM, a private foreign trade company who carries out most of company's exports. Although the company claims VITROCIM has a limited bargaining power over prices, it is doubtful whether COMP10 really has much room for manoeuvre in terms of prices. VITROCIM has got control over the specialized cement loading terminal in the port of Constanta and COMP10 is vitally depending on.

The main impediments to export faced by the firm on foreign markets are the packaging standards, the unfair commercial practices of foreign competitors and the difficult access to distribution channels. The company is also harmed in the longer run by the stagnating demand for its products, due to the numerous innovation in construction leading mainly to a drastic decrease of the specific consumption of cement.

The company considers that the Association Agreement is going to have a neutral effect on its exports, as most of its exports are already heading towards the EU, on the one hand, and because it foresees a strong recovery of construction on the domestic market in the following five years, on the other.

COMP11

Background Information

The company was established in 1913. In 1948 it was nationalized and in 1990 it was turned into a commercial company in accordance with the Law 15/1990. The company is still state owned with the shares distributed between the State Ownership Fund (70%) and the Private Ownership Fund Muntenia (30%).

The company is producing:

- white cement, using the following capacities: two production lines with rotating kilns which were put in operation in 1952–1955 and are using the humid technology and have a capacity of 300 tons clinker per day; 3 lines with rotating kilns, put in operation in 1962–64, using the humid technology and having a 800 tons capacity per day;
- chalk, using the following capacities: 8 high kilns put in operation in 1951 with a 100 tons/day productivity out of which 7 were put in conservation in 1991; 2 regenerative alternative burning kilns with a 230 tons/day productivity;
- plaster using the two processing lines put in operation in 1975.

On a yearly basis the company can produce: 1018 thous. tons/year cement 80% clinker equivalent, using the humid technology, out of which 100 thous. tons/year white cement; 250 thous. tons/year chalk; 100 thous. tons/year plaster and 20 thous. tons/year refractory silico-aluminous bricks.

Company's capital stock as of December 31, 1993 was 10.656 billion lei. The turnover amounted to 11.32 million USD in 1990, decreasing to 9.47 in 1991, 8.05 in 1992 and growing again to 9.34 million in 1993 and to 13.5 million in 1994, thanks to the increase in prices on the world market and to the price liberalization on the domestic market, that compensated the fall in the capacity used.

The company used its capacity to a decreasing rate, falling from 44.3% in 1990 to 19.4% in 1994, mainly due to the drastic fall in capital investments on the domestic market after 1989. It is, however, to be remarked that the functioning of some capacities was discontinued for reasons of energy efficiency.

The profit rate was oscillating from zero in 1990 to 12.58% in 1992 and down to 3.35% in 1994. Company's indebtedness decreased throughout the period under study. The share of short-term credit in total working capital decreased from 32.78% in 1990 to 13.1% in 1994.

Until 1989 the company was exporting mainly towards the EU and the Middle East. Export was carried out entirely via VITROCIM, the specialized state-owned foreign trade company.

Export Orientation

The company has been exporting throughout the period under study between 6–7% of the output. It is to be remarked that after its transformation into a commercial company COMP11 decided it would undertake export on its own account. It managed to perform almost all export directly (96% in 1994), although at a very high price: the loss of all markets in the EU and the drastic decline in the share of output exported (as compared to 10–12% of the total output exported before 1989). The company managed, however, to enter new markets, such as those of the East European Associated countries, where in 1994 it sold 98% of the exported output (up from 20% in 1992). The markets in the Middle East were also lost, declining from 80% of total exports in 1992 to zero in 1994. A mere 2% of the exported output is sold in the EU in 1994, with the prospect to increase the EU share to 10% in the following five years.

As already mentioned, almost all export is carried out directly by the firm. The importers get involved to a very limited extent in the production of the exported output.

Production for Export

The firm is currently negotiating with the Austrian firm GLASSNER Gmbh aiming at establishing a joint venture in order to: modernize the cement processing technology by replacing the present 800 tons/day humid technology processing lines with a 2000 tons/day dry procedure processing line, using solid fuels; modernize the chalk processing installations by shifting from 100 tons/day high kilns to 250 tons/day modern regenerative kilns; introduce a new line for plaster products.

The investment effort for these projects to come true is estimated to some 38 million USD.

As one of the main products exported is the white cement, the company undertook geological research in order to discover new resources of silico-aluminous raw materials needed to produce the white cement.

COMP11 decided to partially replace the use of natural gas for the production of clinker with solid or liquid fuels, considered more cost-effective; the investment is scheduled for 1995–96. In 1995, a packaging machine and an automatic stacking machine are to be put in operation. By 1996 a new line for the production of special moulding plaster is to be put in operation and in the following years the company plans to launch a 150–200 thous. tons/year construction plaster capacity. A new installation for producing cement roof tiles is under study.

The whole investment effort for the 1995–1998 period (supposing that the association with the Austrian firm would not come into effect) is planned to amount to 11.7 million USD, out of which 6.2 million would be the company's own sources.

The company is also about to launch another joint venture with a French firm in order to produce plaster.

The exported output generally has to comply with the British BSS, American ASTM or French AFNOR standards.

The current competitive strengths of the firm are the cost and quality of workforce. A substantial competitive advantage is the closeness of raw materials resources (which are considered sufficient for at least 10 years from now on) together with the possibility to buy without any limitation additional technological inputs (various thermal power plant waste products). The firm is negatively affected by the outdatedness of the equipment and technologies, the long distances to the export markets and the difficult access to distribution channels, as well as the poor quality of the components and the outdatedness of the surveillance/control equipment, leading to numerous accidental interruptions of the technological process. The company is also harmed by the high costs for railroad transport. All these competitive disadvantages are generating 10-13% higher specific consumption as well as a 7 times lower productivity as compared to the Western European producers.

There are no differences in the input usage between the domestically supplied and the exported output.

The same as for COMP10, the profitability of the output sold on the domestic market is much higher than the profitability of the exported output. In fact, the company makes virtually zero profits on the exported output. Moreover, the cashing period for the exported output is slightly longer than for the domestically delivered output. In fact, the main reason for the company to export is the security of payment (extremely necessary in an economy where the inter-enterprise arrears attain threatening levels) and only secondly the need to break-even.

Domestic Environment for Exports

The main domestic impediments to export the company faces are the cost of domestic credit and the customs duties for the imported inputs, in particular the high customs duties for the imports of high-tech equipment. The low quality of railroad transport is also a relatively important impediment, together with its price, representing 30–40% of the price FOB Constanta.

The company sees its relationships with the state administration as having a neutral impact on its export performance.

The Foreign Environment for Exports

The company has several small-medium wholesale clients in the East European Associated countries (mainly Hungary). Their diversification and limited financial power gives the company substantial bargaining power in the negotiations over prices.

The main sources of information of the company are personal contacts of the managers with the business partners.

The main impediment to export on the foreign markets are quotas and packaging standards.

In principle, the importers in the East European Associated countries have no problems in obtaining the needed hard-currency.

The Association Agreement is seen as having a neutral impact on the firms' export performance, as the cement produced by COMP11 is at the highest standards and it might be well received on the EU market, no matter the presence of other producers from other Associated countries with similar factor combinations.

COMP12

Background Information

The company was established in 1949. In 1990 it was turned into a commercial company and it was organized in autonomous manufacturing divisions. There are five autonomous manufacturing and services divisions (bottling lines, equipment for food industry, freezing equipment, services, utilities and metal processing) and five functional divisions (general, raw materials and consumables, marketing, finance/accounting, human resources). The company as a whole is managed by a 3-member managing team and the autonomous and functional divisions are managed by managers. The organizational scheme was designed along the main three groups of products currently produced: bottling lines, food industry equipment and refrigerating equipment. The company is still state-owned, with 70% of the shares controlled by the State Ownership Fund and 30% by the Private Ownership Fund.

The company had a turnover of 12.31 million USD in 1990 growing to 15.84 million in 1991 and falling afterwards to 10.08 million in 1992, 8.13 million in 1993 and 9.07 million in 1994. The capacity utilization declined from 69.4% in 1990 to 40% in 1994. The number of staff declined drastically from 3,792 people in 1990 to 1,995 in 1994, an excessive decline in productivity being thus avoided. The size of capital stock was 45.9 billion lei as of December 31, 1994. The profit rate had a peak of 17.8% in 1990, followed by a decline down to 9.2% in 1993 and up again to 11.2% in 1994.

The company managed to maintain a good financial balance in spite of the enormous difficulties it faced in this period. The share of short term credit in working capital is zero in 1994 and it never exceeded 3%, except in 1990 (8.6%). Total arrears amount to 1.027 billion lei and stockbuilding amounts to 3.878 billion lei, out of which finished goods represent only 1.323 billion lei.

The company was traditionally exporting to China 80% of its exports in 1989 already, with the remaining 20% split between the present East European EU Associated countries (15%) and the CIS (5%).

Export Orientation

The company exported 15.4% of its output in 1990, steadily increasing afterwards to 28.3% in 1993 and declining somewhat to 25.4% in 1994. In 1991–92, the company reduced its sales to the Chinese market to 51% and 59% respectively of total exports while increasing sales to the CIS market to 26% and 15% respectively. Starting from 1992, the company has been selling almost exclusively to China (99.6% in 1994), with only marginal sales to the CIS. Sales to China amounted between 1982–1995 to 300 million SFr.

The company sells only 40% of the exported output directly, the remaining 60% being exported via foreign trade companies. Generally the intermediaries are the old state-owned foreign trade companies, such as COMP20, with whom the company has old relationships. The relative diversification of intermediaries, together with the old relationships assure the company a good bargaining position in price negotiations.

Importers only get involved in assuring transport of the exported goods to the destination. Thus, the exported output is exclusively the result of the firm's own manufacturing capacities.

Production for Export

The only products exported by the company in 1994 were bottling lines for liquids, where exports amounted to 1.6 million USD. This is why the company is making efforts to diversify the range of its exports to other items currently produced, such as meat-cutting machines, natural juice machines or bottle washing machines which are considered to be at the average world level in terms of quality and performance. The company is also trying to diversify its markets to the

Czech Republic, Slovakia, Bulgaria, CIS, Syria, Cuba, Egypt. Thanks to the strong expansion of exports, the company plans to reach its 1989 turnover in the following 2 to 3 years.

The company considers as its main competitive advantage the cost of the workforce, as well as the quality of the foreign supplied components.

On the contrary, it is very negatively affected by the outdatedness of the equipment and technologies (the average degree of wear and tear of the fixed capital is 20%), the long distance to the export markets and the poor quality of the Romanian supplied components. Company's export performance is also harmed by the insufficient quality of the workforce, the high price of the foreign supplied components and the difficult access to distribution channels generating the need to use intermediaries.

The company declares that no difference exists in terms of input usage between the output supplied for the domestic market and the one sold abroad, with the only exception of raw materials which are of better quality for the exported output.

The profit rate for the exported output was persistently more than double the rate for the domestically delivered output all along the period under study (25/11.5 in 1990, 27/12.5 in 1992, 27/12.6 in 1992), although a certain decline in the gap can be seen for 1993 (21/12.4) and 1994 (22/14.4), when the macroeconomic stabilization eliminated to a large benefits of the exporters as compared to the companies selling exclusively on the domestic market. This high difference in profitability is somewhat attenuated by the slightly longer period for cashing the invoices for the exported output.

Domestic Environment for Exports

The main domestic impediment to export the firm faces is the high cost of domestic credit. Among other impediments to export the high customs duties for inputs should also be mentioned. In fact, the company is harmed in terms of cashflow by the bank practice of blocking an amount in company's accounts equivalent to the value of the guarantee; the company would favor the elimination of this guarantee or the guarantee to be offered by the Eximbank at a subsidized interest rate. COMP12 is also harmed by customs and insurance formalities, the low quality of railroad transport and the frequent modification of the domestic commercial legislation.

The company considers that its good relationships with the Ministry of Commerce and the Chamber of Commerce have a substantial positive impact on its export performance while the relationship with the Customs Authority has a neutral impact on the export performance.

Foreign Environment for Exports

The company has good relationships with its intermediaries and its customers, as already mentioned.

The main competitors abroad are actually all European firms: the German KRAMER, SEVDELMAN, SEN and KRONES, the French ALFA-LAVAL and GONGLOFF and the Italian MANZINI.

COMP12 does not have a competitor intelligence system of its own and the marketing activities are rather weak, due to the shortage of skilled people with such a background. Personal contact with business partners rank highest as a source of information. All other sources are considered as marginal. The company would very much welcome governmental support for establishing a permanent representative office abroad.

Exports are harmed by various impediments on the export markets. The main impediments of this kind are seen to be first of all the high customs duties and afterwards the difficult access to the distribution channels and the general lack of information about the foreign commercial legislation, business rules and price levels that could substantially be eased by a representative located on the market. In its core export market (China), the demand for imports is decreasing and there is a tendency to expand investment mainly via direct foreign investment or imports in the framework of medium-long term payment arrangements. The company identified some

60 investment projects in food industry on the Chinese market which are to be put in operation as joint ventures with foreign direct investment and 5–8 years credit or imports with 3–5 years payment arrangements. This might create enormous pressure on the company as payment on delivery (as used so far) would be drastically limited.

In China the company is selling bottling lines, turnkey plants for beer, soft beverages, alcohol, and refrigerating installations. All this equipment requires long-cycle manufacturing (9–12 months) with a period of 15–20 months from the entering into force of the contract until the starting of operations in the plant. The Ordinance 14/1995 of the Romanian government offers some facilities for complex equipment exporters, such as:

- guarantees for attending international tenders;
- governmental guarantees for short, medium and long term credits used for domestic and imported inputs that are to be incorporated in complex equipment as well as for up to 8 years long export credits;
- subsidies for up to 60% of the interest paid for credits contracted to realize the various components that are to be incorporated in complex equipment exports;
- country risk medium and long term export credit insurance on behalf and on the account of the government;
- exemption from anticipated payment of customs duties, VAT and customs commission payment guarantee for imported inputs incorporated in complex exports.

The main shortcoming of this support is the limited resources allocated for its enforcement.

These facilities are, however, insufficient for COMP12 as each firm is supposed to finance itself the capital needed to realize the high value equipment, a most difficult task with the current interest rates. Moreover, the Ordinance makes reference to contracts that are being carried out while the company would be interested to have a higher degree of certainty over the support of the government in order to be able to fine-tune its price. The subsidy is to be disbursed after the payment of the payment of the credit, leading to high amounts of capital blocked.

COMP12 would be in favor of special conditions for firms exporting to the Chinese market including the guarantee of governmental assistance from the very stage of negotiations, as well as the possibility to obtain the subsidy when paying the interest for the credit and not afterwards.

The company considers the EU market a hard market, with very high quality standards that cannot be penetrated in the short run. The Association Agreement is seen as a positive thing that might be valued when the company would be able to comply with all these standards. By that time, the company's main concern is to build a strong share on the markets where it is already present (China mainly) and capitalize afterwards this position to try to penetrate harder markets. In the short run, the expansion space appropriate for the company's present capabilities is in the CIS and in the East European Associated countries.

COMP13

Background Information

The company was created in 1963 with Swedish technical assistance, as most of the equipment at that time was imported from Sweden. In 1990 it became a commercial company on the grounds of Law 15/1990. Early 1995 the company is still state owned with 70% of the shares controlled by the State Ownership Fund and 0% by the Private Ownership Fund. It is to be privatized in the short-run in the framework of the mass privatization program.

The company produces wooden furniture.

Company's turnover was in 1990 9.13 million USD, increasing to 9.76 in 1991, 10.26 in 1992, 10.87 in 1993 and 13.52 in 1994. The capital stock amounted to 2.167 billion lei as at end-1993.

The company employed 2123 people in 1994, down from 2693 in 1990. The capacity used remained roughly at the same level (around 87%) throughout the period under study.

The profit rate increased from 6.08% in 1990 to a highest 14.1% in 1991 and declined steadily afterwards to 7.4% in 1994.

The company has a good financial balance managing to finance the working capital exclusively from its own sources.

COMP13 traditionally sold more than 40% of its total exports on the EU market, almost the same share to the CIS, the remaining share being split between the Middle East and the presently East European EU Associated countries.

Export Orientation

The company exported 73.4% of its output in 1989, a share that increased steadily throughout the period up to 85.4%.

The share of exports to the EU in total exports increased to a highest (75.8%) in 1991 and declined afterwards to 55.4% in 1994. Exports to the East European Associated countries fell to zero in 1991 and never recovered. Sales to the CIS fell to 11.4% of total exports in 1994, a quarter of their 1989 level. The only region outside the EU where sales expanded was the Middle East (Syria, Jordan, Egypt, Turkey) with a share increasing from 10.8% in 1989 to 23.7% in 1994.

The company sells directly 68% of its exports and 32% via intermediaries. Importers generally get involved in providing transport and to a certain extent they market the furniture under their own trade mark.

Only 11% of the output incorporates components supplied by the importers.

Production for Exports

The company plans to diversify the range of products and the markets, and upgrade the output by targeting upmarket segments. With this aim in mind the company plans to import certain wooden species such as oak, pine, cherry tree, nut tree, and exotic wood. The company has a design division of its own comprising several of the most reputed furniture designers in the country. The expansion of the R&D expenses is, however, harmed by the legal cap on the R&D expenses (3% out of total sales), allowing rather face-lifts of foreign furniture models than launching of own collections. The company plans to launch furniture made of mixtures of several wooden species, new designs for furniture fabrics, office furniture made of wood-metal and wood-metal-glass combinations. The company eyes up the Japanese and South-Korean markets and aims to expand the trade with Middle East countries, as well as to reduce the cost of transportation by delivering the furniture disassembled.

One of the future projects is to import wood from Russia and process it.

Currently, the company produces only wooden furniture with the following structure: kitchen furniture, office furniture, open air furniture and dining-room furniture.

The company considers its main competitive strengths are cost and quality of workforce, the price of raw materials and the price and quality of the foreign components. On the contrary, the company is mainly negatively affected by the outdatedness of technologies and the difficult access to foreign distribution channels, together with the long distances to the export markets. A major weakness is induced by the unreasonable price/quality ratio of domestic components.

The company acknowledges that the exported output incorporates definitely better inputs (components, raw materials, workforce, technology and equipment) than the output sold domestically. Consequently, the exported output is rather upmarket as compared to the domestically delivered one, explaining why the profit rate for the exported output is persistently almost double as compared to the profit rate for the domestically delivered output (8.07% for the exported output vs. 5.2% for the domestically supplied one in 1994). This profitability gap is attenuated by the fact that the cashing period is generally double for the exported output as compared to the domestically delivered one.

Domestic Environment for Export

The top domestic barrier to exports is the high cost of domestic credit which seriously affects the export performance of the firm. Second, the firm is harmed by the customs duty for the imported inputs, whose reduction or possibly elimination would be very much welcome, since profits are squeezed between the ever rising prices for domestic inputs and the comparatively lower devaluation of the dollar in 1994 and 1995. Alternatively, the company considers price controls should be enforced for input prices. Third, the firm is harmed by the long duration of banking operations.

For the imported inputs that are incorporated in exports the company has to deposit a guarantee that seriously affects its cashflow as this amount is blocked by banks in the firm's accounts. The guarantee should normally be reimbursed 30 days after the performance of exports but delays are frequent.

The relationships with the state administration are uneven, depending on the organization: there are good relationships with the Ministry of Commerce and Chamber of Commerce while there are very bad relationships with the Customs Authority.

Foreign Environment for Exports

The company claims it has a good bargaining position in the relationship with its customers and traditional relationships with firms in Germany and Austria mainly. It is, however, doubtful whether this is true. First of all, COMP13 is selling a good part of its output under the trade mark of the importer or simply acts as an assembler for inputs brought by the importer. Moreover, the quality is higher for the exported output than for the domestically supplied one, showing again that the bargaining position of COMP13 is actually weak, as importers can force it to include better inputs in the exported output (although the explanation might also be different product ranges for different markets).

Company competitors are mainly from Poland, the Czech Republic, Sweden and Italy.

The company does not have a competitor intelligence system. The main source of information is personal contacts with business partners. A very limited importance is attached to specialized publications, and market research made by specialized organizations.

The main barriers to export are seen to be the tariffs together with the difficult access to foreign distribution channels. The following major barrier is the lack of information about the foreign markets: price levels, business rules, commercial legislation. The company would be in favor of support by the government to locate a permanent representative on each of its major markets.

Payment conditions by foreign partner might play a certain role on the less liquid markets such as the CIS in order to boost exports. The company is rather reluctant of getting involved in barter trade via the government as traditionally the payment by the government is performed with very long delays, seriously harming the company's cashflow.

The company is confident that the Association Agreement would play a positive role and boost its exports on a market where it is has already been present for a long time.

COMP14

Background Information

The company was established in the early 1970s and it was turned into a commercial company in 1990. Subsequently, a division of the company located in Harlau was cut off and turned into a commercial company of its own called MoBIMEX Harlau. Early 1995 the company is state-owned, with 70% of the shares controlled by the State Ownership Fund and 30% by the Private Ownership Fund. It is to be privatized in the short run in the framework of the Mass Privatization Program.

The company produces wooden furniture.

The turnover amounted to 13.61 million USD in 1990, followed by a drastic fall to 10.51 million in 1991 and 9.38 million in 1992. A recovery started in 1993, with 13.53 million USD sales, followed by 15.78 million in 1994. The capacity used was highest (90%) in 1990, followed by a decline to 75% in 1992 and a recovery to 86% in 1993 and 81% in 1994. The number of staff decreased from 4,022 in 1990 to 3,337 in 1994, indicating an important improvement in labor productivity. The capital stock amounted to 2.851 billion lei by end-1993. The profit rate replicates somewhat the ups and downs of the turnover with 11% in 1990, followed by a 14.5% highest in 1992 and 6% in 1994. COMP14 has a weak financial situation with the share of short term credit in working capital increasing throughout the period and attaining a highest 68.5% in 1994.

The traditional markets of the company until 1990 were the EU, Israel and USA (accounting together 70% of the sales) and the current CIS (for the remaining 30%).

Export Orientation

The company has persistently exported around 80% of its output throughout the period, with a peak of 89.4% in 1992. Exports are increasingly going to the EU, which absorbs 75.5% of the exported output in 1994 while the share of the other developed countries decreased dramatically from 30% in 1989 to 7.5% in 1994. The share of the current CIS decreased also but less dramatically, from 30% in 1989 to 17% in 1994.

90% of the exports is performed directly and only 10% via intermediaries. The company's importers get involved to a large extent in realizing the exported output. They supply design and projects, co-finance the R&D expenses, supply raw materials and components and assure transportation. Altogether 32% of company's exports are realized in cooperation with the importers.

Production for Export

The strategy of the company is mainly oriented towards expanding the volume of sales in the EU market and reconquering the CIS markets. This is actually why the company would be interested in expanding barter trading. Moreover, the barter would be in exchange of wood from Siberia as the firm has already established contacts with Russian suppliers that would be interested in such arrangements.

Company's strengths are mainly connected to the qualification of the workforce, the quality and price of foreign components and the capacity to satisfy the specific standards of the export markets. The company can also build a competitive edge as compared to other foreign and even Romanian firms from the closeness to the ethnically Romanian Republic of Moldova by using the Russian speaking people available there having knowledge of the Russian market in order to build an export base towards CIS markets.

The company is harmed first of all by the price of the raw materials, the outdatedness of the equipment, the difficult access to distribution channels and the price and quality of the Romanian components.

There is no difference in terms of input usage for the domestically supplied and the exported products. The profit rate for the exported output is persistently double as compared to the rate for the domestically supplied output (16.1/8.7 in 1993 and 6.6/.6 in 1994). On the other side, this higher profitability is attenuated by the longer payment periods for the exported output, which are generally almost double as compared to the payment period for the domestically supplied output.

Domestic Environment for Exports

The major domestic impediments to export are the customs duty for the imported inputs, the cost of domestic credit and the long duration of getting bank credit. To a lesser extent, the company is harmed by the low quality of roads.

The present Romanian legislation discourages barter while this kind of arrangements would be essential for extending the company's activity.

As in many other cases, the company is squeezed by the rising prices for domestic inputs and the much slower devaluation of the leu.

Since the company desperately needs new investment in modern equipment, it would welcome the elimination of customs duties for modern equipment not produced in Romania. Another beneficial development would be if the State Ownership Fund would behave as a responsible owner, stopping for a while, until the company recovers, to cash its dividends.

The Foreign Environment for Exports

The company does not have a competitor intelligence system. As many of the other companies already analyzed, COMP14 is mainly relying in terms of business information on business partners and only to a very limited extent on market studies.

Company's competitors come from Italy, Sweden, Poland and the Czech Republic.

The company is mainly harmed on foreign markets by the lack of a permanent representative on company's major markets. To a lesser extent it is also harmed extent by unfair commercial practices and its own ignorance as concerns the price level and the commercial legislation on the foreign market.

The European Agreement is considered to have a positive impact on company's export performance as it would boost company's exports on a market where it is already successfully established.

COMP15

Background Information

The company was established in the early 1970s and it was turned into a commercial company in 1990.

COMP15 is producing household refrigerating appliances. The production started in the early 1970s according to a French Thompson license which was steadily improved and by now 100% "nationalized".

COMP15's turnover was 26.61 million USD in 1990, growing steadily to 33.25 million in 1991, 41.63 in 1992, 48.07 in 1993 and to 52.31 million in 1994. The capacity was fully used throughout the period. Labor force declined only slightly, from 4678 people in 1990 to 4388 in 1994. The profit rate was 3.6% in 1990, growing to a highest 19.5% in 1992 and declining afterwards to 11.7% in 1994. The company has virtually no debts, the share of short term credit in the working capital being 5.75% in 1994.

As of early 1995 the company is still state-owned, with 70% of the shares controlled by the State Ownership Fund and 30% by the Private Ownership Fund.

Company's traditional markets were until 1989 the EU (with 70% of total exports), Canada (10%) and China (20%).

Export Orientation

The company expanded strongly its exports throughout the analyzed period, from 20% of the total output in 1990 to 50% in 1994. The company became exclusively dependent on the EU market which accounts for 100% of the exports. This is a most remarkable evolution as total exports increased also in absolute terms. The loss of the Chinese market was explained by the comparatively easier transport to the EU. A long run foothold on that huge market could be connected to a direct investment there, something the company cannot afford yet.

All export is performed directly. Importers' involvement in the realization of the exported output is only marginal, comprising the supply of certain components and to a certain extent the sale of the product under the trade mark of the foreign partner.

Production for Export

Company's main strategic objective is to strengthen its position on the EU market and to start penetrating the middle and upper segments of the market using its own trade mark.

The same as the vast majority of the other companies, COMP15 sees the price and quality of the workforce as an utmost competitive edge, together with the internal technical capabilities to improve and innovate. The quality of the imported components and the closeness of the export markets are also seen as important competitive advantages.

The company is harmed by the high price of the raw materials and the high price and inferior quality of the Romanian components. The company made substantial efforts in the last years to diversify its domestic suppliers but the very intimate structure of the Romanian industry hardly allows dramatic changes in this respect. Shifting to foreign suppliers is not always possible due to the relatively high prices supplemented by customs duties; consequently, COMP15 prefers to import only components that are paramount to the quality of the final product.

There are no differences in terms of input usage between the exported and the domestically delivered outputs.

Company's output is oriented towards the middle to low end segment of the market, that is precisely the segment with the highest demand in the price-sensitive Romanian market. This is why the profit rate for the domestically delivered output was many times higher than the profitability of the exported output, the ratio between the two profitability levels being 4/0.5 in 1990, 19.5/4 in 1991, 22.6/5 in 1992, 20.5/3.5, 13/2.5 in 1993 and in 1994. Such enormous difference in profitability clearly shows that the company subsidizes its export competitiveness by capitalizing on the good domestic position. The cashing periods for the exported output are, however, longer than for the domestically delivered output.

Domestic Environment for Exports

The company's main domestic barriers to export are the customs duties to imported inputs, price controls, the frequent alterations of the commercial legislation, and in particular the taxation legislation and the long waiting periods at border-crossings. The company is also squeezed between the rising price of the domestic components and the much slower devaluation of the leu.

This is why the company would be in favor of an exchange rate used by the Central Bank to buy the hard currency from exporters indexed by the producers price index. Moreover, imported components to be incorporated in exported products should be considered as temporary imports and thus not taxed by the Customs Authority. The draw back (which is currently recording long delays) should be performed in 30 days for the most, while the formalities needed to obtain export credits from Eximbank should be drastically simplified.

The company does not consider its relationships with state administration either particularly harmful or helpful for company's export performance.

Foreign Environment for Exports

The relationships of the company with its partners are often tense. The market in this sector is extremely competitive, especially in the medium to low end segment where the company competes abroad. This offers the importers a substantial leverage for pressures in order to get lower prices. Moreover, in many cases, on the most profitable markets the company has virtually no image and it has to accept to sell its output under labels of other companies. The company is, however, forced to export in order to have the volume of activity needed to break-even and accumulate resources to replace its relatively old-fashioned equipment.

The company has no competitor intelligence system and it relies for market information on the contacts with business partners and on the information supplied by the company's representative in France. Specialized publications play an important role also, mainly for designing long-term strategies.

The company does not consider the foreign environment as hostile and it does not consider a certain barrier as having a very harmful impact. The main problems are actually connected with the insufficient information about the foreign environment, as well as a less competitive design of the products and very limited resources for advertising.

Company's main competitors are the Italian and German white goods producers, as well as the producers from Slovenia.

The Association Agreement is seen to have a positive impact, although the company thinks, after the first burst in exports, thanks to the free access to the EU, the resources for further growth in exports are rather inside the company than in the commercial regulations.

COMP16

Background Information

The company was established in the early 1970s and it was turned into a commercial company in 1990. It is state-owned, with 70% of the shares controlled by the State Ownership Fund and 30% by the Private Ownership Fund. COMP16 is going to be privatized in the framework of the Mass Privatization Program.

The company produces wooden furniture.

The turnover recorded a strong growth throughout the analyzed period. It accounted for 9.8 million USD in 1990, 10.77 million in 1991, 11.19 million in 1992, 14.15 million in 1993 and only 13.37 million in 1994. The capacity used oscillated from 82% in 1990 to 90% in 1992 and back to 82% in 1994. The number of staff decreased strongly from 4,197 people in 1990 to 3,273 in 1994, showing a clear upward trend in labor productivity, with the only exception of 1994 when productivity actually decreased. The capital stock accounted for 2.7 billion lei as of December 1993. The profit rate attained a highest in 1990 with 12.1%, declining steadily afterwards to 3.8% in 1994. The company has a high level of indebtedness, with short-term credit accounting for 70% of the working capital in 1994 while the short term outstanding payables to suppliers accounted for some extra 11% of the working capital.

Exports were directed until 1989 towards the EU mainly (68%), Japan, USA, South Africa, Canada (some extra 3%), with the remaining 29% of the exports directed towards the current CIS.

Export Orientation

The company exported in 1990 some 80% of its output, the share of the exported output in total sales declining afterwards to 17% in 1992 and climbing then to almost 70% in 1994.

Exports to the EU attained a highest 72% of total exports in 1992, declining to 63% in 1994. The share of the export to other developed countries (Canada, Japan, USA) remained marginal (under 4%) throughout the period. Most surprisingly (an unprecedented case so far) exports to the CIS expanded to 45% of total exports in 1993 and declined to 33% in 1994.

Three quarters of the exports are performed directly and only one quarter via intermediaries.

There is virtually no involvement of the importer in the realization of the export product, so that the result is exclusively the expression of company's manufacturing capacities.

Production for Export

The company plans to reduce its dependence on the EU market and to increase its exports on the markets of other developed countries, the USA and Canada mainly, whose combined share in total exports is planned to be at least 10% within the next five years. The share of the CIS market shall remain at the present level. The main investments COMP16 has to do in order to increase its export competitiveness are mainly in finishing equipment and in finding reliable top quality metal parts suppliers.

The company considers its competitive strengths mainly the price and quality of the workforce, together with the quality of the components supplied by foreign suppliers.

On the contrary, COMP16 seems to be seriously harmed by the price of the raw materials, especially *vis-à-vis* the pace of devaluation of the national currency. The outdatedness of the equipment is also a top barrier while the impact of the difficult access to foreign distribution channels and the quality of the Romanian components is less important.

The company claims no difference in terms of input usage between the products produced for the foreign and domestic markets.

The company reports persistently higher profits for the exported output than for the output supplied to the domestic market, although the gap is decreasing throughout the period (the ratio declined from 13.84/9.63 in 1990 and 10.85/5.68 in 1991, to 9.5/9.4 in 1992, 11.8/8 in 1993 and 9.1/8.4 in 1994), while in the same period the cashing delays for the exported output became longer than for the domestically delivered output.

No transfer from the domestically delivered output to the exported one can thus be presumed.

Domestic Environment for Exports

The landscape is the classic one as far as domestic barriers to exports are concerned. Company's fundamental impediments to export are the cost of domestic credit (early 1995 60% interest rate) and the high customs duties for inputs. To a lesser extent the company is harmed by the long waiting periods at border crossings and the low quality of both roads and railroad transport.

The company would very much welcome more facilities for barter trading, as that is seen as a very advantageous way to buy cheap wood without having to pass through all the procedures needed to buy hard currency on the interbank market.

The relationships with the state administration is considered to have a positive impact over the company's export performance.

Foreign Environment for Exports

The company has good relationships with its customers and intermediaries. Throughout the period it made substantial efforts to diversify its clients and the export markets, so that the leverage of the partners in terms of bargaining power over prices is limited.

The company's main competitors come from Italy and Poland.

The company does not have a competitor intelligence system. Its main sources of information are the personal contacts with the business partners and to a lesser extent the specialized publications and market research data.

The main foreign barriers to exports faced by the company are the lack of knowledge of price levels on the export market, on the business rules and the commercial legislation. The access to distribution channels is sometimes difficult. The conditions of payment by the foreign partners do not play an important role on the company's main markets. The only markets where the company faces difficulties are Ukraine and Belarus, where not only the purchase of hard currency by importers is extremely difficult but the banking system is shaky as well.

The Association Agreement is seen to have a positive influence on the company's sales, although the managers think the export expansion potential is limited due to the tough competition on the lower end of the market. To be able to target more upmarket segments the company should invest large resources.

COMP17

Background Information

The company was established in 1975. In 1990 it was turned into a commercial company and in 1991 it became a Romanian-Canadian joint venture owned 75% by the Romanian state and 25% by the Canadian investor. In 1993 the Canadian investor bought most of the stake owned by the state. The employees of the company bought 20% of the shares and 10% remained under the control of the Private Ownership Fund Moldova. In 1994 the Private Ownership Fund sold its 10% to the employees.

The company produces what is called "hard garments" that is men suits. The turnover was in 1990 9.61 million USD, followed by a decline to 6.32 million in 1991. The company grew steadily afterwards to 6.71 million USD in 1992, 8.66 in 1993 and 13.38 million in 1994. The workforce counted 1,911 people in 1990 and increased afterwards to 2,644 people until 1994. Capacity utilization was constantly 96–97% throughout the analyzed period. The profit rate was 8% in 1990 and mounted to 30% in 1991, declined to 28% in 1992–93 and went up again to 34% in 1994.

In 1989 the company was selling about 50% of the exported output to the EU and other developed countries (Canada mainly), and the other 50% to the current CIS (46%) and Middle East (5%).

Export Orientation

After 1989 the company strengthened very much its export orientation as the share of the output exported in total output increased form 60% in 1990 to 98% in 1994.

Most of the output is sold to the EU (almost entirely to Germany and the UK), whose share in the exported output increased from 7% in 1990 to 81% in 1994. 11–12% of the exported output were constantly sold to Canada. The sales to Middle East came down to zero in 1994, while the sales to the current East European Associated countries started in 1991 (4%) and accelerated to 8% in 1994.

Exports are 100% done by contractors under jobwork contracts. Obviously, contractors get involved in all stages of product development, from the supply of technical designs, specifications, etc., to co-financing the development expenses, supplying the raw materials, etc. Actually 90% of the inputs are imported. The products are entirely sold under the foreign partner's trade mark.

Production for Export

The company aims at securing its order file for at least two years from now on, via 2–3 years long contracts. It aims at expanding the output under the same jobwork contracts regime, based on the high quality of the output they can offer, thanks to the very high quality equipment the company is presently endowed with.

Company's main competitive strengths are the qualification of the workforce and the technological level of the equipment. The Canadian partner introduced actually state-of-the-art technologies such as computer-aided design and sawing of apparel components, computerized order system, etc. The company also considers as competitive advantages the cost of workforce, the proximity of the EU markets, the access to distribution channels and the quality and price of foreign components.

The company is harmed to a certain extent by the price of components supplied by the Romanian producers, at least as compared to their quality.

There is generally no difference between the input usage for the domestically supplied and exported output. The only difference is in terms of raw materials and components which are better for the exported output, although domestic deliveries are so marginal that their importance is very reduced.

The profit rate for the exported output is substantially higher than the profit on the domestically delivered output. Moreover the gap is growing dramatically throughout the analyzed period. Thus, the ratio between the two profit rates (for the exported and domestically delivered outputs) started at 4.8/3.2 in 1990 and went upwards to 22.8/7.2 in 1991, 22.4/5.6 in 1992, 26.6/1.4 in 1993 and 33.7/0.3 in 1994. In fact, as in 1994 the domestically delivered output declined to 2% of the output, this ratio lost its relevance, showing that in fact only unexportable goods are sold domestically. The cashing periods for the exported output are, however, double as compared to the output delivered domestically.

Domestic Environment for Export

Among the domestic impediments to export the company is most harmed by the cost of domestic credit and the low quality of roads. It is also affected to a lesser extent by the customs duties for inputs, the long duration of banking operations, the frequent modifications of the Romanian commercial legislation and the low quality of telecom services.

The company sees its relationships with the state administration as having a neutral or positive influence over its competitive capacity.

Foreign Environment for Exports

The company claims it has good relationships with its customers and the bargaining power of its clients over prices is reduced. It is, however, worth noticing that the whole output is bought by the foreign partner in the joint venture. Good relationships with the former are probably essential for the recent expansion of the firm. The decreasing value of the turnover while the share of capacity used did not decline throughout the period might show that the foreign partner has actually decided to apply rather low transfer prices, harming somewhat the interest of the other participants in the venture. This fact might hide some potential friction in the firm.

The company's competitors abroad are other Romanian firms, as well as Polish, Hungarian, Ukrainian, Turkish and Moroccan firms. As already mentioned, the company competes offering higher quality thanks to its very modern equipment.

The company subcontracted its market research and "client-hunting" to a specialized marketing firm, so it has in fact little to do with specific market information.

The company does not consider itself very seriously harmed by foreign barriers. The only impediments that create it some problems are the quantitative restrictions on the EU market. The firm is actually looking forward to 1998 when all quotas on textile imports of Romanian origin shall disappear in the EU.

The company considers the Association Agreement a very positive fact, since the implementation of the Agreement would offer additional space for growth, especially after 1998, that can shortly be fructified using the present competitive advantages of the firm.

The joint venture is considered by the management as essential for the present good situation of the company at all levels: financial situation, access to foreign markets, access to raw materials, components, access to high technology and training of employees.

COMP18

Background Information

The company was established in 1968. In November 1990 it was turned into a commercial company. In March 1993 it was entirely privatized via Management-Employees-Buy-Out (MEBO).

The company produces ready-made clothes (men's trousers). In 1990 its turnover amounted to 10 million USD, the same in 1991, declining to 7 million for the 1992–1994 period. The company used its capacity 100% throughout the period with a profit rate growing from 15% in 1990 to 34% in 1994. The number of staff grew from 1600 in 1990 to 2300 in 1993 and down again to 2100 in 1994.

The company has a reasonable level of indebtedness, with short-term bank credits amounting to 5% of the working capital in 1994.

Until 1989 the company traditionally exported 90% of the output to the EU and the remaining 10% to the USA and Canada.

Export Orientation

The company constantly exported 91–95% of its output throughout the period. Starting since 1991 all exports were directed to the EU.

The company works 100% under jobwork contracts. Obviously, importers get involved to a large extent in realizing the exported output. They supply designs, co-finance the development expenses, supply raw materials, packaging materials and assure transport.

Production for Export

The company sees jobwork as a means of getting accustomed to the constraints of Western markets and acquiring know-how. For the following five years the company is looking for long-term contracts in order to have a constant cashflow to support the technical upgrading now underway. COMP18 is making efforts to diversify its markets and contractors.

The company's main competitive strengths are the price and quality of the workforce and the good technological level of the equipment, thanks to the massive investment in the last years, especially since the company became private. The proximity of the export market is also seen as a competitive advantage, as well as the quality and price of foreign components.

There is no difference in terms of input usage between the exported and the domestically-delivered output.

The profit rate for the exported output is persistently above the one for the domestically-delivered output, with a growing gap throughout the period. The ratio between the two profit rates was 15/15 in 1990, growing afterwards to 17/15 in 1991, 35/15 in 1992, 34/15 in 1993 and 1994. The cashing periods for the exported output are longer but the gap is decreasing. In fact, the two cashing periods became equal in 1994.

Domestic Environment for Exports

The main domestic barriers to exports are seen to be the customs duties for the imported inputs and the high cost of domestic credit, together with the long waiting periods at border crossing and the low quality of roads.

The relationships with the state administration is seen as having a positive impact on the export performance of the company.

Foreign Environment for Exports

The company has sometimes tense relationships with its clients due to their strong position in bargaining over prices. The company is fundamentally dependent on several big contractors who supply all the inputs needed to work under jobwork contracts. It has an embryonic marketing division whose effectiveness is considered as satisfactory. The main sources of information are personal contacts with the business partners and the specialized publications.

The main impediments to export on the foreign markets are seen to be the quotas and tariff quotas, and to a lesser extent the lack of information on price and legal aspects of the foreign market, together with the low growth rate of the textile market in the EU. Moreover, the Asian competition seriously squeezes the profit margin of the company.

The Association Agreement is seen to have a very positive impact over the firm's business, especially after 1998 when the access to the EU market of textile products would be completely free.

COMP19

Background Information

The company was established in 1991 as a state-owned foreign trade company following the splitting up of a more diversified foreign trade company. It became private in May 1994 by Management-Employees-Buy-Out.

The company imports and exports ready-made clothes. It started its operations in 1991.

The company's turnover was 2.76 million USD in 1991, followed by 3.04 in 1992, 1.58 in 1993 and 0.9 million USD in 1994. The company employed 46 people in 1991, 64 in 1992–93 and 43 in 1994. The profit rate was 66% in 1991, 103% in 1994 and 38% in 1993, followed by losses in 1994. Short-term credit in total working capital decreased from 66% in 1992 to 57.6% in 1994. Outstanding payables to suppliers accounted for 1.5% in 1994.

Export Orientation

Exports accounted for 35% of the company's activity in 1991, 30% in 1992, 28% in 1993 and 32% in 1994.

In principle exports are entirely done towards the EU, with the only exception of 1992 when 70% of exports were directed towards China.

The company gets involved to a large extent in supplying designs, raw materials and assuring transportation for the exported goods.

Production for Export

Company's strategic objective is to diversify its markets and take advantage to a larger extent of its geographical location. Thus the company foresees the EU would decrease to only 10% of exports, while the USA and Canada would account for some other 10%. The most surprising (at least when taking into account what all other firms think) is the objective of the firm to export 50% towards the CIS and 30% towards Asia, mainly to China (20%).

The company sees as its competitive strengths the qualification of workforce.

In terms of input-usage, the goods exported by the company use definitely better inputs for the exported output. It is only for the raw materials that the difference is not important.

The profit rate for exports was half the profit rate for imports in 1991 and 1993, while in 1992 the two rates were equal.

Domestic Environment for Exports

The domestic barriers to export are, in the company's viewpoint, by far more important in harming exports than the foreign ones.

The company is harmed most of all by the customs duties and VAT for the inputs that are to be incorporated in the exported output, since they seriously affect the company's cashflow; it would make no difference in case a bank guarantee would be used. The company has to bear the opportunity cost of these duties and VAT in order to maintain good connections with its clients, manufacturing companies which are in many cases seriously short of cash.

The long waiting periods at border crossings are very much harming the business. Goods wait sometimes for weeks at border crossings, due both to corruption (some customs officers openly request to be "paid" to do the regular inspection) and to the fact that the touristic and small commercial traffic, on one side, and the regular freight traffic flows, on the other, are not separated.

The high cost of domestic credit is a barrier with disastrous effects on manufacturing companies: in spite of the fact they have contracts they do not manage to be profitable because their specific technology imposes very long production cycles. Export credits should thus be subsidized in accordance to the length of the production cycle.

The insufficiently detailed regulations, on the one hand, and the extremely frequent changes of the legal framework, on the other, are important barriers. The National Bank should make a difference between exporters who deliberately do not repatriate the hard currency and the ones who are not paid in due time, and the Bank should enforce fines only on the former. Export incentives should be based on laws and not on governmental decrees or even lower-rank regulations, which are too subjective, change too fast and do not assure the legal security of contracts.

Not surprisingly, taking into account the level of discontent on the part of the firm, the relationships are rated as bad with the Ministry of Trade and the Chamber of Commerce and very bad with the Customs Authority.

Foreign Environment for Exports

The company has often tense relationships with the foreign clients due mainly to their bargaining power over prices and delivery conditions.

The company asserts it managed to acquire a good core group of skilled people in market research whose activity is rated as good.

The company is most of all harmed by the tariffs and quotas and by sanitary and security regulations, packaging and labeling standards that create enormous difficulties for a small company that hardly has the resources to manage such amounts of information. The lack of skilled personnel is obvious in the firm, as it is also affected much by the lack of information on business rules abroad, commercial regulations and market trends. The most painful lack of information is, however, in the area of legal information.

The Association Agreement is said to have a neutral impact on company's performance in exports.

COMP20

Background Information

The company was established in 1950. It was turned into a commercial company in 1990 on the grounds of Law 15/1990. The company is still state-owned, with 70% of the shares controlled by the State Ownership Fund and 30% by the Private Ownership Fund. The company started the privatization process according to a Management-Employees-Buy-Out scheme.

The company exports and imports ball bearings and to a lesser extent spare parts for Romanian-made planes and helicopters exported before 1989. It works on commission for a large number of industrial firms.

The turnover was 109.22 million USD in 1990, falling to 7.94 million in 1991 and 48.8 million in 1992 and recording afterwards a certain recovery, with turnovers of 50.7 million USD in 1993 and 72.8 million in 1994. The company employed 173 people in 1990 and 156 in 1994. The profit rate grew from 0.16% in 1990–91, to 1.04% in 1992, 1.62% in 1993 and 1.16% in 1994. The company has a substantial indebtedness, as the ratio of outstanding debt to total working capital accounts for 60% in 1994.

The company traditionally exported before 1989 towards the EU (35%), USA (5%), the current East European Associated members of the EU (30%), the current CIS (10%), South-East Asia (5%) and Latin America (15%).

Export Orientation

COMP20's activity is dominated by exports. Exports represented 47% of company's activity in 1990, growing to over 70% in 1991–92 and attaining around 68% in 1993–94.

The main export directions changed dramatically, with the EU accounting for 47.6% of exports in 1994, while exports to USA accounted for another 18.2% in 1994. The share of the ex-COMECON countries (the present East European Associated countries and the CIS) decreased to nil, while South-East Asia increased its share to 15.5%. Latin America increased only slightly its share in total exports, to 18.5%. This pattern is more or less foreseen for the following five years, too, with the doubling of the share of other developed countries at the expense of the share held by Latin America. The Associated countries are only seen as markets of marginal importance.

Strengths and Weaknesses

The main strategic orientation of the company is to reconquer the markets in the CIS (especially Russia) and the Associated countries, as before 1989 Romania was the top producer in the COMECON thanks to the modern Japanese and German equipment its producing companies were endowed with.

The company sees as its main strengths the cost and quality of the workforce, allowing it to render a service at international standards.

The main weakness is the fact that all ball bearings producers are state owned and are suffering from all managerial weaknesses these kinds of firms are harmed by.

The company considers the products it exports do not differ in terms of input usage from those destined to the domestic market.

There are no differences in the profit rate for the export activity as compared to the import activity.

