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Consultancy Report

Jasz-Kun Comprehensive Business Study

Agricultural Input Marketing Support - Hungary
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Jasz-Kun Kft

I. Overview

Vetomag Vallalat (VV) was the government monopoly which provided seeds and other inputs to state and collective farms. In 1990, VV's network of regional subcenters was restructured into eleven limited stock companies (Kft) and a jointly owned Vetomag Trading Company (VT). Eight of these limited stock companies (Kft), including Jasz-Kun, became independent seed production and distribution companies. The eight companies are called the seed group. VV is bankrupt and is being liquidated. Jasz-Kun is currently under tremendous financial pressure. The company is desperate for cash from either foreign or domestic sources. If Jasz-Kun is unable to obtain any short term cash infusion it will be in danger of closing its operations by the end of the year.

Jasz-Kun has a very innovative senior management staff. Senior management has changed three production operating units into profit centers and has installed a transfer pricing scheme between operations. Nonetheless, two of the three plants are unable to cover their fixed costs and are draining financial resources from other parts of the company.

a. Ownership and Legal Status

The current ownership and capitalization of the company is around 28 million HUF. The largest shareholder is the OKHB, the state bank. VV previously owned the largest equity interest but took out a loan on its equity interest. VV found itself in a position of being unable to pay back its credit obligations to the OKHB. The mortgaged shares subsequently reverted back to the bank. Other large shareholders are local cooperatives and state farms. The company leases much of its equipment and buildings. It has very few assets that it owns outright.

Although the company is currently not undergoing bankruptcy proceedings, its liquidity problems have substantially worsened over the past two years. The bank owns virtually all of the assets, and it is not clear whether the bank will put any money into Jasz-Kun's operation or foreclose.

Jasz-Kun management has substantially restructured the operation. Layers of management have been reduced. The company has created a flat organizational structure. Each of the individual plants are required to operate as a profit center and keep independent accounting records.

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b. Production and Marketing

Jasz-Kun (Kft), founded on January 1, 1990 is a limited stock company and a member of the seed group. As a business entity Jasz-Kun is involved in seed production, purchasing, processing and distribution, including:

Fodder Seeds - green fodder crops, vegetable and flower seeds;

Industrial Seeds - grains, corn, leguminous plants, mustard, and various peas.

The primary marketing and sales activities of Jasz-Kun are in the wholesale and retail trade of seed. Because of increasing domestic and foreign competition, the company is attempting to increase its extension services, provide a broader line of agricultural products to its customers, and change the packaging mix of its products. The company is currently selling seed in smaller (5, 10, 15 Kg) bags.

The company has three individual production facilities. They process their own seed and are subcontractors for other seed producers. The company emphasizes the production of grain and corn. Jasz-Kun's most important customers include local agricultural organizations, former state farms, and small private farmers.

II. Production And Technology

a. Description of the Plant and Equipment

Jasz-Kun Kft cleans seed in three plants located in Mezotur, Kunszentmarton, and Szolnok. The Mezotur plant is housed in a four-story building built in 1960 and contains five cleaning lines. The fifth cleaning line is used exclusively for recleaning. The Mezotur plant cleans sunflower, oilfax, alfalfa and peas seed, respectively. Four cleaning lines are laid out vertically. Jasz-Kun rents the buildings and equipment. A complete list of equipment and crops cleaned can be found in the appendix. The production facility at Mezotur houses three departments:

- o seed cleaning;
- o seed testing laboratory; and,
- o administration offices.

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During the seed cleaning season, which lasts over a 10 month period, the plant runs one 8 hour shift per day staffed by twenty-four persons per shift. The staff includes eighteen plant workers, five administrators, and one seed analyst. Six of the eighteen plant operators are seasonal employees.

The physical layout of the vertical cleaning lines found in two of Jasz-Kun's facilities imposes limits on efficient seed cleaning and processing. Cleaning is carried out on four cleaning lines, none of which can be paired to clean large quantities of major crops. As a result, only specialty crops can be cleaned in this plant.

Kunszentmarton Facility

The plant at Kunszentmarton was built in the 1980's. The equipment is laid out horizontally. This plant is responsible for cleaning peas, wheat, radish and caraway seeds. The plant is also responsible for packaging and marketing blends of turf grass blends. The plant has two solar driers. The solar driers are not available in any other plants visited. The cleaning plant at Kunszentmarton employs fifteen people. The staff includes three security officials, three seed analysts, one foreman and several production line workers. All of the employees are full-time workers.

