



## **CEI Manual No. 5**

# **American Technology & Management Advisory for Ukrainian Enterprise Directors and Managers**

## **16 Case Studies**

Important Technology Learned on the  
Kharkiv, Ukraine Study Tour to the U.S.

## **Household Goods & Commercial Appliances**

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## **U.S. Host Companies**

Amana, Fayetteville, TN

Best Buy, Cincinnati, OH

Bowers Manufacturing, Kalamazoo, MI

CM Associates, Tinley Park, IL

Frontgate, Cincinnati, OH

Haier America, Camden, SC

HH Greg, Cincinnati, OH

Hoover, Canton, OH

Royal Appliance Manufacturing, Glenwillow, OH

Toyota Motor, Georgetown, KY

Whirlpool Corporation, Benton Harbor, MI

Whirlpool Corporation, Greenville, OH

Whirlpool Corporation, Marion, OH

Zicka Model Homes, Cincinnati, OH



**CEI Initial Evaluations**  
**Kharkiv Household Goods & Appliances Study Tour**  
May 3, 2002

**Introduction**

At the completion of the Household Goods & Appliances study tour to the U.S., the Center for Economic Initiatives (CEI) conducted conferences with each of the participants to discuss the U.S. company visitation program and to assess the technology learned by the participants. It was anticipated that there would be benefits to the Kharkiv firms in marketing, management and technology. The tour concentrated on marketing and management in the household appliance industry.

Many of the participants talk about their learning experience from exposure to U.S. management and company organization. They also learned a great deal on the role of design and marketing in the company organization. As a result, significant organizational changes are anticipated by the Kharkiv firms on their return.

The study tour results indicate that dramatic improvements may be made for the Kharkiv companies. In summary, the improvements learned for application in Kharkiv as stated by the participants include:

1. We are dealing primarily with design and technology issues which functions have been separated from the U.S. manufacturing plants. Also, what we saw here and what we tried to do in our corporation, but we are still only half way there, is to make marketing and sales a corporate function as well. And here I saw it functioning very vividly and very clearly and was convinced that we should go ahead. That is the correct route and it is something we should be doing.
2. Before coming here I remember that you mentioned at the orientation seminar in Kharkiv that this was going to be a life changing experience. I was very skeptical because I am very conservative and believed that at my age it was absolutely impossible. But, strange as it may seem, you succeeded in doing that.
3. The study tour was very productive in general and it was very useful for me as a professional. During the trip I identified several companies for future cooperation such as the company in Tinley Park (CM Associates) that makes labels for appliances.
4. We saw those tremendous high rise racks in warehouses. It would be wonderful if we would be able to start manufacturing such racks as well as producing ice makers. Nobody makes icemakers in Ukraine and our summers are pretty hot. That would be a great idea for our firm.
5. I am going to restructure my marketing department and will promote our marketing director to a Vice President. That will increase this person's status. I will start restructuring my company as well.
6. I believe we should change the technology of our manufacturing methods so we can have a wider choice of potential employees.
7. We were able to communicate with top managers from different companies on the study tour and we were satisfied. It was very interesting because now we have seen ways to improve everything. We did not just listen and read. We have to see it to understand. This is a real learning practice; this is a great experience.

8. Another method that I have learned is that all parts should be subcontracted out to other companies.
9. In other countries people paint the product after it is assembled. In America the parts are first painted and then assembled.

### **Case 1: Pavlo Kudinov, Executive Director, Radiorelay**

#### Company profile

1. Number of employees: 2,120
2. The plant was established in 1920.
3. The company now manufactures industrial automatic relays, time relays, electric heating devices, water heating devices, telephone-sets, plug-receptacle units for tea-pots and irons, telephone lever switches, transformers for electronic equipment, planes for wood working, nozzle-circular saws, mountable switches, plugs, receptacles, couplers, indoor television antennas and different types of alarms.
4. The company has a marketing department and a sales department.
5. It advertises in specialized printed media and participates in trade-shows.
6. The products are distributed through the network of dealers, sold directly to customers and sold in the company store.

#### Pavlo Kudinov presentation

Regarding my general impressions of America, I did not expect that I would see in reality what I actually saw. Because what I read in the past and what our TV reporters told us regarding American industry was again something else from what I experienced. People here are friendly at all levels: vice presidents, middle management, and even those strangers we met during our travels. I would like to say that Americans were usually smiling and I felt that they respected us. Also America is a very big country and people here are relatively prosperous.

Speaking about manufacturing, what I saw may sound like a paradox. But, it seems that it is not always really profitable or advantageous to engage in manufacturing either in your country or ours. It often makes sense to be a middle man. For example, the Frontgate Company with 125 employees has \$500 million in sales and that is really amazing. Another thing I learned here is that here in the U.S. it is profitable to get bank loans because the interest rates are favorable. In our country the rates are not favorable and loans are impossible.

One of the things that most amazed me was that manufacturing productivity in the U.S. is extremely high. It might be 100 times or 1,000 times higher than in our country. A lot of parts are sourced out and most companies basically do just assembly work. I will be able to introduce the following ideas based on what I learned.

1. To reconsider our company organizational structure. I believe the time is right to unite the departments of our chief technologist and chief designer. What happens frequently is that sometimes the technologists are not able to fabricate the designers' ideas in metal or there are all kinds of miss-communications between those two departments. I believe that if we unite them they will not be able to pass the buck.
2. Another structural change will be to unite our two departments that are now separate into a single department, the mechanical and the power departments. Both departments deal with

maintenance and maintaining equipment. I saw an example of such a combined function at Whirlpool.

3. Speaking of marketing, I realized that basically we have no major problems in manufacturing or production, but we do have major problems with sales. The sales department somehow should be reporting to our designers. What I saw here is that even changing a handle on an appliance will result in changing the design so the designers and marketing personnel should be working in close contact.
4. Another department I plan to reorganize is our sales department. I was very impressed by the slogan we saw at the label manufacturers firm CM Associates that said "It takes months to find a customer but seconds to lose one". What I often see in our sales department is their psychology is different than that in the U.S. because they believe that if an order is not large enough they will refuse it and turn this customer down. Maybe we should make personnel changes or merge our sales department with the finance department.
5. Another change is that we should get rid of employees who waste working time. We should introduce personal magnetized cards to check employees in and to check them out so we will be paying employees for the actual time they spend working.
6. I noticed that all the factory infrastructure, all the electric and service lines here are suspended from the ceiling, from the top which makes all changes very flexible, very quick and the whole setup very mobile without all the lines in our plant coming up out of the floor to the turning centers and other machines.
7. Another change we should do is to get rid of all those partitions to make sure we can see who is doing what. But here we will have to consider the requirements of our safety laws. I noticed that there are not as many safety requirements in this country but we have plenty. For example, they require that if we have 5 people in brazing, they must be separated from the assembly line. The same condition applies to those who work with acids, soldering, etc.
8. Speaking about the payment schedule, I believe we should start introducing the net 30 payment principle for our larger customers and we should track them more. Basically they can use their fixed assets as collateral. Because what happens is that they often do not have any free cash. At that point we are now not able to ship their order and that is something we should change.
9. Another idea we should be using is creating a dealer or distribution network. Let's say we might have 10 distribution centers in Ukraine. We could get rid of direct deliveries because we literally have thousands and thousands of customers in each region. We should be working directly with 10 distributors and they in turn would be working directly with such customers, maybe on a commission basis. I should really look into that.
10. At the Toyota plant I saw that every single blue collar worker is encouraged and is expected to provide some kind of innovative suggestions or proposals for improvements. We did have such a system in the past and we had a lot of people coming out with suggestions. Recently, maybe because of these difficult times, a lot of people are waiting for directions from supervisors. We should really be encouraging creativity and trying to re-establish innovation practices.
11. Another thing we should change is the relationship between direct labor and salaried staff. At this point we have about 25% salaried staff and at most companies we visited this number is not more than 10%.

12. We should go back to the Socialist idea of competition among production teams because here I believe we will be able to achieve about 10 to 15% growth. The spirit of competition is always encouraging and always stimulating.
13. A further thing I learned is that we should not be afraid of entering into partnerships with our competitors. If they want to sell our products under their own brand names or logos, that shouldn't be a problem. I have a similar proposal from a firm in St. Petersburg and I was somewhat reluctant to accept that, but I saw a different approach in this country.
14. Another idea is to use temporary employees for seasonal and temporary work. We should hire them as seasonal workers. Then we would be able to keep them. We do not have enough funds to pay them as permanent staff since we would have to make allocations to their retirement/pension fund. Nobody needs that. We should use temporary workers for seasonal work.
15. Another thing we should do is to find as many sources for parts outside our firm and not waste our own resources on manufacturing those parts. Of course the best solution would be to find experts and be like this Frontgate Company; basically without manufacturing anything, they sell a lot of products.

#### Dissemination

Speaking about dissemination, I will certainly be talking about my trip to the managers of our company and also to employees in each and every department. In addition, I am also District Council Member and I will be talking to our District Council about this trip. I came up with 15 interesting and useful issues just off the top of my head. Of course there will be more to discuss when I return.

Another feeling I have is that companies such as Haier and Toyota will be able to influence the economic situation in the U.S. as time goes by. Of course here a lot will depend on politicians.

#### **Case 2: Valeriy Fadeyev, Chief Engineer, FED**

##### Company profile

1. Founded in 1927, FED has broad experience in the production and repair of hydraulic devices and fuel control units for aviation applications.
2. For most of its history, it was one of the most respected companies in the Soviet air and space industry.
3. It has also enjoyed substantial success in developing plumbing equipment, optical goods and mining machinery.
4. Despite shifting economic and political winds, FED has maintained a long and successful relationship with the Sundstrand Corporation of Rockford, Illinois.
5. Organized as a consortium of independent companies, the combined organization now employs nearly 5,000 people.
6. It has revenues of \$22 million (a comparable U.S. company would have revenues in the \$200 million range).
7. At present the enterprise produces optical devices (cameras, lenses, overhead projectors) and consumer plumbing accessories as well. At present the company management is developing

s strategy aimed at increasing the volume of household goods in the company's general output.

8. Company strategy calls for the quality improvement of the presently manufactured household goods and for the development of new products that will be in demand in domestic and foreign markets.

#### Valeriy Fadeyev presentation

When I was planning to leave for to the United States I set a number of goals for myself. Goal number one was to study how different American companies solve the issues of increasing productivity. My goal number two was to study the American experience in providing training for blue and white collar workers. Goal number three was to understand the dynamics of market driven economies. Goal number four was to see potential possibilities for export and innovation as far as my company is concerned. Goal number five was to study American practices in promotion and marketing and applying this experience in our company. And thanks to this CEI program that was very well thought out and planned, I succeeded in seeing, at least to some extent, how all those issues are tackled. Maybe I wasn't able to see them in depth but at least I was able to learn how to approach these solutions.