Domestic Environment for Export

The company sees as the main barriers on the domestic market the high cost of domestic credit and the customs duties for imported inputs which seriously harm the expansion of exports since Romanian inputs are not competitive enough and Romanian suppliers still can afford to deliver expensive and low quality inputs. The customs duties and VAT on inputs that are to be incorporated in exported goods should be eliminated and no guarantee should be asked for them or the guarantee for them should be made by the Eximbank with low interest credits. The company considers it appropriate that exports of raw materials and semifinished goods be allowed only after the necessities of Romanian producers are satisfied.

The company has orders for ball bearings that exceed the present capacity used by suppliers. It is, however, reluctant contracting credits guaranteed with texport contract as the company is not sure it can face the repayment schedule imposed by the bank and the presently very high interest rates.

Since unfair competition and monopolistic practices attained worrisome levels, the company would welcome to apply a whole set of regulations and institutions to protect competition according to the European patterns. (It is worth mentioning Romanian does not have yet a competition protection law, although it has a law preventing unfair competition).

The relationships with state institutions play no role in company's export performance.

Foreign Environment for Export

The relationships of the firm with its partners is directly connected with the degree of competition on the specific market. The tougher the competition, the more tense the relationships. The relationships with the Asian importers are, for example, better than the ones with the American importers, who operate on a much more demanding market and are thus pressing towards very high quality standards at the best price.

The company's main competitors are China (for the lower end), Russia, and Czech Republic.

The company's main sources of information about foreign markets are the personal contacts with business partners and specialized publications.

The company is most harmed on foreign markets by high tariffs and unfair commercial practices by competing firms (e.g., fake, very poor quality "Made in Romania" ball bearings actually manufactured in China).

The situation on the Russian market exemplifies a special barrier. In spite of the fact that in principle importers can obtain hard currency to import, the issuing of the import and export licenses is extremely difficult and hard to understand. The company had a representative located in Moscow until last year but he was inefficient since the whole range of commercial connections which supported the business before 1989 crumbled. It became almost impossible to get in touch with the real producers of steel, for example, in order to make a barter against ball bearings. The company can not explain this kind of behavior. Moreover, the suppliers in Russia that would be interested to engage in barter trade have often banks of dubious reputation. Anyway, barter trade would have a very limited room of expansion and the company would welcome the emergence of an institution able to carry out something similar to multilateral clearing.

The conditions of payment by partners are only important in the less liquid markets of the CIS.

The Association Agreement is seen as having a neutral impact on company's export performance.

8 SLOVAKIA

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Table 8.1 Profiles of the companies covered in the survey

	1993			1994							
Company	Turnover (mln. SKK)	Gross profit (mln. SKK)	Labor force	Turnover (mln. SKK)	Gross profit (mln. SKK)	Labor force	Exp. share[a] (%)	FNP share (%)	Privatization method	Main product	Main export markets
Chemolak	1,288.35	176.82	779	1,467.07	175.82	n.a.	37.2	0.0	VP	Chemicals	CR, Russia
Chirana Prema	2,696.10	156.30	n.a.	3,131.50	162.80	4111	77.7	0.0	VP	Medical equip.	CR, CIS, CEE
Chirana Exp-Imp	760.62	19.80	130	1,810.40	26.93	128	30.3	2.3	VP/Hldg	Trade	Former USSR
Gumon[b]	216.13	−5.11	380	181.47	−21.17	343	31.7	35.1	VP	Elec. insulation	D, WE
Henkel Palma	n.a.	n.a.	n.a.	1,015.60	34.10	250	30.0	0.0	JV	Detergents	CR
Hirocem	1,390.00	153.00	1020	1,496.00	129.00	874	60.0	29.0	JV/VP	Cement	D, NL, B, A
Hydronika	125.79	-60.87	468	166.45	−10.77	420	43.7	13.9	VP	Machinery	CR, D, F, Russia
Incheba[c]	386.40	78.80	n.a.	734.90	61.90	n.a.	59.9	0.0	DS/VP	Services	Europe
Kablo Bratislava	825.05	-154.17	500	1,038.28	−198.00	542	60.0	0.0	JV	Cables, conductors	CR, D, A
Kerametal	14,983.43	349.86	240	33,724.51	275.69	241	50.0	0.0	DS	Trade	n.a.
Omnia	1,217.40	21.50	212	1,797.00	41.85	220	56.4	0.0	DS/MBO	Trade	n.a.
Ozeta[b]	1,736.51	140.40	5809	1,990.79	101.29	5929	93.4	7.5	VP	Clothing	NL, US, D
Palma-Tumys	1,777.58	66.12	909	2,263.49	166.72	915	3.3	0.0	MBO	Vegetable oils	CR, CIS, CEE
Plastika	1,494.75	139.07	1320	1,647.40	143.71	1264	55.0	0.0	VP	Plastics	CR, PL, D
Protetika	100.33	12.62	n.a.	126.49	11.98	303	29.6	43.8	VP	Rehabil. aids	CR
Slovakofarma	3,008.00	727.00	2073	3,650.00	674.00	2100	73.0	0.0	MBO/VP	Pharmaceuticals	CR, D, Russia, PL
Slovnaft	27,988.00	1,611.00	6653	33,144.00	3,143.00	5716	49.3	73.0	SP/VP	Petrochem. prod.	CR, H, A, D
TOS Trencín	495.20	n.a.	1791	575.30	−4.12	1394	95.0	49.3	VP	Machine tools	Europe, dvlpg coun.
VW Bratislava[d]	1,668.00	n.a.	467	4,000.00	n.a.	806	94.6	0.0	JV	Auto. assembly	I, D,
VSZ Kosice	25,518.58	1,904.48	25624	29,404.27	3,841.15	25242	84.2	25.0	VP/MBO	Metallurgy	CR, EU

Abbreviations: SKK = Slovak koruny; n.a. = Not available; FNP = Fund of National Property; VP = Voucher privatization; DS = Direct sale to a selected investor or investors; Hldg = Enterprise is part of holding company, significant stake owned by mother company; JV = Joint venture with significant foreign participation; MBO = Management buy-out; SP = Significant state participation; CR = Czech Republic; CIS = Commonwealth of Independent States; CEE = Central and Eastern Europe; EU = European Union; WE = Western Europe; D = Germany; A = Austria; NL = Netherlands; PL = Poland; H = Hungary; I = Italy; Turnover = Sum of revenues from ordinary business activities; Gross profit = profit before tax, excluding extraordinary items.

[a]Unless otherwise specified, exports share includes exports to the Czech Republic.

[b]Exports not including the Czech Republic.

[c]Exports share calculated on basis of total rented exhibition area.

[d]Exports share calculated on basis of number sold.

General Explanatory Notes

Readers should apply caution when comparing the data presented in tables for subsequent years. The accounting and reporting regulations and methodology changed several times since 1988. The most important change occurred as of beginning of 1993 when a substantial accounting reform took effect. In addition, most of the enterprises presented here underwent transformation including changes of legal form. That implied that somewhat different accounting and reporting procedures were to be applied before and after the change. Finally, and most importantly, many of the enterprises presented below underwent changes of internal structure when one or more units were taken out of the enterprise and transformed into independent entities. Although we applied extreme care to filter out the effects of such events, this was not always possible.

The information and data presented for the individual enterprises stems mainly from the annual reports, information material provided by the management, and from personal interviews. However, information from other sources such as press was also used when appropriate.

Unless otherwise specified, the figures accompanying the case studies are denominated in Czechoslovak korunas (CSK) for the period until end of 1992 and Slovak korunas (SKK) after 1993. To save space, only the SKK symbol is used in certain tables and the CSK symbol is omitted.

The most important data for the enterprises presented in this section are summarized in Table 8.1.

The content of certain items presented in the Key Figures Tables of the case studies is as follows:

Turnover:	Sum of revenues from ordinary business activities;
Gross Profit:	Profit before tax excluding extraordinary items.

The following abbreviations and symbols are used throughout the text:

FNP	Fund of National Property
RIF	Restitution Investment Fund
CMEA	Council for Mutual Economic Assistance (COMECON)
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
FSU	Former Soviet Union
SR	Slovak Republic
EU	European Union
a.s.	Slovak abbreviation indicating that the enterprise's legal form is joint-stock company
s.r.o.	Slovak abbreviation indicating that the enterprise's legal form is limited liability company
s.p.	Slovak abbreviation indicating that the enterprise's legal form is state enterprise.

Chemolak a.s., Smolenice

Introduction

Chemolak a.s. Smolenice is the most important Slovak producer of synthetic paints, lacquers. glues and related products. The company also enjoys a dominant position in the Czech Republic. With the size of its annual turnover, Chemolak places in the second half of the top one hundred Slovak enterprises (it ranked 57th in 1994 and 65th in 1993, according to the TREND TOP 100 chart of Slovak companies, TREND 25/95, p. 3C). Chemolak is located in Smolenice in Western Slovakia.

History, Transformation and Ownership

Chemolak was originally founded in 1883. The enterprise from the very beginning engaged in chemical production. Since 1929, natural and synthetic paints and lacquers became the primary output and this orientation has been retained until present.

The enterprise was nationalized after the World War II. The present production facilities were completed in 1964 few kilometers from the original factory. In 1992, the state-owned enterprise was transformed into a joint-stock company and privatized using the voucher method. Presently, 28% of the shares are held by individuals while 69% are held by investment funds. The shares of the company are publicly traded and belong to the most liquid ones.

Table 8.2: Ownership Structure (%)

Chemolak a.s.	VP[a]	1994
Institutional Investors	65	69
Individuals	30	28
Fund of National Property	2	0
Restitution Investment Fund	3	3

[a]Refers to the ownership structure resulting from the voucher privatization.

Since 1992, Chemolak undertook several strategic investments to support distribution and marketing of its products. The company has a majority in companies responsible for distribution of its products, such as Triton s.r.o. Bratislava, Chemolak Moravia s.r.o. Zlín and Chemolak Bohemia s.r.o. Liberec. The stake of Chemolak is 51% in all three enterprises.

Key Figures

Table 8.3: Key Figures, Chemolak a.s. Smolenice

Chemolak a.s.	Unit	1990	1991	1992	1993	1994
Turnover	SKK mn	1066.08	1330.76	1479.16	1288.35	1467.07
Gross Profit	SKK mn	135.75	214.62	162.47	176.20	175.82
Total Assets	SKK mn	n.a.	1035.49	981.37	1081.29	1232.13
Equity	SKK mn	n.a.	571.65	625.88	761.78	776.32
Liabilities	SKK mn	n.a.	463.84	355.49	319.51	455.81
Accounts Receivable	SKK mn	n.a.	340.84	261.24	274.68	250.20
Inventory	SKK mn	n.a.	232.71	262.89	208.08	250.93
Labor Force		n.a.	838	808	779	
Profit/Turnover	%	12.73	16.13	10.98	13.68	11.98
Profit/Assets	%		20.73	16.56	16.30	14.27
Turnover/Assets	%		128.52	150.72	119.15	119.07
Net Profit/Share	SKK	61.00	183.00	138.85	164.93	206.68

Characteristics of Production

The output of Chemolak consists of paints, dilutions, lacquers, adhesives, synthetic resins as well as other products. Overall, the company's output comprises some 700 products in 1300 variations. Over 60% of the total output is accounted for by paints. Chemolak is the dominant producer of paints, synthetic resins and glues in Slovakia and in the Czech Republic. Chemolak currently sells about 70% of the total consumption in Slovakia and 50% in the Czech Republic.

Table 8.4: Commodity Structure of Output

Output (tons)	1991	%	1992	%	1993	%	1994	%
Paints	29796	63.62	29517	59.95	21760	60.24	23862	63.27
Dilutions	7726	16.50	9133	18.55	5876	16.27	6980	18.51
Lacquers	3229	6.89	3826	7.77	2484	6.88	2996	7.94
Adhesives	2037	4.35	1461	2.97	3711	10.27	2015	5.34
Synthetic Resins	2765	5.90	3961	8.05	1227	3.40	756	2.00
Other Coat Paints	1283	2.74	1336	2.71	1065	2.95	1104	2.93
Total (tons)	46836	100.00	49234	100.00	36123	100.00	37713	100.00
Total (SKK mn)	1196.7		1384.0		1209.8		1410.9	

Export Orientation

Chemolak has always been oriented mainly toward the production for the Czechoslovak market. The exports to other countries accounted for a minor part of the total sales — ranging from 7% to 12% (see Table 8.5). The main destination of exports has been the former Soviet Union, especially Russia. Nevertheless, the volume of exports to Russia declined substantially, from some 10,000 tons prior to 1989 to 1,500 tons in 1994 (the forecast for 1995 is 2,500–3,000 tons). The share of Russia in total exports hence declines as well — while it accounted for some 80% of total exports prior to 1989, its share in 1994 was less than 50%. The reasons for this decline lie especially in the instability of the Russian market as well as in the loss of the institutional support to exports and coordination provided by the CMEA. The fall in trade with Russia and the former Soviet Union contributed also to the overall decline of exports after 1990.

Other important destinations of the exports of Chemolak are Bulgaria, Croatia and Lithuania, in a smaller extent Poland and Hungary. Exports to Western Europe and other developed countries are rather small.

Table 8.5: Break-up of Sales

	1991		1992		1993		1994	
Sales	tons	SKK mn	tons	SKK mn %	tons	SKK mn %	tons	SKK mn %
Total Sales	46557	1308.3	49868	1509.0 100.0	35889	1493.7 100.0	37685	1724.1 100.0
Czechoslovakia	46557	1308.3	44260	1333.1 88.3	34035	1406.2 94.1	34485	1596.5 92.5
Slovakia	n.a.	n.a.	n.a.	n.a. n.a.	21670	896.0 60.0	23264	1084.2 62.9
Czech R.	n.a.	n.a.	n.a.	n.a. n.a.	12365	510.2 34.2	11221	511.3 29.7
Exports	0	0.0	5608	175.9 11.7	1854	87.5 5.9	3200	128.6 7.5

Prior to 1990, the exports of Chemolak were centrally coordinated. Since the company was not allowed to export directly, it used so-called foreign trade enterprises (FTE): Chemapol Prague, Petrimex Prague and Technopol Bratislava. After the deregulation of the foreign trade in 1990, Chemolak continued to use the foreign trade enterprises until 1991. Nonetheless, the company started to engage in exports also directly in 1992 and the share of indirect exports has been falling gradually ever since then. The main reason for this change should be seen in the demise of the CMEA. Due to the growing instability following the CMEA collapse, the FTE's lost their strong positions at the markets of CEE and the former Soviet Union and they could no longer secure the necessary volumes of export at conditions favorable to Chemolak.

Presently, Chemolak is strengthening its position by founding joint ventures for the distribution of its products. Up to the date, Chemolak has a majority (51%) in one such company in Slovakia and in two joint ventures in the Czech Republic. However, Chemolak does not currently dispose over sufficient funds to use the same approach in other countries as well.

Most of the trade partners of Chemolak abroad are wholesalers. The exported products are mostly small packages determined for retail. So far, the company was not very successful in selling its products directly to the industrial enterprises that could use also large-volume packages. On the other hand, in former Czechoslovakia, about half of the total sales is to the industrial enterprises. More than half of the exports (about 65%) are based on long-term contracts. The rest is composed of ad hoc contracts and seasonal variations.

Production for Exports

The quality of the products of Chemolak conforms to the Western European standards. Chemolak expects currently to be awarded the ISO 9001 quality management certificate. However, marketing and advertisement for the products are not at a sufficient level. The prices are in general lower than those of the foreign competitors. Overall, the profitability is higher in the case of exported products than for the products supplied for the domestic market.

According to the management, the optimum volume of exports is in the current conditions about 5,000 tons annually. This could be increased only in case the political and economic situation in Russia and former Yugoslavia stabilizes and improves substantially. An additional increase of exports would be possible also if the tariffs were lower in Poland and Hungary. The exports to Western Europe will probably remain low due to the absence of tradition and contacts.

Domestic Environment for Exports

The exports of Chemolak are not subjected to export licensing in Slovakia. The enterprise occasionally has had problems with insolvency. In such cases, there were temporary fall backs in the production since the company was not able to pay for the inputs. However, these problems were caused in fact by the difficulties Chemolak had in collecting payments on its claims.

Foreign Environment for Exports

The most important restriction for the exports of Chemolak is presented by the level of tariffs. This is especially the case in Hungary, Poland and Romania. While in most countries where Chemolak exports the tariffs do not exceed 10%, in Hungary there is a 8.9% import tariff and an 8% import surcharge. In addition, in the spring of 1995 the Hungarian currency was devalued by 9%. In Poland, the import tariff is 8.7% and there is also so-called border fee of 5%. On the other hand, the tariffs are 0–5% in Russia and 0–1% in the Baltics. For comparison, the import tariffs in Slovakia range from 1.9% to 7.7% (all information in this paragraph was provided by the management).

The exports to Western Europe are mainly restricted by the requirements of quality certificates and strict requirements on environment protection. Furthermore, the competition is quite intense in Western Europe. The company also feels that there is a certain aversion or doubt toward the products from CEE among the consumers in Western Europe. For this reason, Chemolak attempted to export also in cooperation with Western European producers and under the name of the foreign partner.

The payments conditions and the ability to make payments is quite important for Chemolak since most of its exports are to the former Soviet Union and CEE where the payments discipline is particularly bad. Chemolak therefore usually requires an advance payment or a bank guarantee on payment. Only traditional partners can enjoy longer payment periods (17 to 50 days), although there is often an upper limit on the outstanding liability (usually USD 50,000). Chemolak is usually able to obtain sufficient export credit financing.

The split of Czechoslovakia resulted in a decline in sales to small and medium firms while the company was able to retain the larger clients. However, the trend of losing small customers should be stopped by the activities of the daughter companies that Chemolak established in the Czech Republic.

Chirana Prema a.s., Stará Turá

Introduction

Chirana Prema a.s. Stará Turá along with its daughter companies is the major producer of medical equipment and supplies and measuring devices in Slovakia. Its products include medical equipment such as dental equipment, x-ray equipment, anaesthesiological equipment, etc.; medical supplies — in particular disposable injection needles and syringes; and measuring devices for household or industrial use. With the size of its total consolidated turnover Chirana-Prema ranked 49th in 1994 and 28th in 1993 in the TREND TOP 100 chart of Slovak companies (TREND 25/95, p. 3C). Chirana Prema a.s. is located in Stará Turá, in North-Western Slovakia.

History, Transformation and Ownership

Chirana Prema was originally founded in 1935 under the name Michera. The company then produced water meters, gas meters and other related metallic products. During World War II the company reoriented temporarily to production of ammunition. Production of measuring devices was resumed after the war. In 1947, the company started to produce also medical equipment. This orientation was retained until present.

After the nationalization following the war, Chirana Prema evolved to a concern enterprise. The company was associated with other related state-owned enterprises so as to create a single concern enterprise exercising control over enterprises throughout entire Czechoslovakia. After 1990, Chirana Prema underwent a vast transformation and restructuring. Several enterprises were taken out of the concern enterprise and transformed into independent joint-stock companies and were privatized later. Chirana Prema retained a minor stake in some of them, though. Other units were transformed to daughter companies with a 100% or a majority stake owned by Chirana Prema. The daughter companies as well as related companies cooperate closely with the parent company and with each other. Chirana Prema itself was transformed to a holding type company. At the same time, the company was put into the first wave of the voucher privatization. The shares in the company were acquired by a total of 29,256 individual investors and 50 investment funds. The ownership structure after the end of voucher privatization (VP) and its later development is displayed in Table 8.6:

Table 8.6: Ownership Structure and Its Development (%)

Chirana Prema a.s.	VP	1993	1994
Fund of National Property	7.6	0.0	0.0
Individual Investors	37.3	35.7	29.9
Institutional Investors	55.2	64.3	70.2
Österreichische Kontrolbank	0.0	0.0	20.8
VUB Invest a.s.	12.9	12.9	12.0
PSIS a.s.	6.8	7.1	7.2
SCI a.s.	6.6	6.6	6.6
Istroinvest a.s.	12.5	12.5	4.6
Other institutional investors	16.6	25.2	19.1

The internal structure of Chirana Prema is presently based on two organizational levels: divisions and daughter companies. The first level consists of seven production divisions according to the main product lines: medical equipment, injection supplies, technical services, tools and instruments and finally commercial services. The individual divisions are not independent entities in a legal sense but enjoy a significant degree of autonomy and can enter into contractual relationships individually.

The second level includes companies with a majority stake or a significant stake held by Chirana Prema. The most important ones are, according to main area of business:

Production: Premex s.r.o. (100% owned by Chirana Prema), Chiradelta a.s. Humenné (100%), Premagas s.r.o. (49%) and Justur s.r.o. (40%);

Services: Chiros a.s. Piestany (100%), Management School Stará Turá s.r.o. (65%), Chirana Leasing s.r.o. (66.7%), Chirasys s.r.o. (51%) and Premaress s.r.o. (52%);

Trade: Chirana Export-Import a.s. Piestany (49%), Chirex-Prema s.r.o. Prague (100%), Fordent Dental Depot s.r.o. Olomouc, Czech Republic (29%), Chirana-Prema GmbH Aachen, Germany (49%), Chirana Baltic Zp. z o.o. Warsaw, Poland (60%), Chirana Hungaria Kft. Budapest (25%) and Chirana-Prema AOZT., Moscow, Russia (51%).

See also the case study of Chirana Export-Import a.s., Piestany, for a related enterprise.

Key Figures

Table 8.7: Key Figures, Chirana Prema a.s. Stará Turá consolidated

Key Figures	Unit	1989	1990	1991	1992	1993	1994
Turnover	SKK mn	1043.0	1154.0	2309.0	1900.7	2696.1	3131.5
Gross Profit	SKK mn	151.0	114.0	428.0	13.6	156.3	162.8
Total Assets	SKK mn				3723.93	2889.34	3349.53
Equity	SKK mn				1545.48	1129.27	1197.37
Long-Term Liabilities	SKK mn				365.61	535.87	800.76
Current Liabilities	SKK mn				1812.84	1224.20	1351.39
Accounts Receivable	SKK mn				1 440.78	760.56	671.54
Inventory	SKK mn				387.42	550.67	550.29
Labor Force		5777	5929	5680	4472		4111
Profit/Turnover	%	14.48	9.88	18.54	0.71	5.80	5.20
Profit/Assets	%				0.36	5.41	4.86
Turnover/Assets	%				51.04	93.31	93.49
Net Profit/Share	SKK				–41.67	59.48	78.37

Characteristics of Production

Chirana Prema along with its daughter companies is the most important producer of medical equipment and measuring devices in Slovakia. The output of Chirana Prema can be divided into three categories: medical equipment (dental equipment, x-ray equipment, equipment for emergency staff and ambulances, anaesthesiological equipment, electrocardiographs, disposable syringes and needles, special needles); measuring devices for industrial and household use (water meters, heat meters, gas meters, pressure gauges); and other products. The structure of output in recent years is displayed in Table 8.8.

Table 8.8: Commodity Structure of Sales, Chirana Prema — consolidated

Sales Structure (SKK mn)	1992	%	1993	%	1994	%
Total Sales	1847.7	100.0	1380.7	100.0	1660.9	100.0
Medical Equipment	736.6	39.9	747.8	54.2	1107.6	66.7
Dental Equipment	308.8	16.7	380.7	27.6	590.7	35.6
General Medical Equipment	87.9	4.8	68.3	4.9	115.2	6.9
X-Ray Equipment	50.5	2.7	38.8	2.8	13.0	0.8
Injection Supplies & Other	289.4	15.7	260	18.8	388.7	23.4
Measuring Devices	872.4	47.2	565.9	41.0	526.9	31.7
Gas Meters	389.7	21.1	298.9	21.6	216.8	13.1
Pressure Meters	52.8	2.9	32.9	2.4	17.6	1.1
Water & Heat Meters	429.9	23.3	234.1	17.0	292.5	17.6
Other Products	238.7	12.9	67	4.9	26.4	1.6

Table 8.9 presents the composition of the Group output by the main enterprises. (However, it should be noted that the data are not perfectly comparable with the data in the other tables due to different accounting and consolidation methodology applied. Data for 1994 are not available here.)

Table 8.9: Structure of the Group Output by Main Companies

Group Turnover (SKK mn)	1992	%	1993	%
Total Turnover	1900.7	100.0	2111.9	100.0
Chirana Prema a.s.	777.7	40.9	803.8	38.1
Premex s.r.o.	429.9	22.6	357.2	16.9
Premagas s.r.o.	442.5	23.3	677.7	32.1
Chiradelta a.s.	151.0	7.9	185.6	8.8
Chiros a.s.	99.6	5.2	87.6	4.1

Export Orientation

The export orientation of Chirana Prema is substantial. Overall, about 40% of the total output of the Group is exported at present, not including exports to the Czech Republic, or 70% with the Czech Republic (see Table 8.10). The export shares range from about 50% to as much as 90% for individual product groups while these shares used to be 10–60% in the past. The export orientation has increased since 1989 by nearly ten percentage points (without the Czech Republic).

Table 8.10: Destinations of Sales, Chirana-Prema Group

Destinations (SKK mn)	1989	1990	1991	1992	1993	1994
Total Sales	1043.0	1154.0	2309.0	1900.7	1380.7	1660.9
Czechoslovakia	705.0	790.0	1493.0	1399.5	1229.1	902.4
Slovakia	n.a.	n.a.	n.a.	585.5	622.2	370.9
Czech Republic	n.a.	n.a.	n.a.	814.0	606.9	531.5
Exports	338.0	364.0	816.0	501.2	882.8	758.5
Destinations (%)						
Total Sales	100.0	100.0	100.0	100.0	100.0	100.0
Czechoslovakia	67.6	68.5	64.7	73.6	89.0	54.3
Slovakia	n.a.	n.a.	n.a.	30.8	45.1	22.3
Czech Republic	n.a.	n.a.	n.a.	42.8	44.0	32.0
Exports	32.4	31.5	35.3	26.4	63.9	45.7

The most important destination of the exports of Chirana-Prema Group has been traditionally the former USSR and other countries of CEE (see Table 8.11). Significant portion of exports has been supplied also to developing countries. These two destinations retained importance also after 1990. On the other hand, while the share of exports to the developed countries (in particular Western Europe) increased after 1990, this increase was not very substantial.

The main reasons for the orientation toward Eastern European and developing countries are the strong competition in Western European countries and the quality of the products. With respect to the latter, while certain products reach the quality level of the competition in developed countries, other products are only of an average quality and do not hence completely satisfy requirements common in the developed countries. The main factor determining the quality is the level of technology. For example, the technology used in the production of disposable medical supplies is perfectly up to date and this product line is relatively successful at the Western markets as well. On the other hand, other products are not completely up to the Western standards but are quite successful at the Eastern markets due to their lower prices. In fact, since the requirements and preferences in the CEE and FSU countries are frequently different, Chirana-Prema thus can supply these markets with the quality they need at the prices they can afford. In general, the prices reflect the quality of the products. The company is planning to update the existing production technology gradually in the near future.

The most important future risks are embodied in the high dependence of the company on the former Soviet Union and the unclear political and economic developments there. In the future, the management of Chirana Prema would like to decrease this dependence. This should happen by retaining the absolute volume of the exports to this territory while lowering its relative share in total exports. In particular, good prospects are expected in China, Vietnam and India. The increase of exports volume along with a revival of the domestic market should make it possible for Chirana Prema to more than double the present turnover of the Group within the next five years.

Table 8.11: Structure of Exports of Chirana Group by Regions and Countries (%)

Region:	1989	1990	1991	1992		
Former CMEA	57.81	56.20	74.39	50.45		
Developed Countries	5.94	7.92	6.27	25.89		
Other Countries	36.25	35.88	19.35	23.66		
Total	100.0	100.0	100.0	100.0		
Country:				1992	1993	1994
CIS				38.99	33.33	37.14
Iran				19.71	29.21	4.29
Lithuania				3.11	15.42	n.a.
Poland				11.79	9.64	17.14
Germany				13.07	4.85	7.14
Ukraine				1.20	1.43	n.a.
Hungary				1.24	1.17	n.a.
Austria				2.53	1.02	n.a.
Other Countries				8.36	3.94	34.29
Total				100.0	100.0	100.0

The exports of the Chirana Group are channeled primarily through daughter and associated companies of Chirana Prema. These are Chirana Baltic-Poland, Chirana Hungaria, Chirana Deutschland-Germany, Chirana Prema East-Russia and Chirana Export-Import Piestany-Slovakia. Some 15-20% of exports are carried out by mediators from outside the Group. Unlike most of the Slovak industrial enterprises, Chirana Prema organized its exports directly also prior to 1990. This was because Chirana Export-Import, then still part of the Chirana concern enterprise, had a status of a "foreign-trade enterprise".

Most of exports of the Group are based on quarterly adjusted annual contracts and three to five year outlooks.

Production for Exports

The quality of the exported products differs. While certain products are perfectly competitive with the most advanced products, a majority of them is merely average. The prices then reflect the quality level. There are no significant differences between products determined for the domestic market and exports. In general, all product categories are also exported, with the share of exports presently ranging from 50 to 90%.

The most successful export item of Chirana Prema are disposable injection supplies and dental equipment. The quality of these product lines is high and the products are also exported to Western Europe. Chirana Prema has a 10% market share in Germany and 20% in France in the disposable injection supplies.

Domestic Environment for Exports

The exports of the Chirana-Prema Group are not directly restricted. However, the management of the company feels the government export policy is far from being sufficient. The domestic market is characterized with a relatively low degree of import protection. In addition, government contracts are often awarded to foreign producers who can accept delayed payments and/or offer financing arrangements. The active involvement of the government is also absent in the area of export financing and providing export guarantees and/or insurance. Finally, the government could do more in the tax legislature. In fact, expenses for certain marketing activities and promotion are presently not tax deductible and are thus paid from the after-tax profit (those are for example direct mail marketing and training of the dealers who are not employees of the company).

Foreign Environment for Exports

The most important foreign restrictions faced by Chirana Group are the indirect ones: requirement of quality certificates and unfavorable payments conditions. The former mainly causes administrative delay and additional expense. Presently, after the split of the USSR, the company must actually apply for a separate registration and quality certificate in every republic where it exports. This further increases the administrative troubles. As for unfavorable payment conditions, some buyers require long payment periods. Chirana Prema is not always in the position to enable this. Direct restrictions are not very significant.

Chirana Prema was quite adversely affected by the collapse of the CMEA. This implied in particular the end of large-volume long term deliveries, especially to the USSR. Initially, the volume of exports declined due to the change in the organization of exports and the absence of the government coordination. The volumes rose later and presently even exceed the 1989 level.

The split of the Czechoslovak Federation brought about especially increased bureaucracy. The company found it also more difficult to face foreign, particularly German competition. However, a deeper decline was prevented by the customs union and by the extensive dealership network of Chirana Prema.

Chirana Export-Import a.s., Piestany

Introduction

Chirana Export-Imports a.s. Piestany is a trading company specializing in exports and imports of medical and dental equipment and supplies. Major part of the exports is presently realized with Russia. According to its total annual turnover, Chirana Export-Import ranked 43rd in 1994 in the TREND TOP 100 chart of the Slovak enterprises (TREND 25/95, p. 3C). Chirana Export-Import is located in Piestany, a well-known spa resort in Western Slovakia.

History, Transformation and Ownership

Chirana Export-Import was founded in 1969 as a part of Chirana Concern (a group of state-owned enterprises producing medical and dental equipment and supplies as well as some other products, with headquarters in Stará Turá, about 30 km away from Piestany). The original task of Chirana Export-Import was exporting the products of the enterprises associated in the Chirana Concern — this included enterprises throughout Czechoslovakia. Since 1983, Chirana Export-Import became also responsible for imports of medical equipment. The enterprise had exclusive right for both exports and imports of medical equipment and supplies in Czechoslovakia until 1990.

In 1991, the enterprise was transformed into an independent joint-stock company. Nevertheless, the close relationship to the former concern enterprise remained as the former headquarters, Chirana Prema a.s., Stará Turá (present name), became with 48.6% the major shareholder in Chirana Export-Import. Part of the shares was also distributed through the voucher privatization scheme. Finally, stakes in the company were also acquired by other enterprises, an outside investor and employees. Overall, the ownership structure is as displayed by Table 8.12:

Table 8.12: Ownership Structure, Chirana Export-Import a.s. (%)

Ownership Structure	1993	1994
Chirana Prema a.s. Stará Turá	48.58	48.58
Mr. Marták	11.84	11.84
Incheba a.s. Bratislava	9.81	9.81
Employees	6.28	6.22
Fund of National Property	2.26	2.26
Medi-Invest Slovakia s.r.o.	0.00	2.24
Chirana BMT Brno	0.65	0.65
Individuals from Voucher Privatization	20.58	18.40

Chirana Export-Import further owns stakes in several daughter companies and joint ventures — out of those seven are in Slovakia and ten abroad (in the following countries: Czech Republic, Poland, Hungary, Austria, Ukraine, Russia and Egypt).

See also the case study of Chirana Prema a.s. Stará Turá, for a related enterprise.

Key Figures

Table 8.13: Key Figures, Chirana Export-Import a.s., Piestany

Key Figures	Unit	1990	1991	1992	1993	1994
Turnover	SKK mn	2999.88	2560.41	1086.34	760.62	1810.40
Gross Profit	SKK mn	24.83	16.72	17.16	19.80	26.93
Total Assets	SKK mn	734.42	999.59	1110.12	743.18	1724.69
Equity	SKK mn	n.a.	n.a.	67.34	78.97	82.26
Long-Term Liabilities	SKK mn	n.a.	n.a.	0.00	20.50	834.50
Current Liabilities	SKK mn	n.a.	776.56	1042.79	643.71	807.94
Accounts Receivable	SKK mn	621.14	1136.61	955.88	626.27	419.01
Inventory	SKK mn	24.85	3.31	27.15	62.50	121.52
Labor Force		246	207	135	130	128
Profit/Turnover	%	0.83	0.65	1.58	2.60	1.49
Profit/Assets	%	3.38	1.67	1.55	2.66	1.56
Turnover/Assets	%	408.47	256.15	97.86	102.35	104.97
Net Profit/Share	SKK	303.10	262.30	255.88	167.84	144.01

Note: The increase in the total assets between 1993 and 1994 is reflected primarily in increases of long-term liabilities (see above) and long-term receivables (from SKK 333 mn. to SKK 1068 mn.). However, we were not able to determine the specific reasons for these increases.

Characteristics of Turnover and Exports

Chirana Export-Import, as a trading firm, does not produce any products itself. Instead, it acts as a mediator selling products of other industrial enterprises. Originally, the company was holding a monopoly position in exports and imports of medical equipment and supplies for entire Czechoslovakia. This commodity structure was granted by the central regulation of the foreign trade. After the regulation was canceled in 1990, medical equipment and supplies remained the main part of the turnover of Chirana Export-Import. Nevertheless, the company started to deal with other commodities as well. These are currently not of great importance to the overall turnover of the company, though, and often are realized on an ad hoc basis.

Until 1990, the turnover used to be SKK 2–3 billion annually. This declined after 1990 significantly. The decline could be attributed to two facts: (1) loss of the exclusive right to export and import medical equipment and supplies and (2) collapse of the CMEA and subsequent weakening of the company's position in these markets. With respect to the latter, Chirana Export-Import particularly suffered from the absence of an appropriate payments mechanism.

Besides the absolute fall-back in turnover, the relative structure of turnover changed as well. Until 1990, the shares of exports and imports were roughly equal, 50%. In recent years, the share of exports increased to some 70 to 80% (see Table 8.14). It should be noted, however, that the variations in individual years result in part from one-time large-amount transactions (such as imports of expensive advanced hospital equipment).

Table 8.14: Structure of Turnover, Chirana Export-Import a.s. Piestany

Structure of Turnover (SKK mn)	1990	1991	1992	1993	1994
Total Turnover	2999.88	2560.41	1086.34	760.62	1810.40
Export	1050.40	1248.49	853.10	630.38	547.77
Import	1939.48	1301.49	219.57	119.04	1242.99
Domestic Sales	0.00	10.43	13.68	11.20	19.61
Export (%)	35.01	48.76	78.53	82.88	30.26
Import (%)	64.65	50.83	20.21	15.65	68.66
Domestic Sales (%)	0.00	0.41	1.26	1.47	1.08

The regional structure of exports (see Table 8.15) did not change substantially despite the changes that came along after 1989. Instead, the absolute volume of exports decreased while the relative structure did not change too much. Interestingly enough, the share of exports to developed countries did not increase (and even declined in some years) despite the general opening of the markets in these countries. This is to some degree caused by the changes in commercial policies of some Slovak clients of Chirana Export-Import. These companies started to pursue exports to certain countries and/or regions directly while they relied on Chirana Export-Import when exporting to other countries. In effect, some of the producers took over the responsibility for exporting to Western Europe which brought about a reduction of the exports of Chirana Export-Import to this region.

As in the past, the main destination of exports of Chirana Export-Import is Russia. Before 1990, the exports to the former Soviet Union made up over 60% of the total exports. Developing countries, especially North Africa and Middle East, are currently regaining importance. In the countries of Central and Eastern Europe, Chirana Export-Import is exporting especially to Poland, Hungary, Czech Republic and Ukraine. Finally, the main destinations in Western Europe are Germany, Austria and the UK.

Table 8.15: Regional Structure of Exports (%)

Destination of Exports	1992	1993	1994
Russia	74.9	57.9	58.3
Ukraine	0.0	0.0	15.1
Central Europe	8.2	7.6	9.6
Western Europe	8.7	6.7	6.9
Africa	3.3	19.6	5.0
Rest of the Former USSR	0.0	0.3	3.4
Latin America	0.9	1.1	1.2
Asia and Middle East	4.0	6.8	0.5

The commodity structure of exports differs with respect to the particular regions. In general, the exports to Western Europe include primarily syringes, injections and other disposable supplies. These are products with relatively low degree of processing and sophistication (although with high quality). The share of highly sophisticated and fine equipment such as dental equipment and X-ray equipment is rather low. On the other hand, Chirana Export-Import is rather successful in exporting this equipment to the countries of CEE and developing countries. There are several reasons for this pattern: (1) there is certain aversion or even doubt among buyers in Western Europe with respect to highly sophisticated products from CEE countries; (2) some Slovak producers export fine equipment directly to Western Europe and indirectly to other regions; and (3) Slovak enterprises enjoy a greater competitive advantage with respect to certain labor intensive products due to low labor cost.

Table 8.16: Commodity Structure of Exports (%)

Structure of Exports	1992	1993	1994
Dental Equipment	17.0	39.0	58.9
Disposable Syringes & Needles	32.4	13.9	9.6
Physiotherapy	0.9	4.4	8.6
X-Ray Equipment	39.5	13.8	8.4
Sterilization Equipment	5.0	1.4	3.4
Respiration and Anesthesia	0.0	0.0	3.3
Measuring Equipment	2.8	5.2	1.2
Instruments	0.4	3.2	1.0
Other	2.0	19.1	5.6

The overall commodity structure of exports is presented in Table 8.16. Table 8.17 brings an overview of the shares the main clients of Chirana Export-Import have in its total exports. It can be seen clearly that the major part of exports are products of enterprises that used themselves to belong to the Chirana Concern before 1991. Other enterprises accounted for less than ten percent of the total exports in 1992 and slightly over 25% in 1993.

Table 8.17: Main Suppliers of Products for Exports (%)

Main Suppliers for Exports	1992	1993	1994
Chiradelta Humenné	16.7	22.6	33.9
Chirana Prema Stará Turá	34.9	21.2	27.8
Chirana Piestany	3.8	12.9	17.5
BMT Brno	10.8	2.0	4.1
Chirana Strasnice, Prague	14.5	13.5	3.7
Chirana Modrany, Prague	9.9	2.2	2.1
Other	9.4	25.6	10.9

To support its exports as well as provide necessary accompanying services for the products sold, Chirana Export-Import has an extensive network of partner companies, affiliates and representatives in the most important countries. These take three forms:

- foreign partners — foreign companies with or without exclusivity, presently in 15 countries;
- joint ventures — at present ten joint ventures abroad and seven in Slovakia;
- representative offices at Slovak embassies in Russia and Ukraine.

Substantial part of the exports is realized based on long-term relationships with foreign clients. Exports are mainly contracted regularly and well in advance. Nevertheless, occasionally (but not regularly), Chirana Export-Import engages in one-time transactions that make up a significant part of the turnover.

In the future, the management of Chirana Export-Import expects that the volume of exports will increase every year. The company will attempt to further reestablish its lost positions in the developing countries — in particular the Islamic countries in North Africa and Middle East. It will also seek to strengthen its present positions in Western Europe (in Germany, Austria and the U.K.) as well as to penetrate new markets, especially France. It will also attempt to penetrate the CIS countries other than Russia - Ukraine, Central Asia and the Baltics. On the other hand, the management would like to see the share of Russia in the total exports to shrink so as to reduce the dependency on this market. However, this reduction should not occur in absolute terms but only relatively by increasing the volumes of exports to the other countries.

The best prospects for increasing exports are assessed to be in the countries of North Africa and Middle East because these markets are relatively less saturated. On the other hand, the competition in Europe is quite strong. Good prospects are also envisaged in Asian countries, especially China, Vietnam, India and Iran.

Domestic Environment for Exports

The exports of Chirana Export-Import are not subjected to any kind of licensing in Slovakia. The company does not face other direct impediments either. The main way in which the government indirectly promotes exports of Slovak enterprises is through official visits of members of the government abroad. During these official visits, the government delegations are often accompanied by representatives of Slovak enterprises who thus have an opportunity to engage in the highest level negotiations with representatives of foreign authorities and enterprises.

The management believes the orientation of Slovak foreign policy after 1990 has neglected retaining and developing trade relationships with the countries of CEE and the former USSR — despite the potential importance of these markets. The government promotion of exports would be particularly helpful in facilitating payments (especially taking over guarantees for payments) and in creating a favorable environment for international trade (for example signing tax treaties).

The government should be also helpful in the field of building an effective network of commercial departments at the Slovak embassies abroad. A comprehensive system of export credit financing and export insurance is presently only in preparation and development in Slovakia. Finally, the management feels the government could introduce certain legislative measures to promote exports, especially tax incentives.

Foreign Environment for Exports

In general, the quality of the products exported by Chirana Export-Import is comparable with the competing products. However, the competition can be divided into two groups. When comparing with products from developed (OECD) countries, the export products are comparable with respect to their utilization, but they do not come with certain "fancy" and/or high-tech features. On the other hand, when comparing with products from other countries, the export products of Chirana Export-Import are at the same or higher quality level. The prices of the products are in general competitive. Finally, the level of repair and maintenance services provided abroad is comparable, too.

The market shares are difficult to estimate. Nevertheless, the management was able to make the following approximate estimates: 10% in Germany in disposable injection supplies, 25% in Hungary in dental equipment, and 30% and 20% in Ukraine and Russia, respectively, in dental equipment.

The exports of Chirana Export-Import are not significantly affected by direct foreign restrictions. In fact, the level of tariffs decreased especially in the EU after the signing of the Association Agreements. On the other hand, an indirect administrative difficulty was created by the requirements of quality certificates in several countries. Nevertheless, this problem can be handled with.

The split of Czechoslovakia did not cause any particular difficulties apart from the increased administrative burden. On the other hand, the collapse of the CMEA found a rather adverse reflection in the export activities of Chirana Export-Import. The main reasons were: (1) absence of an appropriate payments mechanism accompanied by a lack of foreign exchange in the former USSR, (2) lack of the government coordination and direct engagement in facilitating trade and payment flows and (3) difficulties connected with barter transactions.

The level of competition is quite high abroad, especially from producers of dental equipment in Western Europe. The Western European producers are also quite active at the markets of CEE. In addition, since 1990 Chirana Export-Import faces a growing competition from Czech and Slovak enterprises that previously exported through Chirana Export-Import but later chose to export directly or through other exporters. The exports of Chirana Export-Import are also adversely affected by the lack of coordination of direct and indirect exports of the domestic producers who use Chirana Export-Import for a part of their exports.

The main source for obtaining information about and making contact with potential trade partners are fairs and exhibitions as well as advertisements in industry specific journals and publications. Direct contacting is also used.

The payments conditions occasionally create difficulties for exports. After the collapse of the CMEA, Chirana Export-Import was unable to collect some claims it had in the former Soviet Union. At present, the company requires advance payments or guaranteed payments when the payment ability of the buyer is in doubt. Furthermore, the required payments periods are in some cases too long. Due to the high interest rates and lack of credits specifically designed for export financing, such payments periods are mostly unacceptable. This made Chirana Export-Import to give up certain transactions — for example Iranian companies are required by law to stipulate two-year payments periods. Obtaining credit financing for such transactions would increase the price due to the high interest rates so that it would be less competitive.

Recently, the proceeds from exports were significantly affected by the fluctuations in the exchange rates of the US dollar. Most of the exports of Chirana Export-Import are payable in

US dollars so the company is particularly sensitive to volatility of this currency. The company is solving this problem mostly by including certain leeway for the currency fluctuations in the price calculations. Hedging possibilities were not explored so far.

Gumon Bratislava a.s.

Introduction

Gumon Bratislava a.s. is a middle size company producing electrotechnical products and semiproducts, especially electrical insulations. The company is located in Bratislava, the capital of Slovakia.

History, Transformation and Ownership

Gumon was originally founded in 1911. In the more recent times, until 1990, Gumon was a part of Kablo Bratislava as one of its three production units. Gumon became an independent state-owned enterprise in 1990. In May 1992, Gumon was transformed into a joint-stock company. It was then privatized in the first wave of the voucher privatization. Although originally 97% of the shares were scheduled for the voucher privatization (3% were obligatorily transferred to the Restitution Investment Fund), the capital stock of Gumon was additionally increased due to revaluation of its assets (especially land) during 1992. This increase corresponded to 49% of the original shareholders' equity (CSK 57.7 million increase, or from CSK 117.7 to CSK 175.4). Since this increase occurred before the shares from voucher privatization were distributed, the entire increase was kept by the state represented by the Fund of National Property of the Slovak Republic. Hence, the ownership structure stemming from the privatization process (1993) as well as the current situation (referring to the end of 1994) are as displayed by the Table 8.18:

Table 8.18: Structure of Ownership, Gumon Bratislava a.s. (%)

Gumon Bratislava a.s.	1993	1994
Fund of National Property of SR	35.05	35.05
Restitution Investment Fund of SR	2.01	2.01
Investment Funds	29.32	29.49
Individuals	33.62	33.45

The structure of ownership changed only slightly since the privatization. This is also a reflection of the fact that the shares of Gumon have not been traded in large volumes and very often.

Key Figures

Table 8.19: Key Figures, Gumon a.s. Bratislava

Gumon Bratislava a.s.	Unit	1991	1992	1993	1994
Turnover	SKK mn	n.a.	207.52	216.13	181.47
Gross Profit	SKK mn	18.45	−14.21	−5.11	−21.17
Total Assets	SKK mn	424.93	400.09	375.34	336.60
Equity	SKK mn	173.65	184.30	179.17	159.23
Liabilities	SKK mn	251.28	215.79	196.17	177.37
Accounts Receivable	SKK mn	191.05	141.48	112.95	85.96
Inventory	SKK mn	64.87	60.69	59.37	65.88
Labor Force		n.a.	n.a.	380	343
Profit/Turnover	%	n.a.	−7	−2	−12
Profit/Assets	%	4	−4	−1	−6
Net Profit/Share	SKK	130.86	−81.00	−29.13	−120.69

The data for 1990 and 1989 are not included because Gumon separated from Kablo Bratislava only in 1990. The data for 1990 are thus not comparable with the data for later years.

The loss recorded in 1992–94 occurred primarily due to significant fall-backs in production. The volume of production shrinked because of falling demand as well as because of Gumon's inability to pay for the purchased raw materials. The lack of cash was caused by the refusal of Gumon's bank to provide additional credits and by large volumes of unpaid claims of Gumon against the buyers of its products. The development of Gumon's accounts payable and accounts receivable is recorded in the Table 8.20. The high shares of unpaid receivables indicate that the financial problems of Gumon were originated to a great extent outside the company.

Table 8.20: Development of Receivables and Payables from Business Activities

Gumon Bratislava a.s.		1991	1992	1993	1994
Accounts Receivable	(SKK mn)	191.54	148.20	107.82	77.83
after maturity	(%)	91.7	89.3	87.1	n.a.
Accounts Payable	(SKK mn)	191.91	165.79	124.54	120.77
after maturity	(%)	91.5	100.0	92.0	n.a.