Szolnok Facility

The cleaning equipment in Szolnok is housed in a five story building. The plant is designed for vertically integrated production. There are eight separate cleaning lines at the facility. Only four of these lines are used at a time. Of the three Jaszkun operating plants, the machinery and equipment at this plant is the most modern and up to date. The plant is currently running at 30 percent capacity. The plant employs thirty eight full time people.

b. Production Flow

Production flow starts at the farm level. Seed crops are combined, dried as necessary, and stored. The seed is either taken to farm storage immediately or taken to the plant. The decision whether to store seed or process it is dependent on the storage capacity of the individual farms. The plant at Kunszentmarton has limited drying capacity. Seed that is combined in excess of 12-13 percent moisture must be dried to 12-13 percent moisture to prevent heating which destroys germination.

When seed is ready for cleaning it is brought to Jasz-Kun in bulk by truck and

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placed in bulk bins or in sacks depending on the crop. Seed is stored under cover in either bin or bag form to await cleaning. A lot number is assigned to the seed. All seed is stored under cover prior to cleaning. Seed lots to be cleaned are transported by forklift from storage to the plant. The cleaning lines in the plant are equipped with a separate pit and bucket elevator. From the pit, seed is elevated by bucket elevator. Screen machines, gravity tables, indent cylinders, and magnetic machines are used during the cleaning process.

c. Quality Control System

Jasz-Kun personnel sample the seed several times during the seed cleaning process. Seed lot uniformity is critical to the seed cleaning business. The seed is sampled for the first time as it enters the plant; during the cleaning process, and once after final cleaning. Only once is the seed hand sampled. The hand sample is drawn when the seed first enters the plant. Several other samples are taken. These samples are drawn with a probe or automatic sample. Virtually all of the lots are sampled after the bag is sewn shut. After each lot is sampled, tested, and certified, the bags are tagged, sealed and ready for shipment.

The seed testing lab is the primary point of quality control. Germination tests are run twice: as the seed enters the plant from the field; and, upon completion of the cleaning.

d. Production Resource Staffing

Staff members can be found in the organization chart found in the appendix. Jasz-Kun has four fieldmen. The bulk of the fieldmen's work is in consulting producers on contracted crops. About 4,000 to 5,000 hectares of land are contracted. The field men are assigned on a geographical basis and are paid a salary. In addition, the company rents 800 hectares for seed crop production. This rented production is also the responsibility of the fieldmen.

e. Supply Contracts

- o Seed is contracted at planting time with farmers to supply Jasz-Kun with seed to satisfy current and potential sales contract.
- o Hectares of seed are contracted rather than kilograms.
- o Seed produced for industrial use (oil, birdfeed) is not certified.

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- o The grower contract explicitly details price, quality specifications, and payment terms.
- o Harvested seed is stored at the plant or with the grower until called for by Jasz-Kun. Transportation costs to the plant are paid by the grower.
- o The company currently has 4,000 to 5,000 hectares under contract.

f. Maintenance

A maintenance department does exist. It solves all of the operational and maintenance problems. Other matters requiring special knowledge are solved by outside companies and services. Despite reductions in the maintenance staff, the equipment is generally well maintained.

g. Strengths and Weaknesses

1. Strengths

- o The company is located in an area with climate conditions conducive to raising seed crops of high quality and quantity.
- o Most of the seed cleaning equipment is up to-to-date.
- o There is an effective quality control program in place.
- o The cleaning plant at Mezotur is centrally located to seed produced in the county.

2. Weaknesses

- o The physical layout of the plants at Szolnok and Mezotur are inefficient. Although quality control procedures exist, seed is handled too often by hand.
- o There is no program in place that provides data to determine the true cost of production that includes field work.

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- o There are no facilities at Kunszentmarton to transport seed from one cleaning machine to another except by forklift. This results in lack of efficiency and substantially higher per unit costs of production.
- o The Szolnok Plant which is operating at 30 % capacity is overstaffed. This plant does not cover its fixed costs and should be shut down immediately.

f. Recommendations and Conclusions

Some recommendations for cost reductions and plant efficiency improvement are outlined below. These include:

- o Construct or renovate certain areas to receive and store raw seed in bulk form. This would speed up handling and reduce the number of times that seed is handled. Specialty seed and small lots should remain in storage bins or bags.
- o Clean as much seed as possible at the Mezotur facility. If possible, move equipment from other plants to Mezotur to enable that plant to clean as many crop varieties as possible.
- o Remodel the cleaning production lines at Mezotur to allow the cleaning of large lots simultaneously. Provide for a common sack-off point.
- o Halt production at the less efficient Kunszentmarton and Szolnok plants. These two plants are not covering their fixed costs. Halting production would save rent and wage expenditures. Consider keeping some of the warehouse space at these two plants as storage for cleaned seed.
- o More attention should be paid to overall plant cleanliness. Rebag seed that is currently lying around broken bags.
- o Field personnel should fill out a log of their daily work related activities. From this log, costs of field work as a function of total cost of production can be derived. An example of such a log is shown in the Appendix.
- o Greater emphasis should be made to understanding and calculating the actual cost of production. An example

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Cost of seed + fieldman's time/crop + cleaning cost + seed lab costs + certification costs + shipping cost = cost of production.

- o Formal production group and job descriptions should be developed.
- o An up-to-date record keeping system should be established.

III. Financial and Accounting

As of September 1, 1993 Jasz-Kun is technically, albeit not legally, bankrupt. The company is in default on more than 90 % of its debt. It has stopped paying interest on all of its outstanding obligations. The company derives 85 % of its revenue from the sale of seed and grains. Less than 2 % of its revenues are obtained from its retail branch operation. The company has not reduced its production and interest costs over the past year, and is unable to retire its debt. The company is not able to restructure its debt nor reduce its costs sufficiently enough to generate additional cash flow to provide some financial relief to its current depressed condition.

a. Income Statement Analysis

The table below illustrates comparative income statements for December, 1992 and June, 1993. For the first half of the year, sales of 305 MHUF¹ included export sales of 36.2 MHUF. Two-thirds of Jasz-Kun's sales occur in the first half of the year. Total 1993 sales are estimated at 460 MHUF. Total revenue in June 1993 is 40 % less compared to June 1992. Moreover, export sales are unprofitable because the company pays the shipping charges. Sales declined 9.6 % in 1992 to 947.5 MHUF from 1,047.5 in 1991.

A time interest earned ratio (TIE), calculated by dividing earnings before interest and taxes (EBIT) by interest paid (44.8 MHUF/133.6 MHUF) was only 0.34 in 1992. This means Jasz-Kun is not generating sufficient revenue to cover interest payments. As a result, the company cannot cover its fixed costs. Jasz-Kun has a negative 1993 EBIT. The company will not be able to refinance its debt unless some special outside intervention is taken.

¹ Million Hungarian Forints

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	1992 (MHUF)	1993* (MHUF)
Revenue	947.3	305.3
Cost of Goods Sold	851.1	265.0
Gross Margin	96.2	40.3
Gross Margin (%)	10.1%	13.2%
Cost of Sales	33.5	58.1
Other Costs	36.7	5.5
Operating Income	26.0	-23.3
Interest Income	18.8	0.3
EBIT	44.8	-23.0
Interest Expense	133.6	19.0
Extraordinary Items	-0.7	4.3
Profit Before Tax	-89.6	-37.7
Taxes	0.0	0.0
Net Profit	-89.6	-37.7

* Results through June 30th.

The year over year comparison's indicate that Jasz-Kun's financial position has rapidly deteriorated. During the last year the firm has engaged in major cost cutting initiatives, general corporate restructuring, and has survived only by contracting out for some seed cleaning. Despite Jasz-Kun's aggressive cost cutting actions, the company has not been successful in bringing down it's costs. Admittedly, cost containment efforts have been hampered by the draught. Smaller volumes flowing through the plant have effectively increased

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all per unit costs. Increasing fixed costs combined with the already anaemic state of Jasz-Kun's current finances indicate that there is little or no possibility for survival without a substantial cash infusion.

b. Balance Sheet

The poor financial condition illustrated in Jasz-Kun's income statement are also reflected in the company's balance sheet. Jasz-Kun is a highly leveraged company. It has negative equity. The company is in default on most of its bank loans. The book value of current assets does not give an accurate portrait of the company. According to Senior Management, the inventory level of 155 MHUF has a market value of 130 to 140 MHUF. Furthermore, only 50 % of the 110 MHUF in accounts receivable are collectible. The company owns virtually no fixed assets as it rents its buildings and equipment. The rise in accounts receivable since December, 1992 combined with the dramatic decline in sales indicates that Jasz-Kun's financial performance is deteriorating quickly.