Showing us different consumer goods companies you were able to demonstrate to us how all these issues, namely manufacturing, promotion, designing, and marketing are dealt with in this country. All these issues are very important for me. When I come back I will report my finding to our technological council and to the experts of my company and we will start some type of restructuring. It is especially important for us because now we are a corporation. It seems like yesterday, two days ago, we were studying how a similar corporation should operate.

At present our corporation is a private company, as a closed stock holding society, which includes two plants that have been privatized and one company that is still government owned, but the latter is going to go private in the nearest future. It was very important for me to familiarize myself with American practices in manufacturing, plant organization and company operations; the whole complex of corporation operations. Out of all the issues I have named so far, the corporation organization issues were probably the most important. I would be lying if I said that I did not like the technology and the equipment that I have seen during this tour, but those issues were of less concern for me. For some time I felt a part of your CEI team and for that I am grateful.

I am thankful to CEI for a very structured organization of this tour. You showed us how seriously and smoothly such a study tour activity can be organized and arranged. I would like to say that this study tour is of great importance for us Ukrainians.

Question: You mentioned that ideas about organization were of greatest importance to you. Please explain in more detail.

Answer: As I mentioned, we have started the restructuring of our corporation. At this point we have three plants, two of which are private and one of which is still government owned but it is going to be privatized soon. At this point we have designed our facilities as a corporate function. We have a design center that is a separate entity. They deal primarily with design and technology so that function has been separated from the manufacturing plants. Also, what we

saw here and what we tried to do in our corporation, but we are still only half way there, is to make marketing and sales operate as a corporate function as well. And here I, as well as Igor Zhdanov who is a part of our group, saw very vividly and very clearly how we should go ahead. That is the correct route and it is something we should be doing. Sales, marketing, and design should be separate corporate departments and the plants should be dealing with manufacturing only. At this point we are talking about in depth centralization of certain functions and restructuring of our organization will allow us to achieve the following goals. We will be able to let redundant people go; we will be able to increase our productivity; we be able to penetrate internal and external markets better; and we will be able to develop a dealership network. Here at Amana we saw a very clear cut model of how we should proceed.

I know that we have a redundant workforce in both our blue collar and white collar segments. We will need to downsize and consolidate. Another thing is that our manufacturing facilities should specialize more which will allow us to improve our productivity and our technology. If we do that, not only will we be able to export our products to other countries, but also hopefully to attract investments.

FED does not manufacture washing machines. There is a Kharkiv company that does manufacture small compact washing machines. We can provide information about this company. Many people complain about their machines. We don't have any American or Ukrainian clothes washing machines but we do have European ones.

Both in Ukraine and Kharkiv there is a tremendous industrial, technological, and intellectual potential. But during the gap period since independence our market was filled with products from the outside and from overseas. At this point we find it very hard to compete with imported products. To compete we need investments but again there is no other alternative we will need to go invest and get going.

Our bathroom fixtures are marketed by our Marketing Department and we have a vice president who is responsible for external relations. He is certainly not doing enough since we have not dominated the market in our own country and we are not able to oust foreign competitors such as Chinese or European suppliers. I would like to say we are still producing for a certain niche. We are planning to triple our volume. At this point we have potential markets in three countries: Ukraine, Russia and Belarus. They buy our bathroom fixtures and the customers are pleased with them. Price wise they are certainly much lower than European counterparts, which make them more affordable to domestic consumers. As far as their technical characteristics are concerned, they are pretty good.

It would be wonderful if you could have at least one study tour for the academia such as presidents of universities, leading professors, etc. I believe there is a pressing need for such a study tour.

#### Dissemination

Dissemination is easy for me because I am president of a club of chief engineers of Kharkiv companies with at least 40 members. I will be sure to report about the results of the study tour at a club meeting. In our corporation we are going to have a special session of our technological

council dedicated to what I learned on the study tour. I was taking very meticulous notes and I will be sure to report in detail to the council about the trip. I am also a member of an academic council of three universities and, if they give me a chance, I will be happy to provide at least a brief summary of our trip. I have had a chance to talk to my colleagues in the group here and we came to the conclusion that we should constantly be exchanging experience, sharing information, trying to work in partnerships to promote our products using the examples we saw here. I also lecture at a six year program and I will plan to have at least one lecture dedicated to the study tour in each academic year. I believe that the engineers will find it useful.

### **Case 3: Valery Predko, Chairman of the Board, Hidroprivod**

#### Company profile

1. Number of employees: 466
2. Kharkiv Plant “Hydraulic Drive” was established in 1935. It used to produce drills, taps, billets, various metal-cutting equipment parts, radial-piston pumps, and hydraulic equipment.
3. For many years it was the only manufacturer of various kinds of hydraulics.
4. In the 90s manufacturing of the following items was developed:
  - Automation for cutting crude bricks
  - Vacuum pumps
  - Hydraulic dampers for railway car oscillation
  - Valve hydro-distributors.
5. The company provides after-sales and warranty services, carries out scientific-research and development work.

#### Valery Predko presentation

Before coming here I remember that you mentioned at the orientation seminar in Kharkiv that this is going to be a life changing experience. I was very skeptical because I am very conservative and at my age I believed that was absolutely impossible. But, strange as it may seem, you succeeded in doing that.

I have an arrangement with our “Business Life” magazine which is a publication of the business elite and for a long they have been trying to have me cooperate with them. I am planning to get several articles published, dedicated to the results of our study tour. I believe it will be interesting to all the readers.

Your orientation certainly helped me because I got myself an e-mail address and here in America I bought myself a laptop and hopefully I will be able to communicate with you by e-mail. I was trying to send you a message from the hotel but unfortunately the mouse was broken.

The study tour was very interesting in general and it was very useful for me as a professional. During the trip I identified several companies for future cooperation with us such as the firm in Tinley Park (CM Associates) that makes labels for appliances. I would like to occupy that niche in our market. I have a smaller company which is a part of our group and my children manage that particular company. I would like to delegate that responsibility to them.

I now plan to restructure my stock holding society into a corporation. One of the components of this corporation will be Volodymyr Tymchenko's company Piranha. I have already discussed this plan with him. I am planning to set up a corporation and invite him to join for operations in two areas. We saw on our tour those tremendous high rise racks in warehouses. It would be wonderful if we would be able to start manufacturing such racks as well as ice makers. Nobody makes icemakers in Ukraine and our summers are pretty hot. That would be a great idea.

I am also going to restructure my marketing department and will promote our marketing director to a Vice President. That will certainly increase this person's status. I will start restructuring my company as well. I will update the plants so they deal exclusively with manufacturing. I would like to use those principles to set up my new corporation. So what I am going to do is to make one of my deputies a Vice President to chair a new stockholding company. He will be responsible for the following functions: supplies and material handling, tooling, shipping, warehousing, and accounting. Eventually there will be another person responsible for warehousing and one person responsible for the accounting function. Basically what is going to happen is that I will be the President of this new corporation and also Chairman of the Board of the stock holding company; there will be several components of this corporation. The new entity will be called "Hydro Drive Service" or Hidroprivod, the current name. There also will be a separate company Piranha which is Volodymyr Tymchenko's company and my children's small company. Then I will appoint another vice president for the new company who will be responsible for sales and marketing. And they will be a part of this corporation as well.

Gidroprivod will be implementing the corporate principle that I have seen here in many places. They are going to sell all types of other products under their own brand name. Not only will they be selling my brands from my factories, but will also be selling Original Equipment Manufacture (OEM) products. I am also going to make the new department a part of the bigger plant which is responsible for manufacturing household appliances. It will be made a separate entity and will transfer products to the holding corporation.

I am thinking of doing this in several stages, with so the tooling department becoming a separate business. Our chief technologist department will be made a separate entity as well. I am thinking about doing it gradually, step by step. Obviously I cannot do it at once. Then, of course, we will have the major plant concentrate on making fluid power hydraulics and fluid power products.

I will be able to implement our new corporate structure based on what I saw at different companies during our tour visits that showed different organizational facets of various companies. Basically what I saw here can be replicated very well in the new structure of my corporation. What will be the result of this restructuring or reorganization? Every business entity will now make money for itself and for me as well. What is happening now is quite the opposite – now I am making money for them. They feel very comfortable and they have now been celebrating for three days over there [Easter break] while I am working here, but now it will be the other way round. Each department will be a separate profit center.

While here I have calculated a breakdown of how much of the profits they will retain and how much they will transfer to the corporation. If they will not make any money they will not get any

salaries. They will not get paid. The department of sales and marketing, which will be made a separate part later during the second state of restructuring, will always be able to make money because they are selling products. That is why they will be made a separate entity later in the second stage. But the other units that today keep demanding funding from me will be let loose and I will tell them that I will trade with them. They will be able to make as much money as they can. Of course they have to do it legitimately and will have to share with me. And I personally will be a founder in each of their stock holding companies.

After our meeting in Kharkiv I got my marketing department directly involved in designing a new brochure to enter the American market using your website as a channel.

When asked if I liked the program, I would say that “liked” is too weak a word. I would like to say that the program was designed in a very smart fashion and I wish to compliment the Tour Director for his programming and the approach used to put the program together was very well thought out. There was however, one shortcoming. I would have liked to have spent three days with one of the top managers at one of several companies. I would then have been able to sit back and observe them and ask questions. During our meetings my colleagues asked too many questions which I considered useless. It would be wonderful if you could break us up into several groups with one or two or three persons per group and let us sit and observe top managers of the companies in the Cincinnati region and of course we would need an interpreter. I have all types of questions which I would have liked to get more in depth answers with numbers and specific time frames, etc.

#### Dissemination

I am going to write general articles about the trip to our “Business Live” journal. I have also discussed with my colleagues about meetings in their firms. I am going to talk about the trip at our Board and also at our new “Union of Employers”. This is a brand new organization that was set up only last year in accordance with recently passed law of Ukraine for employers. I am vice president of this new organization. This Union of Employers unites top managers of firms with different forms of ownership – private and public.

At the political level, I am chairman of the Region’s Party in our district and also vice chairman of this party at the city organization. This Region’s Party is primarily a party of top managers of different companies. I meet with them every month and we exchange information on positive changes that need to be made in our region and the information gained on this study tour will be very interesting for them.

During the past fourteen years I have been the youngest Executive Director in Kharkiv. I was elected Executive Director fourteen years ago and at that time I was the youngest Executive Director in Kharkiv. All the other Executive Directors age along with me so I remain the youngest.

#### **Case 4: Volodymyr Tymchenko, Director General, Piranha** Company profile

1. Number of employees: 49
2. The enterprise was established in 1988 as a production cooperative.
3. In 1993 it was reorganized as “Piranha” Ltd.
4. In 1991-1992 the company decided to concentrate on the production of commercial equipment and retail shelving. Currently the company produces shelving; refrigerated showcases; sugar, cracker and spice milling devices; and boilers for residential buildings. In addition, the company provides in-store interior design services for quality goods display.
5. In 2000 the enterprise introduced an advanced technology of painting metal items with protective and decorative coating - powder spraying. In 2001 the “Piranha” Ltd rented new production facilities where household appliances will be produced. In 2002 the enterprise plans to produce washing machines in partnership with a Hungarian company.