The production of Gumon further declined also because the producers of raw materials were occasionally unable to deliver the contracted materials. These difficulties in obtaining and paying for the inputs caused that Gumon was not able to fulfill certain deliveries for either the domestic market or exports.

All these factors contribute to the fact that in 1994 Gumon was operating only at about 40% of its production capacity. The situation improved somewhat in early 1995 when the capacity utilization rose to 50% for the first quarter.

Characteristics of Production

The main product category of Gumon is electrical insulation materials. This category represented 93% of the total output in 1992 and 88% in 1994. The insulation materials include multi-layer insulations (made of paper, cloth or glass-cloth), insulations for the production of flat connectors (made of paper, cloth or glass-cloth and covered by copper), varnished tapes (made of paper or cloth) and other products. The remaining production includes pressed plastic products, impregnated paper and cloth, electrotechnical tools (for work protection) and pressing machine tools.

Gumon is the monopoly producer of electrical insulation materials in Slovakia and it has a dominant position at the Czech market as well (there is one local competing firm in the Czech Republic). However, due to opening of the borders in the recent past, Gumon currently faces competition from foreign producers as well. Moreover, the sales of the products of Gumon at the domestic market decreased substantially in the wake of the privatization and transformation of Tesla, formerly major Czechoslovak producer of electronics.

Export Orientation

The importance of exports increased recently. The exports partially made up for the decline of the domestic demand. The break-up of the total sales is presented in Table 8.21. The sales in Czechoslovakia have the following structure: 63% in the Czech Republic and 37% in Slovakia. This relationship has been relatively stable over the last few years. While total sales declined significantly in 1994, exports rose not only in relative terms but also absolutely.

Table 8.21: Break-up of Sales, Gumon Bratislava a.s.

Gumon Bratislava a.s.		1992	1993	1994
Total Sales	(SKK mn)	199.01	203.02	169.62
Czechoslovakia	(SKK mn)	151.45	154.90	115.85
Exports	(SKK mn)	47.56	48.12	53.77
Czechoslovakia	(%)	76.1	76.3	68.3
Exports	(%)	23.9	23.7	31.7

Since 1990 when Gumon became an independent enterprise, it emphasized direct exporting. In 1994, only 8.8% of the exports were carried out through a mediator (2.1% in 1992 and 21.1% in 1993). The company secures the exports by its own staff and it does not have currently affiliations or representations abroad. The exports to Western countries are usually contracted annually. On the other hand, the demand in the countries of CEE and the former Soviet Union is rather unstable and thus a large portion of exports is ad hoc.

Gumon exports predominantly to European countries. More than half of the total exports went to Germany in 1994. The most important destinations are presented in the Table 8.22.

Table 8.22: Destinations of Exports (excluding Czech Republic) (%)

Gumon a.s.	1992	1993	1994
Germany	39.0	34.0	55.7
Hungary	10.0	8.0	10.2
Switzerland	0.0	4.0	9.4
U.K.	19.0	17.0	7.2
Austria	3.0	4.0	5.6
Egypt	0.0	4.5	4.4
Italy	0.0	3.0	2.7
Greece	6.0	3.0	1.8
France	0.0	1.0	1.5
BENELUX	0.0	2.0	0.5
Denmark	0.0	0.0	0.2
Romania	3.0	5.0	0.2
Other	20.0	14.5	0.6

In the future, the management of the company intends to further increase the share of exports in total production. Exports should reach at least 33%. However, the share of exports could be lower if the domestic demand increases significantly. Gumon will attempt to keep its position at the markets in Western Europe. Gumon plans also to increase exports to Eastern European countries and the former Soviet Union, provided the payment ability and credibility of local enterprises improves. An increase of exports is quite likely with respect to Hungary, Romania and Poland.

Production for Exports

According to the management, the quality of Gumon's products is comparable with its foreign competitors. The prices are in general lower. The main export commodities are layered insulation materials. The prices are determined separately according to the individual conditions for each country and/or buyer.

Domestic Environment for Exports

The exports of Gumon are not restricted by the need of export license. However, the financial position of Gumon and hence its ability to produce and export is adversely affected by the current legal regulation of the value-added tax and customs procedures. When importing raw materials, the VAT and customs duties have to be paid immediately. However, in case the company is supposed to receive a net VAT refund, it takes about two months until the refund eventually arrives. This happens especially when the share of exports in total output is significant because the exports are VAT exempt. Furthermore, the customs procedures cause delays that may not always be substantiated. In effect, the disproportion between the schedules of payment and refund of the VAT causes a need for additional financing.

The most important difficulty faced by Gumon is the lack of cash. Although Gumon so far never failed to fulfill its responsibilities with respect to paying off bank credits, it was unable to obtain new credits recently. This is also true about export credits; however, Gumon was able to use factoring to finance exports. Gumon also applied for export credits granted by the EBRD, however, the recipients of this credit were determined by local banks (not the EBRD itself) and Gumon was not selected.

The lack of credits is interrelated with the partial inability of Gumon to make timely payments to its creditors (see Section Key Figures). This results in refusals by its suppliers to deliver the inputs necessary for production. Some of the suppliers who themselves have financial difficulties failed to deliver at all. In effect, the output of Gumon declined significantly in 1994 (see Table 8.19) and production of certain products was temporarily stopped even though there was demand for them.

Foreign Environment for Exports

The exports of Gumon are not subjected to significant direct restrictions at the foreign markets. However, the requirements on environment friendliness presented a problem and required purchases of additional production equipment. This outlay had an adverse effect upon the financial situation of Gumon discussed above.

Since its founding, Gumon attempted to reduce the number of mediators and get closer to the final user. The potential buyers are identified and selected through branch specific journals and publications, international fairs and embassies. Gumon attempted also direct contacting of potential clients, however, with little success.

The payments conditions are in general 30, 60 or 90 days. Gumon is solving the financing of this period by offering discounts based on early payment as well as by utilizing bank factoring.

Unlike many other Slovak enterprises, Gumon was not significantly affected by the demise of the CMEA. Soviet Union and other Eastern European countries were not extremely important for the sales of Gumon. More significant effect followed from the split of Czechoslovakia. New administrative barriers arose despite the establishment of the customs union. Nevertheless, the traditional relationships with old partners continue also until present.

Henkel Palma s.r.o., Bratislava

Introduction

Henkel Palma s.r.o. is a joint venture founded by Henkel Austria and Palma Tumys a.s. Bratislava. Henkel Palma s.r.o. is the leading Slovak producer of detergents and the company is also responsible for marketing other products of Henkel International. According to its annual turnover, Henkel Palma s.r.o. ranked 70th in the TREND TOP 100 chart of Slovak enterprises (TREND 25/95, P. 3C). Henkel Palma s.r.o. is located in Bratislava, the capital of Slovakia.

History, Transformation and Ownership

Foundation of Henkel Palma was a result of the efforts of Henkel International to penetrate the markets in CEE. Already prior to 1989, Henkel International established representations in the CEE countries. The representations were responsible for marketing Henkel's products imported from abroad. After the liberalization of the economies, Henkel International attempted to establish joint ventures with local producers. Henkel Palma was founded in 1991 as a joint venture between Henkel Austria, a daughter company of Henkel International, and Palma Tumys, one of the leading Czechoslovak producers of detergents (as well as other products).

Cooperation with a domestic producer enabled Henkel International to better penetrate the market, and, most important, to take over established products (the effect of this strategy is best reflected in the fact that four years after Henkel Palma was founded, an original laundry detergent of Palma Tumys — Palmex — is still the leading brand in Slovakia, even though Henkel introduced its own detergents in Slovakia as well). The stake of Henkel International in Henkel Palma is 51% while Palma Tumys holds 49%. Henkel Palma also took over the detergent production facility of Palma Tumys in Nové Mesto (presently, Palma Tumys itself is not producing detergents).

See also the case study of Palma Tumys a.s. for a related enterprise.

Key Figures

The 1994 turnover was SKK 1015,6 million and the gross profit was SKK 34.1 million. The turnover, according to the management, does not fluctuate from year to year significantly. The labor force was 250 in 1994. The shareholders' equity is SKK 678 million.

Note: The management did not wish to disclose any additional information other that the above.

Characteristics of Production

The production of Henkel Palma consists of laundry and dish detergents. Henkel Palma is producing both the traditional brands taken over from Palma Tumys — for example Palmex — as well as the original brands of Henkel International such as Persil. Nevertheless, the brands taken over from Palma Tumys underwent changes in the production technology since the company was established.

Besides the production of detergents, Henkel Palma is also responsible for distribution of other products of Henkel International imported form other member companies of the Group. These are in particular cosmetics, glues, and other items. Henkel Palma was originally intended to cover the entire territory of Czechoslovakia. After the split of the federation in 1993, Henkel Palma established a 100% daughter company in Prague and still has a significant position at the Czech market.

Henkel Palma enjoys a dominant position in the Slovak market with detergents and a significant position in the Czech market. The market shares are about 40% in Slovakia and 20% in the Czech Republic.

Export Orientation

The share of exports ranges between 30%–40% of the total turnover. Most of the exports are supplied to the Czech market since Henkel Palma has been originally intended to cover the entire federation. Rather small volumes of detergents are also exported to other countries. Nevertheless, these exports are limited to the CEE region, especially Poland, Hungary and Austria. Exports are organized directly, using the member companies of the Group.

Production for Exports

The production of Henkel Palma fully respects the quality standards of Henkel International. The prices are determined in accordance with the trade policies of the Group. There is no relevant difference between the production for the domestic market and exports.

The impact of the foreign partner in the joint venture (when compared with the situation of the detergent production unit in the past) is especially apparent in the ability to export and access to foreign markets via the Group structures. The partnership also enabled the joint venture to use the production technologies of Henkel International. Finally, financial situation was affected substantially as well.

Domestic Environment for Exports

The business activities and exports of Henkel Palma are not directly restricted in Slovakia. Nevertheless, an indirect restriction is presented by the VAT regulation, particularly refunding of the net VAT claim. The company also feels an absence of any form of government involvement in promotion of exports and/or of an active pro-export policy.

Foreign Environment for Exports

The exports of Henkel Palma are not subjected to many direct restrictions abroad. There are no quotas for the exports of detergents in the relevant markets and the tariffs are about 4% in the CEFTA countries. However, Henkel Palma presently feels a rising degree of protectionism in the CEFTA countries; in particular in Hungary where recently an import surcharge was introduced. The ability of Henkel Palma was also adversely affected by the fact that Austria became an EU member. This puts additional complications on exports and makes the flow of goods more difficult.

Henkel Palma is also facing indirect administrative restrictions. This includes especially a requirement of registration of each product in the country of destination. The administrative procedure implies an additional expense and a delay. There are also quite significant differences in requirements on product information stated on the package.

Hirocem a.s., Rohozník

Introduction

Hirocem a.s. Rohozník is one of the most important producers of cement in Slovakia and the only producer of white cement in former Czechoslovakia. According to the total turnover, Hirocem a.s. ranked 55th in 1994 and 69th in 1993 in the TREND TOP 100 chart of Slovak companies (TREND 25/95, P. 3C). Hirocem is located in Rohozník in Western Slovakia.

History, Transformation and Ownership

Hirocem was a state-owned enterprise until 1992 when it was transformed to a joint-stock company. The company was then privatized by a combination of privatization methods: 30% of the shares were distributed via the voucher privatization and 34.5% were later purchased by Holderbank Financiere Glarus AG — a Swiss company specializing in production of construction materials. Holderbank was further given the right to purchase additional shares until 1996 up to the limit of 51% of the total shareholders' equity. The ownership structure as of the end of 1994 is presented in Table 8.23.

Table 8.23: Ownership Structure, as of end 1994 (%)

Holderbank	41
Fund of National Property	29
Investment Funds	22
Individuals	7
Restitution Investment Fund	2

Key Figures

Table 8.24: Key Figures, Hirocem a.s. Rohozník

Hirocem a.s.	Unit	1990	1991	1992	1993	1994
Turnover	SKK mn	700	800	1250	1390	1496
Gross Profit	SKK mn	10	30	88	153	129
Profit/Turnover	%	1.43	3.75	7.06	10.98	8.65
Labor Force					1020	874

Note: The information in this case study stems mainly from reports and analyses published in the press. We were not able to obtain sufficient information directly from the enterprise. The figures for turnover and gross profit for 1990 and 1991 are rounded and hence only approximate.

Characteristics of Production

The production of Hirocem includes extraction and processing of limestone, production of lime and especially cement. Hirocem produces three kinds of cement: Portland cement, white cement and colored cement. The output also includes some other related products.

Portland gray cement accounts for some 80% of the total output, white cement makes up 10%, while the remaining products account for the rest. Hirocem is the only producer of white cement in former Czechoslovakia. On the other hand, the competition in the production of gray cement is quite intense as there are seven producers in Slovakia. In addition, currently the level of domestic sales is far below the overall capacity of the industry (4 million tons while the domestic sales are only 1.5 million tons annually).

The competitiveness of Hirocem was threatened by the increasing energy prices after 1990. The company therefore undertook substantial investment into production technologies securing lower costs. The new facility also allows for using several different fuel kinds so as to take advantage of market price fluctuations.

Export Orientation

A great part of the output of Hirocem goes at present for exports: the share of exports is 55–60%. The export orientation was further strengthened by the ongoing recession in the Slovak construction industry, saturation of the domestic market and bad financial situation of the Slovak enterprises. The most important export markets of Hirocem are Germany, the Netherlands, Belgium and Austria.

Production for Exports

Hirocem is the only producer of white cement in Slovakia. Overall, there are only three producers of white cement in Europe other than Hirocem. This makes the situation particularly favorable for exports of this commodity. Currently, 80% of the white cement output is exported while this share is 60% in the case of Portland cement.

The greatest competitive strength of Hirocem in exporting to Western European countries is low production costs, in particular low wages and energy costs.

Domestic Environment for Exports

The exports of Hirocem are not presently restricted by Slovak regulations.

Foreign Environment for Exports

The producers and exporters of cement in CEE are frequently accused of dumping. The rationale for this is mainly the fact that the energy prices are in a greater or smaller extent still supported by the governments of these countries. The antidumping procedures are often accompanied by (temporary) restrictions on exports.

Hydronika a.s., Bratislava

Introduction

Hydronika a.s. is the leading producer of hydraulic cylinders in former Czechoslovakia. Hydronika is a middle size company located in Bratislava, the capital of Slovak Republic.

History, Transformation and Ownership

Hydronika was originally founded in 1897. During the post-war period until 1992 it was a state-owned enterprise. In May 1992, the enterprise was transformed into a joint-stock company. The company was then privatized in the first wave of voucher privatization during 1992. The voucher privatization was the only method used and 97% of the shareholders' equity was offered to the voucher investors while 3% remained in the Restitution Privatization Fund. After the end of the voucher privatization, 11.85% of the shares remained undistributed and continued thus to be held by the Fund of National Property of the Slovak Republic. In addition, the share of the FNP was further increased due to a raise in the shareholders' equity resulting from a revaluation of the company's assets. The structure of ownership stemming from the coupon privatization is displayed in Table 8.25. On the other hand, the share of the FNP was decreased later in 1993. The share of the FNP was reduced by SKK 50 million (i.e., from SKK 498.8 million to SKK 448.8 million) to compensate for the losses suffered in 1992.

Table 8.25: Structure of Ownership and its Development (%)

Hydronika a.s.	1993/VP[b]	1993[c]	1994[c]
Fund of National Property[a]	22.5	13.9	13.9
Investment Funds	60.1	66.8	66.9
Individuals	17.4	19.3	19.3

[a]Includes the share of the Restitution Investment Fund;

[b]Structure of ownership stemming from the voucher privatization;

[c]End of the year.

The most important owners of Hydronika are investment funds. Significant stakes are held by the following investment funds (percentage shares as of end of 1994 in parentheses): PSIPS (20.3%), IF Dividend (18.7%), IPF Ister (16.5%), Tatra kupon fond (5.6%) and Agrospol (3.9%).

Key Figures

Table 8.26: Key Figures, Hydronika a.s. Bratislava

Hydronika a.s.	Unit	1990	1991	1992	1993	1994
Turnover	SKK mn	428.48	831.10	197.77	125.79	166.45
Gross Profit	SKK mn	14.33	274.95	-104.10	-60.87	-10.77
Total Assets	SKK mn	752.77	1244.50	969.87	951.88	952.71
Equity	SKK mn	537.48	571.77	535.31	466.57	521.67
Long-Term Liabilities	SKK mn	n.a.	n.a.	51.97	20.84	20.84
Current Liabilities	SKK mn	215.29	672.73	382.59	464.46	410.20
Labor Force		1777	1324	805	468	420
Profit/Turnover	%	3	33	-53	-48	-6
Profit/Assets	%	2	22	-11	-6	-1
Net Profit/Share	SKK	n.a.	n.a.	-208.72	-151.21	-22.65

The decline in the work force in 1991 and 1992 resulted from the restructuring of the company as well as from organizational changes. The decline of the work force in 1991 for example included 328 employees who ceased to be registered as employees of Hydronika since certain units had been taken out of the company. Furthermore, in September 1992 a production unit located outside of Bratislava was sold. This had an impact upon both work force as well as turnover in the subsequent years. These organizational changes and changes resulting from transformation affected other figures as well (e.g. total assets).

Despite rather high accounting profit, the overall financial situation deteriorated in 1991 and Hydronika became insolvent. This was particularly due to its inability to collect payments for deliveries of goods to the former USSR (this transaction was realized, however, based on an official agreement between the governments of the two countries). The unrecovered claim was a substantial one: CSK 310.5 million (37.4% of the total 1991 turnover). Further reasons were the decline of domestic sales that started in 1991 and the collapse of exports to the USSR in and after 1992. Finally, some of the domestic buyers of Hydronika's products became themselves insolvent.

Table 8.27: Selected Financial Indicators, Hydronika a.s. Bratislava (SKK mn)

Financial Situation	1990	1991	1992	1993	1994
Accounts Receivable	n.a.	403.7	385.7	352.1	346.7
after maturity	n.a.	372.9	n.a.	n.a.	n.a.
after maturity, abroad	n.a.	294.1	310.5	310.5	310.5
Accounts Payable	62.1	131.5	154.2	331.5	326.9
after maturity	n.a.	110.5	n.a.	n.a.	n.a.
Consolidation Bank				217.4	217.4
Credits after maturity	n.a.	40.0	61.1	48.4	65.6
Unpaid taxes	n.a.	83.1	106.2	65.7	0.2
Inventories	181.2	138.4	86.8	104.5	116.7

Due to the critical lack of cash accompanied by a decline in sales, Hydronika became unable to pay due credits and taxes and even trade liabilities. This in turn further deepened its financial problems since the creditors started to apply sanction charges and some suppliers refused to provide any additional deliveries. In September 1993, Hydronika was forced to file for protection under the bankruptcy legislature. In subsequent negotiations with the creditors it was agreed that the payment of due credits and taxes would be postponed until other liabilities are settled and the banks would reduce the interest rates. The trade liabilities were to be paid off within a five year period. Finally, all creditors were to refrain from sanctions for unpaid liabilities that had arisen in and before 1993. In addition, Hydronika received a long-term loan from the Consolidation Bank (a state-owned bank established for solving financial problems of state-run and previously state-run enterprises) in 1993. The volume of the loan corresponds to 70% of the volume of the claims in the former Soviet Union. Finally, the Finance Ministry decided in 1994 that the debt resulting from the unpaid 1991 income tax would be annulled. At present, Hydronika is able to fulfill its trade liabilities and is gradually paying off the liabilities and credits from the past.

Characteristics of Production

The main output of Hydronika is linear hydraulic motors/cylinders. Other activities include service and repair of hydraulic cylinders, production of tools and newly introduced production of small cars for children. The structure of output is displayed in Table 8.28. The company is the dominant producer of hydraulic cylinders in former Czechoslovakia. Its market share is 29% with respect to the overall volume of sales and 42% with respect to the number of cylinders sold. Presently, Hydronika is operating at about 70% of its production capacity.

Table 8.28: Structure of Output, Hydronika a.s. Bratislava

Output Structure	Unit	1991	1992	1993	1994
Hydraulic Cylinders	pcs.	n.a.	16928	10734	17542
Hydraulic Cylinders	SKK mn	460.42	189.44	102.72	102.14
	%	97.8	97.0	92.3	92.2
Tools	SKK mn	2.04	0.52	1.68	1.22
	%	0.4	0.3	1.5	1.1
Repairs	SKK mn	4.53	3.77	4.29	4.63
	%	1.0	1.9	3.9	4.2
Other Services	SKK mn	3.80	1.63	2.54	2.79
	%	0.8	0.8	2.3	2.5
Total Output	SKK mn	470.80	195.36	111.23	110.77
	%	100.0	100.0	100.0	100.0

Note: To ensure comparability, the figures in Table 8.28 relating to 1991 and 1992 include only the output of the production facility in Bratislava. Reporting the output of the production facility in Dunajska Streda could distort the overall picture as the facility was sold in 1992.

Export Orientation

Prior to 1989, about 60% of production of Hydronika was exported to the former Soviet Union while the rest was sold in the domestic market. However, the exports to the former Soviet Union nearly stopped after the collapse of the CMEA due to absence of an appropriate payments mechanism as well as lack of the government coordination. In addition, after 1991 the domestic sales declined as well. To make up for the loss of sales at the domestic market and in the Soviet Union, Hydronika started to pursue an active export policy toward Western European countries (Table 8.29).

Table 8.29: Break-up of Sales and Structure of Exports, Hydronika a.s. Bratislava (SKK mn/%)

Break-up of Total Sales	1991	%	1992	%	1993	%	1994	%
Total Sales	787.73	100.0	123.95	100.0	109.02	100.0	152.48	100.0
Czechoslovakia	472.77	60.0	103.56	83.5	95.99	88.0	136.08	89.2
Slovakia	n.a.	n.a.	n.a.	n.a.	63.82	58.5	85.96	56.4
Czech Republic	n.a.	n.a.	n.a.	n.a.	32.17	29.5	50.12	32.9
Exports	314.96	40.0	20.39	16.5	13.03	12.0	16.40	10.8
Break-up of Exports	1991	%	1992	%	1993	%	1994	%
Total Exports	314.96	100.0	20.39	100.0	13.03	100.0	16.40	100.0
Former USSR /Russia	307.53	97.6	0.00	0.0	5.07	38.9	2.08	12.7
Germany	n.a.	n.a.	14.48	71.0	5.60	42.9	8.67	52.8
France	n.a.	n.a.	0.12	0.6	0.07	0.5	5.07	30.9
Austria	n.a.	n.a.	2.13	10.4	1.19	9.1	0.58	3.5
Italy	n.a.	n.a.	1.81	8.9	0.10	0.8	0.00	0.0
Former Yugoslavia	n.a.	n.a.	0.01	0.1	0.14	1.0	0.00	0.0
Norway	n.a.	n.a.	1.84	9.0	0.86	6.6	0.00	0.0
Other	7.43	2.4	0.00	0.0	0.00	0.0	0.00	0.0

Note: To ensure comparability, the figures in Table 8.28 relating to 1991 and 1992 include only the output of the production facility in Bratislava. Reporting the output of the production facility in Dunajska Streda could distort the overall picture as the facility was sold in 1992.

Currently, direct exporting makes up about 90% of the total exports while the remaining 10% are exported through mediators. Most of the buyers are large enterprises. The exports are mainly based on long-term contracts. In the past, however, ad hoc exporting was also used.

The management sees the main future prospects in increasing exports to the former Soviet Union, in particular to Russia. On the other hand, exports to Western Europe (especially Germany) will be important in the short run — until the situation in the domestic market and in the former Soviet Union improves. The long-term possibilities for exports to Western Europe are limited because the market is already saturated. It is hence expected that, in the long run, half of the products will be sold in the domestic market (i.e., former Czechoslovakia) while the other half will be exported mainly to the former Soviet Union. Such a structure of output will allow the company to use its entire production capacity.

In accordance with these expectations, Hydronika intends to keep and build on its present position at the Russian market. In 1995, the exports to Russia were expected to make up 5% of the total sales. This share is supposed to increase further in the future. To strengthen its position at the Russian market, Hydronika recently founded a joint venture in Russia. The joint venture should have an important effect particularly on facilitating the payments for exports. The management believes that the position at the Russian market gives Hydronika a strategic advantage. In the future, this advantage could be used either directly by Hydronika or in cooperation with a Western producer of related or complementary products.

The position of Hydronika at the Czech market is not expected to weaken despite the split of the federation due to the fact that the products Hydronika exports there are not otherwise produced in the Czech Republic.

Production for Exports

In general, the quality of the exported products is good while the prices are lower by some 30% than those of the competing products. However, the quality could be threatened by the present low level of investment into production equipment and technologies. Overall, the quality of exported and domestically sold products do not differ significantly. Production for exports sometimes requires raw materials of higher quality, though. The profitability of domestically sold products is higher than in the case of exports due to the greater influence upon prices. This because of the dominant position of Hydronika at the domestic market (including the Czech Republic).

Domestic Environment for Exports

The exports of Hydronika are not subjected to export licenses. In general, government policy of export support and export incentives is presently non-existent. This puts Hydronika to a disadvantageous position relative to its competitors from countries where the national governments have such policies. Furthermore, the regulation of the VAT implies an additional financial requirement — in general VAT refunding takes several months. Hydronika also frequently faces difficulties when arranging export credits since the procedure is lengthy and the interest rates are quite high. The requirements the banks put on securing the credits are high, too. Finally, the production is occasionally hindered by inflexibility on the side of Hydronika's suppliers of raw materials.

Foreign Environment for Exports

The exports of Hydronika are presently not subjected to excessive foreign restrictions such as tariffs or quotas. However, some of the Western European competitors receive significant subsidies from their national governments. This makes it possible for them to sell their products at lower prices. Hydronika has not been receiving similar subsidies from the Slovak government recently.

Hydronika secures its exports primarily by directly contacting the potential buyers. The potential buyers are identified at international fairs, from industry-specific publications and upon recommendations of present trade partners.

The payments conditions imply a disproportion between the payment periods on inputs (immediately or up to 14 days after the delivery) and exports (in general 30 to 45 days after the delivery). Hydronika covers this difference by export credits but obtaining them is difficult (see above section on Domestic Environment for Exports).

The split of Czechoslovakia did not weaken Hydronika's position significantly. However, the payments arrangements imply an additional delay in clearing the payments from one republic to the other.

In the future, the management expects an increase of protectionism in Western Europe. This protectionism will likely stem from social problems and intentions to protect local markets against "low cost imports from CEE". The alternative for Hydronika will then be exporting to the former Soviet Union.

Hydronika is presently seeking a foreign partner willing to acquire a stake in the company. The presence of the foreign partner is expected to improve Hydronika's financial situation and its access to modern technologies.

Incheba JSC, Bratislava

Introduction

Incheba joint-stock company (JSC) organizes national and international exhibitions and fairs and provides services related to participation of domestic as well as foreign companies at fairs and exhibitions both in Slovakia and abroad. Incheba is a middle size company located in Bratislava, the capital of Slovakia.

History, Transformation and Ownership

Incheba was founded in 1971. The purpose of its presence was to support Czechoslovak foreign trade by means of organizing fairs and exhibitions as well as providing publicity and advertisement services to domestic enterprises. The services were to be provided both domestically and abroad.

While Incheba was originally founded as a state-owned enterprise, it was transformed into a joint-stock company in 1989. The shareholders of Incheba became Slovak and Czech enterprises. In 1992, the remaining part of the shares was privatized through the voucher method. Presently, 87% of Incheba's shares are owned by Slovak enterprises and individuals (including 10% owned by its employees) while 13% are owned by Czech enterprises and individuals.

Key Figures

Table 8.30: Key Figures, Incheba JSC

Key Figures	Unit	1990	1991	1992	1993	1994
Turnover	SKK mn	138.9	396.5	279.6	370.0	359.0
Financial Revenues	SKK mn	0.0	0.0	0.0	16.4	375.9
Gross Profit	SKK mn	7.0	145.4	57.5	78.8	61.9
Total Assets	SKK mn	419.1	476.5	472.9	518.1	515.0
Equity	SKK mn	404.7	460.4	460.8	495.5	479.1
Liabilities	SKK mn	14.4	16.1	12.1	22.6	35.9
Profit/Turnover	%	5	37	21	21	17
Profit/Assets	%	2	31	12	15	12
Net Profit/Share	SKK	n.a.	509.23	192.85	237.06	259.44

Characteristics of Production

The services offered by Incheba JSC include (see also Table 8.32):

- organizing regular national and international fairs and exhibitions in Bratislava as well as in other cities throughout former Czechoslovakia;
- organizing company presentations in Slovakia and/or abroad, including seminars and conferences;
- organizing company participations at fairs and exhibitions abroad;
- organizing presentations of Slovak enterprises at selected foreign fairs and exhibitions (the presentations are financed by the Slovak government as a way of supporting exports);
- design, production and installation of company booths and exhibitions at fairs and exhibitions;
- consulting services — selecting appropriate fairs and exhibitions abroad, recommendations on size and type of exhibits, etc.;

• other activities, such as operating a hotel and a restaurant.

Table 8.31: Structure of Turnover 1992–94

Turnover Structure (SKK mn)	1992	%	1993	%	1994	%
Total Turnover	297.6	100.0	370.0	100.0	359.0	100.0
Fairs and Exhibitions	235.1	79.0	294.8	79.7	288.3	80.3
domestic	199.1	66.9	262.9	71.1	159.5	44.4
abroad[a]	36.0	12.1	31.9	8.6	128.8	35.9
Lease of Premises	n.a.		n.a.		53.2	14.8
Hotel & Restaurant	n.a.		n.a.		11.3	3.2
Retail Sales of Goods	n.a.		n.a.		0.3	0.1
Other Revenues	n.a.		n.a.		5.9	1.6

[a]Since 1994 includes also fairs and exhibitions taking place in the Czech Republic.

As is also apparent from Table 8.32, the main activity of Incheba is organizing fairs and exhibitions and related services. In 1994, Incheba organized 20 fairs and exhibitions in Bratislava, 15 fairs and exhibitions in Prague and two fairs in Kosice (Slovakia). Besides renting the exhibit area, Incheba also provides its client with a full range of services such as communication equipment, production and/or installation of the exhibits, etc. Approximately one-third of the clients use Incheba's services for production and design of the exhibits while two-thirds use their own staff and resources for this purpose. The main results of the fairs and exhibitions organized by Incheba are summarized in Table 8.32. Table 8.33 then brings basic information regarding the most important fairs in 1994.

Table 8.32: Overview of Results of Fairs and Exhibitions Organized by Incheba

Fairs and Exhibitions	Unit	1991	1992	1993	1994
Total Revenue	SKK mn	174.3	235	295	288
Visitors	thousands	212.0	483.5	487.5	632.7
Number of Exhibitors		1482	3101	3367	4051
Domestic Exhibitors		814	1510	1432	2070
Foreign Exhibitors		668	1591	1935	1981
Total Rented Area	square meters	36864	63145	74580	79665
Domestic Exhibitors	square meters	24299	46605	41025	47736
Foreign Exhibitors	square meters	12565	16540	33555	31929
Domestic Exhibitors	%	65.9	73.8	55.0	59.9
Foreign Exhibitors	%	34.1	26.2	45.0	40.1

The most prominent international fair organized by Incheba has been the International Chemical Fair Incheba. The Incheba Fair took place for the first time in 1969. When Incheba company was established in 1971, the Incheba Fair was the primary purpose of its existence. The Incheba Fair was the only international commercial fair specializing in the chemical industry in Europe. The importance of the Incheba Fair was further enhanced by the fact that it was the main forum where Western firms could make contacts and negotiate directly with the enterprises from the CEE countries, and vice versa. However, this role of the Incheba Fair declined significantly after the collapse of the socialist regimes in CEE. The opening of the borders and liberalization of the foreign trade in CEE created new possibilities for firms to make contacts directly. Hence, the volume of contracts made at the fair declined in 1990 to approximately half of the 1989 volume, after having grown quite steadily since the fair was established in 1971.

On the other hand, while the liberalization and economic transition caused a decline in importance of the Incheba Fair, at the same time it created new opportunities in other areas. While in 1991, Incheba JSC organized 9 fairs and exhibitions, it organized 24 fairs and exhibitions in 1992 and 1993, 32 fairs and exhibitions in 1994 and 46 fairs and exhibitions were planned for 1995. The effect of the economic liberalization upon the activities of Incheba are well demonstrated by the developments of the recorded profits. While the total cumulated profits recorded during the existence of Incheba in years 1971–1990 were CSK 69.9 million, this was by far exceeded by the profits recorded in 1991 (CSK 147.2 million) and subsequent years.

Table 8.33: Major International Fairs Organized by Incheba in 1994

Selected Fairs	Exhib. Area	%	Exhibitors	Countries	Subject
Slovakiatour	4500	4.2	256	15	Tourism
Intertech	2300	2.1	58	5	Engineering
Coneco	11188	10.3	455	12	Construction
Incheba	7200	6.6	274	19	Chemical Industry
Autosalon	7874	7.3	132	4	Automobiles
International Danubian Fair	3650	3.4	170	6	Consumer Goods
Slovmedica	3500	3.2	179	15	Medical Products
Christmas Market	2800	2.6	220	5	Consumer Goods
Total 1994	108293	100.0	4186		

Export Orientation

Since Incheba JSC is a company operating in the service sector, its exports are specific. Hence, exports should be defined as services sold to foreign buyers. The share of exports can be best defined as the share of the exhibit area rented to foreign companies (see Table 8.33). This figure has been fluctuating between 26% and 45% during the last four years. The changes in the export share are probably influenced also by differences in the occurrence of certain fairs. In particular, the Coneco International Fair (construction materials) took place in 1991 and 1993 but not in 1992 when the share of exports dropped to 26%.

Domestic Environment for Exports

Due to their specific nature, Incheba's services are not subjected to any particular form of regulation in Slovakia. In fact, Incheba receives indirect support from the Slovak government in that it is commissioned to secure official presentations of the Slovak Republic and selected Slovak companies abroad. However, the funding for this purpose is often not sufficiently high and the undertaking may actually be not profitable for Incheba after all.

The economic transition and an overall liberalization of the economy brought an increase in the importance of fairs and exhibitions. New companies started to engage in organizing fairs and exhibitions and the intensity of competition increased. Currently, there is a lack of coordination among the organizers of various fairs. There is a substantial overlap in the specific orientation (commodity category or industry branch) of fairs organized by the particular firms. Moreover, the dates of the fairs frequently collide as well — for example, there were seven different fairs and exhibitions in three cities during the same week in June 1994. The time collisions appear sometimes to be actually discretionary.

Foreign Environment for Exports

The liberalization of the economy brought an upsurge in the participation of foreign companies at fairs and exhibition in Slovakia and the Czech Republic. At the most important international fairs (such as Coneco in Bratislava), the foreign exhibitors may account for as much as nearly one-half of the total number of exhibitors. The sales of Incheba's services are not significantly affected by foreign regulations. On the contrary, in some countries the local companies receive subsidies for participation at fairs abroad. This is, for example, the case in Austria where the Austrian Chamber of Commerce reimburses the local companies for the cost of renting the exhibit area.

Kablo Bratislava, s.r.o.

Introduction

Kablo Bratislava s.r.o. is a member of the Siemens Group. It produces cables, conductors and related products, in particular for use in the power industry and telecommunications. According to its annual turnover, Kablo Bratislava s.r.o. ranked 69th in 1994 and 97th in 1993 in the TREND TOP 100 chart of Slovak companies (TREND 25/95, p. 3C). The enterprise is located in Bratislava, the capital of Slovakia.

History, Transformation and Ownership

Kablo Bratislava s.r.o. is following up on the tradition and production of the state enterprise Kablo Bratislava s.p.. However, legally, Kablo Bratislava s.r.o. is not a direct successor of the state enterprise. Kablo Bratislava s.r.o. was founded in December 1991 as a limited liability company. The only owner was Oesterreichische Kabelwerke Vienna, Austria, which is a member of the Siemens Group. In 1992, Kablo Bratislava s.r.o. purchased premises and production facilities of the state enterprise Kablo Bratislava s.p. which was at that time renamed Kabelovna s.p. Kablo Bratislava s.r.o. also took over substantial part of the employees of Kabelovna s.p. The purchase did not include all of the assets of Kabelovna s.p., instead, the transaction covered only the premises and production facilities at the current address of Kablo Bratislava s.r.o. Premises and equipment located at other places remained the property of the state enterprise. Kablo Bratislava s.r.o. did not take over the responsibility for the liabilities of the state enterprise either. Kabelovna s.p. is currently in the process of liquidation.

The actual volume of the investment of the Siemens Group into Kablo Bratislava s.r.o. (the purchase and subsequent purchase of production equipment) was approximately SKK 1.2 billion. This investment along with purchases of similar enterprises in Hungary (Duna Kábel Budapest and Magyar Kábel Művek Budapest) and Oesterreichische Kabelwerke Vienna secured Siemens a leading position at the cable markets of Central Europe.

Key Figures

Table 8.34: Key Figures, Kablo Bratislava s.r.o.

Kablo Bratislava s.r.o.	Unit	1993	1994	1995[a]	1996[a]
Turnover	SKK mn	825.05	1038.28	1827.64	2404.23
Turnover w/ Siemens Group[b]	%	0.00	10.63	34.03	43.26
Gross Profit	SKK mn	-154.17	-198.00	10.07	90.09
Total Assets	SKK mn	1084.86	1669.55	1898.78	2023.14
Equity	SKK mn	150.06	239.67	458.92	739.98
Liabilities	SKK mn	934.81	1429.89	1439.86	1283.16
Labor Force		500	542	524	517
Profit/Turnover	%	-19	-24	1	4
Profit/Assets	%	-14	-15	1	4
Net Profit/Share	SKK	-1233.33	-987.232	38.076	269.252

[a] Forecast.

[b] Turnover realized with other enterprises of the Siemens Group in percent of the total turnover.

The Net Profit per Share figure actually refers to net profit per one-thousand SKK of the shareholders' equity. The shares of Kablo Bratislava are not publicly traded.

Characteristics of Production

The establishment of Kablo Bratislava s.r.o. was followed by substantial investments into the production. This included purchases of new, modern production equipment and technologies as well as reconstruction of the existing equipment and premises. The volume of investment into production was SKK 700 million during the first two years. As a result, Kablo Bratislava s.r.o. is presently the largest producer of cables, conductors and related services in Slovakia and one of the major producers in former Czechoslovakia.

The output of Kablo Bratislava consists of power cables and conductors as well as accompanying services such as installing cable systems, maintenance, consulting and project preparation.

Export Orientation

Export orientation of Kablo Bratislava s.r.o. is presently moderate but it is expected to increase gradually in the future (see Table 8.35). As is indicated by Table 8.35, growing exports will allow for the rapid growth in the total turnover expected for the coming years. While the sales in all three categories (Slovakia, Czech Republic and exports) will grow, the growth in exports will be much faster then that of the other two. It is expected, that the ratio between sales in Slovakia and the Czech Republic will remain rather stable (approximately 2:1). However, the split of Czechoslovakia in 1993 was followed by a (temporary) stagnation of sales — this could have been also the effect of the transformation and privatization of the power industry, though. Kablo enjoys substantial market shares in both republics: around 25% in Slovakia and 15% in the Czech Republic.

Table 8.35: Destinations of Sales (approximate figures), Kablo Bratislava s.r.o.

Sales Break-up		1993	1994	1995[a]	1996[a]
Total Turnover	(SKK mn)	825.05	1038.28	1827.64	2404.23
Slovakia	(SKK mn)	385.03	415.31	609.21	641.13
Czech Republic	(SKK mn)	192.51	207.66	304.61	320.56
Exports	(SKK mn)	247.52	415.31	913.82	1442.54
Slovakia	%	47	40	33	27
Czech Republic	%	23	20	17	13
Exports	%	30	40	50	60

[a] Forecast.

The state-owned predecessor of Kablo Bratislava s.r.o. directed its exports mainly toward the countries of the CMEA. The orientation changed after the purchase by Siemens. Currently, the main destination of exports (excluding the Czech Republic) is Germany with some 85% of total exports. It is followed by Austria with 10%. The shares of other countries are insignificant. However, the share of Austria was expected to increase in 1995 to 30% of total exports.

The export activity of Kablo Bratislava s.r.o. is to a significant extent subjected to coordination within the Siemens Group by using the organizational structure of the Group. Nevertheless, Kablo's representatives participate actively in negotiations concerning the conditions of the transactions. The main buyers are either power industry enterprises or trading firms. The exports are based on long-term contracts that are adjusted annually.

In the future, Kablo expects a growth in exports. However, it will attempt to strengthen its position in the domestic market (including the Czech Republic) even at the expense of exports, should the opportunity present itself. The main export markets will remain Germany and Austria because of the proximity as well as the position the Siemens Group enjoys there.

Production for Exports

In general, the quality of the products of Kablo is at the same or higher level as the quality of the competing products. The prices are in general lower. There is not a significant difference between the products sold at the domestic market and exported products. However, exported products are produced so as to comply with the national standards of the country of destination.

Domestic Environment for Exports

The exports of Kablo Bratislava s.r.o. are not subjected to export licensing.

Several problem areas implied by the Slovak legislature have an adverse effect upon the general financial situation of the company. In particular, Kablo Bratislava s.r.o., as a newly established enterprise, is affected by the income tax law provisions that put restrictions on writing off losses in subsequent years. In particular, only one loss can be written off at a given time over a period of five years and other losses incurred during this period cannot be cumulated and written off later. Moreover, previously introduced tax incentives for foreign investment were abolished recently. The competitiveness of Kablo is also affected by (relatively) high import tariffs on raw materials although for some of them there is no domestic producer in Slovakia. Finally, the foreign exchange regulations current in 1994–1995 (limited current account convertibility) implied an increase in transaction costs.

On the other hand, unlike other Slovak enterprises, Kablo does not have presently problems with respect to obtaining credits with favorable interest rates. This is because of the prestige Siemens Group enjoys as well as because the future prospects of Kablo.

Other problems faced by Kablo include difficulties with the human factor (both inside and outside of the company). Furthermore, occasionally there are problems with obtaining necessary raw material inputs.

Foreign Environment for Exports

Presently, the international competition faced by Kablo (as well as other enterprises of the Siemens Group) is very intense. The market is composed of a few large international holdings. The most important competitor is Nokia. In this environment, Kablo Bratislava s.r.o. relies primarily on the structures of the Siemens Group in securing its exports.

Kablo Bratislava s.r.o. is currently not subjected to any significant foreign restrictions on its exports. This is particularly due to its membership in the Siemens Group.

The payments periods range from 30 to 60 days after delivery. On the other hand, the purchases of raw material inputs are generally payable immediately. Nevertheless, financing this disproportion does not represent a significant difficulty for Kablo since it is able to obtain sufficient credits with favorable interest rates.

An additional difficulty arose after the split of Czechoslovakia in 1993. Besides new administrative requirements it is presently more difficult for Kablo to pursue financial settlements with and initiate bankruptcies of the trade partners in default in the Czech Republic. Achieving legal settlements in the Czech Republic is also more difficult and costly.

The presence of the foreign owner (Siemens Group) had a very significant effect upon the financial situation of Kablo Bratislava s.r.o. (relative to the former state enterprise) and its general ability to obtain financing. It also significantly improved its access to foreign markets; this impact was not so profound as in the case of financing, though.

For the future, the management expects a further intensification of competition in the international markets. This will result in a continuing stagnation or decline of prices during the next few years. The situation will probably eventually lead to several strategic mergers in a few years' time. After this development, the prices will finally increase.

Kerametal a.s., Bratislava

Introduction

Kerametal a.s., Bratislava, is a foreign trading company for foreign trade. With the size of its sales it belongs to the largest Slovak enterprises — Kerametal ranked first in 1994 and sixth in 1993 in the TREND TOP 100 chart of slovak companies composed by Slovak magazine TREND (TREND 25/95, p. 3C). Kerametal specializes in imports and exports of non-ferrous metals and semiproducts, metallurgical products, ceramic materials, construction materials, chemical products, natural gas, machinery and other commodities. About one-half of its turnover was realized in trade with Russia.

History, Transformation and Ownership

Kerametal was established in 1970 as a joint-stock foreign trade company. Its original owners were other Czechoslovak state-owned enterprises, although Kerametal itself was not directly owned by the government. The original owners of Kerametal were predominantly metallurgical and industrial enterprises, banks, and other foreign trade companies.

Until 1990, Czechoslovak industrial enterprises were not allowed to engage directly in foreign trade activities. Instead, exports and imports were carried out on their behalf by the so-called foreign trade enterprises with specifically determined commodity structure. Kerametal was one of these foreign trade enterprises specializing in metallurgical products, certain metals and ceramic materials.

Kerametal was not subjected to the privatization process after 1991 since it was already a joint-stock company and most of its owners were themselves privatized. Nonetheless, the ownership structure of Kerametal evolved. Currently, the greatest stake in Kerametal is owned by Contierz GmbH, Düsseldorf, Germany (Contierz is itself an 80% owned subsidiary of Kerametal). The stakes of significant shareholders range from 13.05% to 1.08% and their number is 18. In addition, small stakes are owned by individuals and employees of Kerametal. The structure of ownership of Kerametal is summarized below in Table 8.36 (the figures relate to 1993).

Table 8.36: Structure of Ownership of Kerametal a.s. (%)

Kerametal a.s.	1993	1994
Slovak Enterprises	41.2	41.1
Czech Enterprises	21.7	21.7
Foreign Enterprises[a]	28.1	28.0
Individual	3.5	3.5
Employees	5.5	5.7

[a] Includes German, Swiss and British enterprises.

Nevertheless, the years following the collapse of the socialist regime in 1989 brought significant changes also for Kerametal. In 1990, Kerametal, as well as all other foreign trade enterprises, were stripped of their exclusive position in foreign trade and lost their prescribed commodity structure. In response to these changes, Kerametal underwent a transformation of its internal organization leading to a trading company comparable with its foreign competitors.

Kerametal has equity stakes in five enterprises in the following foreign countries: Germany, Switzerland, Czech Republic and the USA (two enterprises). The stakes of Kerametal in these enterprises range from 67% to 100%.

Key Figures

Key figures relating to the entire Kerametal Group are summarized in Table 8.37 below.

Table 8.37: Key Figures of Kerametal a.s. Bratislava

Kerametal a.s.	Unit	1989	1990	1991	1992	1993	1994
Turnover[a]	SKK mn	1471.10	1913.02	2919.88	1047.94	14983.43	33724.51
Gross Profit[b]	SKK mn	76.75	230.16	127.28	125.67	349.86	275.69
Extraordinary Profit	SKK mn	1.95	115.76	84.00	150.62	22.07	-0.40
Total Assets	SKK mn	2399.31	3279.19	7664.77	4164.30	4930.46	3702.60
Equity	SKK mn	223.99	396.60	479.81	691.38	828.28	1061.23
Liabilities	SKK mn	2175.32	2882.60	7184.96	3472.92	4102.17	2641.37
Profit/Turnover	%	5.22	12.03	4.36	11.99	2.33	0.82
Profit/Assets	%	3.20	7.02	1.66	3.02	7.10	7.45
Turnover/Assets	%	61.31	58.34	38.09	25.16	303.90	910.83
Labor Force		330				240	241

[a]The total consolidated turnover of Kerametal a.s. and its daughter companies was SKK 38083 million (TREND 25/95, p. 1C).

[b]Excluding extraordinary items. Extraordinary profit is disclosed separately because of its significant size in certain years.

The increase in the volume of the total turnover stems from the fact that Kerametal became responsible for securing the Slovak imports of natural gas after the division of the federation in 1993. Previously, natural gas was imported by Metalimex Prague, a Czech enterprise.

The sharp increase in the total assets and liabilities during 1991 reflects an increase in the accounts receivable and a corresponding increase in the accounts payable. The developments of the accounts receivable and payable are summarized in Table 8.38:

Table 8.38: Development of Accounts Receivable and Payable in Kerametal a.s.