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	12/92	6/93e
Current Assets		
Cash	18.7	18.7
Accounts Receivable	90.5	110.4
Inventory	229.7	154.9
Investments	4.036	0.252
Total Current Assets	342.9	284.8
Fixed Assets (Net)		
Land & Building	12.2	12.1
Machinery and Equipment	2.8	2.4
Other	14.3	12.7
Intangibles	0.349	0.312
Financial Assets	0.716	0.684
Total Fixed Assets	30.4	28.4
Total Assets	373.3	313.3
Current Liabilities		
Accounts Payable	99.3	80.7
Bills of Exchange	0.0	21.8
Short-term Credit	273.8	273.9
Other	2.1	-3.2
Total Current Liabilities	375.2	373.3
Accrued Liabilities	20.4	0.0
Long-term Debt	0.0	0.0
Provisions	2.2	2.2
Other Debt	0.0	0.0
Total Liabilities	397.8	375.4
Equity		
Capital	60.2	60.2
Retained Earnings	4.9	-84.7
Current RE	-89.6	-37.7
Total Equity	-24.5	-62.2
Total Liabilities & Equity	373.3	313.3

Note: Balance sheet for 6/92 and 6/93 is an estimate.

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A comparison of debt, liquidity and efficiency ratios for the end of 1992 and 6/93 confirms Jasz-Kun's precarious financial position:

	12/92	6/93
Current Ratio	0.91	0.76
Quick Ratio	0.29	0.35
Receivables Turnover	5.3	N/A
Inventory Turnover	1.9	N/A

The current ratio, which is current assets divided by current liabilities, indicates Jasz-Kun's ability to quickly repay its short-term debt. The quick ratio is a narrower definition of liquidity than the current ratio. It is calculated by dividing cash and receivables by current liabilities. Jasz-Kun has low liquidity, especially when considering the quick ratio. Jasz-Kun is not in a position to repay any of its creditors.

Inventory turnover, which is cost of goods sold divided by inventory, illustrates how quickly a company is able to rotate its stocks. A low number may indicate that the company is not selling its products fast enough and, as a result, has its cash tied up in its goods. Seasonal conditions may affect the inventory turnover ratio because the company is supposed to purchase seed in August and September.

c. Management Information System

There is no routine quarterly income or balance sheet information available. Production statistics are developed on a monthly basis. Inventories are monitored on a monthly basis. When products are purchased they are immediately registered at the central office. A computer program helps the production centers and the main office keep track of the volume and value of the company's inventory.

d. Financial Operations and Recommendations

An attempt to establish the company's production facilities as profit centers has only been partially successful. Plant managers report monthly cost and sales revenue volume and value. Of the three profit centers, none has been able to generate profit. Transfer pricing is a substantial problem for plant managers. With only first half year results available, the true profitability of the plants is

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unknown. However, since the plants are operating at less than 30 % of their true operating and nameplate capacities, it is unlikely that any of the facilities will breakeven.

Individual plant managers and senior company officials diligently attempt to understand and control costs. Nevertheless, it is apparent that company officials do not have a complete understanding of their direct (fixed) costs. The company has made substantial progress in improving its financial and cost accounting procedures over the last two years. Nevertheless, the company must continue to improve its accounting system and must determine what its actual fixed costs and breakeven points are on a plant by plant basis before it can develop a successful turnaround plan. For example, of the company's three operating production units, one plant has been operating for the past two years despite being unable to cover its fixed costs. The plant which continues to operate despite being unable to cover its fixed costs, draws valuable resources away from other sectors of the company.

Jasz-Kun prepares balance sheets only for the year end reports. Income statements are available monthly and semi-annually. The current monthly budget-income statement should include a comparison of profitability by product line. An attempt to allocate direct labor costs to the product line should be undertaken during the processing period.

Overhead at both the plant and headquarters can be applied based on volume sold. One method would be to use the previous year's overhead, adjust it for inflation, layoffs and other factors and then make an estimate to apply it to the current year's goods sold. The availability of these reports allows management to act appropriately to changes in the economic and business environment. Moreover, it enables Jasz-Kun to work with its bankers more effectively.

Jasz-Kun's policy of selling seed to farmers on credit, paid for by product in-kind, should be discontinued. Although an interest charge is calculated, real cash losses may occur because less cash comes in to service the credit line. The company should sell its products for cash only. Prompt cash payment keeps revolving credit at a minimum and reduces interest payments. All delinquent accounts over thirty days should be contacted immediately, with a follow up visit 10-15 days later if no result is obtained.

Jasz-Kun keeps track of its daily cash balances. The accounting department does not prepare a cash budget forecast at the beginning of the year. This is a valuable tool to anticipate cash short falls and surpluses. A recommendation is to take the production expenditures report prepared at the start of the year and combine that with a cash collections grid as shown below through June.