#### Volodymyr Tymchenko presentation

Everything on the study tour was fine, starting with the interpreter who used exact terminology. We were able to discuss things while in transit from company to company. We should meet with our own dealers and they should be trained in the same manner as in this study tour. We learned how to make a presentation. We did not have too much free time, but at the same time the tour was not too exhausting. It is very strange that in the U.S. on the study tour we found partners among Ukrainians. Can you imagine that I have been invited to visit all the Ukrainian companies in our group? I could not have imagined this before because most of them are military-industrial complexes.

We are thinking of forming a corporation with Valeriy Predko of Hidroprivod. We have seen a lot of items that could be produced in the future. We are thinking of making vending machines. There are no vending machines in Ukraine. For example, each worker should be well fed so when he comes to work, and if he has not had breakfast, at least he can go and pick up something from the vending machine. We can even own those vending machines and place them all over town.

We started as a small company and we subcontract jobs to other companies. Then we started manufacturing products on our own and the profits started falling. Our volume increased but the profits decreased. I have learned in the U.S. that most of the companies like Whirlpool, Amana, and others are subcontracting for parts all over the country. They don't invest money in producing every component. Even if they have to move the main factory to another place, the sources are still there. They don't have to move those subcontractors. Small companies don't have to spend much money on advertising and marketing and they can therefore concentrate on manufacturing one item efficiently.

Production in the U.S. is very interesting and many of the policies concerning incentives, workers' incentives, and other things are very informative for me. Of course I never dreamed that I would come to the United States but then it happened. At the Toyota Company I learned about “just in time” manufacturing and that means that every item should arrive just in time. I

am interested in achieving that goal. I realize that everywhere in the U.S. we saw warehouse storage racks and that is my business. One of the important things that I learned was that a good worker is a well informed person. Another thing that I learned was that it doesn't matter how small you are but how innovative you are. That is the most important thing. Even those giants of our industry in my area are listening to me although I am a small person.

I am going to make an organizational change so that each manager will have not more than four people reporting to him. At Toyota I was very impressed by the worker's attendance record. People who do not miss a day in the year are invited to a special competition where they have prizes and other incentives such as a lottery for cars. For each year of perfect attendance, the worker has one entry. Fifteen years of perfect attendance means he has fifteen entries and he can enter this competition to get a free car. In Kharkiv we should also think about the worker and then they will always think about me.

Then I learned in the U.S. that the customer is always correct.

I also liked American kinds of interesting product names such as the Dirt Devil. In America, most of the companies make simple slogans or names for products such as Dirt Devil. In Ukraine we tend to use model numbers such as Molinya 1 or Molinya 2 and that is not good because it does not associate the product with anything.

It was very interesting for me to see at Toyota the mandatory overtime they give to the workers. I could not understand earlier why it was needed, but now I understand why Toyota does that. Basically they do it to keep their employees working. Now I know exactly how to adjust to the slow periods during seasonal production. Sometimes it is a slow period and sometimes it is a busy period. I was very impressed with the interesting system of training workers. Initially the workers are taken on as temporary employees and slowly they improve their skills. I also saw how they rotate workers from one job to another so the work doesn't become boring. It also helps to avoid trauma so that workers don't get used to only one kind of work and then get excessively tired and exhausted.

I was also very surprised to see those pneumatic seating arrangements which allow the workers to stay seated but move around at their workstation and fix what was necessary. It is a special type of seating and a special unit attachment so they can go into the car and fix whatever is necessary.

Of course some of the things we saw here were also used back home. All the color coding of the lighting systems in the plant were very interesting, such as we saw in Whirlpool. Different colors were also used to designate certain work areas.

At Kitchen Aid, which has a product very similar to our mixer, we saw a very interesting paint shop. I was surprised to see how all those small defects were being corrected for each of the appliances. We did not know how to do that before.

I was very surprised with the flexibility of the American conveyor systems because some of them can be used for producing different items. Worker safety is very important here and they strictly follow the safety rules.

When I return to Kharkiv we have a lot of work to do and we are going to have some important discussions with Hidroprivod where we are going to produce a new trademark or brand. We are going to sell some of the high quality products under that brand name. We are going to make a wide variety of home appliance products and also trade related items. For example, if someone wants to open a shop, we will be able to supply a turnkey project to them including shelves. We will be able to supply everything including marketing solutions. For example, we will be able to furnish apartments such as we saw at the Zicka model homes. Maybe we will join up with some builders so that they will construct a building and we can provide all the interiors. If we are the first we can of course enter this segment much easier. For example, credit facilities are not available to everyone, but I think it is much easier to get credit right now. Interest rates are now 1 to 2 % per month on a loan of \$125,000 from a micro-credit bank. This is a lot of money for most people. Of course if the company is larger they can take larger loans.

Question: In that way should we continue with this type of study tour program?

Answer: Some of the people in the group were originally a little bit skeptical and they said “what are we going to see there”. However, some of the conveyors lines in the U.S. are very complex and efficient and a lot of products are being produced. Some of the people on our study tour have previously been working on space projects and some of them are very skeptical initially. Now you talk to them their eyes are really open. They were giving the Tour Director and Interpreter a hard time because they were asking many questions such as “why has he done that”, “why is it like that”. The Tour Director had to push people out of the plant at the end of the plant visit because of the fact that time was running out. It was very interesting that most of the people working for those huge Kharkiv companies were asking so many technical questions.

#### Dissemination

There are lots of dealers and others who are coming to me every month. Katrina told you that at the university there is an organization called the Center for Economic Education. Almost every city in Ukraine has that organization which is financed by USAID. Every month they have one or two seminars and they invite lots of teachers and businessmen. Up until now I have been there as a listener. Now I have things to talk about on that subject. Since we are writing the Technical Manual based on our study tour visit we will give them a copy. We will also write some articles and we decided to talk with Valery Predko and the press corps. We will tell what we learned in America and that we would like to replicate American quality in Ukraine and we would like to make additional improvements of that kind.

Katrina is already a teacher and can lecture about marketing, management and other topics. My wife writes children’s text books so a lot of the information I have collected here will go into those text books. These are for 8<sup>th</sup>, 9<sup>th</sup>, and 10<sup>th</sup> grades. They are used in all the schools.

#### **Case 5: Kateryna Tymchenko, Marketing Manager, Piranha Company profile**

See profile for Volodymyr Tymchenko, also from Piranha.

### Kateryna Tymchenko presentation (in English)

First of all, I have tried to improve my English on this tour. I think that the most important thing that I have seen is the great emphasis on marketing. In our country the most important thing is of course production. Now I am convinced that marketing has the same importance as production and sometimes it will be of greater importance. First I am sure we will have to study the market to find out all the views of our customers and only after that to find out the proper ways to produce these products. We do things in our country just the opposite. I think it doesn't work. We have to change our vision and I think this is the most important thing which we have to do in our company and our enterprise. My second goal is the improvement of my English; I think it is important because it will help me to establish better contacts with our business partners in other countries, for example, with our partner in Hungary. Of course maybe it will also help us to establish new contacts with companies from Europe and the USA. You know that now we have a global economy and international economical relations are important and that is why I hope it will give us a chance to have a higher level in our economy and to open our firm or enterprise to international partners. I think it is very important to help us compete with our competitors in our country and maybe throughout the world. I am sure it will work in one, two, or three years.

The next American practice I noted is the importance of PR management within the firm which was very new to me. In our country we use just "outside" PR management and sometimes black (negative) PR. I don't like this latter approach and I have not used this in our enterprise. But now I understand "inside" PR. I have seen a lot of tools of PR companies going private. It is most important that all employees know the vision of the company. In this way they feel themselves an important part of the company. In the companies in our country the corporate vision is known only by top management and sometime by middle management, but not all employees. I think it is important that in the U.S. vision concept we will be able to create better communications within our company and of course increase the productivity of our employees. I am sure that in this way we will be able to create an excellent environment in our company. It is very important to gain the trust of employees and I saw a lot of visions of firms we visited. I have seen a lot of banners and slogans here such as "We bring good things to life". [CEI suggestion: maybe the one for Piranha should be "We eat our competition"]. It is very important. It doesn't matter how you smile so long as you smile. One motto I observed was "It takes months to find a customer and only seconds to lose one". If all employees see this during their working process it will help them. It is new and very important for us. I have understood the importance of "inside" and "outside" PR and I have seen a good example at Whirlpool. I think the above motto was a good one given by the PR manager who was very well prepared. Everything was presented just in time. I saw a very well prepared presentation by this firm and it was very interesting and an example of good marketing. I will now be able to prepare a Power Point presentation and do everything for a large audience and for each individual customer. It will help us improve the image of our company. I have seen a large variety of presentations and I know the proper length for a presentation. It should not be more that fifteen or twenty minutes and should be very structured. It was a great example since we don't have such programs about communications in our country.

Another very important thing I learned is a way of promoting our products. For example, we have the practice of creating a big association of corporations. We can do this in our country and

we started to do this but now I am sure that it will work. For example, we can produce some new home appliances because we are not competitors and because we have different messages for our customers. We had thought that it would be very difficult to work with our competitors but now I am sure that we will have to unite our products and that will create a big volume in orders. We can find some different product groups in order to have a rather wide range of products. It will be easier for our customers to find everything they want at one location and not to go to different offices and shops. And of course the great idea is to use brand names and labels from the same association. I am sure that we will now use labels, such as we saw at CW Associates, in our group. I have seen good examples of merchandizing. We have visited HH Greg and Best Buy. Before this time I specialized in grocery and food shops. Now I have seen a good example of home appliance merchandizing. It will help me to take advantage of my experience. I have also seen the service departments in the shops and now I am sure that service should be provided for the customer with the idea that the customer is always right - everything for the customer. We tried to do this but now I have found out some interesting ways to improve this in our company and we have already found a pretty fish like a Piranha which we will hang over the door which chimes when our customers come to see us. We bought this fish chime and will hang it over the door.

We were able to learn different new ways of promoting a product and of course this is a main principle of management. I am sure that in two, three or five years we will have the same promotion practices in our country. If in our enterprise we will start to do everything we learned and explain and practice the principles of management now in our enterprise we will be first in our country in five years. I am sure of this and I know the main ways to improve our management and of course how to improve our selling, especially personal selling. I know that it will work and of course I know how I will be able to improve the image of our company and all our Ukrainian enterprises. I think it is really important for us.