Kerametal a.s.	Unit	1989	1990	1991	1992	1993	1994
Accounts Receivable	SKK mn	760.64	2304.97	6697.04	2527.88	2553.82	2527.44
Accounts Payable	SKK mn	1986.75	3507.07	5591.49	2626.53	2206.97	435.21

Characteristics of Turnover and Organization of Exports

The activities of Kerametal currently include exports, imports and in a smaller extent re-exports of the following commodities: non-ferrous metals and semiproducts, metallurgical products, ceramic materials, construction materials, chemical products, natural gas, machinery and other commodities.

Until 1990, the share of imports in the turnover of Kerametal was substantial: some 80%, while only the remaining 20% were made up by exports. With the change of the commodity structure in the following years accompanied by a general decline in imports, the shares of imports and exports became equal in size.

With respect to the regional orientation of the trade activities of Kerametal, former Soviet Union remained the most important origin of imports until present. The importance of Russia further increased after Kerametal started to import natural gas from this country in the early 1990s. In the case of exports, the volumes of exports to the former CMEA countries and former Soviet Union have been decreasing since the demise of the CMEA. Traditional export countries are Germany, France and the Benelux countries, less significant are other Western European countries, China and South American countries. In general, exports of Kerametal involve large number of smaller contracts and many of them are realized more or less on an ad hoc basis. Overall, prior to the demise of the CMEA some 80% of the turnover were realized with the CMEA countries. While the share of the former CMEA countries declined in recent years, in 1994 more than half of the turnover of Kerametal was realized with Russia. The split of Czechoslovakia had only minor impact on trading activities of Kerametal. This was partly due to the fact that some of the owners of Kerametal are Czech enterprises. Nevertheless, some Czech enterprises started to cooperate with Czech trading companies rather than with Kerametal. In general, the Association Agreement with the EU did not have a major impact upon the regional orientation of Kerametal's exports either. However, exact figures on destinations of Kerametal's exports are not available, partly due to the specific nature of the transactions and exported commodities (the customers of Kerametal are often international trading companies which further reexport the products; many transactions take place at commodity exchanges where the actual country of origin/destination is not known). Furthermore, the management feels that exact recording of destinations is not extremely important for the company.

The organization of exports varies with different markets as well as different commodities. In the key territories Kerametal established daughter companies and joint ventures: in the Czech Republic, Germany, Switzerland and the USA. It also disposes over foreign offices in Cuba, Czech Republic, China, India, Kazakhstan, Romania, Russia, Belarus, Ukraine and Vietnam. In other territories it is represented by a single local company or trades with several mediators and trading companies. The transactions include long-term contracts as well as ad hoc opportunities. For the future, Kerametal intends to strengthen its network of foreign affiliations and offices so as to reduce the number of mediators involved and get closer to the final customer. It also plans to continue the diversification of its commodity structure to make up for the loss of sales in the traditional commodities. The new product groups will be especially in machinery, chemistry and military products.

Domestic Environment for Exports

The exports of Kerametal are not subjected to export licensing, with the exception of military products. However, some of the imports require a license from the Slovak authorities (for example coal). The export activities of Kerametal are further impeded by high interest rates charged for credits as well as difficult conditions on repayment of credits. In the relation to the Slovak companies whose products Kerametal exports, the company feels a lack of consistent export policy and insufficient qualification of the staff of export departments.

Foreign Environment for Exports

The exports of Kerametal are occasionally subject to import tariffs as high as 30%. Thus, tariffs represent an important restriction on exports of Kerametal. Quite important are also antidumping restrictions and ecological standards in the country of destination.

In the area of payments conditions, Kerametal faces a discrepancy between different payment conditions on imports and exports: while it is usually required to pay for the imports promptly or up-front, it has to accept payment conditions ranging from 30 to 90 days for its exports to the developed countries. In addition, the customers are frequently late with the payments. Kerametal then needs to finance this time difference with credits, however, the interest rates in Slovakia are quite high. On the other hand, when exporting to the developing countries, Kerametal requires guaranteed payments or up-front payments, due to lower credibility of customers and higher risk of default.

When obtaining information about foreign markets and securing its exports, Kerametal makes an active use of its foreign affiliations and offices. On the other hand, the introduction of foreign entities into Kerametal's owners had a positive impact on its financing as well as commercial activities.

Concerning the strategic outlooks to the future, Kerametal expects continuing instability in the former Soviet Union implying high risks in trading with these countries. Similarly, the third world countries will remain risky territories.

Omnia a.s., Bratislava

Introduction

Omnia a.s. is a foreign trade company. With its annual sales it ranks in the second half of the top one-hundred Slovak companies. Originally, Omnia traded mainly with electronics and consumer products. Later, it also added machinery, parts for machinery, automobiles, and other products. According to its annual turnover, Omnia a.s. ranked 45th in 1994 and 77th in 1993 in the TREND TOP 100 chart of Slovak companies (TREND 25/95, p. 3C). Omnia is located in Bratislava, the capital of Slovakia.

History, Transformation and Ownership

Omnia was founded in 1972 as a state-owned foreign trade enterprise. The company was originally given a prescribed commodity structure that included a broad variety of household consumer products such as refrigerators, washing machines, electronics, etc. Later, it was further augmented by machinery, as well as other products.

Table 8.39: Structure of Ownership of Omnia a.s. (%)

December 1990		December 1993	
Slovak enterprises (14)	84.5	Slovak enterprises (14)	97.5
Czech enterprises (5)	15.5	Czech enterprises (4)	1.0
		Employees of Omnia	1.4

In December 1990, Omnia was transformed into a joint-stock company. The original owners were its most important commercial partners — industrial enterprises and trading companies from both Slovak and Czech Republics (see Table 8.39). The most important shareholder in 1990 was VSZ Kosice with 31.0% of total equity, followed by Tesla Epos Prague with 11.2%. The total equity was CSK 89 million. In March 1993, the total equity was increased by an additional emission of shares to SKK 116 million. This additional emission along with the stake of Tesla Epos Prague was purchased by O.I.C. s.r.o. Bratislava. The shareholders of O.I.C. are mainly members of management of Omnia, along with some other individuals. O.I.C. s.r.o. thus became the major shareholder with 34.5%, followed by VSZ Kosice with 33.5%. The stakes of other shareholders changed over time as well, and small numbers of shares were purchased by Omnia's employees.

Table 8.40: Output of the Omnia Group

Name:	1993 Sales	% of sales
Omnia a.s.	135.16	11.15
Omnia Domotechnika	567.06	46.78
Omnia Roll	299.22	24.68
Omnia Elektro	20.38	1.68
Omnia Ister	170.86	14.09
Omnisa	0.03	0.002
Omnia Market	8.19	0.68
Omnia Servis	11.38	0.94
Total	1212.29	100.00

After the privatization, Omnia transformed to a holding type company. It currently controls eight daughter companies which are responsible for most of Omnia's commercial (see Table 8.40). The stakes of Omnia in these companies range from 33% to 80%. The daughter companies are: Omnia Domotechnika s.r.o. (household equipment), Omnia Roll s.r.o. (imports and exports of bearings), Omnia Elektro s.r.o. (electronics and household equipment), Omnia Ister s.r.o.

(machinery, technology, consulting), Omnia Market s.r.o. (export of wood products, retail of imported products), Omnia Eko s.r.o. (environmental products, health products, consulting), Omnia Motors s.r.o. (car dealership), and Omnia Servis s.r.o. (engineering, consulting). In addition, Omnia a.s. holds stakes in nine other companies in Slovakia and it has daughter companies in Germany and France.

Key Figures

Table 8.41: Key Figures, Omnia a.s. Bratislava

Omnia a.s.	Unit	1988	1989	1990	1991	1992	1993	1994
Turnover	SKK mn	6013.80	7459.70	7090.10	3966.30	2304.50	1217.40	1797.00
Exports	SKK mn	2712.60	2850.00	2683.40	1795.40	1085.10	686.60	
Imports	SKK mn	3301.20	4609.70	4406.70	2170.90	1219.40	359.90	
Services	SKK mn	0.00	0.00	0.00	0.00	0.00	170.90	
Gross Profit	SKK mn	n.a.	160.82	112.90	52.38	20.51	21.50	41.85
Total Assets	SKK mn	n.a.	n.a.	n.a.	1496.84	1472.05	2064.29	
Equity	SKK mn	n.a.	n.a.	n.a.	121.35	168.03	197.43	
Liabilities	SKK mn	n.a.	n.a.	n.a.	1375.49	1304.02	1866.86	
Labor Force		n.a.	458	438	n.a.	n.a.	212	220
Gross Profit:								
Turnover	%	n.a.	2.16	1.59	1.32	0.89	1.77	2.33
Assets	%	n.a.	n.a.	n.a.	3.50	1.39	1.04	
Turnover:								
Assets	%	n.a.	n.a.	n.a.	264.98	156.55	58.97	

For 1992, 1993 and 1994, turnover, exports and imports are aggregated for the entire group. Other items refer to Omnia a.s. only. Prior to 1992, the company did not report separate information for the daughter companies.

Sources: 1994 figures — TREND 25/95, p. 3C, otherwise Annual Reports.

Characteristics of Commercial Activities

Originally, the commodity structure of Omnia was centrally prescribed and included particularly various household equipment items: refrigerators, washing machines, faucets, furnaces, audio equipment, etc. The commodity structure was later augmented by rolling bearings and selected machinery (in particular welding equipment). With changes in the legislature regulating foreign trade activities in 1990, Omnia along with other foreign trade enterprises lost its exclusive position in the economy. In response, the commodity structure of Omnia changed as well. The current commodity structure of Omnia and the companies it controls includes: exports and imports of rolling bearings, household equipment, furniture, wood products, machinery, technical equipment, medical equipment, glass products, food products, audio equipment and other household electronics, equipment for environmental protection, construction materials, import and retail of cars (Honda), engineering consulting, general business consulting and other services. Besides acting as a wholesaler of the imported products, Omnia also owns a retail store and a car dealership.

While the frequent changes in the commodity structure may have been good for Omnia during the transitory period following deregulation in 1990, the management of the company expects this to be different in the future. Instead, it expects that the company will focus on a limited number of commodities and will strengthen its position on those markets. The key commodities for the future will be rolling bearings, household equipment and electronics.

Omnia currently trades with partners from over 80 countries. Prior to 1990, about 60% of the total turnover was accounted for by socialist countries while the remaining 40% were Western and developing countries. At present, this division is virtually opposite: 60% are accounted for by developed and developing countries while 40% are made up by the former socialist countries. Precise regional structure of exports is not reported at present due to frequent changes in relations with the Slovak producers. The company thus feels it can not build a consistent territorial strategy if its commodity structure is not stable.

The deregulation in 1990 resulted in a substantial decline of the turnover: the 1993 turnover is only about 16% of the 1989 level. The decline in exports was not so deep though, in 1993 exports were 24% of the 1989 level while imports were only 8%. This decline in the activities of Omnia was due to the greater possibilities the Slovak enterprises had for the organization of export after 1990 as well as due to the general decline of Slovak exports to the former socialist countries. The exports to the developing countries declined too because in the past they were often coordinated and supported by the Czechoslovak government. This was especially the case of the countries which were ideologically close to the communist regime. This kind of support ceased completely after 1989. Nevertheless, despite the overall decline of exports since 1990, Omnia was able to increase its profitability.

Organization of Exports

The exports of Omnia are supported by a wide network of agents and affiliations abroad. The agents are local companies with or without exclusive position. The affiliations are joint ventures with a stake of Omnia. The joint ventures were usually founded in cooperation with Transacta, another Czechoslovak foreign trade company in Prague. In fact, Transacta was the only Czechoslovak enterprise prior to 1989 allowed to establish subsidiaries abroad (according to the regulations of the Federal Finance Ministry and the Central Bank). Other enterprises could only participate in the joint ventures of Transacta or found a subsidiary under Transacta's supervision.

The nature of the trade relationship toward the Slovak enterprises changed as well since 1990. While in the past Omnia acted as a wholesaler, at present it acts as a mediator, i.e., it does not own the exported goods. The buyer of the products are both end users as well as foreign trading firms (this is mainly the case with newly introduced commodities).

Domestic Environment for Exports

The exports of Omnia are not subjected to export licensing. The company does not feel the presence of other direct impediments either. Nevertheless, Omnia does have occasionally problems with the timeliness and reliability of deliveries from the Slovak enterprises. Several times, this caused that Omnia had to decline potential exports or failed to fulfill already negotiated contracts.

The exports of Omnia are also significantly affected by the inconsistent approach of the Slovak trade partners. Frequently, the enterprises prefer short-term gains to long-term relationships. Thus, one product of a single Slovak enterprise is often marketed by several mediators in a particular foreign market. This results in increased competition as well as certain spillover effects: for example, some exporters do not take care of services such as repair and maintenance because they are provided by other mediators.

Foreign Environment for Exports

The exports of Omnia are not significantly affected by foreign direct restrictions. On the other hand, the indirect impediments are more important, especially quality certificates, different technical standards and requirements on product label information.

Ozeta a.s., Trencín

Introduction

Ozeta a.s. Trencín is the leading Slovak producer of apparel and clothing. Ozeta specializes in the production of men's apparel: trousers, suits, jackets and coats. According to the size of its turnover, Ozeta a.s. ranked 40th in 1994 and 50th in 1993 in the TREND TOP 100 chart of Slovak companies (TREND 25/95, p. 3C). Ozeta is located in Trencín in North-Western Slovakia.

History, Transformation and Ownership

Ozeta was originally founded in 1938. In 1945, the company was nationalized and became state-owned. Ozeta was transformed into a joint-stock company in 1990 and became thus one of the first companies of this legal form in Czechoslovakia. In 1992, the company was privatized using the voucher method. However, a stake remained held by the Fund of National Property. The FNP then reduced its stake later in 1994. The structure of ownership and its development is presented in Table 8.42.

Table 8.42: Structure of Ownership, 1993 and 1994 (end of year) (%)

Structure of Ownership	1993	1994
Fund of National Property[a]	11.7	7.5
Institutional Investors	63.4	73.1
Individuals	24.9	19.4

[a]Includes the shares held by the Restitution Investment Fund, 2.9% in 1994.

The most important shareholders are investment companies and investment funds. Five shareholders own stakes exceeding 5%: Credit Fond (17.20%), VUB (14.37%), C.I.C. (9.19%), Puchovsky Investment Fund (8.83%) and Austrian Control Bank (5.7%).

Ozeta was one of the first Slovak enterprises to issue corporate bond. The issue of bonds was carried through in 1993 and Ozeta obtained an additional capital of SKK 100 million. The bonds are to be repaid in two years after issuing. Both bonds as well as shares of Ozeta are publicly traded at Slovak capital markets.

Key Figures

Table 8.43: Key Figures, Ozeta a.s. Trencín

Key Figures	Unit	1989	1990	1991	1992	1993	1994
Total Output	SKK mn	1165.70	1151.96	1353.05	1470.86	1736.51	1990.79
Gross Profit	SKK mn	n.a.	n.a.	n.a.	51.40	140.40	101.29
Total Assets	SKK mn	883.32	1024.88	1443.10	1501.99	1794.55	1948.74
Equity	SKK mn	640.71	686.67	742.66	803.53	853.44	888.93
Liabilities	SKK mn	242.61	338.21	700.43	695.45	941.12	1059.81
Accounts Receivable	SKK mn	64.49	182.10	206.54	281.51	427.70	603.71
Inventory	SKK mn	226.14	222.45	453.69	339.23	398.65	397.04
Labor Force[a]		6619	6519	6045	5821	5809	5929
Profit/Output	%	n.a.	n.a.	n.a.	3.49	8.09	5.09
Profit/Assets	%	n.a.	n.a.	n.a.	3.42	7.82	5.20
Output/Assets	%	131.97	112.40	93.76	97.93	96.77	102.16
Net Profit/Share	SKK	n.a.	n.a.	n.a.	n.a.	74.09	86.31

[a]The decline in labor force includes also reductions due to organizational changes, such as transferring the company apprentice school into the education sector.

Characteristics of Production

Throughout its existence, the output of Ozeta consisted primarily of various kinds of men's apparel. Ozeta is the most important producer of clothing and textile products in Slovakia (see Table 8.44). In 1994, Ozeta accounted for nearly 16% of the total sales of the industry. The share of Ozeta is even more dominant in exports: Ozeta accounted for over 28% of the total exports of the industry (not considering exports to the Czech Republic). The performance of Ozeta is particularly impressive when comparing with the development of the industry as a whole over the last six years. While the total sales of the industry slightly declined from CSK 13,042.3 in 1989 to SKK 13,007.3 in 1994 (TREND 17/95, p. 6C), the output of Ozeta rose by more than 70% over the same period (see Table 8.46).

Table 8.44: Overview of Slovak Textile and Clothing Industry

Textile Industry Top 10	Sales 1993	Sales 1994	%	Exports 1994[a]	%
Industry Total	n.a.	13007.3	100.00	6260.1	100.00
Ozeta a.s. Trencín	1736.5	2054.4	15.79	1781.1	28.45
Texicom s.r.o. Ruzomberok	950.5	1018.5	7.83	n.a.	
Makyta a.s. Puchov	977.6	957.6	7.36	n.a.	
Maytex a.s. L. Mikulas	871.5	937.3	7.21	n.a.	
Levitex s.p. Levice	628.8	746.3	5.74	n.a.	
Merina a.s. Trencín	711.2	669.5	5.15	n.a.	
LTZ s.p. Revuca	548.5	635.3	4.88	n.a.	
Tatrasvit a.s. Svit	513.8	552.9	4.25	n.a.	
Slovenka s.p. B. Bystrica	449.9	462.2	3.55	n.a.	
Lekom s.p. Levice	172.6	444.4	3.42	n.a.	
Other	n.a.	4528.9	34.82	n.a.	

[a]Not including exports to the Czech Republic.

Source: TREND 17/95, pp. 6C–7C, authors' calculations.

The structure of the output of Ozeta according to the main product categories is displayed in Table 8.45. Ozeta was able to achieve a steady growth of output over the last five years (see also Table 8.46). This growth was particularly marked in the case of the jackets: their share increased from 34% in 1992 to 42% in 1994.

Table 8.45: Commodity Structure of Output (SKK million)

Structure of Output	1992	%	1993	%	1994	%
Apparel Output	1466.24	100.0	1776.02	100.0	1986.25	100.0
Overcoats	147.41	10.1	187.99	10.6	184.34	9.3
Suits	545.26	37.2	559.23	31.5	579.46	29.2
Jackets	504.23	34.4	650.83	36.6	829.92	41.8
Trousers	269.33	18.4	377.97	21.3	392.53	19.8

Export Orientation

The export orientation of Ozeta has been increasing throughout the last six years. The share of exports (without the Czech Republic) rose from 57.6% in 1989 to 88.8% in 1994. The export orientation of Ozeta is also substantially greater than the industry average which is 48.1% (from Table 8.46). The growth of exports made it possible for Ozeta to increase the total output despite a substantial decline in domestic sales. In 1994, domestic sales (including Slovakia and the Czech Republic) corresponded only to mere 45% of the 1989 level (in absolute terms). The share of domestic sales declined during the same period from 42% to 11%. Furthermore, the exports of Ozeta were reoriented and presently are directed primarily to the developed countries.

The decline of the domestic sales was partly caused by the adverse effects of the economic transition; this factor could be particularly important in 1991–92. However, the main reason of the decline was probably the increase of imports and hence greater competition. While the quality of the products of Ozeta is assessed high, the consumers often prefer imported products with more attractive designs and lower prices but often of lower quality at the same time. Another significant factor was the collapse of the wholesale distribution networks. At present, there are hundreds of small retailers who can only purchase a few dozens of each item at a time. Finally, the company faces a significant threat from the shadow economy, i.e., illegal and/or semi-legal imports of apparel (often of poor quality).

Table 8.46: Break-up of Output, 1989–94, Volumes and Percentage Shares

Break-up of Output	1989	1990	1991	1992	1993	1994
Total Output	1165.70	1151.96	1353.05	1470.86	1736.51	1990.79
Slovakia and Czech R.	487.14	474.49	365.59	203.11	239.97	218.81
Exports	671.62	671.61	977.75	1263.12	1491.93	1767.43
CEE and CIS	402.47	394.26	312.35	211.65	159.94	56.00
complete products[a]	147.18	128.39	256.18	510.93	575.15	694.29
contracted work[a]	121.98	148.96	409.22	540.54	756.84	1017.15
Other	6.94	5.86	9.71	4.63	4.61	4.54
Total Output %	100.00	100.00	100.00	100.00	100.00	100.00
Slovakia and Czech R. %	41.79	41.19	27.02	13.81	13.82	10.99
Exports %	57.61	58.30	72.26	85.88	85.92	88.78
CEE and CIS %	34.53	34.23	23.09	14.39	9.21	2.81
complete products[a] %	12.63	11.14	18.93	34.74	33.12	34.87
contracted work[a] %	10.46	12.93	30.24	36.75	43.58	51.09
Other %	0.60	0.51	0.72	0.31	0.27	0.23

[a]Both complete products and contracted work refer to exports to the developed countries.

A significant part of the total output is so-called "contracted work". In fact, this form of output has been growing fast both relatively and absolutely for the last few years. The contracted work refers to producing products according to specific orders of the client. The client then supplies the materials and the product styles. The only input provided by Ozeta is the labor of its employees. Contracted work is only carried out for exports and is primarily requested by clients from the Benelux countries, the US and Canada. However, the products are then frequently re-exported, especially to the former USSR (this is particularly the case with the Benelux clients).

The share of contracted work increased from 10.5% in 1989 to 51.1% in 1994. Hence, over 57% of the total exports are in fact accounted for by contracted work (as of 1994). Contracted work is not perceived as the optimal long-term strategy of production for Ozeta but the management sees it as an appropriate temporary solution. In fact, the contracted work has several favorable features: The client takes over full responsibility for marketing of the product as well as for obtaining appropriate materials for production. The contracted work also eliminates the problem of non-recognition of Ozeta's brand name and of the conservative approach of the consumers toward products from CEE. Finally, the clients — Western European and American companies — have better possibilities for obtaining export financing and can thus export to the markets that are only hardly accessible for Ozeta (for example, the former USSR). On the other hand, contracted work also brings several draw-backs: The net gain derived from contracted work is in general smaller than that of the completed products. Furthermore, engaging in contracted work creates actually competition to the completed products produced also by Ozeta. Finally, contracted work is particularly attractive for the Western clients since it gives them a possibility to take advantage of the low labor costs in Slovakia while retaining control over styles, quality and marketing of the products. In addition, contracted work products are not subjected to quotas that are otherwise effective and only the added value is subjected to import tariffs in the client's country.

Table 8.47: Destinations of Sales, 1993 and 1994 (%)

Country:	1993	Country:	1994
Slovakia	8.00	Slovakia	8.70
Czech Republic	4.50	Czech Republic	4.60
Benelux	30.00	Netherlands	27.80
USA and Canada	21.30	USA and Canada	14.00
Russia	12.40	Germany	11.50
		Austria	8.50
		Russia	8.20
		U.K.	5.50
		Scandinavia	3.00
		Italy	2.90
Other	23.80	Other	5.30

At present, Ozeta exports mainly to Western European countries followed by the US and Canada (see Table 8.47). The share of Russia is currently only 8.2%, way down from approximately 40% prior to 1990. The exports to the former USSR fell substantially particularly because of the loss of purchasing power of the ruble as well as due to problems in collecting payments for exports.

Ozeta currently exports directly, without mediator. The company started to engage in direct exporting of a part of its output relatively early, in 1989. This early start was a part of the so-called "foreign trade experiment" in which state-owned enterprises were to engage in certain "capitalist" activities. The direct exporting was applied gradually on a territorial basis, starting with the Benelux countries in 1989. 1994 was the last year when Ozeta has been using mediators for a part of its output. The exports are secured either directly by the staff of Ozeta or by one of its joint ventures in Slovakia or abroad. The clients are mainly wholesalers and local trading companies. Except for the Benelux territory, the buyers do not have exclusivity at the given market. Exports are mostly based on long-term relationships. The particular transactions are based on "season contracts" (i.e., half year).

In the future, the management expects a slight improvement at the domestic market. However, this will not be decisive for the future development of the company since the domestic market is considered to be "too small". Overall, it is expected that the total output will grow by 2–3% annually. The greatest threat to the company is embodied in a possibility of growing competition of apparel imported from the former USSR due to the lower labor costs there and hence lower prices.

Production for Exports

In general, the quality of the products of Ozeta is good and is corresponding to the standards of the focused market segment, average income consumers. The prices are comparable with foreign competitors. The greatest problem in marketing the products since the brand name of Ozeta is not yet well recognized by the foreign consumers.

Domestic Environment for Exports

The exports of Ozeta are not subjected to export licensing or other forms of direct government regulation. However, the company is indirectly affected by the regulation of VAT refunding. Since the major part of output goes for exports (which is VAT exempt), the company regularly claims a VAT refund from the tax authorities. However, it takes two to three months until the refund is received. The company thus in fact grants a permanent no-interest loan to the government.

A significant company-internal impediment is the low level of experience and qualification of the company's marketing staff.

Foreign Environment for Exports

The most significant foreign regulation affecting the exports of Ozeta are quotas. The quotas are presently in place in the EU, the US and Canada. The Slovak government is then responsible in allocating the quotas to the individual Slovak enterprises. Nevertheless, the company is presently exporting below the volumes determined by the quotas. Another impediment is the requirements of quality certificates. Ozeta is currently in the process of obtaining the ISO certificate for its production.

The potential buyers are identified mainly through fairs and exhibitions, industry specific publications and by recommendations of the current trade partners. Direct advertising is used only seldom.

The payments conditions usually include a 30 days payment period. Occasionally, this can be as long as 90 days. Presently, the company is able to obtain export credits for this period to a sufficient scale. However, not long ago, in and before 1993, obtaining export credits was quite difficult.

After the split of the federation, Ozeta founded a daughter company (100% owned) in Prague. This company is responsible for marketing Ozeta's products in the Czech Republic as well as for purchases of input materials for production. The sales and purchases in the Czech Republic thus roughly match each other and the transfer of money between the two republics is minimized. This way possible adverse effects of exchange rate variations are also minimized.

Palma Tumys a.s., Bratislava

Introduction

Palma Tumys a.s. Bratislava the major Slovak producer of vegetable cooking oils, margarine and fats. Palma Tumys also produces other products such as soap, non-cooking oils, glycerin, cattle food and other items. With the size of its annual sales Palma Tumys ranked 37th in 1994 and 59the in 1993 in the Trend Top 100 chart of Slovak companies (TREND 25/95, p. 3C). The company is located in Bratislava, the capital of Slovakia.

History, Transformation and Ownership

Palma Tumys a.s. builds upon the tradition of Palma Bratislava s.p. Originally a state-owned enterprise, it underwent a rather complicated privatization process in which parts of the enterprise were separated and became independent companies (candle factory in Hlohovec became Ingnis s.r.o., cosmetics factories in Bratislava and Levice became AB Kozmetika a.s. and DM Kozmetika s.r.o., respectively). The remaining part of the enterprise was then privatized through a management buy-out: Palma Tumys a.s. was founded in December 1991 as a joint-stock company. The shareholders of the company were managers and employees of Palma s.p. The Slovak government approved then the sale of Palma s.p. to Palma Tumys in May 1992. In 1991, the company also founded a joint venture with Henkel Austria — a member company of Henkel International. This joint venture, Henkel Palma, took over a detergent production unit of Palma in Nové Mesto. Palma Tumys holds a 49% stake in Henkel Palma while the stake of Henkel Austria is 51%.

See also the case study of Henkel Palma s.r.o. for a related enterprise.

Key Figures

Table 8.48: Key Figures, Palma Tumys a.s.

Palma Tumys a.s.	Unit	1989	1990	1991	1992	1993	1994
Turnover	SKK mn	1755.01	1819.66	2102.73	1657.74	1777.58	2263.49
Profit	SKK mn	75.03	60.27	85.20	61.33	66.12	166.72
Total Assets	SKK mn	n.a.	n.a.	n.a.	n.a.	2211.96	2379.55
Equity	SKK mn	n.a.	n.a.	n.a.	n.a.	375.58	479.71
Long-Term Liabilities	SKK mn	n.a.	n.a.	n.a.	n.a.	724.80	644.70
Current Liabilities	SKK mn	n.a.	n.a.	n.a.	n.a.	1111.58	1255.14
Accounts Receivable	SKK mn	n.a.	n.a.	n.a.	n.a.	449.99	524.71
Inventory	SKK mn	n.a.	n.a.	n.a.	n.a.	445.07	445.00
Labor Force		2107	1728	1346	1110	909	915
Profit/Turnover	%	4.28	3.31	4.05	3.70	3.72	7.37
Profit/Assets	%					2.99	7.01
Turnover/Assets	%					80.36	95.12

Characteristics of Production

The main products of Palma Tumys are vegetable cooking oils and fats. This joint category accounts presently for over 80% of the total sales (see Table 8.50). Other important products are soap, other oils, cattle food, oil-seed based food mixtures (TKZ) and glycerin. Most of these items recorded a decline in production since 1990. The only commodity with an increase in production were cooking oils. The overall decline in sales is manly due to increased degree of competition and the general recession (both at the domestic as well as foreign markets) following the start of the economic transition. Palma currently operates at over 60% of its production capacity of vegetable oils and some 40% of capacity for soaps.

Table 8.49: Structure of Output and Sales

	Output (tons)						Sales 1994		
Product:	1989	1990	1991	1992	1993	1994	tons	SKK mn	%
Cooking Oils and Fats	55124	55533	45965	44357	51642	57497	57878	1821.7	80.6
Other Oil based Products	n.a.	n.a.	n.a.	n.a.	120122	109680	65772	300.9	13.3
Soap	7950	6608	2894	3147	3705	3182	3506	132.8	5.9
Detergents[a]	32040	34705	0	0	0	0	0	0.0	
Other	n.a.	n.a.	n.a.	n.a.	118	166	96	5.5	0.2
Total								2260.8	100.0

[a]The production of detergent was ceased in Palma after the joint venture Henkel-Palma s.r.o. was founded.

Table 8.50: Structure of Output of the Main Product Categories

Main Products Output (tons)	1990	1991	1992	1993	1994	1994/1990
Cooking Oil	33571	27095	26137	33670	35896	106.93%
Fats	21962	18870	18220	17772	21601	98.36%
Soap	6608	2894	3147	3705	3182	48.15%
Other Oils	49701	45778	49064	50840	46500	93.56%
TKZ[a]	3946	1705	561	367	248	6.28%

[a]TKZ refers to oil-seed based food mixtures.

Originally, Palma used to produce also laundry and dish detergents. The production of detergents was abandoned in 1991 as Palma Tumys founded a joint venture with Henkel Austria. The detergent production unit was then taken over by the joint venture Henkel Palma.

Export Orientation

Palma was originally intended to serve primarily the domestic market (i.e., the entire Czechoslovakia). The exports to other countries were thus not particularly large (see Table 8.51). The share of exports in the total output increased after the split of Czechoslovakia as the sales to the Czech Republic started to be considered exports, too. The export orientation was also strengthened by the fall in domestic demand which was a response to the higher prices following price liberalization and the abolishment of subsidies as well as a consequence of the increased competition of imported products. Nevertheless, the share of exports does not exceed ten percent.

Table 8.51: Export Orientation

Palma Tumys a.s.	1989	1990	1991	1992	1993[a]	1994[a]
Output (SKK mn)	1762.37	1804.74	2123.52	1590.02	1743.08	2130.27
Exports (SKK mn)	31.67	11.23	n.a.	n.a.	143.50	70.72
Exports (%)	1.80	0.62	n.a.	n.a.	8.23	3.32

[a]Exports including the Czech Republic.

Palma Tumys does not export its products directly. While in the past exports were carried out by the traditional foreign trade enterprises, at present Palma is in contact with several trading firms. Unlike in the past, Palma requires that the trading firms purchase and sell the goods on their own account as opposed to pure mediation in the past.

Production for Exports

The products of Palma Tumys are, according to the management, perfectly comparable with the Western products with respect to quality. However, the prices are often higher since the Western European countries, unlike Slovakia, subsidize their agricultural production quite heavily.

The most important export item is groats — a by-product of pressing processing oil seeds such as rape or sun flower. Groats are then used for producing feeding mixtures for cattle. Groats are particularly important for Palma's exports to Western Europe while the enterprise has been also able to export margarine to Russia and other CIS countries. Nevertheless, groats make up some 90% of the total exports.

The management sees good future prospects in exporting to the CEE and CIS markets. However, presently the political and economic situation is unstable and it is difficult to find reliable and financially sound trading partners. The exports of Palma are mostly threatened by the competition of Western products due to the subsidies these producers receive. The price difference is thus often up to 30%.

Domestic Environment for Exports

There are few official direct restrictions on the exports of the products of Palma Tumys. The most important one is t he licensing requirement imposed by the Slovak government on exports of groats. The export license is required with respect to all countries expect for the Czech Republic. The purpose of the license requirement is protection of domestic enterprises that use the groats as production input. However, licensing is not flexibly adjusted to the situation at the market and hence does not always prevents shortages or surpluses from occurring.

Since the price subsidies for agricultural and food products were eliminated in 1990 Palma has difficulties in placing its products at the domestic as well as foreign markets. The greatest competitive weakness of Palma is that it does not itself receive any government subsidies nor is the agricultural production subsidized in Slovakia. This situation is quite different in the Western European countries which makes the exports of Palma uncompetitive. In addition, the interest rates in Slovakia are very high at present — often as high as 20% or more — which makes the output of Palma even more expensive. While labor costs are relatively low, they do not make up a significant part of the final price.

Foreign Environment for Exports

Besides the above discussed low comparative support from the Slovak government, exports are affected also by the limited resources Palma has for financing marketing and advertisement. Foreign companies also often can offer more attractive conditions to retailers.

Direct restrictions are particularly important in Hungary and Poland. An improvement is expected, though, as the implementation of the CEFTA Agreements proceeds.

Plastika a.s., Nitra

Introduction

Plastika a.s. is one of the most important producers of plastic materials in the former Czechoslovakia. The main products are plastic pipes, polyethylene films, products made of expanded polystyrene as well as other products. With the size of its turnover, Plastika belongs to the second half of the top one-hundred Slovak enterprises — it ranked 53rd and 72nd in 1994 and 1993, respectively, according to the TREND TOP 100 chart of Slovak companies composed by the Slovak magazine TREND (TREND 25/95, p. 3C). According to the same source, Plastika a.s. is the tenth largest enterprise within the chemical industry. Plastika a.s. is located in Nitra in Western Slovakia.

History, Transformation and Ownership

Plastika was founded in 1962 in response to the growing demand for plastic products and the general trend of replacing the traditional materials with plastic. The state-owned enterprise was transformed to a state-owned joint-stock company in 1991. In 1992, the company was completely privatized in the first wave of the coupon privatization. The ownership structure resulting from the privatization (1993) as well as the structure in 1994 are presented in the Table 8.52.

Table 8.52: Ownership Structure, Plastika a.s. Nitra (%)

Plastika a.s., Nitra	1993	1994
Restitution Investment Fund	3.0	3.0
Investment Funds and Institutional Investors	82.8	85.0
Individuals	14.2	12.0

The most important institutional investor is the Austrian Control Bank (OeKB, Oesterreichische Kontrolbank) with 12%. However, the management of Plastika believes that the OeKB actually purchased the shares on behalf of other Austrian institutional investors and/or individuals. OeKB is then closely followed by VUB a.s., the greatest Slovak commercial bank, with 11.5%. Significant stakes are also held by several investment funds, especially: VUB Kupon (9.5%), PSIS (9.5%) and Slovcoupon (9%).

Key Figures

Table 8.53: Key Figures, Plastika a.s. Nitra

Plastika a.s.	Unit	1990	1991	1992	1993	1994
Turnover	SKK mn	876.75	1256.65	1457.63	1494.75	1647.40
Gross Profit	SKK mn	91.86	76.04	115.52	139.07	143.71
Total Assets	SKK mn	859.36	1072.72	1052.20	1213.06	1250.61
Equity	SKK mn	682.11	718.46	822.15	851.97	907.24
Long-Term Liabilities	SKK mn	n.a.	n.a.	n.a.	0.00	10.76
Current Liabilities	SKK mn	177.26	354.26	230.05	361.09	332.61
Accounts Receivable	SKK mn	129.18	207.51	124.20	152.24	192.54
Inventory	SKK mn	111.78	136.33	130.43	160.05	189.79
Labor Force		2500		1342	1320	1264
Profit/Turnover	%	10.48	6.05	7.93	9.30	8.72
Profit/Assets	%	10.69	7.09	10.98	11.46	11.49
Net Profit/Share	SKK	n.a.	n.a.	52.38	108.04	119.20

Caution should be applied when comparing data before and after 1993 due to the change of accounting methodology and tax system. The decline of the work force is partly due to down-sizing and cost reduction, and partly due to privatization of certain production facilities.

Characteristics of Production

The production of Plastika a.s. belongs to the following four categories: pipes and piping systems made from PVC, polyethylene and polypropylene; polyethylene packaging materials; products from expanded polystyrene; injection molding of plastics and production of plastic window profiles and machinery. This categorization also corresponds to the structure of the company into production divisions. In addition, Plastika also produces energy but the output of this division is predominantly used within the company. The structure of output of Plastika is presented in the Table 8.54.

Table 8.54: Structure of Plastics Production and Profit Generated by Production Divisions

Plastika a.s. Nitra	Output 1993	Output 1994	Profit 1994
PVC Piping Systems	53.6%	51.8%	41.2%
Polyethylene Packaging	22.6%	24.1%	25.5%
Expanded Polystyrene	8.7%	7.8%	6.2%
Injection Moulding of Plastics	15.1%	16.3%	27.1%

Export Orientation

The export orientation as well as the destinations of the exports of Plastika did not change too much over the last five years. The output of Plastika has been primarily supplied to the market of former Czechoslovakia. Plastika is the greatest producer of technical plastics in Slovakia and it has a significant presence in the Czech Republic. In particular, Plastika enjoys a 90% share in the market with piping systems (the main product) in Slovakia and 70% share in the Czech Republic. The share of exports outside of the territory of the former Czechoslovakia has been 14–16%. The break-up of the production of Plastika is displayed in Table 8.55.

Table 8.55: Export Orientation, Plastika a.s. (%)

Export Orientation	1992	1993	1994
Slovakia	40.0	45.5	45.0
Czech Republic	44.2	39.5	41.0
Exports	15.8	15.0	14.0

The destinations of the exports are significantly determined by the nature of the products. In particular, pipes and expanded polystyrene are low-weight, large-volume products. Hence, the transport costs per unit may be quite high and make exports to remote markets (further than 500 km) unprofitable. Nevertheless, the company attempts to reduce these costs whenever possible. In particular, it attempts to combine the transportation of different products, for example, by inserting a roll of polyethylene film into a pipe. The main destinations of exports in 1994 were the following countries (the approximate shares in total exports in parentheses): Poland (40%), Germany (30%), Hungary (5%), Austria (5%), the former Soviet Union (3%) and the former Yugoslavia (3%). The shares of the individual countries have not changed significantly over the last few years.

The exports of Plastika are currently being carried out directly by the company's staff. However, in the recent past, a portion of the output was exported indirectly by mediators and domestic trading firms. The share of direct exports has been increasing gradually since 1990 when the legal restrictions on direct exporting were removed. Part of the exports has been carried out also by enterprises in which Plastika holds a share: Plastika Trading (Germany) and Nipex (Bratislava, Slovakia). The exports (about 80%) are mainly based on long-term contracts. The rest is realized either by short-term contracts or ad hoc deals. Currently, about 60% of exports (excluding the Czech Republic) are to the final users, mainly construction companies, while the remaining 40% are to foreign trading companies. Exports to the Czech Republic are often based on traditional contacts and are to final users.

The management of Plastika expects that the importance of exports will increase in the future. It is expected that the share of exports will reach 20% in 1995 and 30% by 2000. This growth of exports will be made possible by the expected removal or reduction of the most important export barriers in the foreign markets. These include especially requirements of ISO quality certificates in the EU as well as high import tariffs in Poland and Hungary (see also section on Foreign Environment for Exports below).

Production for Exports

The quality of the products of Plastika is comparable with the quality of its foreign competitors' products. Plastika is currently in the process of receiving the ISO 9001 Quality Management System Certificate. It was expected that the certificate will be awarded during 1995. The prices are in general slightly lower than those of the competing products. An appropriate combination of price and quality resulted in a relatively good position of Plastika at foreign markets.

Domestic Environment for Exports

The exports of Plastika are not subjected to export licensing or other administrative restrictions. The management of the company is not aware of any significant direct impediments to exports.

Nevertheless, the management believes that the level of protection of the domestic market is too low, especially when compared with the countries where Plastika exports. This has an adverse effect upon Plastika's position in the domestic market and its overall financial situation.

Plastika is not significantly dependent upon imports of raw materials from countries other than the Czech Republic. Most of the raw materials are purchased in Slovakia. Less than one third of the used raw materials are purchased in the Czech Republic. Imports from other countries currently account for 10–15%, although the company is exploring import opportunities in Russia and other successor states of the former Soviet Union.

Foreign Environment for Exports

The most important export impediments are high tariffs in Poland and Hungary. In these countries, the exports of Plastika are exposed to both tariffs and import surcharges. The tariffs are much higher than the corresponding tariffs on imports to Slovakia from these two countries. In addition, it is possible that Poland will introduce quotas as well. The protectionism and the disproportion in the level of tariffs in these two markets (which belong to the most important destinations of Plastika's exports) is supposed to be reduced only gradually in the course of implementation of the CEFTA agreement. Despite these barriers Plastika has been able to build a solid position in these two markets. It is expected that the exports to Poland and Hungary could increase substantially after the barriers are reduced or removed.

An administrative export impediment was encountered at the EU market. In the future, products exported to the EU will be required to have ISO certificate of quality management system. The management of the company believes that it encountered certain unnecessary administrative delays and possibly unfair treatment in the course of applying for the certificate. These problems can be potentially interpreted as a reflection of unofficial protectionism. Nevertheless, Plastika expected to receive the certificate during 1995. This is a prerequisite for a increase in the volume of exports to the EU in the future.

The exports of Plastika are based, to a great extent, on long-term relationships. New clients are acquired mainly based on a reference of a trading partner or through international fairs. Plastika also often responds to direct or indirect (through embassies or government authorities) inquiries and offers from potential clients. However, the company always tries to obtain information and references about the potential clients from independent sources before entering into transactions.

Because of the traditional relationships to most clients as well as the care given to obtaining information on the credibility of the new clients, Plastika does not have currently problems with obtaining payments for its exports (However, this was a problem in the past, around 1992, but the company was able to solve it). For this reason, the company does not feel a need to seek export insurance. Payments are made usually 30 days after the delivery.

The split of the Czechoslovak federation did not have a major impact upon Plastika's ability to export to the Czech Republic. Nevertheless, the split of the country brought about additional administrative requirements. On the other hand, the exports of Plastika were until May 1995 in a relatively advantageous position due to the clearing arrangements. The Slovak currency was undervalued against the Czech currency by an additional 5% relative to the other currencies. This made the products of Plastika less expensive in the Czech Republic and the Czech competing products more expensive in Slovakia. (As the Table 8.55 shows, the exports to the Czech Republic increased in 1994 after a decline in 1993. The additional devaluation against the Czech currency was likely one of the reasons of the increase of exports in 1994.)

The signing of the Association Agreement with the EU did not have a significant direct effect upon Plastika's ability to export. However, it had an indirect, psychological effect, in that it evoked an increased interest of EU enterprises in trading with Slovak companies.

Protetika a.s., Bratislava

Introduction

Protetika a.s. is a medium size company. Its activities center at production and distribution of orthopedic products (including artificial limbs), orthopedic shoes, rehabilitation sandals and respirators. Protetika a.s. is located in Bratislava, the capital of Slovakia.

History, Transformation and Ownership

Protetika was originally founded in 1915. Later, it was nationalized and became fully state owned. The enterprise was transformed into a joint-stock company in May 1992. During 1992, Protetika was privatized in the first wave of coupon privatization.

The share capital of Protetika amounts to SKK 87,397,000 as of June 1994. The structure of ownership as of 1994 was the following:

Table 8.56: Structure of Ownership of Protetika a.s. (%)

National Property Fund of SR	43.8
Investment Funds	39.9
Individual Investors	16.3

The main production facility is located in Bratislava and makes up 42% of the total output of Protetika. The company owns also three production facilities in Senec, Casta and Piestany (all of which are within 100 km from Bratislava) with shares of total output 25%, 26% and 7%, respectively. The company also established a joint-venture in Bulgaria which is planned to produce mainly for the Bulgarian market.

Key Figures

The key figures relating to Protetika a.s. are summarized in Table 8.57 below:

Table 8.57: Key Figures, Protetika a.s.

Protetika a.s.	Unit	1989	1990	1991	1992	1993	1994
Turnover	SKK mn	109.90	108.62	120.22	105.16	100.33	126.49
Gross Profit	SKK mn	8.96	6.34	10.32	12.63	12.62	11.98
Total Assets	SKK mn	71.38	88.03	93.81	137.14	137.20	142.44
Equity	SKK mn	29.70	28.74	66.39	107.27	111.96	115.57
Long-Term Liabilities	SKK mn	n.a.	n.a.	n.a.	n.a.	2.84	3.34
Current Liabilities	SKK mn	41.68	59.28	27.43	29.88	22.40	23.53
Accounts Receivable	SKK mn	4.68	8.66	17.75	9.38	20.01	15.42
Inventory	SKK mn	32.31	38.19	29.98	26.79	26.18	34.81
Labor Force							303
Profit/Turnover	%	8.16	5.83	8.59	12.01	12.58	9.47
Profit/Assets	%	12.56	7.20	11.00	9.21	9.20	8.41
Net Profit/Share	SKK				43.65	68.29	74.42

Caution should be applied when comparing figures before and after 1993 due to the change of accounting methodology since 1993. For this reason, break-up of liabilities into current and long-term is not available prior to 1993 (thus before 1992 current liabilities are equal to total liabilities in Table 8.57). The profit per share is computed only for the period after Protetika was transformed to a joint-stock company (1992). The corporate income tax decreased in 1993 to 45% from 55% in 1992.

Characteristics of Production

The production of Protetika a.s. includes orthopedic products, orthopedic shoes, rehabilitation sandals and respirators (see Table 8.58). The most important products are rehabilitation sandals which have made up 40–49% of total sales during 1991–94. This product is marketed only in Slovakia and the Czech Republic where the company does not have significant competitors. This product is distributed mainly by wholesalers (74% of total sales in Slovakia and 65% in the Czech Republic), retailers (20% and 35%, respectively) as well as own retail stores (6% in Slovakia). The management estimates that Protetika a.s. holds as much as 85% of the total market in this product category in Slovakia.

Orthopedic shoes have made up 17–21% of total sales during 1991–94. Protetika is the sole producer and supplier of these products in Slovakia and it does not export them to other countries. Nearly all of the produced orthopedic shoes (approximately 98%) are purchased by the Slovak National Health Insurance Agency. As a result of this, the prices at which these products are sold are determined by the Health Insurance Agency and the company is unable to influence them directly. The production of the orthopedic shoes is very labor intensive as the products frequently have to be custom made.

Orthopedic products have accounted for 8–21% of total sales during 1991–94. This category includes artificial limbs (legs, arms, etc.), neck and back braces, special bandages and other related products. All sales in this category are realized with the National Health Insurance Agency. Protetika's share on the Slovak market is estimated at around 70%.

Respirators have accounted for 8–23% of total sales during 1991–94. The respirators produced by Protetika a.s. are for use in industry (primarily mining and pharmaceutical companies), not for military purposes. The main market is the Czech Republic where the company enjoys a 50% market share. Significant portion of sales is also exported to Western Europe. Domestic sales are primarily with retailers and directly to the factories, exports are mainly with wholesalers. The gradual decline of the sales of respirators is attributable to the reduction of mining industries in the Czech Republic and Slovakia.

The last portion of the sales of Protetika a.s. is merchandise accounting for 0–16% of total sales during the 1991–94 period. The merchandise refers to goods not produced by Protetika but sold in its own retail stores. The importance of the merchandise has been increasing as the company increased the number of its own retail stores (15 as of mid 1994).

Table 8.58: Structure of Sales of Protetika a.s.