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The cash flow example illustrated below is hypothetical and assumes a loan interest payments only. In this example, the company will have to borrow money in January because there will be a cash short fall of 5 at the end of January. The sales column shows how much the company may expect to sell. Collections on the sales are estimate because some are for credit. In January, sales were 100, but the company may only expect to collect 50 in January, 30 in February and 20 in March. The same procedure follows in February. Although sales are 200, one can expect to collect only 100 in February, 50 in March and 50 in April. The same procedure is followed for every month. This example can easily be extended to December.

Starting in January the expected collections for the month are totaled to obtain monthly cash income. In January, the company has 50. That is the total sum it can expect to collect. Expenses follow the same pattern. For each month, calculate the anticipated cash payments for materials, rent, and salaries. Total each column to obtain total cash expenditures for the month. For example, January, materials were 20, purchases 15, rent 5, salaries 10 and interest on credit 15. These items total 65.

Subtracting expenses from cash collected, indicates whether the company had either a net inflow or outflow of money. In January, net cash is total collected minus total payments equalling a minus 15). The starting balance represents cash the company has on hand. Add this to the net cash figure to determine the companies ending balance. In January, the starting cash balance is 10. Adding this to net cash of -15 means the ending balance is -5. The ending balance is negative. The company will have to borrow money to make up 5 units of money to make up the short fall.

In January, the company may have to borrow 5 to compensate for the deficit. The final balance is money borrowed plus the ending balance. Sometimes, a company will borrow sooner than it needs to because it anticipates interest rates may be rising soon. Borrowing decisions are made either for current or anticipated short term needs. Such decisions may be influenced by anticipated movements of short term interest rates. The ending balance for January then becomes the starting cash balance for February. This process is repeated for each succeeding month.

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Month	Sales	Jan.	Feb.	Mar.	Apr.	May	June
January	100	50	30	20			
February	200		100	50	50		
March	150			70	40	30	10
April	150				100	30	20
May	125					75	25
June	125						50
Total Collected		50	130	140	190	135	105
Expenses:							
Materials		20	30	50	40	40	20
Purchases		15	25	35	5	5	5
Rent		5	5	5	5	5	5
Salaries		10	10	10	10	10	10
Interest		15	15	15	15	15	15
Total Payments		65	85	115	75	75	55
Net Cash In Flow		-15	45	25	115	60	60
Starting Cash Balance		10	0	40	65	180	240
Cash Deficit/ Surplus		-5	45	65	180	240	300
Credit Repaid		0	-5	0	0	0	0
Credit Received		5	0	0	0	0	0
Final Cash Balance		0	40	65	180	240	300

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IV. Marketing and Trade

Jasz-Kun Mag Kft., located in Szolnok county, plays a major role in supplying and distributing seed for cereals, sugar beet, corn hybrids, oil crops, beans, peas and various industrial feed crops. Its production, distribution and sales area covers more than 387,000 hectares. The wide selection of crops grown in Szolnok county is a result of favorable climate and soil conditions.

a. Seed Suppliers

The major suppliers of Jasz-Kun Mag Kft. are the local cooperative farms including Tiszafoldvar and Jaszbereny. The cooperatives supply Jasz-Kun with large volumes of cereal and corn seed. Jasz-Kun also rents 880 hectares of arable land to produce pea and cereal seed for its own use.

b. Sales Revenue

Total sales have rapidly declined over the past few years. Sales revenues in 1992 were 866 MHUF. Sales in 1993 are expected to reach 400 to 500 MHUF. The company's sales revenues can be segmented as follows:

- o Cereal and corn seed represent 20 to 25 % of total sales.
- o Peas are 10-15 % of total sales.
- o Bird and oil flax seed are 5 % of total sales. And,
- o Sunflower seeds are 5 % of total sales.

Exports represent about 30 % of total sales revenues. Grass seed, pea sunflower and various other oilseeds are sold through trade companies to the Netherlands, Italy and Germany. Jasz-Kun exports a substantial volume of its seed through VK. Other foreign sales are coordinated through Agrimpex Trading Rt.

c. The Sales Product Mix

The principal changes in the company's sales mix over the last few years include:

- o An increase in the number of small private customers.