Everything was well prepared before our visit. We thought of ourselves as very important guests at these U.S. enterprises. It was really a very wonderful feeling. All our time was used very efficiently. I think that sometimes we thought it would be very difficult to travel such long distances and pass the time as we traveled from one host company to the next. But it helped us to communicate with each other during the 10 hour bus rides. During this time we had interesting discussions and found ways to work together. We combined into different groups and sometimes we argued and the sometimes the group leader would ask us questions and the resulting discussion was very interesting. Sometimes our free time helped us to create communications between each other because we now are like a great team and in our country it will now be easy to create something, to provide something, together in our region. Each company won't be able to do everything by itself, but now we feel that we are a great power. I think it's perfect!

We have already established some new company contacts. For example we have already prepared a broad charter and we have found some points of common interest. I have already received orders from both Busol and Monolith-Shevchenko and we have already worked out some agreements. [CEI comment: Piranha has set up a department in which they do electrostatic painting.] All group members have invited us to visit their plants; we need to visit each company. We will very much appreciate them because it is very difficult to contact the top

managers in our country. You don't have the possibility to speak to general directors in our country as you do in the USA. It is very gratifying to have top level contacts and not just contacts with middle level managers.

A dissemination meeting like what CEI had last year would be really great.

We think this is a really important program because first of all we are able to see what will really work. Sometimes we have seminars with visiting professors from the USA, from Europe and they tell us everything. It is not perfect because we can't see everything and we can't ask everything. During this program we were able to ask all our questions. We were able to communicate with top managers from different companies and we were satisfied. It was very interesting because now we have seen the way to improve everything. We do not just listen and read. We have to see it to understand. This is a real practice; this is a great experience. All companies provided us with their history, their promotional methods, and the point of differentiation with other companies in their industry. We have learned how to satisfy the customer needs and the great importance of market surveys. I think it is a different management method than in our country. It is new – really new.

Before this trip I thought I had a rather good and modern education in international economy relations but it was not enough. It was just theory. I think it is very important especially for top managers to be able to see everything. I am sure that after I return to our country we will change a lot of things and we now see the way to make the changes. It's not just a dream. It is real life.

I am sure that this trip gives us a chance to see the future. Someone asked me if I would like to live in the USA; would you like to have your own business in the USA? I said no because I don't know the future in this country and I will be nobody in this country. But in our country, if I am clever and establish everything now, I am sure I will be in a very good position in five years. Our situation will be greatly improved in five years – not more. This really has been a trip to the future.

#### Dissemination:

First my husband and I have already created a new firm which will operate with our Hungarian partner and I will provide all the new management principles to this new firm. It will be rather easy because it is new and we can do everything by ourselves and we will teach our staff and of course we will develop our company image and will do "inside" and "outside" PR. We have a super chance to create everything new in this three week old company. This is all at the micro level.

The next level will be to talk to all our dealers who are in five or six cities and who sell our products. We have already prepared the information learned on this tour and we will teach them to use this information.

Lastly we will work together with our tour partners on our team to make a big presentation for our manufacturers in Kharkiv. We have this opportunity because we communicate with a USAID funded organization, chaired by my father, that is associated with the Kharkiv National University and this organization will help us to disseminate information about the tour. We will

spread all our new ideas to these audiences because all of them are top management, not just only in home appliances, but also in different product fields. The most important thing is that we will write the technical report of that tour. We already have some material from different tour people and I will combine everything together and include a lot of pictures and describe all companies. My responsibility is to combine everything. It is a very important responsibility because we will be able to read everything later and review the productivity and marketing details.

We have someone who will write newspaper articles. We have also thought about putting all the ideas via the TV. We have private TV channels in different regions of Kharkiv and we have some newspapers which will write articles.

### **Case 6: Oleksandr Lysov, Deputy Marketing Director, Monolit-Romantika**

#### Company profile

1. Number of employees: 195
2. Production Association “Monolit” was established in 1975 at the Kharkiv Instrument-Making Plant named after T.G. Shevchenko.
3. It specialized in production of automatic systems for NPP, TPP and HPP control, automatic telephone exchanges, devices for rocket and space equipment, electronic devices for medical and household electronics, e.g. tape-recorders, amplifiers, radios, music centers, acoustic systems, etc., under the “Romantika” trade name.

In 1996 the subsidiary “Monolit-Romantika” was established as a self-supporting company. The subsidiary comprises:

1. Machine shop equipped with presses, punches, stamps, milling machines, lathes, etc. for producing parts of the products;
2. Assembly shop with assembly equipment for manufacturing and testing electronic components;
3. Assembly and release workshop with assembly and control equipment and stands for final testing, final assembly, regulation and testing of the items and their release to the warehouse for finished products;
4. Design and technology department for developing new products and supporting technical documentation.

#### At present the company produces the following items:

Components for trains and rolling stock; Household lamps (more than 40 types); Household and industrial meters; Auto-transport accessories (automatic charging units for car generators, amplifiers, car stereo-systems, acoustic systems, loudspeakers, voltage regulators, electronic switchboards, rubber technical items); items for urban electric and underground transport; items for industrial and commercial premises (radio relay center, acoustic system, intercoms, talk-back equipment); Electronic locks; Household radio-electronics (power amplifier, different types of radios, acoustic system).

### Oleksandr Lysov presentation

The way the study tour was organized, the way our appointments were synchronized and put together impressed me very favorably. I would like you to notice my notes here and as you can see I have about 50 pages with all kinds of notations in the margins. And in the margin I wrote specific comments for myself, for us, for my company. That is something we will be able to apply and implement in our business.

I would like to mention several points that I have learned here. The points are not prioritized.

1. Have confidence in the success of one's business.
2. Work with good customers. I understand that it is very important to create one's customer base. It is very important to let the customer understand that we were the first to satisfy their requirements and basically we are inviting them to please come and place their order with us. We will be able to satisfy you. It is very important to shift company priorities towards the marketing effort.
3. Competition. I mentioned during our orientation seminar in Kharkiv that I was particularly interested in the issue of competition. I learned here that very hostile competition is not practiced any more. For myself I equate competition with cooperation and with research of competitive products on an ongoing and detailed in-depth basis. American competitors offer each other their distribution networks. They are not afraid of learning from each other. They are not afraid of borrowing the best product features. There again I would like to say that never at any of the U.S. companies we visited have I heard any negative report about competitive products.
4. The next point is the U.S. distributor networks. I already mentioned this fact when I said that competitors often use each others distribution networks and there is a certain overlapping in distribution points that different competing companies are using. That led me to think that it might be a great idea to create an association of manufacturers and vendors of household appliances in Kharkiv. We have a very strong potential manufacturing and engineering company group in Kharkiv. We have also started creating new distribution points in some areas of Ukraine such as Dnepropetrovsk, etc. But I was absolutely flabbergasted when I found out at one of Whirlpool's plants that they work with 2,500 distribution points. Then I understood very well that without such a network we won't be able to increase our volume. It will not make any sense to increase our manufacturing capacity because all the goods we produce will be frozen and tied up in a few warehouses. I believe it will be a wonderful initiative for CEI to provide logistical assistance in sharing information about different distribution networks and developing new distribution networks.

Speaking of products we have seen here, and potential partners, I would like to specifically mention the Dirt Devil brand and Royal Appliance Company. I was especially impressed with their upright stick vacuum cleaners. At this point we do not have those product lines or a similar design in Ukraine. When I get home I am going to send e-mail messages expressing my gratitude to all the companies we have visited. And I am going to send specific proposals to Royal Appliances in Cleveland regarding their Dirt Devil informing them that we are available and we would be interested in representing them or in becoming their manufacturing source in Ukraine.

Another thing that amazed me was that in many places we visited the top managers who hosted us were very complimentary about their own staff and I have seen the slogan “The best we have is our people”. I noted that in many places and that is something I learned that is important.

I would like to emphasize that everything here is directed towards marketing, and also creating a customer base and raising or educating a customer. I am going back to what I started with - educating the customer. Customer education is of supreme importance.

I believe this program should continue. It might be slightly altered, but I would like to emphasize that it would be wonderful if these plant visits could be continued because obviously at every company visit there were all kinds of developments for our consideration. For example, there is the Dirt Devil upright vacuum cleaner I mentioned. Again it would be wonderful to spend more time at this company paying attention and discussing all the different details of what they are doing starting with packaging. Even if they are not interested in penetrating the Ukrainian market since I understand that business is business and they might not be very interested, but going back to this company would be really wonderful.

#### Dissemination

Speaking about dissemination, it is my personal desire to use as a channel of dissemination an association of manufacturers we will be creating. If we do manage to create it will provide the best promotion of what we have learned here. Also at our company we have a great number of students who come to complete their graduation papers. We will be able to disseminate the report among them. I have a great number of Dictaphone tapes and I have about 50 pages of notes I have written myself. I will provide all this information to the training department at our company and also to those students who I will be personally supervising; I will be able to pass on this information.

#### **Case 7: Viktor Brezhenyev, Chief Engineer, Konnector**

##### Company profile

1. Number of employees: 1,200
2. The plant was set up in 1959 and was called “Kharkiv Plant of Radioelements”. In 1969 one of the first production associations in the country called “Konnector” was organized on its premises. In 1999 the enterprise completed the process of privatization, which opened new opportunities for expanded production and services.
3. At present the company produces electric connectors, aluminum cast kitchenware, furniture accessories. Connectors make up 90% of production volumes, furniture accessories and kitchenware – 10%. The company has a sales department (18 employees, 4 males and 14 females) and a marketing department (5 employees, 2 females and 3 males). The company advertises in specialized publications and in mass media. The company does not have a brochure.

##### Viktor Brezhenyev presentation

Here we have seen a number of different American companies. All of them were interesting and each of them was unique and individual. First of all, I saw that manufacturing in all of those firms takes place under one roof. There are no redundant partitions. The whole cycle of

manufacturing from getting supplies and parts up to finished products takes place under one roof, in one huge building. Such a facility allows the manufacturers to set up conveyor lines. I also understand that extraneous or redundant partitions involve additional expenses because those little shops and offices need to be supplied with extra utilities.

I noticed again that under one roof we find a paint shop and an assembling shop. Obviously they have very different functions and very different work environments. The paint shop will use different coatings and different paints which might be hazardous. The very efficient air treatment systems in American companies avoid the hazards of painting. It shows how important and efficient work environmental monitoring is. All those environmental monitoring devices that are used allow them to place such diverse operations such as painting and assembling under one roof.

The next item that caught my attention was the issue of quality. Regardless of which business we visited, let say a painting company or a company manufacturing refrigerators, the issues of quality are always paramount. They handle quality in different ways: by inspecting all the parts coming from different suppliers while trying to provide incentives to those suppliers to provide no defective products. Also, it was really amazing that the issue of quality penetrates each shop and each work station. Those companies which are unionized also consider quality a primary concern. They encourage competition between different teams. While competing with each other, those teams not only increases the image of the company, they also improve the quality of the finished product which in the long run increases the wages of the employees of that company.