Structure of Sales (SKK mn)	1991	%	1992	%	1993	%	1994	%
Rehabilitation Sandals	40.86	38.53	45.83	48.25	44.46	48.69	26.70	47.29
Orthopedic Shoes	18.28	17.24	15.98	16.82	18.71	20.49	11.69	20.70
Orthopedic Products	22.04	20.79	12.35	13.00	9.30	10.18	4.70	8.32
Respirators	24.86	23.44	18.37	19.34	8.61	9.43	4.57	8.09
Merchandise	0.00	0.00	2.46	2.59	10.24	11.21	8.81	15.60
Total	106.04	100.00	95.00	100.00	91.31	100.00	56.46	100.00

Note: 1994 data refer to the first six months of the year only.

Export Orientation

As can be seen from the Table 8.59 and Table 8.60, Protetika sells most of its output within the territory of the former Czechoslovakia. The ability (or rather inability) of the company to export also outside of its traditional market depends to a great extent upon the nature of the products and/or the ways of distribution.

Table 8.59: Export Orientation, Protetika a.s.

Protetika a.s.		1990	1991	1992	1993	1994
Turnover	(SKK mn)	108.62	120.22	105.16	100.33	126.49
	(%)	100.00	100.00	100.00	100.00	100.00
Exports (excl. CR)		1.656	0.316	0.55	2.139	5.125
	(%)	1.52	0.26	0.52	2.13	4.05
Exports Czech R.		n.a.	n.a.	n.a.	24.858	32.354
	(%)	n.a.	n.a.	n.a.	24.78	25.58

Table 8.60: Destinations of Sales, by Products (as of 1993)

	Destination		
Product	Slovakia	Czech Republic	Other
Rehabilitation Sandals (%)	32.00	68.00	0.00
Orthopedic Shoes (%)	100.00	0.00	0.00
Orthopedic Products (%)	93.00	7.00	0.00
Respirators (%)	13.00	66.00	21.00

Table 8.60 presents a break-up of the sales of the four major product groups. The most important products of Protetika a.s., rehabilitation sandals, are marketed only in Slovakia and the Czech Republic. Nevertheless, the management is confident that its products' quality is comparable also internationally and the prices are competitive. Previous attempts to export rehabilitation sandals to Western European countries have failed due to strong entry barriers. The entry barriers include in particular high tariffs, requirements of recognized quality certificates and difficulties in penetrating the local distribution networks. The company was also unable to form a partnership (such as a joint venture) with foreign competitors due to lack of interest on the side of potential partners. However, the management of the company sees an opportunity in exporting to some of the countries of Central and Eastern Europe, in particular Bulgaria (where it also established a joint venture), Romania, Hungary and Russia.

The company has been so far unable to export its products from the category of orthopedic shoes due to the nature of the product. Orthopedic shoes are in general purchased as a part of medical treatment of the patient and are thus paid by the insurance company. Frequently, the insurance company will not reimburse the cost in case of an imported product, either because of reasons (for example, such a requirement is stipulated by the Austrian legislature) or due to strong informal ties with and lobbying of the local domestic producers. The company does not expect that this situation will change significantly in the future either. Moreover, the orthopedic shoes as well as the other orthopedic products are mainly tailored to the specific requirements of the particular patient. Hence, the production requires direct (or indirect) contact with the patient and his/her physician. This presents an additional difficulty when producing for patients in remote areas abroad (In the past, Protetika attempted to produce orthopedic shoes according to the requirements supplied by a foreign partner. However, this failed due to problems and delays in communication).

The situation with respect to the exports of other orthopedic products is similar to that of orthopedic shoes. Nevertheless, Protetika a.s. has been able to keep its position on the Czech market.

Respirators are the only product category of Protetika a.s. which the company has been successful to export also to Western European countries (especially Germany). This is a reflection of the high quality of the products. Moreover, the company has fulfilled the ISO quality requirements and obtained the necessary certificates for this product category.

In the future, Protetika a.s. plans to implement production of "normal" shoes as a subcontractor of Western European companies. It also intends to utilize opportunities in other (non-EU) countries such as Bulgaria, Turkey and the Baltics. In general, the exports of Protetika will likely remain directed mainly to the countries of CEE, former USSR (especially Ukraine and Russia) and former Yugoslavia. The EU market (for products other than the respirators) is according to the management already saturated and the tariffs and transport costs make Protetika's products uncompetitive.

The management plans increased investments into production equipment and technologies in order to keep pace with the foreign competition.

Domestic Environment for Exports

The management of Protetika a.s. feels that the main domestic impediment to increasing its exports is the low level of experience and competence of its employees responsible for arranging the exports. Until 1990, the exports of Protetika a.s. were decided of and realized centrally. After 1990, the company decided to take care of its exports directly.

The export ability of Protetika a.s. is also significantly restricted by the lack of necessary export financing. In the early 1990s, the company also experienced shortages of input materials for its production of rehabilitation sandals. This contributed to the decline in production of this category.

Foreign Environment for Exports

Protetika a.s. has performed its export activities directly since 1990 when the strict regulation of foreign trade was abolished. In addition, it has established a joint venture in Bulgaria and another joint-venture in Belarus is being prepared. It has also an exclusive representation in Germany.

The company's exports are mainly restricted by the high tariffs in Western European countries, legal problems (such as restriction for insurance companies with respect to reimbursing for imported products) and requirements of recognized quality certificates. Although the company believes most of its products are competitive both with respect to price and quality, the process of obtaining the quality certificate implies an additional administration barrier and can be costly and lengthy. Penetrating the local distribution networks is a difficult task due to the strong formal and informal ties between the local producers, retailers and insurance companies. Furthermore, the management complaints about low quality of communication infrastructure necessary for prompt information exchange with foreign partners.

Another restriction is presented by the different payment conditions on inputs and outputs. While the company is often required to pay before or at the time of delivery of inputs, some of the foreign buyers pay 14 to 30 days after the delivery. Moreover, some of the claims of Protetika have not been paid at all in the past due to the financial problems of the buyers.

The export performance of Protetika a.s. could be improved significantly by establishing direct representations abroad. However, the cost of this is often too high.

Slovakofarma a.s., Hlohovec

Introduction

Slovakofarma a.s. is the most important producer of pharmaceuticals and related products in Slovakia and one of the major producers in former Czechoslovakia. Slovakofarma a.s. produces a broad variety of pharmaceutical and chemical substances, herbal products and cosmetic products. According to the size of its annual turnover, Slovakofarma a.s. ranked 22nd in 1994 and 27th in 1993 in the TREND TOP 100 chart of the Slovak companies (TREND 25/95, P. 3C). Slovakofarma a.s. is located in Hlohovec in Western Slovakia.

History, Transformation and Ownership

Slovakofarma was originally founded in 1941 under the name Slovenské alkaloidy (Slovak Alkaloids) as a joint-stock company producing morphine and its derivatives. The company was then nationalized in 1945. After a substantial reorganization of the (state-owned) pharmaceutical industry in 1949 and 1950, Slovakofarma was established in 1950 as a national enterprise. In 1950, the company had 762 employees and produced an output worth CSK 31.1 million. In 1961, Slovakofarma was subordinated to Spofa Prague (however, this subordination implied rather a creation of an additional level of central management and planning then a full incorporation of Slovakofarma into Spofa). Slovakofarma was reestablished as an independent state-owned enterprise in April 1990. In May 1992, it was transformed to a joint-stock company. 19.1% of the equity was privatized through the first wave of coupon privatization, distributing the shares to 19 investment funds and 19,800 individuals. The remainder was kept temporarily in state ownership. In 1994, the company S.L. Pharma established by the management of Slovakofarma and incorporated in Austria purchased 78% of the shares. The structure of ownership of Slovakofarma a.s. as of 1994 was thus as displayed by the Table 8.61:

Table 8.61: Ownership Structure, Slovakofarma a.s. (%)

S.L. Pharma	78.0
Investment Funds and Individuals	19.1
Restitution Investment Fund	2.8

The management of the company intended an additional emission of the shares worth 10% of the existing equity to be sold to the employees of Slovakofarma at preferential conditions during 1995.

The main production facility of Slovakofarma a.s. is in Hlohovec in Western Slovakia. In addition, the company has a healing plants division in Malacky (Western Slovakia) that produced herbal tea, herbal macerates and microbiological diagnostics. Slovakofarma has major stakes in two foreign companies: CM Pharma s.r.o. Prague, Czech Republic (stake 100%) and U-Farma s.r.o., Kiev, Ukraine (52%). In addition, Slovakofarma owns significant stakes (ranging from 30% to 36%) in three companies in the Czech Republic and minor stakes in another three companies in Slovakia and the Czech Republic.

Key Figures

The key figures relating to Slovakofarma a.s. Hlohovec are in the Table 8.62.

Table 8.62: Key Figures, Slovakofarma a.s. Hlohovec

Slovakofarma a.s.	Unit	1990	1991	1992	1993	1994
Turnover	SKK mn	1201	2022	2172	3008	3650
Gross Profit	SKK mn	112	381	475	727	674
Total Assets	SKK mn	1771	2605	2696	3955	4294
Equity	SKK mn	1095	1465	1711	2089	2452
Long-Term Liabilities	SKK mn	285	337	456	293	n.a.
Current Liabilities	SKK mn	391	804	529	1573	n.a.
Accounts Receivable	SKK mn	155	360	316	715	n.a.
Inventory	SKK mn	509	970	753	892	n.a.
Labor Force		2429	2290	2049	2073	2100
Average Wage	SKK	n.a.	4173	5389	7581	n.a.
Profit/Turnover	%	9.33	18.84	21.87	24.17	18.47
Profit/Assets	%	6.32	14.63	17.62	18.38	15.70
Net Profit/Share	SKK	43.87	131.68	161.89	279.42	158.65

Characteristics of Production

Slovakofarma produces over 150 pharmaceutical and chemical substances and over 170 cosmetic and herbal products. The structure of output is as follows (percentage of total output in parentheses):

- Pharmaceuticals: prescription and over-the-counter medicine (70%);
- Active substances: semiproducts from which pharmaceuticals are produced (22%);
- Parapharmaceuticals: preparations that are not classified as medicine but can support the healing process, such as vitamins, herbal teas and herbal extracts (3%);
- Cosmetics (including ointments) and tooth pastes (5%).

In the category of pharmaceuticals, Slovakofarma produces original as well as generic drugs. The drugs take the form of tablets, hard and soft gelatin capsules and effervescent tablets. The most important products are preparations for cardiovascular and gastrointestinal systems, vitamins, calcium compounds and analgesics (including opium alkaloids). The active substances are chemicals to be used in subsequent production of pharmaceuticals. The cosmetics category includes curative cosmetics (nutritive and moisturizing cremes) and ointments (work-protection cremes).

Because of the specific nature of the products of Slovakofarma, the distribution depends to a great extend on the decision of the Slovak insurance companies as well as insurance companies in the Czech Republic and other countries to reimburse the costs of the particular preparation to the patients.

After the liberalization of the distribution of the pharmaceuticals and related products in 1990, Slovakofarma had to assume a direct responsibility for the distribution of its output. In response, the company adopted a very active policy of promoting the sales of its products. This included setting-up a separate marketing department, hiring salesmen, gradual intensification of advertising and preparation of information materials about its products in both Slovak and English languages. Slovakofarma was thus able to avoid a drop in sales despite a general recession starting in 1991 and increased also its exports to both Western and Eastern countries.

Export Orientation

Slovakofarma exports to over 30 countries. While the major part of the production has always been supplied to the domestic market (i.e., Slovakia and the Czech Republic), the share of exports has been significant, ranging between 20% and 33%. The break-up of the total sales is presented in the Table 8.63.

Table 8.63: Export Orientation, Slovakofarma a.s., Hlohovec

Break-up of Sales:	Unit	1989	1990	1991	1992	1993	1994
Total Sales	SKK mn	1031	1201	2022	2249	2876	3045
Slovak Republic	SKK mn	n.a.	n.a.	n.a.	547	773	822
Czech Republic	SKK mn	n.a.	n.a.	n.a.	1254	1552	1553
Exports (other)	SKK mn	281	350	675	448	550	670
Percentage Shares:							
Slovak Republic	%	n.a.	n.a.	n.a.	24.3	26.9	27.0
Czech Republic	%	n.a.	n.a.	n.a.	55.7	54.0	51.0
Exports (other)	%	27.3	29.1	33.4	19.9	19.1	22.0

The organization of exports of Slovakofarma evolved over time. Until 1990, the company had to comply with the monopoly of selected foreign trade enterprises. Thus, the production of Slovakofarma was exported by Chemapol Prague. Since 1990, however, the company started to use also another mediator, Petrimex Bratislava, as well as export directly. In 1994, the share of direct exports was estimated at some 80%.

In the key territories Slovakofarma is represented by a foreign representation. This is either a fully owned subsidiary (Czech Republic), a joint venture with a local company (Ukraine, Russia) or a representation of Petrimex (People's Republic of China) or Chemapol (Germany, Poland). In the countries where the position of Slovakofarma is not yet very strong, it is represented by local individuals (Germany, Romania, Bulgaria, Lithuania, Kazakhstan, Turkmenistan and Uzbekistan). The role of the foreign representation is to obtain local registration and certification for the products (which is mandatory for most products due to their specific nature, see below), make contacts with potential buyers and provide them with samples of products.

Slovakofarma attempts to secure most of its exports by long-term contracts (adjusted quarterly). The share of such contracts is about 50% of total exports to Western European countries. However, the company's experience shows that even duly signed and confirmed contracts are frequently very unreliable in the countries of the former Soviet Union and Eastern Europe in general. Thus, the sales are often ad hoc in these countries. To secure the payment, Slovakofarma requires guaranteed payment or advanced payment from unknown buyers. The payments conditions for reliable partners are 30 days.

The regional structure of exports is presented in the Table 8.64.

Table 8.64: Main Destinations of Exports (excluding Czech Republic), Slovakofarma a.s. (%)

Country	1990	Country	1991	Country	1992	Country	1993	Country	1994
Germany	33.1	Germany	36.4	Germany	68.9	Germany	52.7	Germany	53.7
Poland	26.0	Russia	28.1	CIS	12.9	Poland	19.6	Russia	14.0
USSR	22.3	Poland	19.7	Bulgaria	4.9	Russia	13.4	Poland	13.6
		Austria	4.9	Hungary	2.2	Bulgaria	2.5	Ukraine	5.1
		Nether.	2.4			Ukraine	2.0	Switz.	3.0
								Bulgaria	2.1
								Austria	1.0
Other	18.6	Other	8.4	Other	11.0	Other	9.7	Other	7.5

Nether. — Netherlands; Switz. — Switzerland.

With respect to the outlook and strategy for the future, Slovakofarma expects a further deterioration of its position in the Czech Republic resulting from the administrative and other barriers arising after the split of the federation (see below). The exports to the CIS are dependent upon the consolidation of the economic and political situation in this region. Nevertheless, Slovakofarma plans to increase the number of registrations obtained for its products in this region and establish joint ventures with local companies if the opportunity presents itself. Similarly, the company works on obtaining new registrations in the People's Republic of China to be able to increase its sales there. In Western Europe, Slovakofarma intends to increase the share of final products (pharmaceuticals) in its exports and continue building representations. Slovakofarma foresees a substantial increase of its exports of generic medicines to the U.S. after 1997 when several patents of the producers of the original products expire.

Production for Exports

The commodity structure of exports (excluding exports to the Czech Republic) of Slovakofarma is the following: pharmaceuticals 46.3%, active substances 53.2% and other products 0.5%. However, there is a distinction between the structure of exports to the developed countries and the countries of CEE. The most important item of the exports to Western Europe and the USA are the active substances (i.e., semiproducts). On the other hand, the exports to CEE and the former USSR are dominated by pharmaceuticals (i.e., final products).

The management of Slovakofarma believes that its products' quality matches the quality of the competing foreign products. At the same time, the company is able to sell its products for a lower price (by some 20%) because its production costs are lower. On the other hand, the level of service (for example flexibility and timeliness of deliveries) is still lower. The greatest competitive disadvantage is in advertising and promotion of the products of Slovakofarma. The limited financial resources of Slovakofarma do not allow the company to match the advertising budget of its foreign competitors.

Domestic Environment for Exports

Because a major part of output of Slovakofarma is represented by chemical substances and drugs (including potential narcotics), export license is necessary. The license for general products is awarded annually and is subject to a fee of 0.5% of the (proposed) exported volume. In the case of (potential) narcotics, the company needs to apply for a separate license for every shipment.

Due to the specific nature of Slovakofarma's products, the main part of domestic sales are to the state-run health care sector. However, the financial situation of the state-run hospitals and pharmacies is rather bad. Slovakofarma thus has a large number of unpaid receivables after maturity which in turn increases its need for credit financing and incurred interest expenses.

Similar effect was inflicted upon Slovakofarma by the new VAT system introduced in 1993. While the output of Slovakofarma is mostly subject to 6% VAT, its inputs are mainly subject to 25% VAT. The company thus in effect frequently has a net claim against the state budget. However, it takes several months until the VAT net refunds are paid (moreover, the VAT is payable also on the sales that have not yet been paid for by the buyers). The tax system thus blocks finances that could be used by the company in a more effective way.

The financial situation of Slovakofarma is also significantly affected by the low quality of the banking sector. Although the payment is in general supposed to be received within two days after the transaction order was placed, this takes in fact much longer, often more than a week. In the case of payments from abroad, this is even worse. Slovakofarma must thus again cover this period with credit financing.

In general, Slovakofarma did not have serious problems with obtaining the necessary inputs for its production. However, occasionally, the quality of the inputs is lower than required.

The final impediment experienced by Slovakofarma is the absence of government support for exports. Moreover, some of the trade departments at the Slovak embassies abroad are extremely ineffective.

Foreign Environment for Exports

Because of their specific nature, in every country pharmaceuticals are in general subjected to strict regulation. A necessary prerequisite for Slovakofarma to export a product is the positive outcome of an application for registration and certification by the country's authorities. This is often a lengthy process. Hence, it frequently takes two or more years since the first steps for a products to be sold in a particular country. However, this process is significantly simpler if the company has already obtained a recognized certificate for the product. Such certificates that simplify the registration process are in particular an approval of the American FDA (Food and Drug Administration) or German BGA (Bundesgesundheitsamt). Such an approval makes it also easier for the company to negotiate with potential trade partners.

Nevertheless, the company does not consider this administrative requirement of registration to be a serious impediment to its exports. Instead, the registration requirement is viewed as necessary to protect the health and lives of the patients.

Slovakofarma's ability to export generic medicines to a particular country is also significantly influenced by the status of patents to the original products in that country. After the patents to the production of the original products expired, there is no barrier for other producers to produce and/or export the generic versions of the same medicine.

The most adverse deterioration of Slovakofarma's ability to export was recently recorded with respect to the Czech market. This was due to the increasing problems arising after the split of the federation since 1993. In effect, while the volume of exports of Slovakofarma to the Czech Republic has been increasing, the entire market has been growing at a faster pace. The factors determining such a development include in particular:

Administrative problems: The duration of the registration process increased recently from (on average) six months to two years.

Payments and transportation problems: The separation of the currencies resulted in a delay of the payments from the Czech Republic. This poses an additional financial burden upon the company. Moreover, despite the customs union between the two republics, shipments to the Czech Republic are now connected with additional paper work and administrative difficulties.

An additional threat for Slovakofarma is presented by the possible reluctance of the Czech insurance companies to reimburse the patients for the costs of medical preparations produced by Slovakofarma. However, this threat is not yet considered to be very serious because of the traditional position of Slovakofarma at the Czech market. On the other hand, a positive outcome is expected after Slovakofarma introduces new products at the Czech market.

The position of Slovakofarma at its two most important markets is quite similar: it holds 15.6% of the Slovak pharmaceuticals market and 14% of the Czech market.

In general, besides the registration and certification requirements, Slovakofarma is not subjected to significant export impediments in foreign countries. Its exports are not subjected to quotas and the tariffs are not assumed discriminatory. Slovakofarma is usually able to obtain sufficient credits to finance its production and exports, and its negotiating power is strong enough to secure favorable payments conditions from its clients (30 days).

Slovnaft a.s., Bratislava

Introduction

Slovnaft a.s. is the sole producer of gasoline and related products in Slovakia and holds thus a strategic position in the Slovak industry. Its output consists primarily of refined products, petrochemical products and plastic products. According to the size of its annual turnover, Slovnaft a.s. ranked third in 1994 and fourth in 1993 in the TREND TOP 100 chart of Slovak companies (TREND 25/95, p. 3C). Slovnaft a.s. is located in Bratislava, the capital of Slovak Republic.

History, Transformation and Ownership

Slovnaft was originally established in 1895 under the name Apollo as a refinery of mineral oils. During the early years of its history, the ownership of Apollo changed several times and the company underwent several strategic mergers and acquisitions. Until World War II, the company experienced gradual but uneven growth. World War II brought an increase in sales. However, the company was destroyed almost completely in an American bombing raid in June 1944. In October 1944, a decision was made to build a new refinery as well as to proceed with the reconstruction of the old refinery. The new refinery was placed in Vlcie Hrdlo, outside of residential parts of Bratislava and close to a port on the Danube. Production at the new site started in 1957 and the old site was closed in 1963.

Apollo was nationalized in 1946 and incorporated into the newly founded Slovak Mineral Oil Refinery (SMOR) along with several other companies. In January 1949, SMOR disintegrated into two enterprises: Slovnaft (production) and Benzinol (distribution). Both enterprises were fully state-owned. The main source of crude oil for Slovnaft was the Soviet Union. In 1962, the pipeline Druzba (Friendship) was finished, connecting Slovnaft with the Soviet oil fields.

The state-owned enterprise was transformed into a joint-stock company in May 1992. While the government decided to keep the majority of shares of Slovnaft a.s. in state ownership, 20% of the shares were privatized within the coupon scheme. The ownership share of the state (represented by the Fund of National Property (FNP) of the Slovak Republic) further increased in 1993 due to a revaluation of Slovnaft's assets. This revaluation occurred before the shares were distributed to the new owners and thus the entire increase was accrued by the FNP. In 1995, Slovnaft a.s. issued new shares at nominal value SKK 3.3 billion. The emission was placed directly at Slovak and foreign capital markets. According to the latest reports, more than half of the emission will likely be purchased by the EBRD.

Table 8.65: Structure of Ownership of Slovnaft a.s.[a] (%)

	April 1993	December 1994
National Property Fund of SR[b]	82.88	75.03
Investment Funds and Banks	12.00	20.46
Individual Investors	5.12	4.51

[a]The total share capital of Slovnaft a.s. has been SKK 13,168.935 million (since March 1993). The ownership structure as of April 1993 is the one resulting from the coupon privatization.

[b]Includes also the share of Restitution Fund.

Until 1992, Slovnaft a.s. did not distribute the fuels that it produced directly. Instead, the fuels were distributed by Benzinol (or its Czech counterpart Benzina) through its network of gas stations. In 1992, in an attempt to demonopolize the Slovak fuel market, Slovnaft a.s. took over one third of Benzinol's distribution network. Slovnaft thus acquired 87 tank stations and four distribution centers: in Bratislava (capital city), Hronsky Benadik (Western Slovakia), Horny Hricov (Central Slovakia) and Kosice (Eastern Slovakia).

In 1993, Slovnaft underwent a transformation of its internal organization. Certain production and service activities were transformed into separate companies owned by Slovnaft a.s.: Slovnaft Metalchem a.s., Slovnaft Somea a.s., Slovnaft Elektroservis a.s., Slovnaft Montaze a Opravy a.s., Slovnaft DEOS a.s., Slovnaft Stavos a.s. and Slovnaftprojekt s.r.o. This process continued also in early 1995 when another four daughter companies were created: Slovnaft Trans a.s., Slovnaft V.O.M.S. a.s., Slovnaft Senes s.r.o. and Slovnaft Reprografia s.r.o. Overall, Slovnaft a.s. holds a majority stake (exceeding 50%) in eleven companies, significant stake (20–50%) in five companies and minority stake (under 20%) in fourteen companies.

In March 1995 Slovnaft a.s. obtained the approval of the Fund of National Property of Slovak Republic (government agency responsible for privatization of state-owned enterprises) to purchase 51% of shares of Benzinol a.s., the major distributor of fuels in Slovakia. However, this transaction needed to obtain also an approval of the Slovak Anti-monopoly Agency which indeed happened in May 1995. This implied that besides already being the monopoly producer of petrochemical products in Slovakia, Slovnaft a.s. also acquired control over distribution (see Table 8.66). This acquisition significantly strengthens the future competitive position of Slovnaft a.s. at the Slovak market. While at present the enterprise does not face significant foreign competition due to high import tariffs (which do not apply to Czech imports, though), this could change over time as the trade barriers are reduced and eventually eliminated if Slovakia becomes an EU member. Nevertheless, the Antimonopoly Agency made its approval conditional upon two requirements: (1) Slovnaft a.s. must apply the same trade conditions toward Benzinol a.s. as to the other (competing) distributors, and (2) Slovnaft a.s. will coordinate the construction of new filling stations and reconstruction of the existing ones so that its consolidated share (including the filling stations of Benzinol a.s.) will not exceed 50% by end of 2000. Especially the second requirement may be quite difficult to comply with. At present, Slovnaft a.s. directly or indirectly controls 84% or 294 out of 350 filling stations. If Slovnaft a.s. does not open any new filling stations, 238 new filling stations will have to be build by the competing distributors over the next six years. This is somewhat unrealistic even if we assume positive development of the economy over this period. Hence, unless Slovnaft a.s. can challenge this requirement successfully in the future, the enterprise may actually be forced to reduce its share substantially by selling some filling stations.

Table 8.66: Filling Stations in Slovakia (as of early 1995, total 350)

Benzinol	202	Shell	4
Slovnaft	92	Avanti	3
OeMV	10	Tam-Oil	3
Benzinol and OeMV[a]	6	Individuals	30

[a]Tank stations co-owned by Benzinol and OeMV.

Sources: TREND 12/95, p. 3B; management of Slovnaft a.s.

Key Figures

Key figures on Slovnaft a.s. are presented in Table 8.67. Extreme caution should be used when comparing 1990 and 1991 due to price liberalization and currency devaluation at the beginning of 1991. This resulted in substantial price increases of both inputs and outputs. In addition, the methodology of determining prices changed as well.

Table 8.67: Key Figures of Slovnaft a.s. Bratislava

Slovnaft a.s.	Unit	1988	1989	1990	1991	1992	1993	1994
Processed Raw Oil	th. tons	8275	8122	6405	5018	4408	4340	4815
Refined Products	th. tons				3956.1	3362.9	3451.5	3854.9
Petrochemical Products	th. tons				223.7	221.3	246.8	206.3
Plastic Products	th. tons				205.9	200.9	176.2	230.1
Turnover	SKK mn			17522	30605	25055	27988	33144
Exports	SKK mn			2032	3480	3361	10877	14264
Exports w/o Czech R.	SKK mn			2032	3480	3361	5145	9321
Gross Profit	SKK mn			789	1210	1879	1611	3143
Total Assets	SKK mn			15300	16841	22775	23972	25823
Capital Stock	SKK mn			9414	10229	16373	16654	18050
Liabilities[a]	SKK mn			5886	6612	6402	7235	7126
Work Force		8230	8194	7622	7562	7123	6653	5716
Average Wage	SKK				5330	6350	7813	10442
Profit/Sales				4.51	3.95	7.50	5.76	9.48
Profit/Assets				5.16	7.18	8.25	6.72	12.17

[a] Liabilities include SKK 1.13 mn in 1994 and SKK 0.02 mn in 1993 of long-term liabilities.

As is apparent from the volumes of oil processed (the most important input), the production of Slovnaft fell substantially in 1990 and 1991 (see Table 8.67 and Figure 8.1). The management sees six reasons determining this decline: (1) drop in sales after the system of central planning was abolished (with the central planing both inputs and outputs of production were predetermined and secured); (2) fall-out in trade with former CMEA countries after the system of mutual compensation of trades (barters) was canceled; (3) frequently changing prices of inputs and outputs immediately after the price liberalization; (4) increase in prices of inputs after the currency devaluation; (5) general recession and fall in consumption on the domestic market; and (6) technological factors: completion of a new hydrocracking unit. The output of Slovnaft a.s. took an upward turn in 1994 for the first time since 1978. This is to be credited to growing foreign demand, revival of domestic consumption, continuing economic consolidation and overall economic stability in Slovakia as well as favorable technological development. The overall oil processing capacity of Slovnaft a.s. is 9 million tons. To secure optimum rate of return, Slovnaft needs to process at least 5 million tons of raw oil annually.

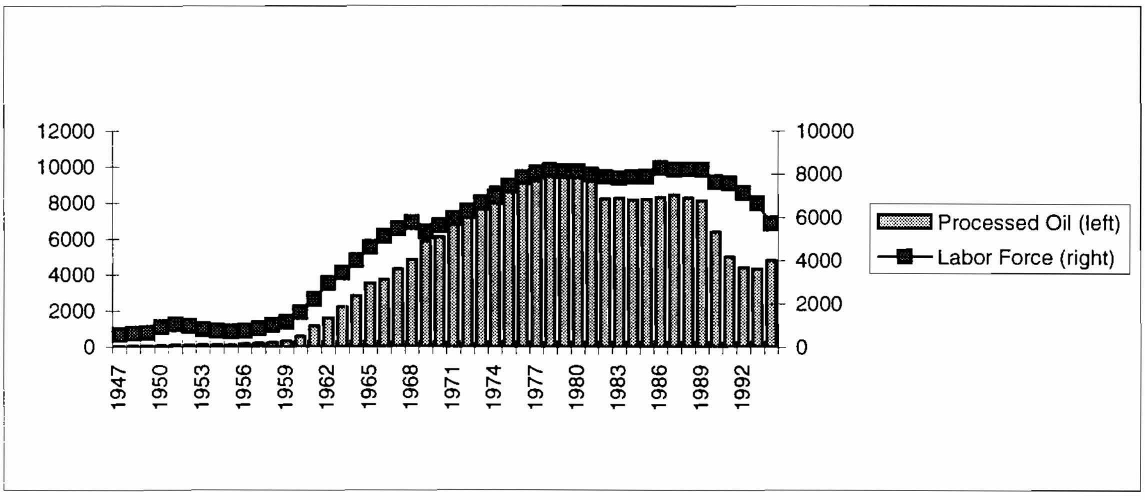

Figure 8.1: Processed Oil (thousands tons) and Labor Force (year average) of Slovnaft/Apollo, 1947–94

Characteristics of Production

The production of Slovnaft a.s. can be divided into three categories: refined products (diesel, heating oil, vehicle gasoline, airplane gasoline, lubricants), petrochemical products (gas carbohydrates, organic dissolvents, acetone, ethylenglycols, polypropylene oils) and plastic products (high-pressure polyethylene, polypropylene). The composition of output of Slovnaft a.s. is presented in Table 8.68.

During 1993 and 1994, Slovnaft gradually introduced unleaded gasoline under the name UNI. Unlike regular unleaded gasoline NATURAL, lead in UNI has been replaced with a newly developed additive. This technology enables that UNI gasoline can be used by cars that normally require leaded gasoline (a great portion of cars used in the countries of CEE belongs to this category). Currently, only unleaded gasoline NATURAL and UNI are marketed in Slovakia and leaded gasoline is produced only for export. Since unleaded gasoline is subjected to a smaller excise tax, this gives Slovnaft a.s. a competitive advantage over its competitors especially in its most important export market the Czech Republic.

In 1993, Slovnaft a.s. started production of diesel fuel with 0.05% sulfur content (regular diesel is with 0.15%) under the name CITY NAFTA. CITY NAFTA conforms to the new EU ecological requirements coming into effect in 1996 which will also likely be accepted by Slovakia eventually. However, Slovnaft a.s. is not yet able to replace the old diesel with CITY NAFTA completely and so far it is only distributed in metropolitan areas.

Table 8.68: Structure of Production of Slovnaft a.s. Bratislava (%)

Product	1989	1990	1991	1992
Diesel	26.3	28.9	32.7	32.3
Heating Oil	37.7	34.3	30.2	23.1
Vehicle Gasoline	8.0	7.9	12.3	16.0
Asphalt	5.6	6.2	3.8	5.2
Polyethylene	2.3	2.7	3.4	4.0
Polypropylene	1.0	1.1	1.3	1.3
Motor Oil	1.1	1.3	1.2	1.2
Glycol	0.9	1.0	1.1	1.0
Ethylbenzene	0.7	0.8	0.6	0.9
Total	83.6	84.2	86.6	85.0

Export Orientation

Slovnaft was originally intended to produce primarily for the domestic market. Under the system of central planing, Slovnaft was responsible for supplying Slovakia and Moravia (part of the Czech Republic adjacent to Slovakia) while the other two refineries in the Czech Republic supplied the rest of the Czech Republic. The nature of its products (high transport costs) implies that all the key markets of Slovnaft are within few hundreds of kilometers from Bratislava (see Table 8.70). The main exception from this rule are plastic products and motor oils that are more easily (and less costly) transportable.

The export orientation of Slovnaft increased in 1992 and the subsequent years in response to the falling domestic demand (Table 8.69). The organization of exports changed as well. Until 1990, exports and imports of Slovnaft were carried out by Chemapol Prague, a foreign trade company. Since 1991, Slovnaft started to use another trading company, Petrimex Bratislava. Gradually, Slovnaft increased the share of direct exports without a mediator to 43.3% in 1994. The most important partner for the remaining 56.7% of indirect exports is still Petrimex, although Slovnaft cooperates also with other smaller trading firms. In the future, the management intends to further increase the share of direct exports. Nevertheless, Petrimex will remain an important partner because of its network of representations and affiliations abroad which Slovnaft does not have presently. Direct and indirect exports are coordinated so as to avoid possible conflicts and competition between Slovnaft and the trading firms.

Similar development was recorded in the case of imports. The production of Slovnaft is very import intensive. The main input of Slovnaft is crude oil imported from Russia. (In the future, there is a perspective of using also the ADRIA pipeline. However, the possibility of this depends on the development of the military conflicts in Croatia.) Until 1992, Slovnaft imported crude oil through trading companies Chemapol Prague and/or Petrimex Bratislava. In 1993, Slovnaft started to purchase crude oil also directly. The share of direct imports was 42.7% in 1993 and 50.5% in 1994 (the remaining oil was purchased by Petrimex Bratislava).

Table 8.69: Export Orientation of Slovnaft a.s. (%)

Export Orientation	1990	1991	1992	1993	1994
Czechoslovakia	88.40	88.80	86.27	79.00	67.38
Czech Republic				23.00	16.66
Exports[a]	11.60	11.20	13.73	21.00	32.62

[a]Not including the Czech Republic.

In the future, Slovnaft will increase its production to some 5 to 5.5 million tons of crude oil processed annually (4.8 million tons in 1994). The output will be further increased by technological improvements that are to be introduced in the future. The share of exports will likely remain the same. Slovnaft intends to keep and improve its position in the Czech Republic which was weakened by the break-up of the federation in 1993. It will attempt to expand in Poland and Ukraine where the market of fuels and oil products is not "saturated", as compared to other neighboring countries.

Table 8.70: Main Destinations of Exports Slovnaft a.s.[a]

1992	%	1993	%	1994	%
Germany	24.00	Austria	22.41	Hungary	27.42
Austria	17.00	Hungary	18.60	Austria	20.07
Switzerland	9.00	Switzerland	17.97	Germany	14.78
Netherlands	8.00	Germany	15.64	Switzerland	10.30
Italy	5.00	Netherlands	5.71	Poland	6.28
Hungary	3.00	Poland	4.02	Italy	3.59
Poland	3.00	Italy	3.38	Netherlands	3.43
Denmark	2.00			Cyprus	2.05
U.K.	2.00			Slovenia	1.12
Philippines	2.00			Denmark	1.11
				Liechtenstein	1.11
				India	0.85
				Belgium	0.84
				France	0.73
Other	25.00	Other	12.26	Other	6.31

[a]Exports not including the Czech Republic.

Production for Exports

In general, the quality of the products of Slovnaft is comparable with the competing products at the foreign markets and the price is lower. In 1994, Slovnaft obtained quality certificates ISO 9002 for two of the five product groups fuels and plastics. In early 1995, it obtained also certificates for motor oils and asphalt. Finally, in mid-1995, Slovnaft received an ISO certificate covering the entire enterprise's output. The ISO certificates are frequently a necessary prerequisite for exports to the EU. The main competitive weakness is the lack of general recognition of the brand names of Slovnaft's products. This is particularly the case of motor oils which are often ignored by customers despite the lower price and high quality. Another weakness of Slovnaft are problems in timeliness of deliveries.

As mentioned above, the unleaded gasoline UNI possesses a competitive advantage at the Czech market due to the lower excise tax. UNI gasoline, that can be used by cars requiring leaded gasoline, is thus less expensive than the leaded gasoline produced by the Czech refineries.

The relation of profitability of exported products and domestically marketed products varies with the development of the competitive situation at the foreign and domestic markets. Currently, the profitability of plastic products is higher at the export markets while the profitability of fuels is higher at the domestic markets.

Domestic Environment for Exports

The exports of fuels and related products are subject to export license. However, obtaining the license is not difficult. The license is granted annually for a certain volume of exports. The fee that is payable for the license increases the transaction costs of exporting, especially if the licensed volume is not met (i.e., the fee per unit is then higher).

In the past, Slovnaft frequently faced problems caused by overly bureaucratic procedures of the customs service. Nevertheless, this issue became less important over time.

Several times each year there are temporary fall-outs of imports of crude oil caused by various problems on the side of Russian producers. So far Slovnaft has always been able to get through these periods (lasting several days) by using its emergency reserves without impacts on the production. However, a longer halt of the flow of oil would bring about an interruption of the production since Slovnaft does not have access to alternative sources of oil currently. The productive ability of Slovnaft is also dependent upon its ability to obtain import credits to cover the period of production. However, this is presently not a problem because of Slovnaft's sound financial situation and its strategic position within the Slovak industry.

Foreign Environment for Exports

The main competitors of Slovnaft a.s. are the local refineries of the neighboring countries. The most important ones are Kavcuk Kralupy and Chemopetrol Litvinov in the Czech Republic and OeMV in Austria. The position of Slovnaft in the Czech Republic, its main export market, weakened after the split of the federation, while its exports to other countries increased. The development at the Czech market was caused mainly by the intensification of competition. To strengthen its position in the Czech Republic, Slovnaft founded a daughter company Slovnaft Moravia s.r.o. During 1994, the fall in exports to the Czech Republic was stopped.

The exports of Slovnaft are in general based on long term contracts negotiated annually with quarterly adjustments. (However, after the changes in the organization of exports in 1990, part of exports was realized ad hoc.) In securing the exports, Slovnaft takes advantage of its own Information Center as well as external sources of information such as Reuters (price quotations).

Slovnaft is currently not subjected to import quotas and the tariffs are moderate and not discriminatory (ranging from 5% to 7%). The exported production fulfills the regular quality requirements. Starting 1996, the EU will impose an ecological requirement stipulating the sulfur content in diesel at 0.05%. In 1995 Slovnaft was not able to fulfill this requirement in all of the diesel it produced which may affect its ability to export diesel.

The conditions of payment imply usually payment in 30–45 days after the delivery. Slovnaft needs to cover this period by its own resources or credit. In less credible markets (especially Eastern European and Balkan countries), the payment is required prior to the delivery. Nevertheless, the collection of payments has been an issue mostly at the domestic market rather than at the export markets.

The share of Slovnaft at foreign markets is not very high, except for the Czech Republic where it is estimated at 10% in the case of fuels.

TOS Trencín a.s.

Introduction

TOS Trencín a.s. is a producer of machine tools. Major part (95%) of its production is exported to five continents. According to its annual turnover, it ranked 93rd in 1994 in the TREND TOP 100 chart of Slovak companies(TREND 25/95, p. 3C). TOS Trencín a.s. is located in Trencín in North-Western Slovakia.

History, Transformation and Ownership

TOS Trencín was founded in 1937 and it was intended to produce aircraft engines. However, the construction was hindered by World War II. The ownership of the company changed several times during the war and in the period immediately after the war. The factory was nationalized in 1946. The production started for the first time in 1946 after extensive repairs and reconstruction. During late 1940s and 1950s the factory was integrated into and again separated from larger state-run manufacturing enterprises. The production centered mainly at simple agricultural machinery, various kinds of machine tools and military products. The production of lathes started in 1951. In 1961 the factory acquired its own development center for projecting and designing machine tools. The machine tool became the only product line in 1962 after giving up military production. Finally, in 1963 the factory became a (relatively) independent enterprise and started to bear the name TOS Trencín.

TOS Trencín was transformed into a joint-stock company in May 1992. At the same time, some of the remote production units of TOS Trencín became independent enterprises. TOS Trencín was privatized using the voucher method for 57% of its shareholders' equity (however, some of these shares remained undistributed). The structure of ownership is displayed in Table 8.71.

Table 8.71: Structure of Ownership, as of March 1995 (%)

Fund of National Property	49.26
Investment Funds (31)	36.95
Individuals	11.28
Restitution Investment Fund	2.51

The structure of ownership has not changed significantly since the end of voucher privatization. The most important owner after the FNP is the investment fund PSIPS with 19.98%. The shares of further seven investment funds range from 1% to 5% while the shares of the remaining 24 investment funds do not exceed 1% of the shareholders' equity.

Key Figures

Table 8.72: Key Figures, TOS Trencín

TOS Trencín a.s.	Unit	1989[a]	1990[a]	1991[a]	1992	1993	1994	1995[b]
Turnover	SKK mn		693.99	1075.32	491.98	495.20	575.30	
Gross Profit	SKK mn						−4.12	
Total Assets	SKK mn						883.46	
Equity	SKK mn						638.64	
Long-Term Liabilities	SKK mn						101.08	
Current Liabilities	SKK mn						143.74	
Machine Tools	pcs.		3828	3965	1643	1516	1503	1460
Labor Force		3283	3260	2918	2123	1791	1394	1418

[a]Includes also employees and output of production units that were taken out from TOS Trencín in 1992.
[b]Forecast.

In the 1992–94 period, TOS Trencín was seriously hit by the world recession of the machine tool industry as well as by the effects of the economic transition. The total output (in pieces) dropped by nearly 60% during 1992 while the work force declined by 23%. In 1994, the company's work force was only 48% of the 1991 level. Nevertheless, this development seems to have reached the bottom of the curve in 1994. In the course of a massive downsizing program, the company was able to reduce its production capacity from about 3000 pieces per year to some 1500 pieces. The thus freed production units were mainly leased to third parties.

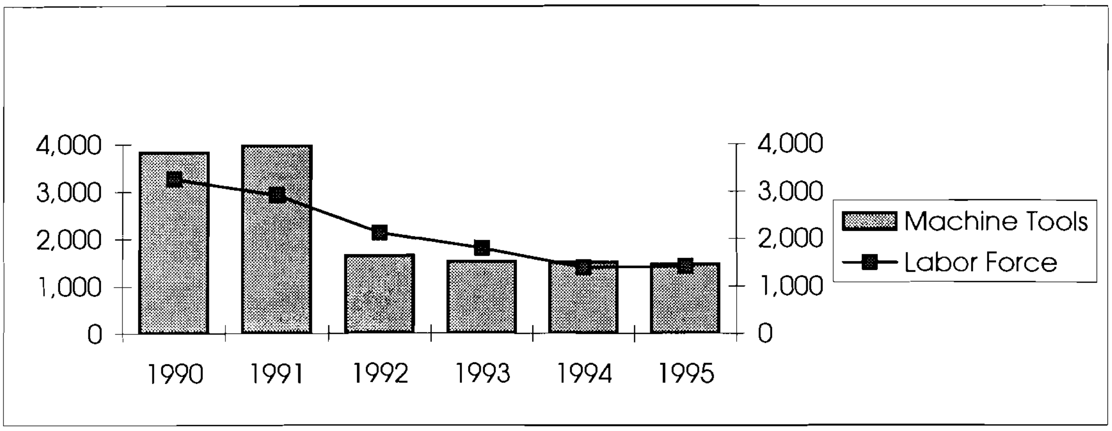

Figure 8.2: Development of Production of Machine Tools and Work Force (Note: Data for 1990 and 1991 include also employees and output of production units that were taken out from TOS Trencín later in 1992.)

Characteristics of Production

The production of TOS Trencín includes development and production of machine tools and forming machines as well as accessories and spare parts. The main product categories are the following: conventional universal center lathes, CNC center lathes, vertical tilling centers and single-purpose machine tools.

Export Orientation

The export orientation of TOS Trencín has been increasing during the recent years (see Table 8.73). While in 1992 over 25% of the total sales were supplied for the domestic market (i.e., Czechoslovakia), this share fell to only 5.6% in 1994. The main reason for such a development was the collapse of the domestic demand which TOS Trencín had to compensate by increasing the exports.

Table 8.73: Break-up of Total Sales, TOS Trencín

Break-up of Sales (pcs.)	1992	%	1993	%	1994	%
Total Sales	1624	100.0	1516	100.0	1503	100.0
Czechoslovakia	413	25.4	170	11.2	84	5.6
Slovakia	n.a.	n.a.	73	4.8	30	2.0
Czech Republic	n.a.	n.a.	97	6.4	54	3.6
Exports	1211	74.6	1346	88.8	1419	94.4
Direct Exports	696	42.9	590	38.9	902	60.0
Exports through Strojimport	515	31.7	756	49.9	517	34.4

Until 1990, TOS Trencín was exporting indirectly through Strojimport Prague. After 1990, TOS Trencín started to export also directly. The direct and indirect exports are mainly differentiated according to the different locations. The exports of TOS Trencín were going mainly to developed countries, as well as to developing countries on all continents. While the former

Soviet Union and CEE used to be an important export destination prior to 1989, currently exports to these regions are small. Nevertheless, since there are tens of thousands of machine tools produced by TOS Trencín currently in use in the countries of former Soviet Union, deliveries of spare parts can account for a significant increase of exports to this region in the future.

The most important region for the export of TOS Trencín is Europe. In 1993, 55% of total exports (excluding the Czech Republic) were directed to Europe. The most important countries are Denmark, Greece, the Netherlands, Austria, Germany, United Kingdom and Ireland. TOS Trencín exported smaller volumes also to Belgium, Finland, Hungary, Sweden, Switzerland, Italy, Turkey and Cyprus. Africa accounted for 18% of total exports in 1993. TOS Trencín exported especially to Algeria, Egypt, Morocco and the Republic of South Africa. The exports to South America made up 12% of total exports in 1993 and the most important destinations were Argentina and Venezuela. The exports to North America accounted for 10% of total exports. The main market was Mexico while the exports to the U.S. and Canada were of smaller importance. Finally, Asia, Australia and New Zealand accounted for 5% of total exports in 1993. Particularly important were exports to People's Republic of China, Thailand, Iran, Israel, the U.A.E. and Saudi Arabia.

Production for Exports

The quality of the machine tools produced by TOS Trencín is good, although it does not reach the level of the few top producers. Nevertheless, it does exceed the quality level of the average producers. The prices reflect the quality level: they are lower than the prices of the most important producers but exceed the prices of average competitors. The competitive position of TOS Trencín is strongest in the case of conventional center lathes.

The quality of the machine tools of TOS Trencín is also reflected in the fact that the enterprise produces presently several hundreds of machine tools annually in cooperation with Western European firms. These machines are then being sold under the name of the foreign partner.

Domestic Environment for Exports

There are no significant direct restriction of the exports of TOS Trencín in Slovakia. However, the enterprise sometimes has problems with obtaining inputs since the demand for certain commodities currently exceeds the supply in Slovakia. After the split of Czechoslovakia, the company also have experienced administrative problems when importing inputs from the Czech Republic.

Foreign Environment for Exports

The exports of TOS Trencín are not substantially limited by direct foreign restrictions such as quotas or tariffs. However, especially developing countries sometimes adopt certain protectionist measures to limit the imports of certain products.

The exports are also restricted by the ability of buyers to pay and by requirements of longer payment periods (30 to 90 days).

The company was recently able to obtain the ISO 9003 quality certificate which removes a significant indirect impediment for exports to the EU.

Volkswagen Bratislava s.r.o.