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- o Despite the increase in the total number of customers over the past three years, the amount and value of seed purchased per customer has actually declined. Total sales over the past few years have declined by 60 %.
- o The most important group of crop seeds are the cereals and oil crops.
- o The contracted seed processing (cleaning and grading) income of Jasz-kun is 12% to 13 % of total sales.

d. Pricing Policy

Jasz-Kun's pricing policy is influenced by several factors including demand, current cash requirements, and competitor prices. The Vetomag Trading Company (VK) has developed an indicative seed price list. Jasz-Kun bases its price list on VK's list.

e. Marketing and Sales Strategy

Jasz-Kun's marketing strategy is currently being revised. No strong marketing organization exists. In addition, the staff members that are involved in company marketing and sales practices have limited practical marketing knowledge. In addition to the company's headquarters, Jasz-Kun's three processing facilities direct and conduct sales efforts. The major sales activities however, are directed from the company's headquarters.

Jasz-Kun has developed a system of sales representatives. These representatives market to 28 towns and villages. Jasz-Kun representatives are paid on commission. The sale's system is established along lines similar to Pioneer Seed Company.

The company's 1993 sales targets are allocated as follows:

- o One-third from Jasz-Kun's own production.
- o One-third from industrial cereals and bird seed. And,
- o One-third from trading in wheat, corn, barley, and potato.

f. The Competition

The company's primary competitors are KITE (Nadudvar) and GITR (Szolnok). These two production systems are large, diversified agribusiness' which provide

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strong competition due to their close association with large scale commercial producers and their sophisticated and organized financial and trading structures.

g. Strengths and Weaknesses

1. Strengths

- o The company has revamped their marketing strategy and introduced a computer supported data reference system.
- o Starting June 1, 1993, marketing information is being summarized and distributed to senior company officials.
- o Jasz-Kun has signed numerous commission based contracts. The increase in commission based seed cleaning contracts will allow it to fulfill the demand from small farmers.
- o Jasz-Kun's general manager supervises and coordinates the planning and marketing decision making process. The three profit centers are free to propose and in some instances carry out their own independent marketing and sales steps.
- o Separate accounting and data processing systems for each profit and cost center.
- o An increasing emphasis on the needs of small farmers.

2. Weaknesses

- o The company's senior management has been unable to come to a decision as to whether it wants to improve their seed production and processing or increase their contracted seed cleaning and trade activities.
- o Jasz-Kun has limited financial opportunities to finance its production and marketing activities.
- o Sales promotion and advertising activities are weak.
- o Official functions and responsibilities are not clearly defined.

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h. Recommendations and Conclusions

a. Short-term:

- o Modify the existing organization so that marketing teams are responsible for groups of products.
- o The composition of a product team may possibly include a marketing and field expert.
- o Develop diversified product lines including pesticides and other agricultural chemicals.
- o Devise a marketing strategy using a priority sequence of criteria outlined in the following tables.

b. Long-term:

- o Management should actively search for a partner to invest in the company.

V. Organization and Human Resources

The organizational structure of Jasz-Kun is shown in the organizational chart. Current staffing requirements include 135 full time workers. The labor force has been reduced from 1990's level of 360. Of the current full time work force a number of persons have college degrees and others have completed high school or Trade School. The work force is generally well-trained.

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a. Organization

Jasz-Kun is divided into several primary profit centers and staff departments, including:

- o The Szolnok Seed Plant which is located in the Southern industrial part of Szolnok;
- o The Mezotur Seed Plant which is potentially the most viable operating unit of the company; and,
- o The Kunszentmarton Seed Plant which basically cleans grass seed.

The company has a flat organizational structure. Other groups or profit centers include: the Accounting Department, Invoices, Turnover, The Financial Group; Plant Administrators; The Payroll Department and, various independent marketing groups. .

The company has several people, in overlapping roles, involved in the sales and distribution of seeds. Their sales and distribution departments have canvassed more than 30,000 regional farmers. They have several representatives that sell their product on a performance basis only.