Also I saw with my own eyes the high level of automation in manufacturing facilities. For example there was the wide use of different robots. Robots are entrusted with performing hazardous jobs. For example, at the Toyota plant we saw 700 robots involved in welding and of course welding is considered one of the most hazardous operations.

Another thing which was absolutely amazing, even flabbergasting, was the fact that every single employee from the production worker up to the top manager or engineer seems to know exactly what he or she should be doing. There were no people idly walking around the facility trying to fetch one piece and then going to find another blank. Everybody is busy doing his or her job and that is really amazing. Every employee knows exactly his or her function and responsibility, when things should be done, what exactly should be done, and what type of quality should be achieved.

Then the most important thing is that everybody gets remunerated according to ones contribution. People are getting what we would consider high wages.

At this point it is hard to say which of my findings here I will be able to implement in my own work. It is very hard to say that it will be 10%. But again I would like to say that I have certain specific objectives I will try to achieve.

The first thing I will do when I come back is to change our packaging. Our new packaging should be bright, eye-catching, and informative with information about our company. For example, it should say made by Konnector, with our address and phone numbers, and such.

The next thing we should be doing, which for the past 10 years we have been working on, is implementing computer aided design on personal computers. What happens now is that the designer generates a project on a personal computer, but to get it over to a technician for the manufacturing solution, hard copies or drawings are printed out and then the technician is supposed to develop the tooling information on his or her computer. Then the new drawing is delivered to the tooling department. Although we do use CAD, the computers are not interconnected and we still rely on old traditional drawings. This is one thing we should be implementing. We are working on creating one single comprehensive software program, and that will result in huge changes. It will really completely overturn and overhaul our whole design cycle. We cannot really do without that approach at this point.

Speaking about global interaction, I was very impressed with the operation of the Chinese company Haier and the Japanese company Toyota who placed their manufacturing in the U.S. and built large plants here. I will not say that we will be trying to place our facilities here in the U.S., but bear in mind that we should be working with other countries, forming different partnerships, and by manufacturing products together integrating our efforts. At this point we have a number of competitors who make similar products that are interchangeable with ours. I am talking about connectors for civil aviation. But this is an opportunity for further cooperation. For example, I see a chance for us to provide our facilities to make connector bodies for U.S. or French companies. In return, those companies would be able to provide us with insulators from silicone rubber which is a bottleneck for us. Of course this cooperation would be mutually advantageous.

What I really liked about market research was our visit to the Whirlpool center where they invite people who are very far removed from that particular business to share their opinions, to taste and try their products, and to provide input. Those customers are asked all kinds of questions such as: what would you like, how different would you like to see this product, what don't you like about this product, and their experiences are summarized and analyzed. That is something I heard for the first time that not just specialists are invited to share their opinions, but people from the street. This is something we can do in my company because we also make connectors for household use. That is a very valuable practice which certainly should be implemented in what we are doing.

Question: Can you give us an idea of cost savings you can make as a result of implementing the findings on this tour.

Answer: It is hard to make any projections at this point, but I have seen very important packaging solutions here. What we use now for packaging is the stitching technology. What happens is that our packaging gets cut out first and then gets stapled or stitched together. Here I saw that packaging just gets folded. By using the folding method and new packaging materials, we will be able to save up to 50% of costs. We should bear in mind that we use 60,000 packaging units per year because ours is a large scale production. That will be a very considerable saving.

I personally think that programs like this should be continued because these programs provide tremendous assistance to Ukrainian manufacturers. It is very hard to create anything without seeing and hearing the actual experience of others. It is very important for us to see with our own eyes the best findings, the best achievements, which we should be striving for. Otherwise, if we are isolated from the outside world we won't be able to create anything.

#### Dissemination

The first thing I am going to do is to gather my subordinates, the people who report to me and I will talk to them in great detail about all the companies we have visited. And I will also talk about what we should be striving for. I will be sure to mention that there are no smoke breaks here, that people should not be smoking but working at their workplaces and that if they want to smoke they should smoke at home or quit. To make good money one should be healthy and take good care of their health. That is a little bit of a digression.

The second thing I am going to do as Chief Engineer is to talk about the results of tour and my impressions at our technology council which is also attended by our Executive Director. And of course, just like you, people will be asking this question "What can you implement here at our facility". At that time I will be able to come up with a more thought-out answer. I will have to go through my notes again and formulate specific proposals. Those proposals will not all be design related. They will analyze all the positive experience we have picked up here. Here in the U.S. we were exposed to a tremendous wealth of information, sociological, technological, and about every day life and we had a chance to see how Americans live and work. We got a very good exposure to American life styles and that is something we should strive for.

I am also going to write a technical report myself so that I will have a chance to remember what I have seen here and use it in the future so as to not forget things. I don't think I will be talking on television, but in May I will be going to a conference in Odessa on technologies and basic design structures and of course I will be talking about my American experience. I am also a member of a council of chief designers in Moscow, and again I will have a chance to share what I learned on this trip.

## **Case 8: Yuriy Radchenko, Deputy Director of Marketing, Kommunar**

### Company profile

1. Number of employees: 6,000
2. “Kommunar” started in 1927 and for 25 years it was involved in production of electric tools, cameras and equipment for the aircraft industry. In 1952, after re-profiling, it started producing electronic equipment for space industry and household electronics (e.g. TV-sets, radios). At the moment the company is in the stage of transition from state ownership to joint stock ownership.
3. Since 2000 the company has produced more than 50 types of goods. The main products include:
  1. TV-sets “BERYOZKA” (both black and white and color). The production volume is 200,000 TV-sets a year.
  2. Welding apparatus
  3. Electric Meters for home and industrial purposes. The production volume is 36,000 items per year
  4. Water meters. By the end of 2001 the production volume reached 10,000 items per month
  5. “Kommunar” Production Association is comprised of 4 self-supporting organizations:
    - “KOMMUNARSCHYOTMASH” (manufacturer of electric power and water meters),
    - “SPEKTR” (manufacturer of TV-sets),
    - “KOMMUNAROSNASTKASERVICE” Company
    - Instrument Plant.

### Yuriy Radchenko presentation

I was interested mainly in manufacturing, sales, marketing and design. We were very fortunate because this program was scheduled to pay a lot of attention to those areas. The system in operation in my own country still makes manufacturing the top priority. The main objective of any facility is to manufacture something. Most of the difficulties our companies face are connected with sales, marketing, warranty, and servicing. That is why we needed additional information about how those issues are tackled here by manufacturing companies in the U.S.

Our study tour members were asking similar questions and getting somewhat similar answers which allowed us to get a rather comprehensive picture. Here my understanding is that marketing and sales in the U.S. are the main foundation for any manufacturing operation.

I was able to learn about the structuring of marketing, sales, servicing, and warranty service at different companies including: machine building, manufacturing of household appliances and others. I would say that the structure and functions at these different firms are very similar. What happens today is that the corporation sets a certain cost limit and technologists, designers and manufacturing engineers see it as their main objective. That is, to manufacture their products within the cost and price range. But those people are not involved in marketing, sales or warranty servicing. We were particularly fortunate to observe those three functions in three different locations at the Whirlpool plants. We saw their manufacturing facilities, we saw their marketing center, and we saw their technical center. We saw very clearly how those functions are distributed within one corporation. It became very clear that within the management

structure certain functions are delegated to corporate headquarters while other functions are delegated to manufacturing, designers, services, etc.

Our manufacturing complex Kommunar is going through a restructuring stage in which we are planning to divide certain departments or shops in our larger company into separate entities according to what they are manufacturing. At this point some people believe that each of those new entities should have its own marketing, sales, and servicing functions. Here we saw something very different. Here we saw that all those functions are centralized and become corporate functions while manufacturing can be strictly specialized. For example, one corporation might have separate facilities to make washers, mixers, or refrigerators while marketing, sales and servicing will be centralized at the corporate headquarters. And that is correct approach according to our opinion.

When I come back I will prepare a memorandum in which I will describe how different functions and services are organized in this country describing, for example, the centralized functions of marketing, sales, advertising, and external operations for foreign trade. All those functions should not be split into many entities. They should be concentrated and centralized. On the other hand, manufacturing should be specialized according to narrow specialization to reduce costs and to decrease overhead.

We got a lot of information here that will allow us to better restructure our technical processes. Basically we learned that here companies use three different channels of increasing their capital investments. These include direct investments, going public, and getting bank loans using equity. All those three different options work effectively in the U.S. We also obtained a lot of useful information about the operation of the banking system here. For example, banks provide loans at 3% per year over a period of 7 years to purchase equipment. And depreciation for the manufacturing company will be 30% for the first year and will last for 5 years. So the depreciation period and the payback period will be shorter than the loan period. It will be 5 years vs. 7 years. I consider that to be a very good pattern of relationships between the bank and the manufacturer. That is something I am going to notify my supervisors at the ministry because in Ukraine at present banks provide loans at about 30 to 35% per year. Obviously to organize manufacturing, given that interest rate, a company must have absolutely fantastic margins. Today, in fact, access to bank loans is closed to us because of fantastically high interest rates.

Another important finding here was the interrelationships between local governments with manufacturers. At two sites we saw that manufacturing was set up in free economic zones where the local government provided specific tax incentives. For example, in South Carolina we saw that the Haier plant was constructed with very considerable participation of local government who paid for their infrastructure including roads and utility lines and was directly involved in making this project happen. Thanks to this favorable attitude of local government that corporation was made possible.

The current Ukrainian government keeps talking that they would like to attract investment, that they would like to be of assistance, but in reality there is a huge gap between their words and their deeds.

The amazing thing is that the U.S. government is funding our study tour as well as a number of other programs while at the same time Americans are experiencing considerable difficulties with creating new jobs and have to resort to attracting foreign capital. For us it is a matter of a long forgotten past when the Soviet Union was helping countries when there were all sorts of domestic shortages. It is really amazing for me to learn that the U.S. government is funding study tours like ours which give us a chance to learn about manufacturing management systems in this country while at the same time there are all kinds of problems here as well. We spoke to the Tour Director about getting similar state incentive grants. We understand that a lot of the program success depends on one's personal initiative and personal interest and motivation. We understand that there is no golden rain involved.

I believe this is a very useful program and should be continued. If you have a chance to involve top managers of different companies it would obviously be advisable that those taking part in such programs should be decision makers at the highest level. Those people who have the authority to make decisions, because, as you know, there are very drastic differences in your system and our system. When I go back I will have to fight for changes. I believe that the people who should be involved in this group should be manufacturers, should be the highest level managers and those people who are interested in seeing changes made.