Introduction

Volkswagen Bratislava s.r.o. is the only producer/assembler of automobiles in Slovakia. It is presently fully owned by Volkswagen AG, Germany. Its output consists currently of automobiles (VW Passat and VW Golf) and automobile transmissions. The size of its sales placed Volkswagen Bratislava in the second half of the top one-hundred Slovak enterprises in 1993 but the volume of sales has had a distinct upward trend since then. Volkswagen Bratislava is located in Bratislava, the capital of Slovakia.

History, Transformation and Ownership

Volkswagen Bratislava s.r.o. was founded in May 1991 as a joint venture between the then still state-owned BAZ a.s., Bratislava and Volkswagen AG, Germany. BAZ a.s., Bratislava is a producer of parts for automobile industry, in particular for the Czech Skoda company. Volkswagen Bratislava took over the production facility of BAZ in Devínska Nová Ves, a suburb of Bratislava. Volkswagen AG Germany owned originally 80% and BAZ a.s. Bratislava owned 20% of the equity of the newly established joint venture. The legal form of the venture has been a limited liability company. The share of Volkswagen AG Germany later increased to 89.4% and finally reached 100%. The development of the ownership structure and equity of Volkswagen Bratislava is displayed in the Table 8.74.

Table 8.74: Development of Ownership, Volkswagen Bratislava s.r.o.

		Date	VW AG	BAZ a.s.
Equity	(DEM mn)	May 1991	48.0	12.0
Shares	(%)		80.0	20.0
Equity	(DEM mn)	June 1994	96.2	12.0
Shares	(%)		89.4	10.6
Equity	(DEM mn)	December 1994	108.2	0.0
Shares	(%)		100.0	0.0

The top management of Volkswagen Bratislava is presently dominated by German managers from the VW headquarters — one of the two executive directors and six of the seven Level 1 managers are Germans (the only Level 1 manager who is a Slovak is the personal director).

Key Figures

The key figures for Volkswagen Bratislava s.r.o. are summarized in the Table 8.75.

Table 8.75: Key Figures, Volkswagen Bratislava s.r.o.

Volkswagen BA	Unit	1991	1992	1993	1994	1995[a]
Sales	DEM mn		54.7	83.4	200.0	687
Output Automobiles	pcs.	2	2223	2958	6043	20000
in it: Passat	pcs.	2	2223	2958	5030	4190
in it: Golf	pcs.	0	0	0	1013	15810
Output Transmissions	pcs.	0	0	0	46000	186000
Work Force		112	431	467	806	1597
Share of Output of VW BA in VW AG Output[b]						
Passat	%	0.0005	0.68	1.37	2.41	1.83
Golf	%	0.00	0.00	0.00	0.12	2.06

[a] Plan.

[b] Determined as the share of the output of Passats and Golfs, respectively, produced by Volkswagen Bratislava, and the total output of Passats and Golfs, respectively.

Characteristics of Production

The structure of production of Volkswagen Bratislava is apparent from the Table 8.75. Automobiles make up for about 80% of the total sales in 1995 while the sales of transmissions make up the remaining 20%. The automobiles as well as transmissions are only assembled in Volkswagen Bratislava using imported parts (mostly from Germany and Austria). Nevertheless, as a result of substantial investments into the production technologies, the degree of on the spot processing has been increasing over time.

The production of automobiles in Volkswagen Bratislava started in December 1991 when the first VW Passat Variant had been assembled. Until the end of 1994, more than 10000 Passats were produced. In 1994, VW Golf models Syncro and Variant started to be assembled in Volkswagen Bratislava. It was decided that Volkswagen Bratislava will become the most important producer of VW Golf Syncro in the VW Group. Hence, starting with 1995, the number of assembled Golfs will by far exceed the number of Passats.

The production of automobiles was planned to be 103 per day in 1995. This is supposed to increase gradually in the future to meet the production capacity of 160 cars per day. The production of transmissions was planned to be 800 pieces per day in 1995 and should increase to 1,000 pieces per day in 1996.

Volkswagen Bratislava has an advantage of relatively advanced production and assembly facilities (built already by BAZ) as well as low-cost work force. These two, along with a strategic interest in the Central European region, were the main factors determining the decision of Volkswagen AG to pursue the investment in Bratislava.

Export Orientation

The export orientation of the production of VW BA is given by the nature of relations within the VW Group. The VW headquarters in Germany collects orders from distributors in various countries. It then prepares specific production orders for the individual factories and companies of the VW Group. Thus, the exports are primarily determined by the decisions made in the VW headquarters; the ability of VW BA to influence the decisions is limited. Since VW BA is the major producer of the Golf Syncro make within the VW Group, most of the assembled cars are supplied for exports. The structure of exports of automobiles is presented in Table 8.76 (the production of transmissions is almost exclusively is for exports).

VW BA thus does not organize its exports directly. The volumes and destinations of exports are determined by the VW Group headquarters according to the orders received from distributors.

Production for Exports

The quality of automobiles assembled in Bratislava is at a very good level when compared both with the competing products and the automobiles produced by other factories of the VW Group. The high level of quality is quaranteed by the high degree of manual work (possible because of the low costs of labor) and skilled employees. The quality of output has been confirmed by the fact that VW BA obtained an ISO 9002 quality certificate in early 1995. To a significant degree, the quality of the output of VW BA is also determined by the quality of materials and parts imported from other VW factories.

Table 8.76: Structure of Sales of Volkswagen Bratislava s.r.o.

Volkswagen BA	1991	1992	1993	1994	1995
Output Automobiles	2	2223	2958	6043	20000
Slovakia[a]	2	253	216	325	1582
Czech Republic	0	n.a.[b]	202	0	31
Germany	0	1970	2540	1863	3265
Italy	0	0	0	3231	7522
Netherlands	0	0	0	195	582
Belgium	0	0	0	79	0
France	0	0	0	48	1 334
Switzerland	0	0	0	0	3575
Austria	0	0	0	0	78
Hungary	0	0	0	0	248
China	0	0	0	302	1784

[a]The 1992 figure refers to the sales in entire Czechoslovakia.

[b]1992 sales in the Czech Republic are included under Slovakia.

The low costs of labor make it possible to keep the price of cars assembled in VW BA at a competitive level. Nevertheless, the ability of VW BA to pursue an active pricing policy is limited. The realization prices are determined annually as internal prices valid within the VW Group. VW BA then accrues the net difference between the costs of imports from VW AG and sales of assembled products to VW AG.

The prices of the base version of automobiles assembled in VW BA are lower in the case of cars supplied to the Slovak market than in the case of exports. However, this is mainly due to different specification of the base versions (the base version in Slovakia does not include items such as ABS and airbags). Nevertheless, the effective profitability for VW BA is the same because of the system of internal prices (see above).

Domestic Environment for Exports

The main difficulty faced by VW BA are administrative problems with the customs service when importing necessary inputs. The shipment of materials or parts is frequently delayed at the border until the problems are explained and removed. The management also complains about the fact that the non-financial portion of the investment of VW AG (such as production technologies and equipment) were subjected to regular import tariffs.

Foreign Environment for Exports

The exports of VW BA are decided about and administratively secured at the level of VW AG. The shipments of inputs and assembled cars are considered shipments within the VW Group. VW BA received the net difference between the imported inputs and assembled cars, both valued at the internal prices of the VW Group (see also above). The difference is payable within 60 days.

The exports of VW BA are not exposed to significant foreign impediments.

The presence of a foreign partner (VW AG) had a positive effect on the level of technology used in the production process. Nevertheless, the technology existing prior to the creation of the joint venture was at a relatively high level as well. The effect upon financing was so far small: VW BA has cooperated with domestic banks. For the future, it is expected that VW BA will start to take advantage of credit opportunities of foreign banks. This will be secured by VW AG.

The presence of a foreign partner has had a decisive effect on the quality of management and training of the work force. After the joint venture was setup, VW AG introduced German managers to the top positions in VW BA. The role of German management was also important in introducing the new Quality Management System and obtaining the ISO 9002 certificate (see also above). With respect to training, all employees take part in a three month training program, and a number of them visits also foreign production sites of the VW Group.

VSZ a.s., Kosice

Introduction

VSZ a.s., Kosice is one of the largest Slovak companies — according to the total turnover it ranked fourth in 1994 and first in 1993 in the TREND TOP 100 chart of Slovak companies composed by the Slovak magazine TREND (TREND 25/95, p. 3C). The main activities of VSZ are the following: production of coke, iron, steel and steel products, in particular flat-rolled steel sheets. VSZ has been the largest producer of flat-rolled sheets in former Czechoslovakia. In 1994, VSZ ranked 46th among the world's steel producers and 19th in among European steel producers. VSZ is located near the second largest Slovak city, Kosice, in Eastern Slovakia.

History, Transformation and Ownership

The construction of VSZ started in 1959 and the production started in 1960. The site of the company was situated at the railway junction of iron ore from the Ukraine and Russia and coal from north-east Czech Republic. Originally, it was a state-owned enterprise. As a pre-privatization step, VSZ was transformed into a fully state-owned joint-stock company in November 1990, thus becoming the first company of this legal form in former Czechoslovakia. A substantial part of VSZ was privatized in 1992 within the first wave of large-scale privatization using the voucher scheme. After completion of voucher privatization, the state represented by the Fund of National Property remained the most important owner with 35.6%. The remaining shares were held by investment funds and individuals: 22.8% by Slovak investment funds, 9.9% by Czech investment funds and 29.7% by more than half a million individuals. The share of the Fund of National Property (FNP) was further reduced in 1994 when it sold 9.52% of total shares to Manager s.r.o., a company established by the members of the top management of VSZ a.s. In 1995, the FNP approved the sale of another 10% to Hutník a.s., a joint-stock company established by the trade unions of VSZ a.s. Finally, the FNP eliminated its presence in VSZ when it sold the remaining 15.2% to Ferrimex s.r.o. Kosice in June 1995. Ferrimex is owned by Hutník a.s. and members of the new top management of VSZ (in April 1995, the Supervisory Board replaced three out of five members of top management of VSZ a.s.). The structure of ownership as of December 31, 1994 was as follows (i.e., before the acquisitions by Hutník a.s. and Ferrimex s.r.o.):

Table 8.77: Structure of Ownership of VSZ a.s. as of 31 December 1994 (%)

Fund of National Property of SR	25.0
Cassoviainvestment s.r.o.[a]	11.4
Harvard Capital and Consulting a.s.[a]	10.3
Manager s.r.o.	8.9
VSZ Metal Trade a.s.[a]	5.6
Tatrabanka a.s.	3.1
Restitution Investment Fund	2.9
VUB a.s.[a]	2.3
Credit Management Slovakia a.s.	1.7
Other	2.8
Individual Investors	26.0

[a]The stake is owned by the company itself and/or by several investment funds founded by this company.

During the pre-privatization transformation of VSZ in 1992–1993, the company adopted the so-called Atomization Project transforming VSZ a.s. to a holding-type company. VSZ a.s. thus established seven daughter companies (so-called principal companies), all of them being limited liability companies fully owned by VSZ a.s. These seven principal companies exercise control over another over 140 companies where VSZ a.s. owns a stake. All production is realized by the daughter companies and VSZ a.s. only fulfills control and management functions.

The seven principal daughter companies of VSZ a.s. are:

- VSZ Ocel, s.r.o. — production of coke, pig iron and crude steel, hot rolled and cold rolled steel sheets;
- VSZ Industria, s.r.o. — production of engineered steel products such as pipes, radiators, etc.;
- VSZ Keramika, s.r.o. — production of lime, ceramic materials for metallurgy, construction materials;
- VSZ ZOS, s.r.o. — trading company exporting most of the products of VSZ Group;
- VSZ Servis, s.r.o. — service activities for other companies of the VSZ Group;
- VSZ Inziniering, s.r.o. — engineering and projecting, mainly for other companies of the VSZ Group;
- VSZ Informatika, s.r.o. — data processing, information systems, care for hardware and software for other companies of the VSZ Group.

The shares of the daughter companies on total output of VSZ Group in 1993 were as follows:

Table 8.78: Composition of Output of VSZ a.s.

VSZ Ocel s.r.o.	93%
VSZ Industria s.r.o.	4%
VSZ Keramika s.r.o., others	3%

Key Figures

Key figures relating to the VSZ Group are summarized in the table below.

Table 8.79: Key Figures, VSZ a.s. Kosice

	Unit	1989	1990	1991	1992	1993	1994
Turnover	SKK mn	17634.00	18755.11	44766.83	27363.75	25518.58	29404.27
Gross Profit	SKK mn	1713.00	2906.52	4244.31	1334.50	1904.48	3841.15
Total Assets	SKK mn	n.a.	20206.15	32222.85	42823.65	43209.55	47952.29
Equity	SKK mn	n.a.	15988.07	17480.76	23538.96	23493.79	24539.37
Long-Term Liabilities	SKK mn	n.a.	n.a.	2077.91	3289.28	3999.25	2942.68
Current Liabilities	SKK mn	n.a.	4218.08	12664.18	15995.41	15716.52	20470.24
Accounts Receivable	SKK mn	n.a.	n.a.	8769.56	9158.04	8314.44	10643.15
Inventory	SKK mn	n.a.	n.a.	4485.06	5381.02	3865.08	4871.93
Steel Output	kt	n.a.	4394	3877	3597	3768	3805
Labor Force		n.a.	25952	24601	27290	25624	25242
Profit							
Turnover	%	9.71	15.50	9.48	4.88	7.46	13.06
Assets	%	n.a.	14.38	13.17	3.12	4.41	8.01
Turnover /Assets	%	n.a.	92.82	138.93	63.90	59.06	61.32
Net Profit /Share	SKK	n.a.	n.a.	152.5	19.7	30.3	84.7

Note: According to the management, VSZ is at present on the limits of its output capacity. The capacity cannot be significantly increased in the short run.

Characteristics of Production

The main output item of VSZ Group are flat-rolled steel sheets produced by VSZ Ocel s.r.o. The output of other daughter companies is primarily for use within the VSZ Group. The structure of sales of the daughter companies in 1993 was as follows:

Table 8.80: Structure of Sales of VSZ Group (%)

VSZ Group	Structure of Sales, 1993			
Company:	VSZ	Slovakia	Exports	Total
VSZ Industria s.r.o.	43.4	20.7	35.9	100.0
VSZ Keramika s.r.o.	76.1	23.2	0.7	100.0
VSZ Inziniering s.r.o.	85.2	14.8		100.0
VSZ Servis s.r.o.	64.0	36.0		100.0
VSZ Informatika s.r.o.	92.5	7.5		100.0

Notes: Sales of VSZ Ocel s.r.o. are only for use outside of VSZ Group.
VSZ ZOS s.r.o. is a trading company without own production activities.

Because of its importance for the total sales of the VSZ Group (output of VSZ Ocel s.r.o., which is predominantly rolled products, makes up 93% of the total output of VSZ Group, see Table 8.78), the best information is available regarding the flat-rolled products. Hence, we will often consider only this group of products in our analyses below. The composition of the output of flat-rolled products has been as follows:

Table 8.81: Structure of Output of Rolled Products — Development

VSZ a.s. Kosice	Rolled Products — Structure of Output							
Article (th. tons)	1990	%	1991	%	1992	%	1993	%
Hot-Rolled Sheets	1278.0	31.7	1415.0	48.5	1539.0	49.3	1595.5	48.1
Cold-Rolled Sheets	1051.0	26.1	887.0	30.4	1092.0	34.9	1002.0	30.2
Coated Materials	497.0	12.3	345.0	11.8	409.0	13.1	374.0	11.3
Slabs	1201.0	29.8	269.0	9.2	85.0	2.7	348.5	10.5
Total	4027.0	100.0	2916.0	100.0	3125.0	100.0	3320.0	100.0

The main difference between particular products is the level of processing. In general, the least sophisticated products are slabs, followed by hot-rolled sheets, cold-rolled sheets and coated materials as the most sophisticated products. Each product is an output of a certain stage of production and can be either used in the following stage or sold outside the company as a final product (the above figures relate only to the products sold).

Since VSZ imports the raw materials primarily from Russia and Ukraine, stability of its production is to some degree threatened by the instability and unreliability of its suppliers. Nevertheless, the company plans to continue importing the inputs from the CIS due to lower prices.

The future position and competitiveness of VSZ could be affected by the outcome of its participation in the construction and utilization of the "Krivoy Rog Extraction and Processing Complex (KREPC)" in Dolinska, Ukraine. The KREPC was a joint project of the governments of several CMEA countries to secure new sources of iron ore. The multilateral agreement was signed in 1983 and construction started in 1987. The shares of the individual countries were as follows: U.S.S.R. 46.3%, Romania 26.7%, Czechoslovakia 13.7%, Bulgaria 8.5% and East Germany 4.8%. The Czechoslovak government sold its share (nominal value of CSK 10.86 billion) to VSZ in December 1992. VSZ thus took over the liability to complete the Czechoslovak part in accordance with the original contract; the degree of completion is currently 60% to 70%. In exchange, VSZ was supposed to receive 17 million tons of processed iron ore over 10 years (originally intended to start in 1994). This delivery is regarded as the payment for the participation at and financing of the construction of the KREPC by VSZ. However, VSZ still needs to obtain credits of SKK 7.5 billion to finance the completion. Presently, the company is negotiating with several foreign banks and the Slovak government regarding the credit conditions and possibilities of a government guarantee. The ability of VSZ to obtain the credits will be critical for the successful completion of its part. Upon materialization of the deliveries, VSZ will gain a strategic source of inexpensive pre-processed iron ore.

Export Orientation

The export orientation of VSZ a.s. has been increasing since 1989 (see Table 8.82). The main reason for such a sharp increase in the share of exports was the collapse of domestic demand during 1991. This was a consequence of starting economic transition in Czechoslovakia. The most important reasons for the decline in the domestic demand were the following: end of central planning of production and allocation, liberalization of prices, devaluation of currency, restrictive macroeconomic policy, tight credit and high interest rate and, finally, growing inter-enterprise payment arrears. The share of sales in the Czech Republic has declined from 50.6% in 1990 to 15.1% in 1994. This was partly due to the general decline of sales in former Czechoslovakia as well as due to the split of the federation in 1993.

Table 8.82: Export Orientation, Rolled Products (%)

VSZ a.s.	1989	1990	1991	1992	1993	1994
Czechoslovakia	64.0	64.3	42.4	32.9	28.8	30.9
Slovakia	n.a.	13.7	14.8	14.1	11.3	15.8
Czech Republic	n.a.	50.6	27.6	18.8	17.5	15.1
Exports	36.0	35.7	57.6	67.1	71.2	69.1

The destinations of exports changed dramatically as well. For example, at the beginning of 1990, 58.3% of the negotiated export contracts were to be realized with the socialist countries while 41.7% of the contracts were with the non-socialist countries. However, only 35.7% of the actual exports went to the socialist countries during January through November 1990 and the rest were realized with the non-socialist countries. This reorientation continued also in the subsequent years. The main reasons for such a major reorientation of exports were the following: collapse of the CMEA, economic difficulties in the former socialist countries, war in Yugoslavia (implying also difficulties with transportation on the Danube) and gradual disintegration of the Soviet Union. To avoid the economic effects of the falling demand at the traditional markets, VSZ a.s. started to pursue an active export strategy oriented toward the developed countries. The regional structure of exports of VSZ a.s. in 1993 is given in the Table 8.83. Table 8.84 presents ten most important destinations of the output of VSZ Group, including the domestic market.

Table 8.83: Regional Structure of Sales of VSZ a.s., Flat Rolled Products

VSZ a.s. Kosice	1993		1994	
Destination of Sales	(kt)	(%)	(kt)	(%)
Slovakia	371.7	11	531.8	16
Czech Republic	575.7	18	595.0	18
European Union	502.7	15	640.01	19[a]
Far East	870.6	26	399.0	12
North America	145.5	4	358.0	11
CEE and CIS	433.2	13	382.0	11
Middle East and Africa	365.0	11	335.8	10
South America	25.3	1	63.0	2
Other			53.1	2
Total	3289.8	99	3357.7	101

[a] Includes also exports to the new EU members: Austria, Sweden and Finland.

Table 8.84: The Ten Most Important Destinations of Output of VSZ Group (all products)

VSZ a.s.	The Ten Most Important Destinations of Output											
	1992			1993			1994					
No.	Country	(kt)	(%)	Country	(kt)	(%)	Country	(kt)	(%)			
1	Czech R.	591.0	18.8	Czech R.	580.1	17.7	Slovakia	531.8	16.3			
2	Slovakia	442.4	14.1	Thailand	383.4	11.7	Czech R.	506.0	15.6			
3	Germany	195.0	6.2	Slovakia	371.6	11.3	Germany	327.6	10.1			
4	Iran	153.8	4.9	Germany	280.5	8.6	USA	200.9	6.2			
5	France	135.3	4.3	China	277.0	8.5	Thailand	182.5	5.6			
6	Italy	132.3	4.2	USA	96.4	2.9	Poland	90.9	2.8			
7	S. Arabia	117.6	3.7	Hungary	87.8	2.7	Hungary	86.3	2.7			
8	Thailand	115.8	3.7	Italy	75.8	2.3	Italy	85.3	2.6			
9	China	94.9	3.0	Indonesia	74.0	2.3	Canada	79.3	2.4			
10	Syria	86.6	2.8	S. Arabia	56.6	1.7	U.K.	75.9	2.3			
	Top Ten	2064.6	65.7	Top Ten	2283.1	69.7	Top Ten	2166.5	66.6			
	Total	3141.9	100.0	Total	3277.1	100.0	Total	3253.8	100.0			

Note: The break-up of the total sales in 1991 was the following: Czech Republic 873.8 kt, Slovakia 467.9 kt and exports 1820.1 kt.

Until 1990, production, exports and destinations were determined centrally by the government, and VSZ was obliged to export through a mediator Ferromet Prague. Since 1990, VSZ had been exporting directly. The move to direct exporting was made necessary by the increasing inability of Ferromet to secure sufficient volumes of exports. Although this change was accompanied by certain negative effects (difficulties with finding buyers and obtaining information, etc.), eventually it had a distinct positive effect upon the level of exports of VSZ (see Table 8.82).

In April 1991, a daughter company VSZ ZOS s.r.o. was created to organize the export activities. Currently, VSZ ZOS is responsible for most of the exports of VSZ Group. However, exports of rolled products to the Czech Republic and Poland are organized by VSZ Ocel s.r.o. VSZ ZOS has been using different ways of organization of exports in different territories: in the key markets, VSZ ZOS is using its own foreign representations or joint ventures which have an exclusivity in their respective territory. In 1994, VSZ ZOS had foreign representations in Poland, Hungary, the Czech Republic, Bulgaria, Estonia, Ukraine and Russia as well as joint ventures in Austria, Switzerland, Germany, Italy, France, Belgium and the U.K. In other markets, such as Scandinavian countries, Spain and Turkey, it is cooperating with domestic agents who sell their products for commission. In the more remote markets VSZ ZOS is cooperating with established international trading companies who also provide export financing and service. This is the case with South-East Asia, the Americas and the Far East. Finally, in the remaining markets, exports of the VSZ Group are realized by other daughter companies of VSZ a.s. whose activities are coordinated by VSZ ZOS.

Production for Exports

The product structure of exports of VSZ a.s. in 1992 and 1993 is given in the Table 8.85. The increasing share of less sophisticated products (slabs and hot-rolled sheets) is due to the greater export barriers for the exports of more sophisticated products (cold-rolled sheets) in the EU.

Table 8.85: Product Structure of Exports of VSZ a.s. (%)

VSZ a.s. Kosice Rolled Products — Structure of Exports		
Article:	1992	1993
Hot-Rolled Sheets	56.00	57.00
Cold-Rolled Sheets	36.00	28.00
Coated Materials	7.00	7.00
Slabs	1.00	8.00
Total	100.00	100.00

The production for exports is not significantly different from the production for the domestic market. Nevertheless, VSZ needs to apply different sets of recognized quality standards when exporting to different markets. However, the quality of the output is, according to the management of the company, at the level of their western competitors. The company is proud of having received a number of internationally recognized quality certificates and introducing quality management system according to the ISO 9000 standard. The price strategy is oriented at achieving a more favorable price/quality/service combination than the competition. The particular prices are determined according to the situation at each market. Hence, the prices at different markets are frequently different, as is also the profitability of the exported products.

The VSZ's medium and long-term export strategy emphasizes orientation at its "natural territories", i.e., the countries of Western and Central Europe. This would reduce the company's transportation costs and thus increase its profitability. It would also enable greater control over the exports and service. The company intends to continue building stronger and closer relationships with the end users so as to offer them higher value added products. This would reduce the number of mediators and strengthen the company's position at the "natural markets". VSZ would also like to see the share of relatively more sophisticated products such as coated materials to increase, however, this will also depend on the future level of quotas and other restrictions in the EU.

VSZ does not expect any significant improvement with respect to its exports to the CIS. The economic and political situation will likely remain unstable and the foreign partners unreliable.

Domestic Environment for Exports

The governmental regulation of exporting has been liberalized substantially in the course of economic reforms, in particular during 1990.

Since 1990, the restrictions on foreign trade activities have been mostly removed. Except for certain commodities (such as weapons), no export license is required by the Slovak authorities.

The tax system, in particular the Value Added Tax, presents a financial burden upon enterprises with a high share of exports, which is also the case of VSZ. The company pays the VAT in the prices of inputs but the exported products are not subjected to the VAT. This can result in a net liability of the state toward VSZ. In this case, it takes several months until the VAT is refunded to the company.

Credit financing for exports is quite difficult to obtain in Slovakia, and the interest rate is very high when compared internationally. This is being solved in two ways in VSZ: by using services of foreign (Western) banks and by requiring prompt payments from mediators and own foreign affiliation. The company would like to see a more active government policy aimed at improving credit and insurance availability for exports.

Foreign Environment for Exports

The signing of the Association Agreement with the EU enabled VSZ to increase its exports to this region, nevertheless, a quota system was imposed in 1992. The quotas allow regularly an annual export increase of 20%. The quotas in the EU were valid only until the end of 1995. However, there was a possibility that they will be extended also into the future. The quotas to the EU, as well as similar quotas in Hungary, presented the most significant foreign regulations impeding exports of VSZ. This resulted in temporary reorientation from the "traditional markets" to the more remote markets such as the USA or Thailand.

Additional financial burden for VSZ is represented by the different payment conditions for inputs and exports. The conditions of payment grant the buyer frequently as many as 180 days to make the payments. This increases the need for and the cost of financing exports on the side of VSZ. Where this is the case, VSZ often uses a strong international trading company as a mediator which can make the payment promptly.

Unreliability of trade partners present a problem in certain regions, in particular the CIS. In this case, VSZ requires a guaranteed payment or a payment in advance.

In the future, management of VSZ hopes for a positive development of the import restrictions in the EU: the current quota system was supposed to expire in 1995. The managers of VSZ expect, however, that the world steel market will be marked with a stagnation or recession in the future years. Future economic and political developments in the CIS are very unclear at the moment, in case of an improvement VSZ could increase the volume of its exports to this market. On the other hand, VSZ expects that investment into production technologies in Eastern Europe and the CIS will bring about a more intense competition especially among the less sophisticated products. VSZ therefore intends to keep increasing the share of more sophisticated products in its production and exports.

9 SLOVENIA

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Table 9.1 Profiles of the companies covered in the survey

Company	Sector	Ownership[a]	Legal status[b]	Size[c]	Export/sales ratio (%)	Main markets
1. PeTr	Footwear	So	JCS	L	92	USA, Germany, Italy, Russia
2. SaKr	Tires	So	JSC	L	81	Austria, Germany, Italy Hungary, Netherlands
3. SlLj	Furniture and unrelated trade	M	JSC	L	65	Russia, USA, Italy, Hungary, Germany
4. LiMa	Metal products	So	JSC	L	44	Western Europe (94%)
5. MeLj	Food and trade of food	P	JSC	L	6	Germany, Croatia, Ukraine, Italy, Austria
6. ZlMa	Cosmetics	M	JSC	M	43	Austria, Germany, Switzerland, EC-Europe
7. IEKr	Electric meters	P	JSC	L	90	Germany, W. Europe, S. America, Asia
8. TTOV	Textiles	So	JSC	M	77	Germany, Italy
9. SvMa	Textiles	So	JSC	M	81	USA, Germany, Italy
10. LeLj	Pharmaceuticals	P	JSC	L	66	USA, Croatia, Poland Russia, Canada, Czech R.
11. SvKa	Textiles	P	JSC	M	60	Germany, Austria, Italy
12. StKa	Furniture	M	JSC	M	45	Germany, Czech R., Hungary, Scandinavia
13. TrKa	Electronics	P	LLC	S	40	Hungary, Germany, Czech R., Finland
14. FeMa	Machinery, metal equip.	P	LLC	S	10	Germany
15. ErLj	Furniture, wooden accessories	P	LLC	S	100	Germany, Switzerland, Italy, Austria, Japan
16. HeDo	Chemicals	So	JSC	M	50	Russia, Hungary, Poland, Belarus R, Czech R.
17. KoLj	Food processing	P	JSC	M	28	Spain, Austria, Germany Switzerland, Russia
18. InJa	Impregnated textiles	So	JSC	M	57	Netherlands, Germany, Poland, Russia, Croatia
19. ToDo	Textiles for health and hygiene	So	JSC	M	40	Croatia, Russia, Poland
20. SŽLj	Steelworks	St	JSC	L	55	Germany, Italy, USA, Austria, Croatia
21. TDRu	Chemicals	St,M	JSC	M	65	Germany, Austria, Italy

[a]So = Social, P = Private, M = Mixed, St = State.
[b]JSC = Joint-stock company, LLC = Limited-liability company.
[c]L = Large (>1,000 employees), M = Medium-sized (50–1,000 employees), S = Small (<50 employees).

Enterprise PeTr

Characteristics of the Enterprise

Established in 1903 this enterprise produces and sells footwear 2 Million pieces per year. Currently it employs 2,000 workers. In 1988 employment was 5,500 but the company lost its shops in Croatia and other former republics of Yugoslavia. Recently, one sector was separated in its own independent enterprise.

Basic Data (in Million DEM unless otherwise noted)

	1988	1994
Number of Employees	5500	2000
Value of capital	26	40
Turnover	95	130
Profit	8	6
credits/capital (ratio)	1.2	0.7
Export/production (%)	64	92

Among traditional export markets are the USA (in 1995 25%, in 1988 50% of all exports), Germany (from 21% in 1988 the share increased to 45% in 1995), Russia (from 27% in 1988 decreased to 9% in 1995), Italy (12% in 1995, up from nil in 1988).

This enterprise is still 100% in social ownership but is well on the way to be privatized. It obtained first confirmation for privatization in February 1995 and second confirmation (to start the process) in June 1995. According to privatization plan the planned ownership structure is: 7.7% of the shares will go to the Reimbursement Fund, 7.7% to the Pension Fund, 15.5% to the Development Fund of Slovenia, 15.5% will go insider owners with vouchers, 30.9% will be bought by internal buy-out and 22.8% are reserved for former private owners after de-nationalization takes place.

Export Orientation

Export was always an important part of sales in the firm. At the same time the share of import in supplies increased from 75% in 1991 to 79% in 1994. The major target countries were already mentioned above; in addition, the share of Croatia and Macedonia increased from 1% in 1992 to 6% in 1995. In imports of raw materials Italy is first with 60% share, followed by Germany (15%), the USA (10%), Austria (5%) and others.

The share of indirect export through intermediaries was 27% in 1988 and 34% in 1989, but decreased to 20% in 1994 and is planned to be only 9% in 1995. All imports are direct.

The firm has long term cooperation contracts with Afis and Rockport, its main buyers. They create together new models depending on market research and collecting orders. While in 1988 50% of production was based on own development of models and 50% of the products were created by buyers' ideas, in 1994 own creation increased to 59% and in 1995 it is expected to increase to 63%. The import partners and the materials to be imported depend upon the choice of the shoe models to be produced and the best offer the company can get to buy materials.

The strategy for the future is to sell about 85% of output in foreign and 15% in domestic markets. The materials will be bought according to the best offer. The firm's products are in the upper middle quality group. The competitive strength of the company is strong R&D, which enables quick adaptation to the new fashion trends. Its advantages are also adequate location (close to buyers and suppliers). The ability of the fast production of small series will be a decisive element to survive on European markets, while the large series are moving towards the European East and the Far East (cheaper labor force). The goal for the future is to shorten the reaction time and to increase specialization with the emphasis on higher quality and comfort of the produced footwear.

Production exclusively for domestic market is impossible due to its small size. Production for domestic market uses the same machines, equipment and other factors as production for export. The quality is equal for both markets. Economy of scale is the reason for selling the same model on both, domestic and foreign markets. Profits, however, are somewhat higher on domestic than on foreign markets. The reason is a well developed own network of retail stores on domestic market and not the difference in selling prices.

Domestic Environment for Exports

Grades for domestic conditions for exports were given by the factory management (in the range from 1 = inadequate to 5 = excellent conditions). These grades are: for permissions to export and import = 5, for tax incentives = 1, for subsidies for export = 1, for availability of credits for export production = 4 (interest rates are = 2), for availability of guarantees = 2. As labor intensive producer the company is over-burdened with social security contributions. Neither the exchange rate nor interest rate are considered adequate.

For the fashion program of the firm the supply of inputs in the domestic market is of inadequate quality. But, there is no problem to get inputs from abroad.

The state has indirect impact on the company through exchange rate policy (the exchange rate of domestic currency is too high), the tax policy (high burden) and through the customs policy. The intensity of relations with the government administration is irrelevant for the business. All deals are stricken at the international fairs or on the occasion when the buyers visit the company. But Slovenia remained a highly risky area for business partners due to the war in vicinity. Some of business contacts with foreign buyers were kept alive only due to good personal relations and acquaintances.

Foreign Environment for Exports

The firm has a long term production cooperation contract with AFIS (from 1969), Rockport (from 1980), contracts with Benetton (1991), Portland (1992), Romanini (1994), while in trading with Russia there is an intermediary company called KOTO. The competitors abroad are from Italy, Germany, Spain, Portugal and the Far East. The firm has been present in the Footwear Fair in Duesseldorf continuously since 1975.

The information about foreign markets are obtained from foreign business partners (buyers of footwear and suppliers of raw materials), fashion designers, through visits to different fairs, and from professional journals.

The impact of international economic relations of Slovenia on the company's results is direct through tariffs and quotas and indirect through quality standards, dumping regulations, health standards etc. Payment conditions are crucial in striking deals with foreign buyers. Most of the foreigners pay by SWIFT in 40–70 days after the customs operation is concluded. The firm is paying its suppliers in 30–90 days after imported goods pass the customs.

The cooperation agreement of Slovenia with the EU and the association agreement which follows, will bring certain security for the firm, as it operates predominantly on the EU market. The limits of quotas were not fully utilized in recent years thus giving the factory a possibility to expand further its exports to the EU.

Enterprise SaKr

Characteristics of the Enterprise

The enterprise SaKr was established in 1920. Today it has 3900 employees and exports 3/4 of its production. Just recently, some difficulties emerged caused by recession in the world market of car-tires.

In 1966 a long-term cooperation contract was signed with Semperit which evolved into a joint venture in 1972. Privatization of the firm started in 1994 and was to be concluded in 1995. The expected structure of owners at the conclusion of privatization was:

10%	—	the Pension Fund
10%	—	the Reimbursement Fund
38.5%	—	shareholders from public exchange of shares for vouchers
21.5%	—	insider owners
20%	—	the Development Fund.

The most important products of the firm are tires of all sorts. Besides that factory produces different products from rubber, clay, artificial leather, etc. Almost 87% of products are produced according to international ISO 9000 standards.

The firm is organized in five factories plus in sections of trade, infrastructure, maintenance and services. The company already established several trade companies-subsidiaries abroad, i.e., in Germany, Austria, Italy, Hungary, Czech Republic and in all former Yugoslav republics.

In the period 1985–1994 the annual average growth rates of the company were:

- production 1.1%;
- number of employed decreased by 1.7%;
- productivity 2.7%;
- sales 4.2%;
- exports 14.7%.

Investments were in 1994 18.8 Million USD. The company is capital intensive with 70% of assets being fixed assets. The self-reliance of company is shown by the characteristic that 70% of all liabilities are equity. The gross profit rate in 1994 was 9.9%. The capital was in 1988 192 Million DEM, while in 1994 already 300 Million DEM. The profit before taxes was negative in 1988 (losses), but it reached 0.6 Million DEM in 1994. While 13.5% of the liabilities in 1994 were credits and 86.5% equity (in the framework of social ownership) the share of the equity increased in 1994 to 93.9%.

Export Orientation

Exports increased from 45 Million USD in 1985 to 151 Million USD in 1994. The share of export in sales increased from 36.4% in 1988 to 81.2% in the first 5 months of 1995, the share of imports in supplies increased in the same period from 76.5% to 97%.

The strategy is to increase the share of exports to 90% and to increase production. Products supplied for domestic and foreign markets are equal, but around 20%–30% lower sales price is achieved on foreign markets.

There is a plan to bring a foreign strategic partner in after privatization is accomplished.

The company lost almost all Yugoslav market and needed to redirect its sales patterns. The plan is to extend domestic trade network and, at the same time, to penetrate East European countries and, probable, the USA.

Large buyers of products are from Austria, Germany, Hungary, Italy, and the Netherlands. The materials imported come from Thailand, Germany, Russia, Belgium, Turkey, Austria and Italy.

About 70% of trading goes through intermediaries.

Domestic Environment for Exports

Competition is strong but the company increases its retail trade network at home. Significantly lower prices are achieved abroad than at home. The crucial inputs are imported: these are special type rubber which is not produced at home or better quality materials. Reliance on own financing makes the company less dependable on domestic credits and government regulation.

Foreign Environment and Exports

In the field of tires competition on international markets is immense so cooperation with strong international partners (Semperit and probably one more strategic investor in the future) is necessary.

Mediators are taking too much profit from the company; this is why further development of subsidiaries and trading companies abroad is a strategic goal for the company.

The company is regularly informed about the development on foreign markets through participation at international fairs and by following the appropriate literature.

The prospects for future expansion are in East European markets and, besides Western Europe such non-European markets where the company is not yet present.

Foreign regulations are not prohibitive for the company and the quotas given to Slovenia in the cooperation agreement with the EU are not yet fully exhausted. When the rest of former Yugoslav republics will also start using this quota the situation for SaKr will worsen.

Enterprise SlLj

Characteristics of the Enterprise

The company was established in 1948. It is active in trade, engineering, and production predominantly in wooden industry. The number of employees decreased from 2,868 in 1988 to 815 in 1994 with an additional 30–50 people employed abroad. The main products used to be furniture and wooden products, but from 1991 it also covers imported cars; recently the company negotiated a major capital cooperation with the AT and T from the USA which shows its intention to enter into the telecommunication industry.

The enterprise was in social ownership until 1990. That year it was restructured into mixed ownership with limited liability. At the end of 1993 preparations for privatization began and it was expected to be completed in 1995. Public sales of shares and exchange for vouchers was one of planned ways of privatization. Early 1995 98% of the company was social capital, 0.8% capital was owned by an Austrian bank and 0.8% held by the company itself.

Export Orientation

In 1988, among exporting destinations first was Russia, followed by Italy, the USA, Hungary, Germany, Austria and the UAE; that ranking did not change until 1994. Among the countries where imports originated were Germany, Russia, Austria, Italy, Hungary; in 1991 South Korea became the most important partner (import of cars).

In total turnover (which decreased from 1267 Million USD in 1988 to 325 Million USD in 1994) the value of foreign trade decreased from 540 to 156 Million USD, while the value of exports decreased from 275 to 93 Million USD.

Trading used to make up 42% of turnover in 1988, but increased to 48% in 1994. Instead of primarily exporting (mostly furniture), the enterprise became predominantly an importing company (mostly focusing on car imports).

The strategic goal is to have 50%:50% division between foreign and domestic markets, where exports should be twice the size of imports. Profitability on domestic market is twice the profitability on foreign markets.

The competitive advantage of this company are its retail network, stability, constant presence, adaptability. Products produced for foreign markets have to be more and more tailored to individual customers and for that reason they differ from domestic products.

Domestic Environment and Exports

Domestic conditions for exports are characterized with the grade 3 (average). According to the managers of the company the most important problems are:

- unfavorable exchange rate between USD and Tolar;
- too high interest rates;
- non-selective conditions for credits for imports of products and materials not available from domestic production;
- non-harmonized taxes and customs with the EU.

The company has no problems with material imports because its main activity is trade. Help and support of the state administration in large export projects would be desirable and is in fact frequently requested by the foreign partner (in the form of guarantees, international agreements, etc.).

Foreign Environment and Exports

The information for operative business abroad are obtained with the representative and business network of the company abroad. Marketing research is based on primary and secondary sources in printed and electronic media. The global information are continuously up-dated in the framework of profit units, representative offices and factories, while detailed new information is put together for newly introduced projects (new markets, new products, new activities).

The competition in furniture market is strong and is becoming even stronger. The problem for this company is cheap labor in the Far East Countries and higher quality in Scandinavian countries.

The mediators abroad are not willing to sell the product of the company under the company's brand name.

Risks in the furniture business are large, because trends are changing quickly and ability to adapt (reaction time) is a very important factor.

The loss of Yugoslav market had several negative implications for the company. A large part of sales were just eliminated, but, at the same time, the company also lost its retail trade network in this market. It was overtaken in Serbia and Montenegro without compensation. At the same time, many factories, whose products were sold abroad through SlLj, were situated in other republics of former Yugoslavia and after separation from Yugoslavia these business contacts were totally interrupted. SlLj was among the ones which were the most damaged by the separation of Slovenia and interruption of economic flows with former Yugoslav republics.

Most of the relations with foreign partners are on contractual basis, while at home competition from the individual imports and small shops represent big problems.

Main competitors are other producers of furniture from former Yugoslavia, Italy, Russia, and Czech Republic.

The payments conditions are not good due to vicinity of war and lack of own trade mark. The increased country risk due to the Yugoslav war is a damaging factor for the exports of this company.

The cooperation and association agreement between Slovenia and the EU had no impact on company's exports and imports and it should remain so in the future.

Enterprise LiMa

Characteristics of the Enterprise

The enterprise was established in 1946 based on manufacturing tools and finished metal goods as well as some metal semi-products. It had 2,135 employees in 1988 and has 1,369 employees in 1995 (first quarter). The book value of assets was 471 Million DEM in 1989, but declined to 107 Million DEM in 1994.

This is a large business system, consisting of 7 enterprises. LiMa is in the process of ownership restructuring. The program for privatization was given to the relevant state agency for approval at the end of 1994. In the middle of it was still 100% in social ownership; no foreign owner was associated with this company.

The structure of production is the following: 35% of copper products, 39% of armatures for bathrooms, 15% of different steel products, and 11% of radiators.

Total sales were 13 Million DEM in 1988, but 90 Million DEM in 1994. Except for 1991 and 1993 the company experienced small losses, not profit.

Export Orientation

The share of export in total sales increased from 20% in 1988 to 44% in 1994 (excluding former Yugoslav markets). The share of import in total supplies was 10% in 1988, increased to 31% in 1993 and fell to 13% at the beginning of 1995. The domestic market can not absorb the full capacity production of this company, but foreign markets remain un-conquered, partly due to weaknesses in marketing.

In 1988 domestic market represented 40% of sales, other Yugoslav markets 40% and foreign markets 20%. In 1994 domestic market represents 46%, markets of former Yugoslavia 10% and foreign markets 44%.

The regional orientation of exports was the following:
In 1988: 73% was Western Europe, 9% Eastern Europe, 8% the USA and Canada, 10% other convertible export markets .
In 1994: 91% Western Europe, 4% the USA and Canada, 2% Eastern Europe, 3% other.

Around 50% of exports are made directly, 50% through intermediators. Some of the exports are made on the basis of contractual cooperation. The business relations with the foreign partners differ from product to product: certain products are generic and foreign distributors are needed for their marketing. Other export includes specific products for known customer.

The loss of former Yugoslav market was painful for this company. Firstly, it can sell substantially less on the Yugoslav market. Secondly, the rude copper was imported from Serbia and sold further on markets abroad with a large profit margin. Now this kind of business ceased to exist and the copper factory is still in big trouble. The change of the former Yugoslav market, which not only had absorbed majority of production but also had helped financing exports, brought losses to this company. Profitability in export is much lower than at home.

Domestic Environment and Exports

Evaluation of domestic environment for this company by the managers of the company is the following: export/import permissions — good, tax system — average, subsidies for export — bad, export credits — not satisfactory, guarantees — average.

The major impediment for obtaining the necessary inputs is lack of working capital.

The state has a large indirect impact on export performance through the exchange rate policy. But special relations with administration are irrelevant.

Domestic competition is weak, but products from abroad are strong competitors on domestic markets. The smallness of domestic market for specialized products requires the company to expand its exports in the future.

Competitive advantages of this company in exports are: lower prices, good personal contacts with smaller partners (which do not have stronger organizational ties with domestic large producers themselves).

Foreign Environment and Exports

With most of foreign partners the company has contractual relations, some of which last more than 20 years. Former cooperation agreements were abandoned.

The strongest foreign competitors abroad are enterprises with similar production program. Far East countries have too large transportation costs to be competitive, while the quality of some East European producers is still not satisfactory for Western markets. Competitors at home are also domestic retailers, some of them used to be managers of this company before (this slows the appropriate regulation of competition).

The most important information the company uses daily is report on world prices of metals. Company is present in trade fairs, but its market research is unfortunately much smaller than it used to be. The usual way to collect information is from magazines and international fairs. Personal contacts are also important and the computer network helps to obtain relevant information about markets, products and suppliers of raw materials.

In exporting business the company requires payments in 90 days and the payments conditions are very important in decision about exporting or not.

Until now, the cooperation agreement between Slovenia and the EU did not have special impact on exports of the company, but the prepared association agreement was expected to have important influence. It would enable larger sales in the EU countries, but at the same time the competition on domestic market will increase.

The strategic direction of the company will be to penetrate newly Central and Eastern Europe and to expand exports in the West.

Enterprise MeLj

Characteristics of the Enterprise

The company producing and trading with food was established in present new form in 1991, but exists from the 1950s as trade corporation in social ownership. Just recently it was registered as a privately owned enterprise with majority ownership by employees, their relatives, retired workers and the general public (shares offered through public offering).

Production and sales include agricultural products and other products of food industry. They are produced by some factories of this corporation (such as oil, meat, vegetables and fruits, coffee, baker's ware, milk and milk products, instant cocoa products, etc.), or they are products of other companies. Several agriculture cooperatives are connected with the concern on contractual basis.

To penetrate East European markets intermediaries who have close contacts with the country of destination are used since they are able to obtain better conditions and more secure payments. For instance, a merchant of Romanian origin who has his company in Switzerland is used as intermediary for exports of food of MeLj to Romania.

The structure of turnover in 1994 was the following:

retail trade	55%
wholesale trade	24%
manufacturing	14%
agriculture	5%
catering	1%
other services	1%.

Basic Figures

	1988	1989	1990	1991	1992	1993	1994
Employees	19770	19472	17871	16519	13433	12772	12041
Capital (Mio DEM)				960	726	851	958
Turnover (Mio DEM)				2647	1834	1752	1882
Profit (%) :				18	14	18	5

Traditional foreign markets were in 1994: Germany (19%), Croatia (18%), Ukraine (12%), Austria (9%), Italy (8%) and other 27 countries (34%).

The privatization process included the following steps: in 1992 the social capital was transferred from enterprises to the corporation (concentration). In 1993 the enterprises were evaluated and the opening balance was established. In 1994 the corporation obtained approval for its privatization plan from the Privatization Agency. Public sale of some shares was realized in 1995 and the enterprise was established as privately owned wholly domestic corporation in the second half of 1995.

The corporation consists of nine related companies, connected with capital shares. The mother company is made up of five separate joint-stock companies. In addition, three subsidiaries were established in cooperation with foreign investors.

Export Orientation

Currently the revenues from exports represent 6% of total sales. Trading companies, however, are usually not big exporters in Slovenia. The retail network of this largest trading company of Slovenia consists of over 1,300 shops across the country. Over 17% of export goes through the company's daughter companies abroad, the remaining part through partners with long-run connections. One quarter of the exports are occasional deals.

The company plans to develop a retail network in the targeted foreign countries, such as Central and Eastern Europe, other border countries, Balkans and some states of the former Soviet Union.