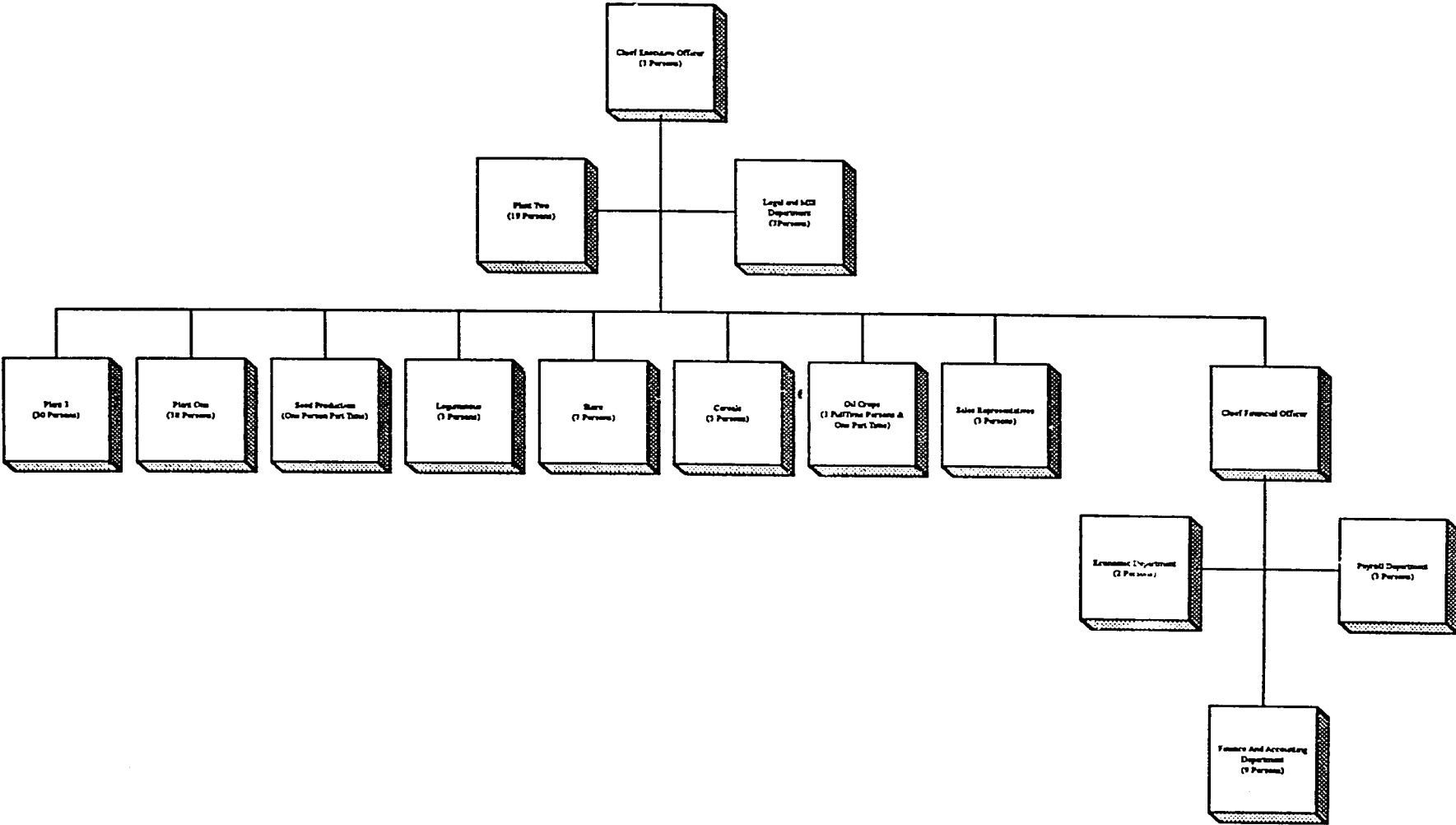
b. Organization of Policy Making Group

In terms of power distribution and voting rights, the power distribution is as follows:

- o Company shareholders manage and vote on the general operation of the company.
- o The Supervisory Board controls the general management of the company.
- o The auditor who reports directly to the Board; and,
- o The General Manager organizes and manages the daily operation and finances of the company.

Informational meetings are not held on a regularly scheduled basis, but on an as needed basis only.

Jaszkun-Solnok Kft Organizational Chart



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c. Employee Evaluations

The company has no formal employee evaluation system. Reviews are made by the individual department head. Pay increases are reviewed by the general manager. The company does have some formal job descriptions for its employees for middle level management positions.

d. Comparison of Wage Level

The wage level of the company reflects the regional average and is in line with other comparable companies.

e. Strengths

- o A well-trained senior management.

f. Weaknesses

- o No formal employee evaluation system.
- o No formal or ongoing employee training program.
- o Middle and higher level management lack expertise and competence in marketing functions.
- o Lower level management is lacking in ambition and innovation.
- o No formal marketing or sales department.
- o No comprehensive strategic operating plan.

g. Opportunities

- o Developing a focused marketing department with the objective of increasing sales and marketing efficiency.
- o Developing time sheets creating more efficient product cost analysis and increasing employee productivity.
- o To develop a comprehensive/strategic operating plan.