#### Dissemination

My department, which is responsible for marketing, sales, and warranty servicing, obviously deals with all types of contracts and agreements with all of our customers. We will be able to talk to them about what we have seen here, about the new innovations we are going to introduce in our plant and we will be able to use the facts we learned during the study tour. We will be able to talk about what we saw, where, why those things happen and what types of consequences they have. We have all this information recorded about whom we met, where we met, and what we discussed. It will certainly be more convincing than just sharing one's personal opinions and observations. We can quote such well known and established companies as Amana, Whirlpool, or Toyota which have economic success in the U.S. and are proved viable. I will be able to share information on manufacturing organization, discipline, level of wages and salaries, status of engineers and top managers, safe water and cleanliness. Even when you approach the driveway of a large plant everything seems to be so neat and tidy. I will be able to quote specific companies and specific data.

Speaking about further dissemination, I would like to mention that my PhD dissertation is entitled "Competitiveness of Domestic Products in Current Conditions". Although I have the minimum number of articles published, I still hope to get two more published with my scientific advisor and I am pretty sure they will be published.

## **Case 9: Artur Sheyko, Sales Director, Busol**

### Company profile

1. Number of employees: 22
2. In 1991 on the facilities of a scientific-production institute a group of highly qualified engineers made a decision to manufacture specialized equipment for petroleum-refining, medical and engineering industries. In 1992 “Busol” Ltd was founded and continued the same activities.
3. During the period of economic difficulties the level of public utility services dropped considerably (difficulties with water, electric energy supplies, etc.) and the necessity for supplementary and energy-saving heating of the premises arose. Consequently the staff started scientific design work in the sphere of developing fundamentally new heaters. The first production prototype was made in 1997. In 1998 the company started mass production for sales.
4. The manufactured products include household heating fans, electric heaters, and convectors. At present “Busol” company rents 300 sq. m of production facilities. Their market share is 10%. Products are distributed through wholesale companies (60%) and trading companies (20%), the balance (20%) is sold by the company. Competition is low because the products have a unique heating element.

### Artur Sheyko presentation

There was more discussion on our study tour about the organizational structure of a company than we can absorb. There was some information about technology. The Tour Director obtained for me a heating element from the Amana plant and I will have to look at it and measure and find out the characteristics and consider replicating something of that type.

I was very impressed with the people and their relationships in the companies. The relationship with low level employees also reflects how the companies behave with other people. It also reflects the relationship between the management and the people who are working under them. Everything to do with the organization was very interesting and we will have to learn from it. It really doesn't matter if the company is big or small. The relationship between the management and the workers is very important and there are a lot of things that he can take back. It doesn't imply that we relate to our workers in a bad way, but that there are elements that we can improve. One thing we might do is to offer doughnuts and similar items. Also, it builds trust when the management and workers discuss together the plans and issues.

Question: When we visited your factory the walls were very dark. Will that change?

Answer: It is the corridors that you mean. We are just renting the space and there is little we can do about this. There are many things however in that plant that we have been able to improve, including the roof. If you had visited that plant two years back you would now be impressed with the improvements. We have been there almost seven years. Obviously in the old style office buildings you cannot put in a gas heating system. We are thinking about putting a new gas heating system in the new building we are building.

At Amana we learned a very interesting thing. Busol is currently manufacturing a heating system and they want to put together a heating and cooling system just like Amana is doing. Amana used to make window air conditioners and now they are making mixed units. For six

months you have cold weather and for the next six months you have hot weather. So one item sells for six months and then the other sells for six months. Now we are trying to combine the two together into one unit.

Busol has won a tender from an American company for providing just such a system for trucks. We have very good designers and assemblers and we have people who can do this kind of job and we have won several tenders. We don't talk about it too much.

Another factor that I have learned is that many parts should be subcontracted out to other companies.

There is another very interesting thing we have seen. In other countries people paint the product after it is assembled. In America the parts are first painted and then assembled. We saw that in Toyota, Whirlpool, Amana, and many other places. It is less costly painting before the sheet metal is formed and assembled.

I have taken a lot of photographs of the technical processes wherever possible.

Question: How do you think the new ideas will affect your manufacturing costs?

Answer: For example, Monolit wants to work with us. We are going to increase our production volume without increasing the number of workers. At this time we are making about 20 heaters per day. We can increase that up to 100 heaters per day. This assumes we will only be assembling the product and not making the components. We could have done this whole thing with other companies, but unfortunately working with the state companies is very difficult. We will not increase our margins much, but by increasing our sales volume we will see larger profits.

Question: How will the tour affect your sales?

Answer: We have already established some contacts with Russia since they have longer colder periods and obviously they should be able to sell this product in Russian markets. I have never worked with government organizations and it is very difficult to work with them, but ideally if everything works out fine, probably our volume will increase 5 times. We have to make it up in volume. Cost wise the government factories are not cheap. We are less expensive since we have less overhead.

We are going to develop a completely different design and of course it is difficult to see how the Russians are going to market the product. The new design might also increase our sales in Ukraine.

Most of the benefits of this tour will be in marketing and in the technical methods of selling the product, particularly in Russia. Whatever you see in books is nothing, but when you see it in the U.S. in a real life situation it makes a big difference.

Question: Are you going to develop a new brochure or change you advertising?

Answer: We already have a very well developed product booklet. We have also lined up advertising materials but not in the necessary volume since we are planning a great increase in production working with Monolit. Advertising costs are 10 to 15% of revenue. But the rest of

our products are being sold by dealers so the dealer does the rest of the marketing job. We have designed and printed these point-of-sales materials. We sell to construction companies who are builders of power plants and similar buildings. That is 60 to 70% of sales. The rest are sold direct.

We also sell to a contractor on a job for a transportation department that is buying them for use on trams, trains, and locomotives. An example is the heating systems for under the passenger seats.

I feel this program is very beneficial, especially for smaller companies and less so for large companies. The big companies don't do anything.

#### Dissemination

I have contacts with a lot of people and also the clients and suppliers and I am going to talk to them.

#### **Case 10: Anatoly Shevchenko, Chairman of the Board, Merefa**

##### Company profile

1. Number of employees: 200
2. The plant is located in the town of Merefa, 25 km south of Kharkiv. The construction of the enterprise started in 1982 with the purpose of producing special equipment for the military complex. The plant used to produce parts for military equipment and military relays (more than 2 million items per year). In 1993 the enterprise had to discharge most of the employees (800 employees formerly worked there) and to start producing consumer goods (car relays).
3. In 2001 the process of privatization started and the plant changed its ownership from state to collective (OJSC). At present the plant manufactures car and truck relays, relays for agricultural machines, electrical lighters for gas stoves, switches, sockets, plugs and other products for technical use. The company has all the necessary equipment for its operations.

##### Anatoly Shevchenko presentation

The first thing that impressed me was the absolutely independent, correct, civilized, relations among people. I also would like to say that at the manufacturing facilities we visited I did not see any signs of any violence or incursions or any dictatorship.

I would like to note that in the U.S. management systems I saw there were no conflict situations. The possibility of conflict situations are minimized among top level management, mid-level management, and blue collar workers. Also it is very important that they do not only impose on others at different management and supervisory positions, but just do their jobs. All personnel feel themselves as part of a team.

I was very impressed at the Toyota plant when they told us that they did not have a quality team of inspectors. This function is performed by the next employee on the line. That is something that I will be able to implement at my plant, because at present we have a department of technical controls that does the inspections. It is made up of white collar workers who inspect pieces at every stage in manufacturing. Of course we have all types of complex situations. For example, at the end of the working day, the team leader of manufacturing is interested to push

through the day's production and the leader of the technical control department is unhappy. I believe it is really much more effective that your colleague be auditing or inspecting your work. That is something I am going to implement at my plant.

Here in the U.S. I understand that the marketing function is now more important than production and after I learned of this concept I will be able to change things in a radical fashion in my plant. In fact, we considered the most important objective was to supply our products to market and that was our mistake. Because here we saw a very different approach in which product demand is studied so the question of what the customer needs is analyzed. And that is something I was really amazed at everywhere, at cafes, at restaurants, at the hotels. Everybody asks the question "What does the customer need". Bearing in mind this approach, we need to reorganize manufacturing at my plant. Just to give you an example, there will be somebody now studying manufacture of pens and conclusions will be made whether the pens should be made with a green tip and not with a red tip or should be that particular shape. Or perhaps that particular pen should be designed to be comfortable for writing. Then perhaps we should be making sixty percent of such pens and forty percent of another pen within a certain price range.

Now, unless I am mistaken, the following applies to both large companies and small companies. Ours was a push market. We were manufacturing all kinds of products and pushing them to the consumers hoping that someone would buy it. We would also come up with a design and then would say this design was good for everybody. But something I saw at the Toyota plant yesterday was the concept that they make cars for people; they don't think that people exist to sit in their cars. In the past we thought we were making our cars to fit on our roads. You know what our roads look like. Here I saw that you make roads to fit those cars. You have super cars and super roads. I sat in one of the Toyota cars and I could tell that they have very comfortable seats; they have a very nice air-conditioning system; their engine operates quietly. It all happened because someone studied consumer demand, accumulated and crystallized all the findings and came up with a given design.

It is also very important that plants don't just work independently on their own, whether they are large plants or small plants. Very often there is a whole organization system here with a very rigid separation of responsibilities. Some of the functions will be delegated to the corporate level such as marketing, design, sales, material supply, etc. while the manufacturing facility will have a lot of independence. The manufacturer's plant might be 200 km, or 300 km or 400 km away from the corporate headquarters. And that particular plant might be in a little village and be helping the village infrastructure. It will also employ most of the population in that particular locality which will resolve a lot of social issues. These people will be gainfully employed. They will not be homeless. They will be paying taxes, etc. What is very important is that there is a strict separation of responsibilities between the corporate headquarters and the manufacturing plant. For example, it probably makes sense to have our corporate headquarters in Kharkiv and the manufacturing plant in Pervomiask or Merefa, or some other location.

Another problem we have concerns our banking system. The first priority to our financial needs is to attract investments from other countries, from overseas, from the U.S., Germany, France, etc. and all those wealthy countries that should or might or could invest in this market. That is one issue. The next issue is to attract internal investments. Again, let me give you one example.

Let us say that we have accumulated certain funds. We put money away for a rainy day in case we get sick or injured, or our children need something. We never at this date keep money in a bank because our government cheated us twice of our savings. We do not trust our banking system any more. And that situation should be changed. The government should do something to regain our confidence and protect our savings. There is also another issue here. If banks can accumulate people's savings, then they should be able to provide loans, not at 35% interest rate per year but at 2 or 3% like they did 20 years ago when we could apply for a loan at a bank. There is a need for national bank deposit insurance.

I would like to thank you all at the Center for Economic Initiatives for everything you have done and everything you are doing. I would like to say that your mission introduces into the life of Ukraine a lot of good will, a lot of usefulness and hope for the future. The relations between our countries are at this point honest and open and you have opened the doors yourselves. I was under the impression that there were no secrets at the companies we visited. You came from the mountaintops with a mission of goodness and kindness. It was like a fresh wind. It was like the smell of spring in the air when everything is blooming. And of course I talked with the other tour members on the bus and we thought it was so neat because we were able to see things we would never have been able to see anywhere in our whole lifetime. Of course you should go on with what you are doing.