The competitive advantage of MeLj is good quality of its goods and services, established business links, and its openness to all markets. Sometimes the quality of products is too high for the price they achieve on foreign markets in Eastern Europe. Prices achieved at home are 20%–30% higher than prices abroad.

Goods for foreign and domestic markets are of the same quality. Sometimes packing and substance is adjusted to domestic standards.

Domestic Environment for Exports

The managers of MeLj gave the following grades for obstacles in domestic environment for export: permissions to export or import: very good; export incentives and promotion: good; credit availability: satisfactory; guarantees: very good.

The company encounters only small obstacles to its export-import (for instance in the case of products like sugar), but this is solved in negotiations with the administration. Administration has no special influence the business of the company at all.

The small size of Slovene market remains the major obstacle for development of the corporation, since the production capacities of MeLj are much larger than the absorption capabilities of the Slovene market.

Foreign Environment for Exports

The company has a long term contractual cooperation with the majority of its foreign partners.

Major competitors on foreign markets are producers from the East European countries.

Most of the information needed on developments in foreign markets is obtained from publications of different specialized institutions, through own representative offices and firms abroad as well as through Slovene diplomatic representations abroad.

The international position of Slovenia has a significant direct influence (tariffs, quotas) as well as indirect influence on the company's performance and behavior. At the same time, payment conditions play an important role in choosing foreign partners. The cooperation agreement had and the association agreement will have an important impact on the export pattern of the company because the entry barriers for this company on selected foreign markets are lowered with these agreements.

The company has practically the only remaining large chain of shops all over Slovenia. According to the intentions the company would remain in majority Slovene ownership. It is the experience of some East European countries, that the large trading companies which were overtaken by foreign multinationals subsequently closed their doors for domestic producers as suppliers. The joint venture established in Slovenia between MeLj and an Austrian partner, however, is selling over 60% of Slovene products and uses all the infrastructural support of its Slovenian mother company.

Enterprise ZlMa

Characteristics of the Enterprise

The organization of this enterprise, engaged in production of detergents and cosmetics, was radically changed on July 1, 1990, when a foreign multinational became a majority owner. In 1988 the company had 1,338 employees. However, since that time there has been a constant reduction in employment. In 1994 there was 621 employees. At the end of 1994, the value of the capital was 4.4 billion tolar. It is very difficult to determine the value of capital back in 1988, since hyper-inflation existed before and during the years of transition.

In 1988, the enterprise exported 12% of its products to foreign markets. In 1994 only 57% of its products were sold to the domestic market. Sales volume decreased during this time period because of transitional pressures. Profits during this time period initially were lower, although in the following years profits increased substantially.

Export Orientation

The capacity of concern is around 60 thousand tons of products, but the Slovene market can absorb only about 25–28 thousand tons. Export is therefore a must.

Foreign sales were volatile during the observation period because of transitional uncertainty. An increase in foreign sales was due to new distribution channels introduced by the foreign owner and new competitors emerged in the domestic market.

Import of inputs originate from the foreign company that acquired the enterprise. Original exports were mainly sent to Austria, Germany, Switzerland, and the countries of Central and Eastern Europe. Imports mainly originate from Germany, Austria, Italy, and Slovakia.

The enterprise mainly exports its own products and licensed products, but occasionally exports are tailor made for specific clients. 80% of products exported to foreign markets consist cosmetics and 20% is detergents.

The enterprise's export strategy is to export all products that are not successful in the domestic market.

There exists no difference between products ear-marked for the domestic and foreign markets. The profitability of exports is lower than that of products sold on the domestic market. In addition, the production of products for the domestic market does not support the production of export products.

Domestic Environment for Exports

The managers of the company evaluate the conditions for imports and exports fair. However, there are no government incentives for exports. The different guarantees for the import and export market are neither favorable or harmful.

Slovenia's EXIM bank is willing to cover exports with guarantees in safe countries (i.e., in the West) which is in fact not needed, but it does not cover highly risky exports (to African countries, for instance) which would be desirable.

There are no obstacles to obtain the necessary inputs for production from abroad. The difficult relationship between Macedonia and Slovenia has a harmful effect on enterprise's exports and imports from this country; which trade with Macedonian partners was quite substantial before the split of Yugoslavia.

The managers of the company would like to see stable domestic legislation with longer validity period than recently. Together with stable general economic and political conditions this can improve country risk and thus ease the business relations of company with foreign partners.

Foreign Environment for Exports

This enterprise is majority owned by a foreign concern and as one of its units uses its trade network in selling trade mark product of the multinational company. For its own product program (own trade-marks) the Slovenian company's own trade network is used.

The enterprise has only a one year contracts with its distributors. Its competitors are powerful corporations of the cosmetics and detergent market like Proctor and Gamble and Unilever.

The enterprise receives information concerning the foreign markets through its own offices and representatives, and through the network of the mother company, through offices of other Slovene firms, personal contacts, specialized literature, magazines, personal contacts, and own research.

The enterprise was not affected by the EU cooperation agreement. The association agreement will equalize the position of Slovene producers with some other producers and signing the association agreement liberalizes both exports and imports.

Enterprise IEKr

Basic Information

The company was established after World War II as one of the enterprises of a larger corporation. The large corporation was dissolved at the beginning of 1990s and IEKr started successfully on its own.

The enterprise is the fourth largest producer of meters for electric energy in Europe. In 1994 it produced over 1.8 Million meters (counters) of different types. The yearly rate of growth of production from 1990 on was 13.8%, while the number of employees increased by 7.4% yearly. Thus, the yearly productivity increase was 6.4%.

Basic Performance Indicators
(in Million DEM unless otherwise noted)

		1993	1993
1.	Revenue	122.8	139.2
2.	Revenues from sales	106.8	135.2
3.	Net profit	5.2	1.6
4.	Net profit/Revenues	0.0424	0.0117
5.	Net profit/Capital		0.03
6.	Dividends/Net profit		0.64
7.	Number of employees	1586	1886
8.	Investment	3.0	6.1

Over 90% of the production is exported. The company has a 25% market share on the German market.

The inductive meters of this enterprise are spread in all parts of the world, including Western Europe (where 68% of total production is sold), Africa (2%), Asia (7%), South America (8%) and Oceania. 10% of the products are sold in former Yugoslav republics.

The electronic counters produced by the IEKr are recently making their way to the world markets. The company already obtained ISO 9001 standard and is able to adapt production to Western standards.

The enterprise was among the first larger Slovene enterprises in concluding privatization in 1994. Thus, the ownership structure in the middle of 1995 was the following:

- 60% of the shares belonged to present and former employees;
- 10% — Reimbursement Fund;
- 10% — Pension Fund;
- 10% — Investment Company KBM Infond;
- 10% — Investment Company Krona.

Export Orientation

The enterprise's strategy of internationalization is realized by the establishment of joint ventures abroad. IEKr already established its enterprises in Germany, Russia and prepares to establish them in Croatia, Italy, India and Malaysia.

The loss of the former Yugoslav market meant a decrease in sales on this market from 35 Million DEM in 1991 to 20 Million DEM in 1994.

90% of total production is exported, partly directly, but most of it is sold in foreign markets through different distributors and sales agents. All products exported are of the company's own production. 60–70% of exports go to the EU.

Sales (in Mio DEM)	1993	1994
at home	16.4	17.1
abroad	90.4	118.1
total	106.8	135.2

Licenses of IEKr are sold to partners in Spain, Tunisia, Malaysia, Argentina and Colombia. More than 5% of revenues are already obtained by selling licenses and parts to these partners.

The company's strategic plan for the future includes further internationalization of production and globalization of marketing thus retaining shares in existing markets and conquering new markets.

Competitive advantages of the company are: quality, 5–10% lower prices than local producers in the West offer. Profitability at home and abroad are approximately the same in more recent period.

Quality of products for domestic and foreign markets is the same, except for some differences in standards and the necessity to adjust the product to the environment (such as to the protection against tropical heat).

Domestic Environment for Exports

A major negative factor impacting the export performance of the company is the appreciation of domestic currency. There is no special problem with export conditions at home, except for guarantees, which are difficult to obtain. The domestic Exim bank is too small, insurance companies are not willing to insure exports. Acreditives and sales on open account are usually used.

The activity of the government administration is not affecting the performance of the company, but the general positive economic and political climate at home has been beneficial for the exporting business.

Foreign Environment for Exports

Foreign partners are either buyers (with discount price), intermediaries (with provision) or agents (with agent provision). Contracts for larger quantities are achieved in public tenders. There is, however, little security that the foreign buyer will choose the same producer every year.

Competitors are large multinationals specialized in the production of measuring instruments for electricity. Further international integration in this industry is in process. This development will lead to the shrinkage of export opportunities for IEKr which is independent, and can be considered small by word standard in this industry.

The sales chain of the company should be decreased to improve competitiveness. The pressure to lower prices is strong for products of lower quality (inductive meters) due to lower labor costs in some competitor countries. The response will be establishment of better purchasing methods to obtain cheaper raw materials, rationalization of production and relocation of labor intensive production into countries with cheaper labor.

Simultaneously the structure of production will be changed in favor of more complex and sophisticated products, i.e., electronic meters and complex electronic systems of counters.

The entry of Austria, Sweden and Finland to the EU helped to decrease import duties in some export destinations (for instance an 18% duty in Finland was abolished).

Sources of information about foreign markets are: local partners, publications, fairs, and own research and development team.

A major domestic problem for the expansion of the company is the obstacles by the Slovene administration to establish Slovene subsidiaries abroad. This kind of expansion will be more and more necessary for the Slovene companies. But the whole procedure is not well defined, the discretionary power of administration is too large. According to the managers of IEKr the licensing procedure and conditions should be given by law, and if fulfilled, registration should be automatic.

Enterprise TTOV

The enterprise active in textile industry was established as a private joint-stock company in 1993 from a formerly socially owned enterprise. Its production consists of socks (45.3 Million pairs per year), suits (300 thousand pieces per year) and textile accessories.

Traditional export markets are Germany (between 76% and 79% of sales), Netherlands (only in 1994, 10%) while domestic Slovene market absorbs between 20% and 22% of production.

Basic Performance Information (in Million of SIT unless otherwise stated)

Indicator	1988	1989	1990	1991	1992	1993	1994
Number of employees	862	903	871	884	959	1015	900
Capital	1.3	28.7	52.4	239.8	479.2	778.2	910.7
Credits/own capital (%)	12	42	69	44	26	16	11
Sales	1.6	23.4	89.2	256.5	821.8	1202.7	1212.0
Profits	0.3	5.9	–	5.2	–	–	–
Export in sales (%)	78	77	76	74	79	77	77
Imports in purchases (%)	15	16	72	34	47	56	62

The enterprise is fully owned by domestic owners and it is in the process of privatization in 1995. Starting point for this process is: 93% of social ownership, 6.6% ownership of Development Fund.

Export Orientation

Major foreign partners are private middle size enterprises in Germany and Italy (exports) and in Italy and Austria (imports). The majority of exports is conducted directly. Only small share of imports goes through import companies such as Unitex and Aditex from Ljubljana.

The strategic goal is to decrease the share of exports and increase the share of the domestic market. In exports the share of job work is intended to be reduced.

Presently there is a little export of non-company products; its share should increase in the future.

Products for the domestic and foreign market are of exactly the same quality. There is a profitability difference between the domestic and foreign markets which is around 10%. This shows that cross-financing is present to a certain extent.

Domestic Environment for Exports

The grades that the managers of the company gave to the domestic conditions for exports and imports when we asked for evaluation are the following (from 1 = unsatisfactory, 2 = satisfactory; 3 = good; 4 = very good, 5 = excellent):

	Export	Import
Permissions for export, import	4	3
Tax system	4	3
Incentives for export, import	1	–
Credit availability	4	2
Guarantees availability	4	3

The enterprise TTOV does not meet any obstacle in importing raw materials and receives a preferential treatment for imported inputs intended for production for export.

State regulation has no impact upon the company's decision whether or not to export, but influences to a certain degree its decision on imports. Good relations with the state administration are frequently helpful in the realization of the company's export-import businesses.

Foreign Environment for Exports

Cooperation with foreign partners is on contractual basis and with the largest foreign partner exists since 1972.

The major competitors are producers of similar products in Germany, where majority of company's production is exported. The information about foreign markets are obtained through the Chamber of Commerce and from business partners abroad. This information is frequently updated.

Regarding influence of Slovenia's international relations to trade activities of the company the only obstacle comes from import tariffs and quotas.

The payment conditions are more used for selection of foreign partners in imports than in exports. The usual payment period for export is 30 days, for imports 60–90 days.

The cooperation agreement between the EU and Slovenia did not have a significant influence on the choice of targeted markets for exports. The association agreement will help increasing the amount of production that the company intends to export directly.

Enterprise SvMa

This enterprise was established in 1946. Its production consists mostly of textile goods. Their substance is acetate, polyester, polyamide, wool, vyscosis and cotton.

Export is directed towards wholesalers. 90% of export goes through direct contacts, 10% with the help of intermediaries (the companies IBN and UTX from Ljubljana). The export is mainly own products and only sometimes labor services.

The share of production which is exported increased constantly over the observation period from below 20% in 1988 to 80% in 1994.

Performance Indicators

	1988	1989	1990	1991	1992	1993	1994
Employees	708	696	651	548	486	487	491
Capital (Million DEM)	12.9	13.4	20.9	14.2	12.8	20.9	22.5
Sales (in 1000 meters)	8718	8047	6641	6620	6076	6980	7448
Profit rate (%)	0.2	0	0	0	0.1	0.2	0
Indebtedness (%)	5.8	3.3	6.6	2.2	1.4	5.5	5.3
Export share (%)	18.9	28.4	39.3	49.4	66.5	79.5	81.4

The company is still in social ownership and is on the way to be privatized.

Export Orientation

Export is supplied to all highly competitive Western markets.

There is a worldwide recession in textile production and that is observed in the company's performance too.

Products for foreign markets and for domestic markets are of the same quality. The profitability of sales in domestic and foreign markets differ. The ratio is 2:1. Thus, production for domestic market (a market that can not absorb all the production) supports exports.

Distribution of Sales (in % of total sales)

	1990	1991	1992	1993	1994
Germany	19.6	15.6	35.5	12.4	18.7
France	8.9	5.5	2.4	5.2	5.4
Italy	6.7	14.5	4.5	13.1	10.9
USA	4.1	12.9	17.4	40.2	32.5
Other foreign	0.2	5.5	1.2	8.6	10.7
Domestic market	60.5	46.0	39.0	20.5	21.8

Losing the former Yugoslav market was painful for this company, but, it started to reorient business from ex-Yugoslavia to foreign markets even before the break-up of Yugoslavia, so that adjustment problems were smaller than otherwise would have been.

Domestic Environment for Exports

According to the managers of the company imports of textiles to Slovenia are over-liberalized. The tax burden for the company in this labor intensive industry is too heavy and the currently introduced small subsidy for labor intensive industries will help a little. Export incentives have not existed until now. The situation with respect to availability of credits for exports and imports is very good for this company and availability of insurance schemes is excellent.

No obstacles exist to obtaining inputs needed for production for export. Preferential treatment (relief of custom duties) exists for inputs intended for production for export.

The state administration has no influence on the choice concerning export. No special relations exist with the state administration, but on the long run they could be helpful for export.

Foreign Environment for Exports

The company has a long term contractual relationship with most of foreign partners. Major competitors abroad are large companies producing printed textiles particularly in Germany, Czech Republic, and Turkey.

Information about development on foreign markets is obtained through specialized literature, from agents and intermediaries abroad, through direct contacts and participation on fairs abroad.

Slovenia's foreign relations do not influence the export-import performance of the company. Present cooperation agreement and the coming association agreement with the EU remained without special influence on the company's export and import performance as quotas for metric textile export of Slovenia to the EU have not been entirely utilized.

Payment conditions are not an important determinant of a choice of export or import. All bills are paid in 30–60 day periods.

Enterprise LeLj

General Characteristics of the Enterprise

LeLj was formed in 1946. It has matured into one of the largest and most successful companies in Slovenia (giving around 2% of all manufacturing of Slovenia), operating in the pharmaceutical industry. Besides pharmaceutical products (78% of production) other five smaller categories of products are: over-the-counter drugs (3%), cosmetics (8%), veterinary drugs and animal feed (5%), dental products and diagnostic agents (5%). The company owns a hotel (1%). It acquired over 300 patents in Slovenia and abroad. LeLj is ranked 130th among the 8,000 pharmaceutical companies worldwide.

This joint stock company was first among Slovenia's largest companies privatized partly through public offering of shares. Its present ownership structure consists of four blocks: state and investment funds (37%), employees and management (25%), citizens (32%), others (6%).

Besides its domestic production units the company has 7 offices and 10 subsidiaries abroad, mostly in Central, Southern and Eastern Europe. LeLj has strong business connections in marketing bulk pharmaceuticals in North America, Western Europe and Japan. Among companies abroad four are in former Yugoslavia, while the others in Switzerland, Poland, Czech Republic, Russia, Nigeria, Austria and Pakistan. Representative offices are in the USA, Russia, Ukraine, Poland, Czech Republic and France.

Among domestic competitors there is one similar factory and one smaller factory, the latter established as joint venture with Germany company Bayer.

Basic Data (in Million USD unless otherwise noted)

	1988	1989	1990	1991	1992	1993	1994
Assets				148	164	248	274
Capital				111	131	183	193
Number of employees				2464	2347	2169	2240
Total Revenue	166	204	279	275	208	175	235
Costs	121	138	189	179	139		
Salaries	19	31	48	38	27	41	50
Depreciation	8	20	19	23	22	23	28
Taxes	9	15	13	15	10		
Net Income	9	3	10	20	12	8	23
Investments						26	35
Exports						117	167

Export Orientation

The market structure of sales in 1992 was the following: 29% Slovenia, 10% Poland, 4% Germany, 2% Japan, 55% other foreign countries.

Trade Pattern, in %

	1991	1992	1993	1994
Domestic market	16	30	33	30
ex-Yugoslavia	45	32	22	17
Other Foreign	39	38	45	53
The share of R&D in Sales	7	10	10	11

Regionally, in 1992 70% of sales were exports, among them: Central and Eastern Europe 15%, former Soviet Union countries 11%, developed countries 23%, Croatia 11%, South Eastern Europe 7% and developing countries 3%.

In 1994 the company succeeded in entering the USA market, which immediately became its largest foreign market (42 Million USD). This was the result of the registration of one drug, Cimetidine, in this market. In 1994 70% of the 167 Million USD export was realized in the US.

In the preparation of the investment protection agreement between the USA and Slovenia the US authorities wanted to include a retroactive protection of American patents in pharmaceuticals from 1986 (similar request was accepted by the Czech Republic, Slovak Republic and Hungary). In this case it was rejected, though, after Slovenia proved that the quality of its industrial property protection had been according to the new regulations that the US wanted to apply.

By 1994 major foreign markets ranked by country were: the USA, Croatia, Poland, Russia, Macedonia, Canada, Czech Republic, Ukraine, Serbia, Germany, Slovakia, Great Britain, Hungary and Pakistan.

Foreign partners different for different product groups: they are local importers, producers of pharmaceuticals (for raw materials), dealers, whole salers and retailers (for cosmetics).

Imports of raw materials are made directly, domestic supplies include only packages.

Major trade partners are: own enterprises in Eastern and Central Europe, distributors in distribution chain, and local importers and agents.

The company sells its own products, but some products are manufactured under license. The technological balance of payments of the company is still negative, but it is improving quickly.

The company is eager to increase the export of capital by establishing its companies (factories) abroad. The present legislature in Slovenia, however, is not liberal and it takes a long time to get permission.

The strategy is to establish its own sales network abroad for several reasons. One is to secure existing market share or increase it. Second is to move the marketing function to the factories abroad. It is very important to deal directly with clients on the spot and to be close to the market which in the case of pharmaceuticals means the individual doctors.

The strategy of the firm is to expand the production and exports of generic pharmaceuticals. Development of a new drug costs today around 300 Million USD and takes several years. LeLj, with R&D expenditures of 1/10 of that amount, can not afford such development. Thus, the company can be efficient in generic drugs and at the same time it will have to intensify strategic alliances. This way the sophisticated barriers to enter Western markets could be removed.

Domestic Environment for Exports (and Imports)

According to the managers of the company the domestic market is over-liberalized to imports of pharmaceuticals. Reciprocity in dealing with Western countries is needed. Also, price disparities occur, where foreign companies sell drugs in Slovenia at much higher prices than in other countries thus redirecting a larger share of the budget intended for pharmaceuticals into their pockets. (An empirically proved general rule is that each country spends 1% of its GDP on pharmaceuticals.)

The major competitive strength of production are: wider assortment; good knowledge of the market (especially in Central Eastern Europe where the company is present over 20 years and thus has a competitive advantage over Western companies; strong R&D department; tradition.

Products for export differ from products for domestic use only if special requests (standards) from the importing country need to be fulfilled.

The profitability is related to products not to countries. Exports enable production in larger quantities thus decreasing the share of fixed costs in total costs and making production of certain products more profitable. For that reason production for export in fact supports production for domestic market.

There is no problem with permissions to export or import. Government incentives do not exist, except for recent relief from social security contributions. For a capital intensive company like LeLj this support will remain modest. Credits are easily available due to rating A of the company. According to the managers of the company when issuing guarantees against commercial risks the Exim bank should require less documents and speed the procedure.

For specific products such as drugs it is relevant to have good cooperation with the government. LeLj sometimes helps organizing visits of health ministers of foreign countries to Slovenia and helps to prepare documents related to further cooperation between countries in the medical field.

Foreign Environment for Exports

The major contacts with foreign partners are through contracts and through licenses bought and sold.

The market of pharmaceuticals is worldwide; regional limitations are practically impossible.

Sources of information about the market are: own information documentation, online internet, own library, and information from partners.

Slovenia is still in the process of adopting the law on production and distribution of pharmaceuticals since the old Yugoslav legislation is inadequate. For that reason Slovenia is not yet member of important international organizations and conventions. Due to this the inspections related to registration of drugs in foreign countries is very costly and takes time. International harmonization in this field is still at the initial stage.

The payments conditions have become less important because with decreasing inflation and thus more stable exchange rate and lower interest rates risks are smaller, in case there is a delay in payments.

Both the cooperation and the association agreement with the EU have certain impact by lowering entrance barriers for the company's exports.

Strategic partnership in the field will not be built by this company through capital connections, but as cooperation in special fields such as R&D, marketing, production and distribution. That way costs can be reduced for all partners in cooperation. For capital investments foreign partners are not needed by this company.

Enterprise SvKa

Characteristics of the Enterprise

This company was established before World War II, but reestablished as socially owned company in manufacturing of textiles the war. The company produces towels, bathing coats, ties and similar textile products.

In 1995 the company was concluding the process of privatization in which 51% property became insider owned (by workers, managers and retired workers; 98% of workers and 70% of retired workers of the company exchanged their vouchers for shares in the company). The remaining part of the shares was given to the state funds (close to 40%) and 10% is sold to the public (vouchers for shares). The strategy is to buy-back some of the shares later at the stock exchange or from the state funds, so that majority ownership remains within the company. Only 1% of the factory was intended to be given to former owners in the form of shares or cash payments.

The most booming years for the company were late 1980s, when 25% of production was sold at home, 50% in the rest of Yugoslavia and 25% abroad. The recession in textile industry in the world and the loss of the Yugoslav market were major reasons for downsizing and restructuring of the factory.

Basic Data
(in Million DEM unless otherwise noted)

	1988	1994
Number of employees	861	570
Turnover	47.5	28.4
towels	26.1	17.8
clothing, ready-made	8.0	6.1
silk products	13.4	4.5
domestic market	9.7	9.7
Yugoslav market	30.4	2.2
convertible export	7.3	16.5
Assets		33.7
fixed		19.2
variable		14.5
Capital		26.0
Loans		7.7

Export Orientation

The only way for the company to survive was to expand exports and further penetrate foreign markets, especially in developed Western Europe. But the textile industry is in recession and foreign competition increased strongly.

There are three major groups of foreign partners. First are hotels, hospitals and laundry-houses (leasing of towels). Second, the company has a long-term business cooperation with some factories in Germany which are producers and sellers at the same time so that they sell this company's products as their own products. The third group of partners are large supermarkets (QUELLE, KIKA).

A major problem is the expensive labor force which is crucial for the labor intensive production in textiles. The average yearly labor costs per worker in this company are around 18 thousand DEM, in Germany three times higher, but in the nearest competitor in Central Europe, Hungary, at least 30%-40% lower. For that reason job work is moving from Germany through Austria and Slovenia to Hungary (and other Central European countries) but its final destination will be first Eastern Europe (Balkan, former Soviet Union) and later even further

Asia or Africa. Cheap labor, already existing fixed assets (empty factory buildings) and relatively uncomplicated production process are reasons for this development. Therefore, textile companies in Slovenia with a large amount of job work are in big trouble.

The competitive advantages of this company are: flexibility (small series), design and high quality, fast response. Reaction time of the company is 6–8 weeks for delivery after an order is received, which is faster than in most larger firms in this industry.

Exporting its 60% of production with a positive trade balance (exports double imports) the company is sensitive to exchange rate movements. However, despite real appreciation of domestic currency in the last two years increasing the relatively cheaper imports of materials can not be a long-term solution from a macro-economic point of view.

Major competitors at home are two other companies. This could mean a oligopolistic structure in the domestic market, but the quickly growing liberalized (in fact over-liberalized) imports are causing problems to domestic producers. What is requested from the managers of this company, is reciprocity treatment from the government when allowing foreign textile producers and sellers to Slovenia's market.

Major destinations for export are: Germany (80%), Austria (10%), Italy and the Netherlands. Almost all exports (95%) and imports (98%) are arranged directly without intermediaries. Major competitors abroad are Turkey, Portugal and to lesser extent (due to lower quality and slower reaction) Brazil and Pakistan.

The future strategy of the company is to retain its present quantity of production, but to increase the value added through higher quality and highly processed production. It means increased quality, improved assortment, step into higher price categories, affirmation of own trade-mark (Veronique, which is already well established in some boutiques in Western Europe). The desired future structure of sales is: two third of sales in foreign and one third in the domestic market. If conditions improve in former Yugoslavia, 50% of sales will be directed to foreign countries, 25% to former Yugoslavia and 25% will be sold at home.

Recently investments in the size of 4 Million DEM were made with the support of domestic bank credits. Foreign credits looked cheaper at the first sight (looking just at the interest rates), but they required additional payments for manipulation costs, costs of guarantees and opening of acreditives would have made the total costs of foreign credit higher.

The prices reached on German market are about 25% lower than prices reached by well established German firms in that market.

Products for export are tailored to the standards of country of destination. Products for rich consumers are of the same quality at home and abroad, but products for lower income consumers are of lower quality if sold at home. Especially former the Yugoslav market requires special products of special lower quality and cheap design.

Exports on average do not bring any profit at the moment. Prices reached in exports are lower than at home by 30% in towels, by 5%–10% in bathing coats.

Inventories are practically eliminated, all production is directly related to orders, which is in connection with the importance of fashion design in these products.

Domestic Environment for Exports

Market is liberalized, in imports even too much. The existing quotas in the EU are not yet fully utilized by Slovene producers and exporters. The financial stimulation by the government through the relief of social security contribution for net exporters is welcomed by the company. It is necessary, however, to make this incentive automatic, by law, and not discretional. The automatic regulation will fasten the income stream and decrease political interventions in the economy.

The domestic ExIm bank (Slovenska izvozna družba) currently does not support exports of consumer goods bycredits or guarantees but, according to the managers of SvKa, it should.

There are no obstacles to obtaining appropriate domestic or imported inputs.

Trade liberalization of Slovenia is considered to be gone in some sectors (especially consumer goods) too far: not only borders have become open, entry was liberalized and registration for domestic importers became also totally liberalized. Reciprocity treatment in foreign markets was not required and that should be corrected in the negotiations of the government with foreign countries.

The managers of the company think that there is too much state intervention in the Slovene economy. Subventions of different types are increasing the burden on budget, thus requiring increased tax rates. The final effect is selective support. But historical experience of ex-Yugoslavia indicates that in Slovenia only the formerly state-supported industries cause problems today. Companies of the textile industry definitely do not belong to them.

Foreign Environment for Exports

Protection for textile industry is present in the EU to preserve jobs. Slovenia should require reciprocity treatment in textiles in the concluded free trade agreements with the Visegrád group countries.

The major type of cooperation with partners are regular yearly contracts.

Major sources of information are: market research abroad, presence on fairs, orders and information from foreign partners.

Cooperation agreement with the EU helped the Slovenian textile industry. Until recently most of the quotas of former Yugoslavia could be used by Slovene companies as textile production in other parts of former Yugoslavia almost collapsed. When Austria entered the EU import duties (of 14%) for the company's exports to Austria were eliminated thus improving the competitive position of the company in this market. The same happened in Scandinavia, but the market is smaller and more specific.

The association agreement with the EU will not cause major changes for the company because Slovenia is a small country and there will always be a niche in the EU market allowed for Slovene textile producers.

The payment period is shorter abroad (30–60 days) than at home (60–90 days) and delays are around 15 days abroad, 30–60 days at home.

The company does not look for a majority foreign strategic partner, but minority foreign ownership could be imaged. One of the major reasons for this strategy is fact that the social problems connected with cutting number of employees (already cut by one third) are dealt with much more care by domestic (inside) owners than by foreigners.

Enterprise StKa

Characteristics of the Enterprise

The enterprise was established in 1904. In 1990 it was transformed from socially owned enterprise into an enterprise in mixed (foreign and domestic) ownership. It is 97% socially owned and 3% privately owned. In the future, besides some restitution claims about 40% of sharers will go to different funds and at least 40% will be owned by insiders.

The production program includes furniture specialized for offices. The change from mass production to specialization to individual orders is currently taking place. The well-known designers of the company helped to establish its trade mark and the recognizable style of office furniture of the company. The company controls around 60% of the domestic market. Major domestic competitors are four domestic companies with 27% domestic market share and foreign producers with 13% share.

The company has subsidiaries at home and abroad. There are six companies in Slovenia (with shops in larger cities), four in former Yugoslavia, four in Germany, and one in Hungary and the Czech Republic each.

Recession and separation from Yugoslavia caused disinvestment thus decreasing the number of employees from 1,400 to 900 with the optimal size being in fact closer to 500.

Basic Statistics
(in Million DEM unless otherwise noted)

	1992	1993	1994
Number of employees		962	910
Capital			62
Turnover	20	37	56

Export Orientation

In the total turnover 45% of revenues come from exports.

Major Sources of Income in 1994

	Total (Million DEM)	Share of Exports %
Wood	1	68
Wooden chairs	8	42
Steel chairs	9	40
Office furniture	17.5	50
ALU equipment	3	0
Shop equipment	4	2
Engineering and services	12	50

Major domestic buyers are: furniture and wood trading companies and banks which equipped their premises by this factory' furniture. Major foreign buyers in 1994 were: ELKA – Germany, VOKO – Germany, Spilker – Germany, Inco Trade – Russia and Held – Germany. Major export markets are Germany, the Czech Republic, Hungary, the Netherlands, and Scandinavia.

In the office furniture the strongest competitors are from Italy, Germany and from Scandinavia. Unlike these competitors, StKa is still not able to sell its own trade mark on Western markets, so that the majority of exports is currently made by selling to the company VOKO in Germany.

In engineering, West Europeans are still too expensive to be competitors, while East Europeans are not yet competitive in quality (due to lack of skills and tradition).

The competitive advantages of this company are: low price, good financing conditions, short period of delivery, long period of guarantees, established service for repairs, punctual fulfillment of contracts, complete service. Other advantages of the company are: tradition, trade mark (only at home and in Eastern Europe), skilled labor force, geographical position, ecological awareness, good organization of the company.

Most of the raw materials are bought at home; only small quantities of special wood are imported.

The future strategy of the company includes further investment and expansion into new fields (production of chairs for movies and different arenas, including total engineering), expansion of own trade network at home and abroad, specialization in small series and individual production, increasing the share of engineering. The development strategy of the enterprise is based on further penetration to new markets, cost rationalization, standardization of production with small series, supplementing production with trade, engineering and other services.

The priority markets in the future are Hungary, the Czech Republic, Bulgaria and the states of former Soviet Union. If the situation is normalized, former Yugoslav markets will become relevant too. In the West, only market niches are available for this company as larger markets are closed for new entrants. Further cooperation with present partners is envisaged.

Prices reached on domestic market are around 20% higher than prices on foreign markets.

Domestic Environment for Exports

The paper work (documents) necessary to export and import is too large. No special problems exist with regards to availability of credits or guarantees.

The major problem in exports is the exchange rate's real appreciation. But, the company also needs to eliminate its internal weaknesses. A rehabilitation program with the help of foreign PHARE financed consultants is under way and the strategy is in preparation.

The government regulation has no impact on the company's decisions on exports and no special relations with the state administration are necessary for concluding export businesses.

Foreign Environment for Exports

Major problems in obtaining foreign raw materials, goods and services are delays in deliveries, in payments as well as quality complaints.

The relation with foreign partners are based on yearly contracts without any stronger cooperation agreements.

Major competitors on foreign markets are appearing currently from Eastern Europe and Asia. In the past, production was mainly in large series and massive programs were predominant. This kind of production does not require skilled labor and tradition. Here, the competition from the Eastern Europe and Asia is becoming too strong.

The source of information about foreign markets are fairs, the usual professional literature and catalogues.

The cooperation agreement until now and the association agreement with the EU in the future will not influence the company's export plans very much. Generally speaking Slovenia's country risk is still very high thus having a negative impact on the company's exports to the West.

Enterprise TrKa

Characteristics of the Enterprise

The company was established in 1948 and was socially owned until the early 1990s. Its institutional structure changed through time according to changes in legislation. The production was sold to the army (30%), to Serbia (40%) and to the rest of former Yugoslavia (30%). After the separation of Slovenia most of markets were lost and that prompted big changes in the company. A rehabilitation program was introduced with a new management, inaugurated in 1992. All capital was transferred to the Development Fund of Slovenia which supported the rehabilitation program. Since 1.5 Million DEM of capital 1.35 Million DEM were debts a debt restructuring program took place.

Number of employees decreased to one third of the former level, productivity increased and the company managed to enter Western markets. The company was divided to two independent companies, the new company producing satellite dishes. In December 1993 the rehabilitation program was formally completed by privatization in which 80% of the company was bought by seven managers, and the remaining 20% by workers.

Presently this is a limited liability company engaged in manufacturing. Three major products are: buttons (30%), fibreglass semi-products (25%) and electric isolation materials (45%).

Major strength of the company is skill of workers, established client basis and quality of products. Major problems are small domestic market for the specific products and partly obsolete technology.

Almost 90% of turnover comes from manufacturing and 10% from trade. The profitability of activities is structured the same way.

The company is financed partly by the Development Fund and partly by banks.

Basic Statistics (Million ECU unless otherwise noted)

	1988	1992	1993	1994	1995
Number of employees	300	150	120	60	57
Turnover		1.8	1.6	1.8	
Capital	1				
Profit		loss	loss	0.04	

Export Orientation

In 1990 100% of production was sold in the domestic (Yugoslav) market. In 1993 40% was exported, one quarter of it to Eastern Europe, three quarters to Western Europe.

Main customers are manufacturers (90%) and retailers (10%).

Competition in the industry is moderate. Major competitors come from abroad and are small private enterprises. TrKa can be rated as being among the better half of the companies in its industry. Among major advantages of TrKa compared to the competition are: excellent organization (quick response to demand), skilled workers and know-how.

The strategic plan is to expand production slowly with the investment coming from private sources and from own profit and with slowly increasing number of employees.

Prices obtained on foreign markets are 5%–10% lower than prices at home. However, only with penetrating foreign markets can the company reach larger series thus achieving more optimal economy of scale where average total costs are lower and production remains profitable even with lower selling price.

About 35% of fibreglass production and 60% of electric isolation materials are directed to exports, while buttons are sold only on domestic market.

In exports the company has contacts with dealers as exclusive distributors in several countries, including South Africa and Finland. Other exporting destinations include Hungary, Germany, Czech Republic. Major competitors are producers in Italy, France, Spain and Germany.

Domestic Environment for Exports

There is no problem with permissions for exports or imports. The company has access to credits from banks after its credit rating has improved recently.

Country risk of Slovenia represents an obstacle for smaller exporters and especially importers of materials on foreign markets. Thus, contrary to larger Slovene companies in the industry this company can not obtain an open account with large German producers like Bayer, although the business cooperation lasts already over 20 years. In Italy the situation is better.

The state administration has no impact on the company's decision whether or not to export. However, personal contacts are important for such businesses which are related to military equipment, telecommunications, etc.

Foreign Environment for Exports

Although there is only regular contractual relation with foreign partners, for a small company like this, personal contacts and confidence are very important which has developed into friendship.

At home, there is no competition to the company except for the production of buttons, which are consumer products.

Major sources of market information are foreign dealers and representatives, fairs, hired agents who find potential customers for the company's specific products.

Country risk (lower rating of Slovenia due to its newly established independence and vicinity of war) has posed a significant problem for the company, especially since it produces and sells strategic materials. Only a couple of years ago for every product imported a special certificate was requested by the foreign partner indicating that the material will not be used for armament.

The cooperation agreement with the EU helped the company in exports to the EU. Upon presenting the certificate of origin the importers of this company's products were exempted of paying customs duties in their home countries, which gave the company competitive edge against other companies from the Central Europe. With signing of the association agreement with the EU the reciprocity approach could worsen the position of this company on the domestic markets.

According to the managers of the company, when signing the free trade agreements with the Visegrád group countries Slovenia did not take into account the interest of small companies like this. Thus the products of TrKa usually remain in the group of products, for which customs barriers will be lifted only gradually, not immediately.

Regarding a big foreign strategic partner which could invest into the company, the management is aware of the experience that this is frequently the way to penetrate the domestic (in this case Slovene) market for such a big company. But, if, for instance, Siemens is allowed to become a majority owner in the company, the company could sell the products of Siemens and also enter the German market. After losing the Eastern markets, for many producers in Central and Eastern Europe this is the only way to survive.

Enterprise FeMa

General Characteristics

The enterprise was established as limited liability company in 1990 by its present owner who is over 30 years already a private craftsman. In 1964 this craftsman founded a shop producing spare parts for car repair. In 1977 the production program was changed into metal altering and in 1980 the production of industrial absorbing machines was added. In 1990, the new company was created to undertake all the marketing and trading activities for the already established factory. Additionally, the company became representative for imported garage and industrial doors, plumber machines and machine-power saws for metals. The company is 100% owned by the founder and his family.

Basic Data (Million ECU unless otherwise noted)

	1990	1991	1992	1993	1994	1995/1st half
Number of employees	2		4			13
Turnover			0.35	0.6	0.7	0.5
Capital	0.001					
Profits			0.07	0.08	0.09	0.02

All the investments are financed from own profits.

Major strength of the company is its cautious strategy of expansion, innovations, marketing, good organization, know-how and good business ties.

Export Orientation

The company was initially oriented towards the domestic market and later added imports of doors and other products and thus became exclusive representative for a German company. But, with imports the initiative came from the foreign partners to start exporting goods as a way to pay for foreign merchandise.

Presently, exports still count for only about 10% of the turnover. They include special equipment produced in the company on order by German individual buyers. Major clients are wholesalers and manufacturers (small family businesses) in the West, except for the large door manufacturer for whom this company is representative in Slovenia.

Generic products are cheaper produced in Germany due to large series so only specific products (metal saws) are produced in FeMa. The replacement of FeMa's deliveries with supplies from the Czech Republic was not successful for the German buyer because of the poor quality and late deliveries by the Czech partner.

Export Orientation

Export orientation is very new in the company. In the first half of 1995 around 10% of revenues were earned from exports.

All foreign trade is made directly without intermediaries. The exporting merchandise include elements for saws and other metal equipment.

The strategy of the enterprise is to modernize slowly technology with increasing share of export which, however, will not become a dominant orientation. Technical innovation, already made, would increase value added in exports.

The competitive strength of the company lies in quick reaction time, quality, on-time delivery and know-how; despite higher prices than by Czech producers this company is honored by the German orders. The profitability is higher in exports than at home, if small series (individual orders of elements for larger machines) are concerned.

Domestic Environment for Exports

The import duties for products imported by this company are considered by the managers of the company too high. The present regime, when this company is requested to issue a certificate declaring that certain product is not produced in Slovenia (the product which is in fact part of the production program of this company) for other small businesses to be able to import this product without custom duties, seems to be obsolete, unfair and could be misused very easily leading to monopolistic position of some domestic producers of the equipment.

Government subsidies for export do not exist. Credits are too expensive and the company relies almost totally on its own capital. Only recently some banks are included in the sales program of the company giving consumer credits to buyers.

Major obstacle to trade is domestic customs procedure, which is much more complicated, time consuming and cost-occurring than the Austrian procedure, for instance.

The uncertainty connected with the expected introduction of the new Law on Customs Rates of Slovenia in 1996 was painful for the company. Not knowing its substance made planning imports difficult.

German importers do not pay special import duties for the products which are exported from this company while the Slovene company paid a 17% import duty in 1995.

External Environment for Exports

The relation with foreign partner is based on contracts, for small series. In addition, however, personal contacts and friendly relationship is of utmost importance. The foreign partner would like to up-grade the relationship by investing into new equipment in this company, but the Slovene owner prefers to remain its own boss.

Major competitors at home are 10–12 producers (importers and fitters) of garage doors. Abroad, competitors are domestic small producers in Germany and but also in the Czech Republic. A general principle is to have more than one buyer or supplier to decrease dependence.

Information about foreign markets are obtained from foreign partners, from business meetings, fairs, exchange of workers (to acquire specialization in foreign factories) and company's own business conference every second year.

The independence of Slovenia had a positive impact on the business of FeMa (German partners have not been willing to establish business relations with companies in Croatia due to the war conditions).

All payments are made in 60 days without special guarantees, which is a sign of credibility established through a long-run business and private partnership.

Enterprise ErLj

Characteristics of the Enterprise

This firm was established in 1990 as an off-spring of a larger socially owned company. There were no problems in establishing the company: registration took less than one month.

It is limited liability company, owned 93% by its president and 7% by the designer in the firm. In production it uses the services of a furniture company (which employs handicapped people) that was bound to be liquidated, but now it is very successful in realizing ideas of the ErLj company.

ErLj is engaged in creating, manufacturing, organizing and selling exclusive wooden products which are useful in every living space of people. It is one of the fastest growing green field dynamic companies in Slovenia with a strong know-how potential and its own trade mark.

The firm started with classic service carts on wheels, the product which was in fact transferred from the socially owned company in which the present principal owner was previously managing its production. Today ErLj produces 25 different types of service carts. Products are of wood, with an emphasis on natural materials (metal, stone, glass). Products are biologically acceptable and sold under own trade mark with Slovene certificate.

Major reasons for success are high skill of employees, marketing and quality. Competitive advantages are: originality, quality, design, professional business relations. The sources of investment are own profit and recently bank credit. 5% of turnover and profit comes from trade, 15% from other services, 80% from sales of products. The company finds the present profit tax rates too high. Tax incentives for small dynamic businesses do not exist and general attitude of the state in support of these businesses is negative: they are neglected by the state, although they would need certain services and advises (especially in the financial field) for which they can not develop their own departments (due to their small size, lack of economy of scale).

Some Basic Statistics

	1990	1994
Number of employees	3	5
Turnover (Million ECU)	1	5
Growth rate of turnover (%)	50	50
Profit (Million ECU)	0.07	0.15

Export Orientation

Until now all products were sold on foreign markets: 90% in Western Europe (Germany, Switzerland, Italy, Austria, Denmark), 10% in other developed countries (Japan and Australia). In 1995 the company opened a special boutique in Ljubljana where besides own high quality products it planned to sell small furniture of a well known Italian designer as an exclusive representative for Slovenia.

All trade is arranged directly. Major customers are wholesalers (85%), retailers (10%) and final consumers (5%). Among suppliers 80% are domestic, 15% come from the EU and 5% from other Western Europe (particularly special materials).

Competition is not very strong because the trade company sells its own designed product. Among competitors there are medium size and large private companies.

The company plans to invest 100–500 thousand ECU in the future and to expand its business abroad (within the present regional pattern), as well as starting business also at home. If the few major obstacles, were removed by the state, it would enable a quick expansion of the company due to the exclusive products it is selling. The major problem is to get control over the business which still depends on the producer — the furniture company, which is still socially owned. The present owner, however, is reluctant to sell the furniture company to ErLj because the furniture company started to earn high profits already from the present arrangement.

Domestic Environment for Exports

The environment is not considered favorable. While there is no need for permission of any kind there is no financial stimulation for company from the state either, credits can not be obtained from banks on preferential terms, and there is a lack of guarantees.

The company has no problem obtaining inputs so that preferential treatment for export in this regard is not needed.

The state regulation has no impact on decision whether or not to export and no special relations are needed with the administration to export. In fact, the company is neglected by the state and that feeling is commonly shared by all small fast growing companies.

Foreign Environment for Exports

Regular contractual relations are developed with foreign partners. Foreign partners show interest to invest and become co-owners of ErLj, but strategically this is not needed by the company and control by the original domestic founder remains the future strategy.

Foreign companies try to steel the new ideas introduced by this company (this is true even for companies from Italy, the bedrock of furniture design). Because of this development cooperation with patent lawyers and with the Slovene Patent Agency is already well developed. Slovene legislation in this field is still weak and the country is still not the member of the relevant international agreements which would enable easier procedures in protection own Slovene trade marks.

Sources of information about foreign markets are several. With that regard, it is relevant to recognize that the company is more a trend setter (all the time bringing newly designed products on Western markets which are widely accepted) than trend follower. The information comes from direct contacts with clients, regular participation in major furniture fairs in Europe and from the World Trade Center network.

In Western Europe the preferential treatment of Slovenia according to cooperation the agreement with the EU was favorable for the company's exports since there are no more quotas applied.

Payment limitations do not play a relevant role. Due to quality of its products the company get payments in 15 days upon delivery. Acreditives are established only for the first time deliveries to new clients. Only in Italy is the situation less favorable: due to overall financial disorder, acreditives are usual. Personal contacts remains a very important guidance in choosing partners for business.

Enterprise HeDo

General Characteristics

This is one of the largest chemical factories in Slovenia and the economic leader in its town. HeDo was established 75 years ago.

The company is still in social ownership, but already in the process of privatization.

Presently it is organized as a holding with three basic factories which are producers of auto-lack, starch (raw material for paper and paints), and oil, respectively.

Basic Data	1985	1989	1995 (forecast)	2000 (plan)
Number of employees	850	1020	850	600
Turnover (Million DEM)	75	120	90	115

Crisis in the paper industry in Slovenia (liquidation or selling of companies to majority foreign owners) decreased significantly the demand for starch thus making capacity utilization smaller in HeDo.

Export Orientation

Company was less affected by the loss of Yugoslav market than the rest of Slovene industry due to its permanent cooperation with German partners whose license has been used by the company.

The export orientation is as follows:

Export Orientation (%)

Factory	Share in Production (%)	Export/Production (%)
lack	70	68
starch	20	20
oil	10	10

In aggregate, export is around 50% of production, while imports are over 50% of purchases. The company is a net importer.

Major export destinations differ according to the different products. Thus, for lack and auto-lack the main export markets are Russia, Belarus and Ukraine. Other destinations are: Hungary, Poland, the Czech Republic, and Slovakia.

HeDo is in the process of opening enterprises of mixed ownership in the Visegrád countries. It was the losing of the former Yugoslav market that led to entering new markets in Eastern Europe. An entire trade network was built for that purpose. At the same time large producers from outside Europe have entered European international market recently thus increasing competition for this company.

To be competitive foreign distributors or company representatives are necessary.

The export of HeDo includes know-how, own products and some products produced under license such as lack for wood.

The future strategy in production of lack includes higher level of ecological awareness (more water and less bitumen in content). Strategic destinations for this company in the future could be Africa and the Near East. The optimal size for these producers in the world is about 100-times the size of this factory, which is already not so small by Slovenia's standards.

The competitive edge of this company is traditional partnership and knowledge of the market, know-how, raw materials and personal contacts. The essential materials for paints and lack should be produced in the factory in Slovenia, while the final mix should be produced in factories situated in exporting markets.

Products for domestic and foreign market are the same. The company already obtained an ISO 9001 certificate for its main products.