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VI. Conclusions and Recommendations

In the present situation, Jasz-Kun is facing declining raw material seed supply and decreasing demand for its products. The company, quite simply, must forcefully increase its sales volume on the domestic market to survive. Any financial strategy for Jasz-Kun will require restructuring of debt to reduce interest payments. A revolving credit line must still be maintained in order to finance the purchases of crops, supplies and other materials.

Financial

- o Jasz-Kun should establish an internal information system including: sales by product; cash sales versus credit sales; a cash flow budget by month; and a production report.
- o Because debt financing (and, subsequently, interest payments) are used to finance inventory, Jasz-Kun should use interest payments in its direct product cost calculations. The interest costs should be allocated by sales contribution.
- o Determine the cost of the company's products and the break even point of the company. Direct costs are not known for each of the production units.
- o Negotiate with your suppliers to suspend payments.
- o The method for establishing transfer prices between profit centers is barely adequate. The method is transfer pricing is currently negotiated between plant managers so that managers can share whatever profit exists. This method is wrong. More attention must be paid to establish more efficient transfer pricing rules.
- o Jasz-Kun should also develop joint cleaning ventures with co-ops and other farms.
- o Jasz-Kun is bankrupt. Short-term liabilities are 373 MHUF and total assets are 313 MHUF, the company is by all financial measures and definitions bankrupt. At the end of August, Jasz-Kun will be in default on all of its short term credits. It is currently in default on over 90 % of its current short term outstanding obligations.
- o The company must restructure under the direction of the current Hungarian Bankruptcy Laws.

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Marketing

- o Over the short term Jasz-Kun should:
 1. Select their five most profitable crops. These crops should be selected on the basis of their robust contribution margins.
 2. Obtain exclusive marketing and production rights to varieties of these crops. Make sure that these varieties are on the Hungarian national list.
 3. Produce, promote and market Jasz-Kun proprietary variety seeds.

Production

- o Jasz-Kun should shut down two of its plants and consolidate operations into one production unit.
- o With a more efficient production lines in place in one plant only (Mezotur) Jasz-Kun could reduce its cleaning costs by 25 % to 35 %. A more strategically located horizontal production line would:
 - reduce transportation costs;
 - decrease electric energy use;
 - increase labor productivity and efficiency; and,
 - utilize current surplus equipment.

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Appendix

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Jasz-Kun 1993 Contribution Margin (%) by Product

Crop	Percent of Total Revenue	Contribution Margin (%) Traded Seed
Alfalfa	1	6
Hairy Vetch	0.1	-
Edible Dry Bean	0.1	54
Green Bean	0.8	67
Variety Pea	0.3	15
Edible Green Pea	6.6	19
Edible Yellow Pea	4.1	14
Vegetable Fodder Pea	-	-
Oilflower	0.1	-
Sunflower	0.1	-
Hybrid Sunflower	4.9	32
Millet	0.1	-
Cenamarygrass	0.2	-
Sudengrass	0.4	-4
Different Grass Varieties	1.4	26
Grass Seed Blend	3.2	-
Spaghetti Blend	-	-
Yellow Onion	-	-
Oat	0.3	14
Spring Barley	6	10
Spring Wheat	0.1	13
Hybrid Corn	59.3	10
Popcorn	0.3	32

*Hybrid Corn is a large sales item for Jaszkun. Hybrid corn however, has a very low price margin.

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Total Sales Percent of Total Revenues of Solznok's Primary Crops

Crop	Total Sales (1000 HUF)	Ratio (%)
Wheat	61,121	7%
Spring Barley	30,434	3.6
Corn Hybrid	196,791	22.7
Alfalfa	34,559	3.9
Pea	102,711	11.8
Sunflower	47,475	5.4
Other	125,960	14.6
Total Domestic Sales	599,051	69.1
Total Export Sales	267,380	30.9
Total Sales	866,431	100%

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**Total Revenue And % Ratio of Sales By Operating Division and Primary Crop Groups
(June 30, 1993)**

Division	Total Revenue (1000 HUF)	Ratio (%)
Szolnok Plant	11,113	3.7%
Mezotur Plant	1,813	0.6
Kunszentmarton Plant	11,286	3.8
Small Scale Retail	23,389	7.9
Oil Crops	23,608	7.9
Legumes	71,492	24.0
Cereals	155,314	52.2
Total	298,015	100.5

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Fieldman's Log

Name:.....

Date:.....

Time From:	To:	Producer	Product	Problems	Comments