#### Dissemination

When I come back home I will deal with the current company matters for the first three days and then I will invite all the employees at my company to a meeting. I am going to tell them about my experiences here in the U.S. and I am going to show them the footage of the video tape taken on the tour, and I am going to get the pictures printed. We have about 200 to 250 employees.

In the next stage, in our town we have sessions of our Executive Town Council which is attended by top managers of all plants and high school principals, etc. So again, I am going to tell them about my experiences, I am going to show them the video tape pictures, and of course I have seen a lot of interesting things that they cannot see otherwise.

We have discos in our town attended by teenagers starting at the age of 15 and older. We can talk at those discos for 10 or 15 minutes under the auspices of a political party or to promote a certain political candidate. That is another dissemination method I can use. For example, a given disco may be scheduled at 9 pm and there will be an announcement that for the first 20 minutes I will be sharing information about my visit to the U.S. I will be telling those young people who will be very interested about life in America at present, its plans for the future, and the way the U.S. is developing its relations with other countries.

Another dissemination method is of course newspapers and printed publications. That is something I learned during our election campaign. I believe that publications are not very effective because people do not read newspapers to start with and they do not trust the printed word. What really works is personal one-on-one contact. That is very easy for me because I visit schools; I visit hospitals and all kinds of meetings. Sometimes it will be enough for me to talk for 7 or 8 minutes and show the pictures and other visual materials.

## **Case 11: Oleksandr Gusyatnik, Marketing Director, Kommunar**

### Company profile

See profile for Yuriy Radchenko, also from Kommunar.

### Oleksandr Gusyatnik presentation

Because of this tour I have had a chance to visit lots of companies. For example we have visited the Whirlpool plant where they make clothes washing machines, food mixers, and other products. We saw very high productivity in two plants. They take very seriously new product development and the quality and reliability of their output is very high. They have laboratories where they go through very rigorous product testing for both their washing machines and vacuum cleaners. We have also been to the distribution operations of the company. We went to see a shop where they sell Kitchen Aid mixers. The good thing about that shop was that there was a demonstration of their products so the buyers can see their capabilities and learn what the products can do.

I liked the Amana air-conditioners. We saw all the line of products made by that company. I was impressed by the quantity of products produced in that company. There was the quality of the products that satisfy the client's requirements and the prices were very competitive. I asked them to open a subsidiary operation in Ukraine.

Of course one of my strongest impressions was visiting the Toyota Motor plant. I have been to the automobile production plant in the former USSR but the Toyota plant production and everything we saw was completely mind boggling. I asked the people at Toyota how they were going to surprise us in the next couple of years. They are already working on a new line of cars for the U.S. and Central Europe. I was very surprised that Japan could invest \$5 billion in that plant and the State of Kentucky invested about \$300 million in the project. The volume of production was fantastic. I got a surprise regarding the amount of market share Toyota has captured.

Question: What ideas do you pick up that you are going to be able to take back and use?

Answer: Of course I am responsible for the marketing of the products in our company. In almost all the companies I asked the same type of questions about the techniques of marketing and their product warranty. Most of these techniques are so well done that they can be replicated back in Ukraine. For example, the Toyota Company gives a three year car warranty. For the engine and transmission it is about 5 years. The power train is warranted for up to 100,000 miles. Obviously people will buy those products so it is very understandable that their products are very competitive.

Question: How can this information help Kommunar?

Answer: Kommunar produces television sets, arc welders, water meters, and electric meters but the costs are too high. We have to work hard and reduce our production costs. We have to work on new designs and new products. For example, we learned at CM Associates that the quality and the look and feel of our product is still not good so we have to work on that one. For example in Toyota there are 7,000 people working and they produce a huge amount of products with lots of robots. Basically we have to work hard to reduce costs and we have to introduce new methods and techniques.

Question: What are you going to do to double your sales?

Answer: I understand that it is important to produce products that are saleable in the marketplace. I am having a tug of war with all our designers and manufacturing people. I give them the price of the product in the market. We are trying to modernize the water meters which were introduced two years ago. We are now the second largest manufacturers of water meters in Ukraine and we are number one in electric meters. We still need to reduce costs in order to improve profit margins.

There is no doubt that this program should continue. This is my second visit to the U.S. and I now have the practical knowledge of seeing American production units and I feel that this tour program should continue to be developed. New groups should come to the U.S and see with their own eyes a normal and stable economic system.

#### Dissemination

After I return to Ukraine I am going to write a report and I am going to present all my recommendations to the Technical Board. I will report all the objective points I have learned to the Board. There are a lot of things we have learned here. I have written all the information in my notebook and I will put all the information together systematically. Wherever it was possible I took photographs. This information will be available to the chief design engineers and others in the company.

I am also in the admissions department of the technical institute. I deal with the students who intern in our factory. I will pass on all the information to both these groups of students.

#### **Case 12: Vyacheslav Dykin, Deputy Director, Monolit-Romantika**

##### Company profile

See profile for Oleksandr Lysov, also from Monolit-Romantika.

##### Vyacheslav Dykin presentation

My major objective for this tour was to learn how to organize management in all its aspects efficiently at our plant. I am vice president of design so I am technically the chief designer at our branch. I was specifically interested in all matters related to design and marketing of new products. I am the only tour group member with a tape recorder and I probably had to spend more time than anyone else summarizing each day my notes. By the time we got to the hotel I listened to the tape again and tried to glean the maximum information from the reporting and then wrote it out. Otherwise it would have been impossible to write things down fully as they were described at each company visit.

Of greatest interest for me were the visits to Whirlpool, Royal Appliance, and Amana. Those companies are most related to what we are doing in terms of household appliance manufacturing and in organizational flow and functions from marketing to sales to warranty service.

Management structure was different in different U.S. companies. When I come back home I will make sure to report all the different scenarios or charts here so that our team will be able to accept the most effective option and adapt it to our situation.

My main conclusion is that management control should permeate all the stages of company operations, especially in marketing and warranty service. I am also interested in the incentives that are provided in the U.S. for higher quality of production and also for fulfilling quotas. It is very important that workers not be fined for underperformance and defective products.

I also strengthened my relationship with the other tour group members and I hope that we will work in partnership with the Busol Company represented by Artur Sheyko and also Piranha which is Volodymyr Tymchenko's company. Just before my departure on this trip a decision was made on joint manufacturing of heaters with the Busol Company. So Busol will be using our facilities since they do not have enough manufacturing space of their own.

Regarding cooperation with Volodymyr Tymchenko's company, I would like to say that my plant has launched large scale production of a variety of lanterns and lamp - lights. For that we will need powdered paint coating that Volodymyr's company produces. In this connection I would like to say that it is really regrettable that we didn't visit General Electric. For some reason they turned us down.

I was able to get brochures from the Whirlpool, Royal Appliance, and Amana companies. Basically our proposal is to create some kind of partnership to manufacture their products at our facilities in Kharkiv. I believe this would work since our plant was certified for ISO 9001. We have experience of manufacturing for foreign markets. We have several joint ventures now operating. I will be very happy if any kind of joint operation becomes established. Amana is preferred. I am also interested in the Cincinnati plant making furnaces and air conditioners.

I have all kinds of interesting notes here. For example, I devoted the most space in my notes to Royal Appliance because they were very open and told us a lot. The Director was excellent and took us out in the main plant. He mentioned that they had implemented the newest computer software for quality control. They also constantly update their website on the Internet so all the suppliers can get up to the minute information about the minutest details of their production. So far I have recorded several new software programs. I am familiar with some but not others. I study them when I return to Kharkiv. I am familiar with programs for the engineer but I am not familiar with EDI (Electronic Data Interchange) interfaces and that is something new and interesting to learn about. I am also familiar with Oracle.

Question: What did you find different about organizational structures?

Answer: For example, at one of the companies we visited there is a position of vice president for marketing. All their designers and sales personnel report to him. Not only is he looking for new manufacturing partners, not only does he set objectives for designers, but he also works with the sales force. So you can see all those different functions reporting to one person.

At Amana, as another example, there is a special committee which is convened by a senior vice president, and at this meeting the marketing department presents their suggestions and proposals. But the decisions are made by the whole committee. This particular option looks more like our system. I will have to study it very carefully and make certain adjustments for our company structure.

Question: We visited Monolit in 1995 and we had the impression that Monolit had little idea about marketing their product.

Answer: That is probably true. We never had a marketing department but this new function has been created recently. The marketing department now has only 3 people and one of them is Alexander Lysov on this study tour. That is at the corporate level. In the branch where I work I had to assign the smartest designers to perform the marketing function without waiting for the marketing corporate function to come to me. Of course now we have to develop this function, strengthen it, and train people.

Another very important observation here is that, for some reason, we do not have much warranty servicing. That is because our manufacturing plants are really scared of producing defective products. So we have a lot – maybe too many – barriers. As a result, nobody makes satisfactory output. Here I noticed that the companies are more satisfied with having something like 7% rejects or defective products and then they have a system of servicing them and getting rid of those defects. This system is in place and the products are shipped out. In Ukraine they do not have a system for handling repairs. The product warranty is not that developed. That stifles manufacturing since nobody wants to bother with warranty service. That is why we just don't attain product volume - because they get stifled.

Here I came to the conclusion that we are following the wrong track because of our fear of producing low quality or defective products. We were decreasing our volume intentionally. We were decreasing the work load of employees. That is wrong. We need to follow the model of the U.S. and we will get more jobs, we will increase our volume, and increase our margins.

We learned about designing to specifications from the Japanese. I went to Moscow last year as a Canon representative and as you know we are manufacturing record players and tape recorders. The idea that the Japanese are using with all the motors, heads, and other items is that they are built within a very precise life expectancy. With us, our standards are about double or even triple their life expectancy.

#### Dissemination

Speaking about dissemination, I will certainly make a report at our weekly briefing attended by 200 shop superintendents. So everybody at our plant will know about our trip and we will be talking with about 5,500 employees at our corporation. Of course I will have an article published in our factory newspaper. One of my photos even showed up in one of the American papers here.

I think that study tours are a must to continue because they are very useful.

#### **Case 13: Igor Zhdanov, Commercial Director, FED**

##### Company profile

See profile for Valery Fadeyev, also from FED.

##### Igor Zhdanov presentation

First of all I would like to thank you for the opportunity I got to visit your most interesting country. What I found very interesting was that there is a place for everything and everybody here. I think that only lazy people are not able to earn money here in America. Those are my most general impressions. The most important finding for me is that we in Kharkiv are not really idling. We are looking for different ways to solve our problems. It is not easy, it is tough, because we do not have enough experience, but with trial and error methods I believe we will manage to find the correct route and what I saw here in America confirmed that we are on the right track.