Profitability in domestic market is higher than in foreign markets above all due to the lack of own network abroad. Provisions given to distributors are very large. For that reason, the company intends to have its own representatives abroad in the major export markets.

Domestic Environment for Exports

Except for certificates required by importing countries about the origin and content of the products no other permissions are required. The certificates are required because some of substances, as elements of paints and lack, are not allowed in some countries to be imported.

There is no problem with access to credits as the enterprise in fact controls a larger bank.

State regulation has no impact on the business of the company and special relations with the state administration do not exist and are not needed. Still, costs of state administration are considered too high as far as paper work is concerned.

External Environment for Exports

Foreign partners are connected with this company through product licenses and longer term contracts.

Currently a separate joint venture company is being established in Slovenia by HeDo together with the major German partner of the company.

Information on foreign markets are obtained from publications (own documentation center), partners, and from fairs.

The international position of Slovenia has no special influence on the activity of the company, as Slovenia's separation and proclamation of independence did not change significantly relations with foreign partners. This is because of the size of HeDo and its traditionally professional business contact, which exists already for decades.

Cooperation and association agreement with the EU have no special impact on factory's business relations either.

Enterprise KoLj

Basic Characteristics

The food processing enterprise was established in 1908 with 40 workers and 200 tons of yearly production. Its peak size was in 1987 with 1,491 employees and 33,584 tons of products. In 1994 it had 810 employees producing 20,574 tons of products.

Major products include: culinary products (36% of production), food for children (9%), sweets (20%), processed vegetables (7%), beverage (2%), powders (7%), reproduction materials (9%), exclusive distribution of foreign licensed products (9%).

Separation from ex-Yugoslavia meant a new beginning for the company: its production was almost halved in 1992 and the number of workers drastically reduced by one third.

Presently the major problems the company faces are: too small domestic market with very low protection from imports, difficulties in penetrating Western markets, and unstable Eastern markets. Still, the company achieved 8.3% profit rate in 1994 and 8.5 Million DEM profit before tax.

Privatization in 1994 was made through internal distribution of shares and through public sale of shares for vouchers. The owners of the company are: employees and retired employees with families (34.2%), funds and investment companies (36.8%), public at large (28.6%) and former private owners (0.4%).

The company consists of 5 production units (factories) situated all around Slovenia and 11 connected enterprises (5 of them in Slovenia, and the others in ex-Yugoslavia, Germany and Poland).

Basic Data (in Million DEM unless otherwise noted)

	1989	1990	1991	1992	1993	1994
Number of employees	1491			986	860	810
Assets					97	100
Own Capital					12	8
Sales (tons)	29.9	27.0	26.0	20.7	21.8	23.0
Sales	169	196	168	103	92	102
Profit after Tax					6.5	6.8

Export Orientation

The share of exports is presently 28% and it is increasing constantly in the last eight years. The share of imports in all purchases is around 60%. It means that the company is net importer. Raw materials, obtained from Serbia before, are now substituted by purchases from Hungary.

Market Structure of Sales in 1994, %

domestic	72.2
ex-Yugoslavia	15.2
other export	12.6

Exports are directed towards 25 foreign countries. The major exporting destinations are: Spain, Austria, Germany and Switzerland in the West (where results in 1994 were above expectations) and Russia, Bulgaria and the Czech Republic in the East (where results were below expectations). The Yugoslav market absorbed 60% of production before collapse of Yugoslavia; now its share fell below 20%. The largest foreign market is Russia (over one third of all exports).

Trade deals are made through subsidiaries and long term partners (in Germany, Spain, Austria for instance). In some cases they are exclusive distributors in other cases not. Long term cooperation agreements are fewer recently than they were in the past.

Strategy of the company is different for each market. Rationalization will continue; domestic, more competitive market will be the prime target, but exports will increase, too. A long-term penetration to the Russian market is envisaged. The major break through would be to find a product which could be sold in Western Europe. Just job work can not be a strategic goal because Slovene labor costs are too high to be competitive in mass production.

Major competitors abroad are large international corporations in this field and domestic producers, especially Austrians, Italians and Czech. By now the East European market is already covered by subsidiaries of multinationals.

The competitive advantage of company is the good quality of its products relative to price.

The problem is that the purchasing of raw materials is more difficult for this company than for Western competitors. At the same time, quantities purchased and produced are smaller than by competitors in the West (lack of economy of scale).

Sources of information about foreign markets are mostly partners, studies made by big companies, own network abroad.

As for differences between products made for the domestic market and for exports there is no clear pattern.

In production of chewing gums, for instance, there is no difference between products sold for the domestic and the foreign market, while the sweets need to be adjusted to specific taste in almost each country.

Profitability of sales at home is seven times higher than it is for sales abroad. Therefore, export is still a residual from the profitability point of view.

Domestic Environment for Export

Permissions in the form of certificates are required by Slovene authorities for food exports. Financial incentives for exports did not exist until recently. This changed in 19956 when the company started competing for government money distributed among exporters. There is no problem with access to credits (except for high interest rate), while guarantees are obtained only occasionally from insurance companies.

Payments conditions in the West are regular (continuous cooperation with open account); in the East with increasing volumes the payment risks increase, too.

Regarding protection, the managers of the company assert, that at least reciprocity *vis-à-vis* imports entering Slovene markets should be maintained. The existing free trade agreements do not cover all products of the company. The so called peasants lobby protects only primary producers of food, not secondary producers, such as KoLj.

The management of the company believes that the treatment of food processing industry by the administration in Slovenia is not adequate; too much help is given to foreigners while penetrating the Slovene market and to primary producers (agriculture) while negotiating terms of free trade agreements and too little to food processing industries.

In addition the sometimes ignorant position of the administration towards markets in former Yugoslav republics can not be justified either.

Foreign Environment for Export

Major competitors are multinational companies (with enormous investments in marketing their products). Among smaller firms in sweets Korea, Lebanese, Brazilian, and even Austrian firms are becoming quite competitive with lower or only slightly higher costs of labor than of Slovenia. It would be important to get good concessions in a future trade agreement with Russia.

Foreign competitors would like to penetrate Slovenia and all food industry is in the process of integration in Europe and the world as a whole. But, if foreigners will take over this company, one of the consequences would be closing the company and thus creating monopolistic position for the foreign competitor in the domestic market.

Enterprise InJa

Characteristics of the Enterprise

The enterprise was established in 1920s. It was reorganized in 1994 as a holding company which includes five independent companies. The main products are textiles, camping equipment (tents), impregnated linen for protection from the sun, curtains, suits and other clothes, marketing and other services. Recently the company expanded its own retail network by opening eight shops in Slovenia.

Basic Data (Million DEM unless otherwise noted)

	1991	1992	1993	1994
Number of employees	713	651	582	588
Assets			71	76
Revenue	15	20	22	27
Profit	–5	–1	0.2	0.1
Share of of self-financing		0.88	0.92	0.84
Export/Revenues		0.588	0.546	0.567
Export/Import		1.8	2.0	2.2

This holding is in social ownership and in the process of privatization. First consensus for privatization plan from the State Privatization Agency was expected in the middle of 1995. According to the plans, 40% of shares will go to the state Funds, 7% to previous private owners, while the remaining 53% will go through internal buy-out.

Export Orientation

The company used to be almost 100% oriented towards production of military equipment for the ex-Yugoslav army. The technology was adapted to large series of production for only 1 or 2 large buyers. With the collapse of Yugoslavia for company to survive it was essential to increase trade with already existing foreign partners as well as to find new partners.

Export represents 60% of sales. The company covers around 12% of the European market of special materials for tents.

Products for domestic and foreign markets are the same. Domestic sales include different textiles for the house. Profits are about five times higher than profits from exporting materials for tents. The profit comes from production of basic materials.

Geographic destinations of exports are the Netherlands (high culture of camping), Germany, and all Western Europe. Exporting is started to Poland and Russia, and to ex-Yugoslav republics, such as Croatia.

Foreign buyers are smaller wholesalers. Two joint venture contracts were signed with partners in Netherlands; these are small family companies with 10–15 employees which organize production and sales. They purchase products (different kind of textiles) from InJa by prescribing design, materials and quantities. The Dutch companies use their own trade mark.

The company has two strategic options. First, it will become strong in the technological sense. That requires large amount of investments in equipment and know-how; buying licenses and then production in small series of specific textiles. Second, they could retain mass production in large series for a yet unknown buyer, increase the automatization of production, further decrease the number of employees. In choosing first option company has problems with financing the investments which are needed.

The competitive advantage of the company is its trade mark, tradition (72 years of existence), stricter ecologic criteria than West European standards.

Major foreign competitors are domestic producers in Western Countries and producers of the Eastern Europe. Compared to the latter, InJa produces higher quality products, but with higher costs and prices.

Domestic Environment for Exports

Export permissions are not requested, except for EUR-1 form, which needs to accompany exports to the EU to indicate the origin of the merchandise. Company is applying for subsidies for net exporters, a facility introduced by the Slovene government in 1995. Investment credits which would be necessary to modernize the factory, are difficult to obtain and are too expensive. Obtaining guarantees requires collateral or some other type of protection, which is expensive, too.

The major obstacle in obtaining the proper inputs for export are low quality of tradepersons in the company. These traders are unable to import the cheapest materials.

Until now the state administration was of a little help for exports, but recently it started with some support. Different ministries inform the company about projects at home or abroad in which the products of InJa (tents, protective coverage of buildings) could be included.

Foreign Environment for Exports

Domestic competitors are some Slovene companies producing curtains. Competitors abroad are two large companies in Germany and Italian producers of similar specific products.

Information about foreign markets comes from foreign partners (in the form of specified orders), through personal contacts (participation in fairs helps to make the first contact). Company obtained support in the form of service of a UK consulting company financed by the PHARE program.

Both, Slovenia's present cooperation and future association agreement with the EU are without impact on the company's business.

Foreign direct investment into the company (even over 51% ownership) is observed as acceptable possibility, if its intention would be to expand production and enter new markets. However, if the intention of such investment would be to close the company and thus to eliminate the Slovene competitor, such investment could not be accepted.

Enterprise ToDo

Characteristics of the Enterprise

The company's share in the Slovene textile industry is 4%. It produces specific products related to health, medical activity and hygiene.

The company has 789 employees (65% of these are women) with the average age of 35 years. The number of employees was 1,045 in 1991. The annual revenue of the company is around 4 Billion SIT (50 Million DEM), 40% of it is earned on foreign markets. Inventories are 900 Million SIT, all credits 200 Million SIT (only 10% of all financial sources), claims against debtors are 20 Million SIT. Profit was 3 Million DEM in 1992, 1 Million DEM in 1993. The value of assets according to opening balance at the beginning of 1993 was 3.5 Billion SIT (60 Million DEM).

Technology is relatively old (write-offs are up to 80% of the book value), but it is difficult to modernize immediately due to the strongly diversified production program.

The main products consists of gauze (cotton wool), sanitary-bands, swaddling-clothes, medicinal plastics and other sanitary products. Despite a strong competition within the country and especially from abroad, the company's market share at home is still very high, between 16% and 80% depending on the product. This is above the average for European countries and should be related to good quality and reputation, modest prices, but also to the small and less attractive Slovene market for foreigners.

Competition is the strongest from the domestic company Paloma and foreign multinationals: Proctor and Gamble, Johnson and Johnson, as well as Moelnlycke.

About half of input materials are bought on domestic market from textile factories.

The company is in the process of privatization which will include the public sale of shares up to the value of 10 Million DEM, which is 27.5% of the value of assets, according to opening balance.

Export Orientation

Export represents currently 35%–40% of sales.

The company is in the process of market reorientation from the strong presence on former Yugoslav market, which is more or less lost, to conquering new markets. The ex-Yugoslav market used to account for 50% of all sales. Compared to the situation five years ago the number of employees and the value (and volume) of production and sales is presently still 25% smaller. The average capacity utilization is 75%.

The strategic plan is to increase production with the current number of workers and to enter new markets with modernized products and with own trade mark (two trade marks already exist). The plan is to increase total assets in the period 1994–1997 by 25%.

While in the past export was only residual and necessary to earn foreign exchange needed for import of raw materials, presently export is a necessity to survive.

New markets include Visegrád countries, some successor republics of the Soviet Union; Western Europe remains still a relevant partner, albeit in small diversified quantities. Thus, among export destinations are Croatia (17%), other ex-Yugoslavia (1%), and other countries (17% of total sales). Especially quickly increasing market is Ukraine.

Based on the economy of scale the optimum size of a company in this industry is about 3–5 times larger with 10-times larger turnover than that of ToDo at present.

Foreign partners are wholesalers (distributors) and sometimes directly producers and retailers. Competitors on foreign market are the same as in domestic market: large international corporations. The company has about 300–400 business partners.

The possible geographical radius for the distribution of the products of the company is around 1,000 square kilometers, because of significance of transportation cost in total costs.

Exported products are from own production, only some are products of other companies, which are packed for retail sales.

The managers of the company assert that in respect to competitive imports there should be reciprocity treatment and better control against tax evasion control by small importers on the Slovene market.

The competitive advantage of ToDo is its willingness to undertake higher risk on new markets than the Western competitors are willing to do; adaptability to buyer's wishes, lower prices and better quality (compared to the Eastern European producers).

Products for domestic and foreign market are the same, except when special orders are made by foreigners.

The profitability among markets differ significantly: if profit achieved on products sold on Slovene market is 100%, on Croatia's market it is 70% and in export to other countries it is 50%.

Domestic Environment for Export

The only document required for exports is certificate of the Ministry for Health. Credits are obtained from internal savings of employees.

Special contacts with the state administration do not exist. Domestic regulation has no impact on export performance, except for the support scheme for net exporters, which was introduced in 1995.

Foreign Environment for Exports

Information about foreign markets are obtained through agents, partners, representative offices, fairs, publications, symposiums.

The free trade agreements with Visegrád group opened these markets for the company (by lowering the import duties). Austria's entrance into the EU lowered duties for exports to Austria (by 8%).

According to the managers of the company capital investments into the company from abroad can be imagined, since it could help bringing its products to the world market. In the early stage of transition the social element was important, and that was solved by privatizing for domestic owners, but in the future foreign owners could help the expansion of the company.

Enterprise SŽLj

Characteristics of the Corporation

All Slovene steelworks are integrated in one corporation (concern) presently under state ownership. They were in deep crises at the beginning of 1992, but presently their economic performance is improving significantly. This is due to rehabilitation moves by government (including financial relief), internal reorganization and better prospects on the world market for steel.

All products are made on ISO 9000 and ISO 9001 standard basis. Renault, Audi, Peugeot and Fiat production quality certificates were already obtained. Most of the production technology is made at home.

This concern consists of 16 modern production and 9 service companies. Steel production has 400 years tradition in Slovenia. Major areas of production are: metallurgy, casting, machinery production and services. These factories are scattered all around Slovenia. There are two metallurgical companies (for flat and for long steel products), 2 foundries, 10 machine construction and processing companies, 6 service companies and 5 trade and production service companies. The total number of employees at present time is 9,369.

The foreign trade network consists of trade offices and companies in Austria, Italy, Hungary, the USA, Switzerland and Russia.

All the concern was nationalized in 1991 according to the restructuring program. Until the end of 1994 the concern was organized as limited company. From the beginning of 1995 it is a joint-stock company in state ownership. It has already privatized some service companies. The real privatization remains the future agenda. It is expected that in the future process of privatization the state will keep a large share, banks will enter as owners, some insider ownership will be allowed and strategic investors could come in from developed countries.

Basic Data

	1989	1990	1991	1992	1993	1994	1995 1st half
Number of employees	18882					9305	
Assets (Mio. DEM)							1100
Production (steel, th. tons)					348	414	218
Total sales (Mio. DEM)					491	550	
Export (Mio. DEM)					280	350	
Gross Value Added (Mio. DEM)						355	228
Losses (as % of revenues)						13	7
in Mio. DEM							25

Export Orientation

Export Structure by Geographical Destination, %

(a)	EU		78
	of which: Germany	33	
	Italy	21	
	Austria	10	
	Other	14	
(b)	USA		12
(c)	Ex-Yugoslavia		5
(d)	Rest of the World		5

Outside partners are either subsidiaries or representative offices so that most of trade is made directly without distributors.

Strategy and prospects in the period 1995–2000 include:

- production of 435 thousand tons of higher quality steel;
- increase of sales in 1995 by 22% and in 2000 by 58% compared to 1994 figures thus reaching 860 Million DEM. The share of export should increase from 55% to 69%, which means that earnings from export should almost double in the future five-year period.

Profitability of exports is approximately the same as of domestic sales. Reorientation towards production of steel of higher quality was an important move to increase competitiveness. Other competitive advantages are: just-in-time delivery, quality, price (3% lower prices than prices of domestic producers in the West).

Major competitors are Western steelworks for higher quality products and Eastern steelworks for lower quality steel.

The Slovene steel industry and metallurgy was among the less developed in former Yugoslavia (higher quality steel production was concentrated in the South of former Yugoslavia). Therefore, rehabilitation includes restructuring the production program in the direction of higher quality products.

Domestic Environment for Export

Slovenia's steel industry was treated preferentially by the state after the collapse of ex-Yugoslavia. Credits are available, but also guarantees are needed. Foreign countries do not treat Slovenia as a totally safe area. Therefore they require guarantees from Slovene banks with high reputation.

Foreign Environment for Export

General basis for business are yearly contracts which are specified regarding prices every three months.

It is important to produce special steel for individual customers, because that way the costumer is dependent upon producer. There are about 18 sorts of steel produced in this concern.

Major sources for information about foreign markets are the foreign trade network of the concern, though membership in large steel associations, own institute for steel, publications, etc.

Payments conditions are an important factor in deciding about export. Usual payment period is 45-60 days. No special guarantees are required from buyers with good history. From other clients, advance payments or acreditives are requested.

It is very difficult to diversify the foreign markets further: one possibility is to increase the share of the USA. Penetration to the Russian market is limited by the ability of Russian customers to pay regularly and by the lack of financial discipline.

Enterprise TDRu

Characteristics of the Corporation

This large company is engaged in the basic chemical industry. It is established as a holding company. Originally it was established at the end of World War I, in 1918, as one of the first electrochemical factories in Europe. Its foundation was related to the opening an electric power plant nearby.

The production program of the holding includes many commodities, generic items of homogeneous quality produced all around the world.

The most important of the several companies of the holding is its metallurgical company. Major products of this firm are: mass ferro-alloys (calcium-silicon, ferrosilicon, ferrochrome), complex alloys (nodulizers, inoculants, cored wire), calcium carbide and filter dust. Among the other companies very important is the one dealing with gas production.

After the collapse of Yugoslavia the holding fell into big trouble due to its former intensive orientation towards the Yugoslav market where it was the only producer of calcium carbide. The Slovene market can absorb only 2–3 thousand tons of semi-products of the holding company, while its capacities amount to 25 thousand tons. The only short run solution was to go under state protection, to commence rehabilitation and then to be sold (privatized). Thus, the holding company was taken over by Slovenia's Development Fund and put under rehabilitation.

As the rehabilitation program is approaching its end the individual parts of the holding company are privatized through sales. Thus the gas producing company was sold to a German company. Another company was sold to Austrian investors. Altogether about one fourth of the holding is presently in foreign ownership. This arrangement solved not only the problem of these two companies but also helped to find new partners for the other parts of the holding.

Number of employees in the largest company of the holding (the metallurgical company) is presently around 700.

It is envisaged that total holding will be divided into several independent entities. Even the foreign trade service department of the holding is registering now as an independent limited liability company with 16 employees and is expected to be privatized through internal management buy-out. It intends to retain export-import services for all companies of the former holding.

Export Orientation

In the complete holding the share of exports in sales is 65%.

Major destination of exports is Western Europe. Due to the low specific value of heavy and voluminous semi-products the geographic range for trade is limited to Central and Western Europe. Major partners are wholesalers in Germany, Italy, and Austria.

Due to large oscillations in the prices and demand of iron manufacturing it was necessary to diversify the production program. The present strategy also includes upgrading the production and thus producing more complete products (modulators).

The competitive advantage of the holding is quality, tradition and image, just-in-time production and competitive prices.

Products manufactured for export do not differ from products for domestic market (all are homogeneous semi-products).

Due to complete liberalization of imports the prices on Slovenia's market fell, thus equalizing profitability of domestic sales with exports. Presently it is still possible to use the "import for export" scheme to import raw materials without paying import taxes. But, this will change with adoption of the new Customs Law and the Law on Custom Tariffs in Slovenia at the beginning of 1996. According to the management the new customs duties should be diversified more in detail than the present duties.

Domestic Environment for Exports

There is no need for any permission in exports and imports of this holding, except for the above mentioned certificates used for exemption from import duties.

As most of other exporters, this holding has also applied for the government's social security contribution subsidy, introduced by the Parliament in the Spring 1995. This is the first and until now the only financial stimulation for exporters.

Credits are available for the holding, but the interest rates are considered too high. Guarantees are usually not used, because most of the partners are in cooperation with the holding already for a long time. The payments conditions are more strict for new partners.

The most important influence of state regulation is felt through the exchange rate policy (the problem with appreciation of domestic currency).

The government administration is more active lately in helping to organize preliminary business meetings with potential foreign buyers. According to the managers of the company the current promotion of Slovenia is not well organized and it is too much dispersed.

In 1995 the government introduced a special 5% tax for export services, which is against all intentions to restructure Slovenia's economy towards higher share of services in GDP.

Foreign Environment for Exports

The holding company maintains longer term business contracts with most of the foreign partners in which only the price is adapted to the current market developments.

While there is still no competition at home, competitors on foreign markets come from Eastern Europe (Russia, Poland, and Romania), where the price of electric energy is still very low and also from Latin America.

Most information on foreign markets are obtained from fairs, yearly meetings of producers of ferroalloys, and from the specialized professional journals.

Slovenia's approaching CEFTA has been without effect on the performance of the holding because these markets are not interesting for TDRu. The cooperation agreement and association agreement with the EU helped to receive higher quotas to export to the EU countries. There is still a possibility (applied sometimes by the Italian authorities) to challenge the domestic content of products exported from Slovenia, and so block supplies, although the imported raw materials go through a complete reproduction in factory's furnaces in Slovenia.

10 RUSSIA

by

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General Explanatory Notes

The author carried out a survey on the activities of ten specialized Russian foreign trade companies that had intensive trade relations with suppliers from CMEA countries prior to 1991. The abbreviation EESEs refers to six East European small economies (Bulgaria, the Czech Republic, Hungary, Romania, Slovakia, and Slovenia) or their predecessors (i.e., Bulgaria, Czechoslovakia, Hungary, Romania, and Yugoslavia).

Data in this chapter was collected by the author and cannot be associated with the World Bank.

AVTOTORGPROMIMPORT

1. Company's leading imports from EESEs in 1988:
automatic metal cutting lines for agricultural machinery plants; natural gas filling stations; garage equipment; warehouse equipment; metal-cutting and forging/pressing machine tools for agricultural machinery plants.

2. Main EESE partners in 1988:
Bulgaria, Hungary, Romania, Czechoslovakia, Yugoslavia.

3. Share of company's imports from EESEs in its total imports in 1988:
overall — 40%, including: automatic metal cutting lines for agricultural machinery plants — 12%; natural gas filling stations — 8%; garage equipment — 12%; warehouse equipment — 4%; metal-cutting and forging/pressing machine tools for agricultural machinery plants — 4%.

4. Company's leading imports from EESEs in 1994:
metal cutting machine tools for agricultural machinery plants ($1.8 mn from Rump-Yugoslavia); components for electric stoves ($2.6 mn from Slovenia).

5. Main EESE partners in 1994:
Rump-Yugoslavia, Slovenia.

6. Share of company's imports from EESEs in its total imports in 1994:
overall — 6%, including: automatic metal cutting lines for agricultural machinery plants — 4%; components for electric stoves — 2%.

7. What suppliers have substituted for former imports from EESEs:
German and Russian enterprises.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
in 1988 — 100%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
in 1988 — incasso, intergovernmental clearing; in 1994 — bank letter of credit.

10. Availability of credit lines for imports from EESEs in 1994:
none.

11. Company's payment arrears for imports from EESEs in 1994:
none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
insurance was available.

14. Delays in supply under import contracts with EESEs' firms:
in 1988 — moderate; in 1994 — moderate.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
Overall — 3;
including:
Compatibility with equipment used by your company/your clients — 5;

Quality — 3 (better than Russian, lower than Western);
Price — 4 (1998), 3 (1994);
Own or licensed brand name/trade mark — 5;
Marketing — 5;
including:
Participation in fairs/exhibitions — 5;
Advertising — 3;
Reliability of delivery on time — 3;
Aftersale service — 4;
Availability of credit lines from exporting countries — 0;
Insurance — 5;
Trust on the part of Russian customers — 3;
Efficiency of intermediaries from EESEs — 0;
Prospects for increasing imports from EESEs by the company — 1;
Prospects for increasing imports from EESEs by other importers of same products — 1 (main reasons: Russian enterprises have started to produce required goods, prices on imports from EESEs are well above those on Western imports — for this very reason Volga Tractor Factory, for instance, has completely switched to imports from the West).

16. Prospects for resuming company's imports from EESEs at 1988 level:
impossible without centralized state financing.

17. Prospects for increasing company's imports from EESEs from current low level:
this just does not make sense.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — decisive;
Elimination of centralized imports — decisive;
Abolition of the former payment system — decisive.

19. Single most important reason for collapse of trade with EESEs:
Elimination of government budget financing.

IMPEX, — Subsidiary of "KRASNYI PROLETARII" Machinery Factory

1. Company's leading imports from EESEs in 1988:
   laser cutting press (one); universal cutting machine tools; automatic machinery complexes; components/spare parts for robotic complexes.

2. Main EESE partners in 1988:
   Bulgaria, Hungary, Czechoslovakia, Romania, Yugoslavia.

3. Share of company's imports from EESEs in its total imports in 1988:
   overall — 90%; including: laser cutting press; universal cutting machine tools — 4%; automatic machinery complexes — 46%; components/spare parts for robotic complexes — 50%.

4. Company's leading imports from EESEs in 1994:
   no imports existed.

5. Main EESE partners in 1994:
   none.

6. Share of company's imports from EESEs in its total imports in 1994:
   overall — 0%.

7. What suppliers have substituted for former imports from EESEs:
   Russian enterprises.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
   in 1988 — 100%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
   in 1988 — on delivery; in 1994 — none.

10. Availability of credit lines for imports from EESEs in 1994:
    none.

11. Company's payment arrears for imports from EESEs in 1994:
    none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
    there were no imports.

13. Availability of insurance for imports from EESEs in 1994:
    there were no imports.

14. Delays in supply under import contracts with EESEs' firms:
    in 1988 — no delays; in 1994 — there were no imports.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
    Overall — 4 (Bulgaria and Romania - 2);
    including:
    Compatibility with equipment used by your company/your clients — 4 (although machinery for imports was produced using company's own blueprints);
    Quality — 4;
    Price — 4;

Own or licensed brand name/trade mark — lack of established trade mark has not affected imports from EESEs;
Marketing — 0 (in 1988 it was not required because everything was shipped under inter-governmental agreements, in 1994 it was lacked due to absence of ties);
including:
Participation in fairs/exhibitions — 4;
Advertising — 1;
Reliability of delivery on time — 4;
Aftersale service — 4;
Availability of credit lines from exporting countries — 0;
Insurance — 5;
Trust on the part of Russian customers — 4 (Czechoslovakia — 5, Bulgaria — 3);
Efficiency of intermediaries from EESEs — 0 (see note to marketing);
Prospects for increasing imports from EESEs by the company — 4 (but only in case of political changes in Russia);
Prospects for increasing imports from EESEs by other importers of same products — 4 (same as above).

16. Prospects for resuming company's imports from EESEs at 1988 level:
impossible without resuming company's exports to these countries to the same level.

17. Prospects for increasing company's imports from EESEs from current low level:
impossible without government subsidies.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — decisive;
Elimination of centralized imports — insignificant;
Abolition of the former payment system — considerable.

19. Single most important reason for collapse of trade with EESEs:
Lack of company's exports to the region.

MASHPRIBORINTORG

1. Company's leading imports from EESEs in 1988:
   communication equipment; radio equipment; consumer electronics components; special communication equipment (military/police); special communication equipment (for government use).

2. Main EESE partners in 1988:
   Bulgaria, Hungary, Czechoslovakia, Yugoslavia.

3. Share of company's imports from EESEs in its total imports in 1988:
   overall — 80%; including: communication equipment — 40; radio equipment — 25; consumer electronics components — 5; special communication equipment (military) — 5; special communication equipment (for government use) — 5.

4. Company's leading imports from EESEs in 1994:
   communication equipment; consumer electronics components; special communication equipment (military/police); foodstuffs and consumer goods.

5. Main EESE partners in 1994:
   Bulgaria, Hungary, Czech Republic.

6. Share of company's imports from EESEs in its total imports in 1994:
   overall — 35%, including: communication equipment — 5; consumer electronics components — 15; special communication equipment (military/police) — 5; foodstuffs and consumer goods — 5.

7. What suppliers have substituted for former imports from EESEs:
   Russian enterprises and companies from Germany and Lithuania.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
   in 1988 — 80–90%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
   in 1988 — intergovernmental clearing, on delivery, full prepayment; in 1994 — full prepayment, partial prepayment.

10. Availability of credit lines for imports from EESEs in 1994:
    none (due to high lending rates).

11. Company's payment arrears for imports from EESEs in 1994:
    none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
    there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
    was available.

14. Delays in supply under import contracts with EESEs' firms:
    in 1988 — moderate; in 1994 — no delays.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
    Overall — 4 (Bulgaria — 3, Czech Republic — 4, Hungary — 5);
    including:

Compatibility with equipment used by your company/your clients — 4 (Hungary — 5);
Quality — 4 (Hungary — 5);
Price — 4;
Own or licensed brand name/trade mark — 4 (Hungary — 5);
Marketing — 3 (Bulgaria, Czech Republic — 4);
including:
Participation in fairs/exhibitions — 3;
Advertising — 3;
Reliability of delivery on time — 3 (1988), 4 (1994);
Aftersale service — n.a.
Availability of credit lines from exporting countries — 0;
Insurance — 5;
Trust on the part of Russian customers — 4;
Efficiency of intermediaries from EESEs — 1;
Prospects for increasing imports from EESEs by the company — 2 (due to political instability);
Prospects for increasing imports from EESEs by other importers of same products — 2 (till economic recovery takes place).

16. Desirability of resuming company's imports from EESEs at 1988 level:
would be desirable.

17. Prospects for increasing company's imports from EESEs from current low level:
impossible without government subsidies.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — decisive;
Elimination of centralized imports — decisive;
Abolition of the former payment system — insignificant.

19. Single most important reason for collapse of trade with EESEs:
Break-down of established ties due to CMEA break-up.

PROMMASHIMPORT

1. Company's leading imports from EESEs in 1988:
   equipment for wood-residue panels production; equipment for saw wood production; equipment for brick production; equipment for concrete blocks production.

2. Main EESE partners in 1988:
   Bulgaria, Czechoslovakia, Yugoslavia.

3. Share of company's imports from EESEs in its total imports in 1988:
   Overall — 50%, including: equipment for wood-residue panels production and equipment for saw wood production — 25%; equipment for brick production and equipment for concrete blocks production — 20%.

4. Company's leading imports from EESEs in 1994:
   canned vegetables (sole imports from EESEs).

5. Main EESE partners in 1994:
   Bulgaria.

6. Share of company's imports from EESEs in its total imports in 1994:
   Overall — 2%, including: canned vegetables — 2% ($ 2 mn).

7. What suppliers have substituted for former imports from EESEs:
   enterprises from Finland.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
   in 1988 — 100%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
   in 1988 — intergovernmental clearing, on delivery; in 1994 — full prepayment.

10. Availability of credit lines for imports from EESEs in 1994:
    n.a.

11. Company's payment arrears for imports from EESEs in 1994:
    none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
    there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
    n.a.

14. Delays in supply under import contracts with EESEs' firms:
    in 1988 — moderate (about 8–10% of contract volume); in 1994 — no delays.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
    Overall — 3 (Czechoslovakia — 4);
    including:
    Compatibility with equipment used by your company/your clients — n.a. (compatibility has not been required, for imports consisted of complete processing complexes);
    Quality — 3 (Czechoslovakia — 4);
    Price — 4 (80% of imports from EESEs have been priced below world level, which has been consistent with their inferior quality);

Own or licensed brand name/trade mark — 3;
Marketing — n.a. (it has not been required);
including:
Participation in fairs/exhibitions — 5;
Advertising — 1;
Reliability of delivery on time — 3 (1988);
Aftersale service — 4–5;
Availability of credit lines from exporting countries — n.a. (they have not been required because of intergovernmental clearing);
Insurance — 5;
Trust on the part of Russian customers -e 3 (Czechoslovakia — 4);
Efficiency of intermediaries from EESEs — 4–5;
Prospects for increasing imports from EESEs by the company — 1;
Prospects for increasing imports from EESEs by other importers of same products — 1 (with the exception of foodstuffs).

16. Desirability of resuming company's imports from EESEs at 1988 level:
would be desirable only with old mechanisms in place, otherwise, Western imports are more desirable.

17. Prospects for increasing company's imports from EESEs from current low level:
impossible without government subsidies.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — decisive;
Elimination of centralized imports — considerable;
Abolition of the former payment system — considerable.

19. Single most important reason for collapse of trade with EESEs:
Break-down of established ties due to CMEA break-up.

VNESHTEKHNIKA

1. Company's leading imports from EESEs in 1988:
computers; software; machine tools; technologies for heart/vessels medicines production; medical equipment.

2. Main EESE partners in 1988:
Bulgaria, Czechoslovakia, Hungary.

3. Share of company's imports from EESEs in its total imports in 1988:
overall — 80%, including: computers — 50%; software, machine tools, technologies for heart/vessels medicines production and medical equipment — 25%.

4. Company's leading imports from EESEs in 1994:
fork-lift vehicles; electric switches; canned vegetables.

5. Main EESE partners in 1994:
Bulgaria, Hungary, Romania, Czech Republic, Slovakia.

6. Share of company's imports from EESEs in its total imports in 1994:
overall — 30–40%, including: fork-lift vehicles and electric switches — 5% ($0.6 mn and $0.1 mn, respectively); canned vegetables — 30% ($4 mn).

7. What suppliers have substituted for former imports from EESEs:
enterprises from the USA, Germany, and Japan.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
in 1988 — 60%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
in 1988 — intergovernmental clearing, on delivery; in 1994 — barter (fork-lift vehicles from Bulgaria), partial prepayment.

10. Availability of credit lines for imports from EESEs in 1994:
none.

11. Company's payment arrears for imports from EESEs in 1994:
none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
imports were insured by suppliers.

14. Delays in supply under import contracts with EESEs' firms:
in 1988 — no delays; in 1994 — no delays.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
Overall — 3 (foodstuffs from Czech Republic, Hungary, Bulgaria — 4, high-tech goods — 2–3);
including:
Compatibility with equipment used by your company/your clients — 2;
Quality — 3 (same as with overall);
Price — 4 (usually imports from EESEs are overpriced relative to their inferior quality);

Own or licensed brand name/trade mark — 3;
Marketing — 3;
including:
Participation in fairs/exhibitions — 5;
Advertising — 3;
Reliability of delivery on time — 4;
Aftersale service — 4;
Availability of credit lines from exporting countries — available from Western Europe only;
Insurance — 5;
Trust on the part of Russian customers — 3;
Efficiency of intermediaries from EESEs — 4–5;
Prospects for increasing imports from EESEs by the company — 4 (yet this relatively high rate concerns imports of foodstuffs only);
Prospects for increasing imports from EESEs by other importers of same products — 3 (same as above).

16. Desirability of resuming company's imports from EESEs at 1988 level:
it does not make sense.

17. Prospects for increasing company's imports from EESEs from current low level:
we could, but it just does not make sense.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — decisive;
Elimination of centralized imports — considerable (it has primarily affected structure of imports);
Abolition of the former payment system — considerable (yet old payment system has been artificial, so its abolition has been a positive factor).

19. Single most important reason for collapse of trade with EESEs:
Inferior competitiveness of imports from EESEs relative to Western ones.

POLYOT-IMPEX — Subsidiary of POLYOT Watch Manufacturer

1. Company's leading imports from EESEs in 1988:
   paints for printing houses ($ 3 mn from Hungary); machine tools ($3 mn from Czechoslovakia); advertising pamphlets.

2. Main EESE partners in 1988:
   Bulgaria, Czechoslovakia, Hungary.

3. Share of company's imports from EESEs in its total imports in 1988:
   overall — 3%.

4. Company's leading imports from EESEs in 1994:
   paints for printing houses ($ 1.5 mn from Hungary).

5. Main EESE partners in 1994:
   Hungary.

6. Share of company's imports from EESEs in its total imports in 1994:
   overall — close to 0%.

7. What suppliers have substituted for former imports from EESEs:
   enterprises from Germany and Switzerland.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
   in 1988 — 0%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
   in 1988 — on delivery; in 1994 — full prepayment.

10. Availability of credit lines for imports from EESEs in 1994:
    none.

11. Company's payment arrears for imports from EESEs in 1994:
    none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
    there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
    imports were insured by suppliers.

14. Delays in supply under import contracts with EESEs' firms:
    in 1988 — no delays; in 1994 — no delays.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
    Overall — 2 (machine tools — 4, paints — 3);
    including:
    Compatibility with equipment used by your company/your clients — 4;
    Quality — 4 (same as with overall);
    Price — 4 (with the exception of imports from Hungary which have been overpriced);
    Own or licensed brand name/trade mark — 5;
    Marketing — 4;
    including:

Participation in fairs/exhibitions — 4;
Advertising — 3;
Reliability of delivery on time — 3 (same as with overall);
Aftersale service — has been absent;
Availability of credit lines from exporting countries — have not existed;
Insurance — 5;
Trust on the part of Russian customers — 4;
Efficiency of intermediaries from EESEs — have been absent;
Prospects for increasing imports from EESEs by the company — 1;
Prospects for increasing imports from EESEs by other importers of same products — 4 (small shipments of light machine tools, paints, components for watches).

16. Desirability of resuming company's imports from EESEs at 1988 level:
it does not make sense (with the exception of limited groups of products).

17. Prospects for increasing company's imports from EESEs from current low level:
impossible.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — none;
Elimination of centralized imports — decisive (and should be evaluated positively);
Abolition of the former payment system — decisive.

19. Single most important reason for collapse of trade with EESEs:
inferior quality of imports from EESEs relative to Western ones, combined with higher prices.

MASHINOIMPORT

1. Company's leading imports from EESEs in 1988:
   cranes; fork-lift vehicles; equipment for oil refining; pumps and compressors; equipment for power generation.

2. Main EESE partners in 1989:
   Bulgaria ($841.5 mn), Czechoslovakia ($207 mn), Hungary ($93 mn), Romania ($468.3 mn), Yugoslavia ($0.2 mn).

3. Share of company's imports from EESEs in its total imports in 1988:
   overall — 80–90%.

4. Company's leading imports from EESEs in 1994:
   equipment for oil refining.

5. Main EESE partners in 1994:
   Bulgaria ($0.2 mn), Czech Republic ($0.8 mn), Hungary ($0.1 mn), Rump-Yugoslavia ($14.7 mn).

6. Share of company's imports from EESEs in its total imports in 1994:
   overall — less than 5%.

7. What suppliers have substituted for former imports from EESEs:
   companies from Germany, USA, Japan, Italy.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
   in 1988 — 95%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
   in 1988 — accrual; in 1994 — barter.

10. Availability of credit lines for imports from EESEs in 1994:
    none.

11. Company's payment arrears for imports from EESEs in 1994:
    moderate arrears.

12. Company's payment arrears on credits for imports from EESEs in 1994:
    there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
    none.

14. Delays in supply under import contracts with EESEs' firms:
    in 1988 — no delays; in 1994 — no delays.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
    Overall — 2 (cranes — 4, compressors and fork-lift vehicles — 3);
    including:
    Compatibility with equipment used by your company/your clients — 4;
    Quality — 4 (same as with overall);
    Price — 4;
    Own or licensed brand name/trade mark — 4;
    Marketing — 3;

including:
Participation in fairs/exhibitions — 4;
Advertising — 3;
Reliability of delivery on time — 4;
Aftersale service — 3;
Availability of credit lines from exporting countries — have not existed;
Insurance — 4;
Trust on the part of Russian customers — 4;
Efficiency of intermediaries from EESEs — have been absent;
Prospects for increasing imports from EESEs by the company — 1;
Prospects for increasing imports from EESEs by other importers of same products — 3.

16. Desirability of resuming company's imports from EESEs at 1988 level:
it does not make sense because of inferior quality.

17. Prospects for increasing company's imports from EESEs from current low level:
impossible without government subsidies.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — decisive;
Elimination of centralized imports — decisive;
Abolition of the former payment system — decisive.

19. Single most important reason for collapse of trade with EESEs:
Switching to payments in hard currency.

VNESHSTROIIMPORT

1. Company's leading imports from EESEs in 1988:
   construction of oil/gas pipelines; construction; restoration of historic sites; fruit/vegetable warehouses; construction materials.

2. Main EESE partners in 1988:
   Bulgaria, Czechoslovakia, Hungary, Romania, Yugoslavia.

3. Share of company's imports from EESEs in its total imports in 1988:
   overall — 60-70%.

4. Company's leading imports from EESEs in 1994:
   construction of oil/gas pipelines; construction; construction materials.

5. Main EESE partners in 1994:
   Bulgaria, Czech Republic, Rump-Yugoslavia, Slovenia, Slovakia.

6. Share of company's imports from EESEs in its total imports in 1994:
   overall — less than 2.4%.

7. What suppliers have substituted for former imports from EESEs:
   none.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
   in 1988 — 80%; in 1994 — 100%.

9. Main types of payments for imports from EESEs:
   in 1988 — accrual; in 1994 — accrual, partial prepayment.

10. Availability of credit lines for imports from EESEs in 1994:
    none.

11. Company's payment arrears for imports from EESEs in 1994:
    none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
    there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
    was available.

14. Delays in supply under import contracts with EESEs' firms:
    in 1988 — moderate delays; in 1994 — moderate delays.

15. Company managers evaluation of imports from EESEs (using five grades scale, with five being the top rate):
    Overall — 4 (restoration and construction materials — 5);
    including:
    Compatibility with equipment used by your company/your clients — not required;
    Quality — 4 (same as with overall);
    Price — 5 (with the exception of overpriced imports from Hungary);
    Own or licensed brand name/trade mark — 4;
    Marketing — 3;
    including:
    Participation in fairs/exhibitions — 2;

Advertising — 3;
Reliability of delivery on time — 4;
Aftersale service — 5;
Availability of credit lines from exporting countries — have not existed;
Insurance — 5;
Trust on the part of Russian customers — 1;
Efficiency of intermediaries from EESEs — 5 (formal ones at trade missions);
Prospects for increasing imports from EESEs by the company — 4;
Prospects for increasing imports from EESEs by other importers of same products — 5.

16. Desirability of resuming company's imports from EESEs at 1988 level:
no definite answer.

17. Prospects for increasing company's imports from EESEs from current low level:
impossible without government subsidies.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — considerable;
Elimination of centralized imports — decisive;
Abolition of the former payment system — insignificant.

19. Single most important reason for collapse of trade with EESEs:
Lack of interest among our clients that are currently tight on money.

STANKOIMPORT

1. Company's leading imports from EESEs in 1988:
   machine tools for metal work; pressing-forging equipment; automatic metal processing lines; industrial robots; industrial hand tools; measuring equipment.

2. Main EESE partners in 1988:
   Bulgaria (5%), Czechoslovakia (14%), Romania (5%), Yugoslavia (16%).

3. Share of company's imports from EESEs in its total imports in 1988:
   overall — 40%.

4. Company's leading imports from EESEs in 1994:
   consumer goods.

5. Main EESE partners in 1994 (total imports $76.7 mn):
   Hungary (0.009% of total company's imports), Czech Republic (0.02% of total company's imports), Romania — consumer goods (1% of total company's imports).

6. Share of company's imports from EESEs in its total imports in 1994:
   overall — 1%.

7. What suppliers have substituted for former imports from EESEs:
   companies from the USA, Germany, Japan, Italy.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
   in 1988 — 100%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
   in 1988 — on delivery, intergovernmental clearing; in 1994 — partial prepayment.

10. Availability of credit lines for imports from EESEs in 1994:
    available from Western countries only.

11. Company's payment arrears for imports from EESEs in 1994:
    none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
    there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
    was available from Ingosstrakh, yet no compensation was available for the company, even if shipments got lost/damaged.

14. Delays in supply under import contracts with EESEs' firms:
    in 1988 — moderate delays; in 1994 — none.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
    Overall — n.a.;
    including:
    Compatibility with equipment used by your company/your clients — 5;
    Quality — 3 (Yugoslavia — 4);
    Price — 5;
    Own or licensed brand name/trade mark — (Bulgaria, Romania — 3, Czechoslovakia, Yugoslavia — 4);

Marketing — 5 (due to monopolistic structure of the market);
including:
Participation in fairs/exhibitions — 5 (1988), 2 (1994);
Advertising — 3 (1988), 2 (1994);
Reliability of delivery on time — 4;
Aftersale service — 1 (have been almost non-existent);
Availability of credit lines from exporting countries — have never existed, and are not currently available;
Insurance — 1;
Trust on the part of Russian customers — 3;
Efficiency of intermediaries from EESEs — 1;
Prospects for increasing imports from EESEs by the company — 1;
Prospects for increasing imports from EESEs by other importers of same products — 1.

16. Desirability of resuming company's imports from EESEs at 1988 level:
no definite answer.

17. Prospects for increasing company's imports from EESEs from current low level:
impossible without government subsidies.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — decisive;
Elimination of centralized imports — decisive;
Abolition of the former payment system — decisive.

19. Single most important reason for collapse of trade with EESEs:
Lack of funds both on the part of the government and clients.

ELECTROINTORG Ltd.

1. Company's leading imports from EESEs in 1988:
   computers; computer components.

2. Main EESE partners in 1988:
   Bulgaria.

3. Share of company's imports from EESEs in its total imports in 1988:
   overall — n.a.

4. Company's leading imports from EESEs in 1994:
   none.

5. Main EESE partners in 1994:
   none.

6. Share of company's imports from EESEs in its total imports in 1994:
   overall — 0%.

7. What suppliers have substituted for former imports from EESEs:
   companies from the USA and Italy.

8. Share of imports from EESEs based on intergovernmental agreements in company's total imports from EESEs:
   in 1988 — 100%; in 1994 — 0%.

9. Main types of payments for imports from EESEs:
   in 1988 — on delivery; in 1994 — none.

10. Availability of credit lines for imports from EESEs in 1994:
    none.

11. Company's payment arrears for imports from EESEs in 1994:
    none.

12. Company's payment arrears on credits for imports from EESEs in 1994:
    there were no credits.

13. Availability of insurance for imports from EESEs in 1994:
    n.a.

14. Delays in supply under import contracts with EESEs' firms:
    in 1988 — moderate; in 1994 — none.

15. Company managers' evaluation of imports from EESEs (using five grades scale, with five being the top rate):
    overall — n.a.;
    including:
    Compatibility with equipment used by your company/your clients — 3;
    Quality — 2;
    Price — 5;
    Own or licensed brand name/trade mark — 2;
    Marketing — 2;
    including:
    Participation in fairs/exhibitions — 3;
    Advertising — 2;

Reliability of delivery on time — 3;
Aftersale service — 3-;
Availability of credit lines from exporting countries — 1;
Insurance — 1;
Trust on the part of Russian customers — 0;
Efficiency of intermediaries from EESEs — 0;
Prospects for increasing imports from EESEs by the company — 1;
Prospects for increasing imports from EESEs by other importers of same products — 1.

16. Desirability of resuming company's imports from EESEs at 1988 level:
completely undesirable.

17. Prospects for increasing company's imports from EESEs from current low level:
impossible without government subsidies.

18. Role of various factors in decreasing imports from EESEs:
CMEA break-up — insignificant;
Elimination of centralized imports — insignificant;
Abolition of the former payment system — insignificant.

19. Single most important reason for collapse of trade with EESEs:
Elimination of COCOM restrictions on trade with Russia.