As I represent the FED Corporation, here I found confirmation of the fact that corporate ways of doing business or corporate operations dominate in America today. I also learned that there is no need to re-invent the wheel and it is much easier to buy parts elsewhere than to manufacture them ourselves. I saw in America that there is very narrow specialization.

Of course I was primarily interested in marketing methods in addition to manufacturing techniques. The most important thing I learned is the customer oriented approach, because often we still use the obsolete philosophy. "Well, let us manufacture something and then hopefully we will find a market to sell." But here I saw that quite the reverse approach is practiced. Basically everything is based on what the customer wants. I can speak for quite some time, but why don't you ask specific questions if you have them.

Question: What marketing things did you learn that you will be able to go back and use in your work?

Answer: Well, like I said, it is very important to start any manufacturing operation with what the customer wants. That is an extremely important concept and it changes the whole production structure.

Another finding here is the corporate attitude to their distributors such as at the Toyota plant where I learned there that they sign an agreement with their distributor which defines their mutual responsibilities in the case of disagreements. For example, Toyota will not work with another distributor closer than, say 10 miles. In other words they encourage only healthy competition as opposed to unhealthy competition. The distributor is the sales department of the company in that area and needs to be supported and encouraged. We use a similar approach for our sales personnel; we have divided them up geographically so different persons will go to different areas of Ukraine. We do not try to pit one against another. We provide the same discounts to each of them so they all have equal terms. The results are obvious because formerly we used to sell about 300 or 400 bathroom fixtures per year but we now sell up to 6,000 bathroom fixtures per month.

We are responsible for the overall advertising function so we do provide the sales groups with brochures, calendars and all kinds of promotional material and we also have a web site. But I do not think those methods are as effective as personal contact. When our distributors go around the country meeting people and selling their products, this approach really works.

We do not use aggressive advertising such as I noted at Frontgate. They approach their customers in a very aggressive manner. We have studied the market and we know the tastes of

our consumers and I would like to say that our bathroom fixtures are classic in style. We cannot really compete with the Italians who produce more up-scale models. Our prices are low and our quality is pretty high. We have found our niche and I would say that we dominate this niche.

Question: What have you learned on this tour that will enable you to do a better job when you return to Ukraine?

Answer: I would say that I don't plan to do anything different because basically what we have found by our trial and error method, by our mistakes and by following our solutions was correct and I got confirmation of that here in America. Probably we are not doing marketing as aggressively as we should have, and I am going to tell that to my employees, and Valery Fadeyev will tell his employees in his department that we should get serious, we should be doing the same marketing things but in a more structured manner, in a more rigid manner and in a more aggressive and prompt manner. The trip helped me crystallize those ideas and confirm that what we are doing is correct. We should be doing the same thing but in a more dynamic and aggressive and timely fashion.

Today our manufacturing volumes are far ahead of our sales volume and one of my goals for the study tour was to learn how to sell better. Of course it is obvious that one should have a certain goal or objective in life to be able to reach it. Once this goal is set today we need to set realistic methods of reaching it.

Question: Do you have a brochure for the bathroom fixtures? CEI has never seen one.

Answer: Of course we have one but somehow I forgot to bring a copy with me. When you come in June I will be sure to give you a copy along with a small calendar.

I was wondering if you were going to have study tours in different areas such as in health care for example. I would be happy to recommend people since, as I understand it, health care is organized very differently in this country.

When I was thinking of coming here for three weeks I was apprehensive because normally I go on business trips one day, two days, maybe a week to take part in a trade show. I usually start missing my family soon. But yesterday someone asked me "Do you miss your family" and I caught myself thinking that there really isn't enough time to miss my family because the trip is so intensive. Personally I realize that I have not had time to see a lot of things here in manufacturing and I understand that we really have a lot to learn.

### Dissemination

Speaking about dissemination, we had a wonderful opportunity to communicate and get to know each other better in the tour group. We did not waste our time here. We had a group meeting once a week and we discussed our findings during that particular week and also discussed our conclusions. I would say that our group was unique because it was very diverse starting with small sized companies such as Piranha and ending up with large giant firms. I would say that the different layers of Kharkiv commerce and manufacturing were represented. It was very important for us who represent large plants to learn about the problems of small business and vice versa, for small business people to learn about the more global issues large companies face. We learned a lot from each other and I disseminate at different levels of information exchange.

All of us will be talking about our findings at our companies which will be the second level of exchange.

Personally I have had time to think about marketing improvements because we traveled a lot on the bus. What I am going to do is to compile a photo album of pictures from this tour and I am going to share them to my colleagues at my company, concentrating upon manufacturing and what is especially important in marketing and organizational issues. As Commercial Director I obviously have many contacts, not only with Kharkivites and Ukrainians but also with people of the former Soviet Union and of course I am going to share with them the different sales methods I saw here because that is our common problem, the problem we all share, how to sell our products.

I have extensive television contacts with people in Kharkiv and also many TV people are at our plant all the time because ours is one of the few highly profitable companies. We are a taxpayer of Kharkiv and our taxes exceed one million hryvna per year (\$190,000) which makes us very popular with the television people and somehow they are here all the time. I also have all types of contacts with lawyers, businessmen, and the press and I think I will be able to use my personal contacts to initiate TV coverage of the tour.

**Case 14: Oleksiy Mushtai, Deputy Director & Marketing Director, Mayak**  
Company profile

1. Number of employees: 92
2. The company produces heating boilers designed for heating premises for areas of 100 – 1000 sq. meters. The boilers are for commercial and residential use. At present the company is in the process of designing a mobile boiling facility. The company does not provide installation. The products are sold through distribution companies, which provide the installation and sell directly to the customers.
3. There is a sales department and a marketing department. The company advertises in specialized trade media (magazines and newspapers).

Oleksiy Mushtai presentation

I cannot say exactly what I can implement from what I have learned here. I will think about that. I saw many interesting things here and I took many notes, especially when we were riding on the bus. There are many issues that I will have to think over at my company.

There is one thing I learned that we can implement. Until recently we were using piece work payments. I made a very definite conclusion that we are going to start using an hourly payment scheme for wages and also salaries.

Another objective I wanted to explore here in the U.S. is to look at types of equipment companies use here. Ours is a recent start-up and we don't have wide access to different kinds of equipment. Another concept that I liked in the U.S. is that a lot of companies are strategically located in free economic zones or in zones where many economic incentives are provided, especially firms located in economically depressed areas. It is tougher for us because while we do have certain incentives for investment in the City of Kharkiv, we are in the Kharkiv Oblast.

The amount that our local city councils can offer is insignificant - something like \$200 per year which is nothing.

Another objective of my trip was to familiarize myself with accounting software as well as financial planning software. We did not visit very large companies that are using our software programs, but when we visited Royal Appliances in Cleveland, who are Hoover's competitor, I was very happy to learn that they use the same accounting software we purchased last fall. Whirlpool was also using financial economic software and they were also using CAD (Computer Aided Design) software. It was also very important that we did not observe a lot of vertical integration in U.S. firms from the beginning to the end of the tour. On the other hand we did see a lot of horizontal integration such as assembly lines at a lot of the companies.

It was also a priority for me to look at the recruitment policies at the companies here. I learned that very often, for blue collar and entry level positions; they recruit high school graduates without any specific skills and just train this person on an ongoing basis. They will train him or her on one operation and then move on. We use a very different strategy since we require at the beginning very high qualifications such as a 6 or 7 school degree in a certain craft. Those people are hard to find. I believe we should change the technology of our manufacturing so we would have a wider choice of potential employees. In our city and district it is impossible to find highly trained people. During the Soviet times we had training programs at many manufacturing facilities. Of course after the breakdown of the Soviet Union for a small company like ours it is not really cost effective to keep an extra person as a trainer. To do that we would have to change much of the whole manufacturing cycle and of course it is not up to me to make this decision. I will have to present this issue for consideration.

Another factor that I liked here is the interaction between the manufacturer and the suppliers on the one hand and with the distributors on the other hand. By this I mean their financial transactions. In our country we must provide 100% advanced payments so we always have to pay in advance. Here we learned about payment terms such as 30 days net 10 starting with the very first company we visited at Zicka Model Homes. If such a system were in place in our country we would be very happy to charge our distributors or our dealers 10 or 15% in advance and require installment terms for the remainder. At this point we have to collect 100% advanced payment. At this time our clients have to take a loan from a bank but the bank charges 1.5% per month interest rate which comes up to 25 to 28% per year which makes it prohibitively expensive for our customers.

The same is true for a car and I don't really want to talk about it. That is 100% up front in cash. That is what we do all the time. It is a very sensitive issue and there is no other alternative.

Question: Will you be able to reduce your costs based on what you have learned here?

Answer: I cannot really give you an exact number percentage but if we start hiring untrained workers as opposed to highly qualified workers, we will certainly be able to reduce our payroll costs and that will drive overall costs down. If we talk about design software we will be able to let 3 or 4 draftsmen go. In other words we will be able to get rid of redundant work force. If we are able to locate assembly in a free economic zone, we will be able to decrease costs by about

15%. These are the issues which will allow us to reduce our costs and I am not able to say right now in what kind of time frame this can be done.

Question: Did you learn anything that will help in your marketing activities?

Answer: Although most of the plants we visited did not do their own marketing because that is a corporate function, I did ask marketing questions and they did answer to the best of their ability. I would say that we do not pay any attention to the aesthetic design of our products. We do not use labeling or instructions, energy declarations (how much energy is used and saved) and that is something we saw at CW Associates in Tinley Park where they were using round boilers for placing their labels and warnings and instructions.

We started working on customer service including the use of 800 numbers. I noticed here that all those customer calls are routed to employees of the company call centers. In our country, although there some 800 numbers available, they are owned by another agency and so the employees of that other company answers those customer calls - not our people, which is dangerous. So I would like to do all I can to get my hands on one 800 number. We have a TV commercial that is almost ready, but I am somewhat hesitant about running it on television because of this 1-800 number situation. Being marketing director I am responsible for all that. At this point I am not really sure that we should do it right now.

I have a very pressing question here. I am wondering why a lot of companies, maybe 7 of those we visited including the three Whirlpool plants are union free. Is it because of a certain pressure, or are there any other reasons.

We do not have a union at my company and most likely we are not going to have one. I have some reservations trying to weigh the pluses and minuses. At the Amana Company which is unionized I noticed that there was something wrong there. Something was not working as well there as at the other companies that were union free.

I think that the study tour is very useful for Ukraine. In fact, I would be very happy to participate in the next program. Some of the tour people have been to the U.S. before but it was my first time so I am very pleased.

#### Dissemination

After I go back I am going to do something which also will serve as advertising for our company. I am going to provide information to the local paper that our company took part in this program. I am not particularly fond of public appearances. I am camera shy and it is problematic for me to speak on television. I prefer to work behind the scenes. One of the things I can guarantee is to get an article with pictures in one of our local papers. Our group will also probably get an article in our oblast paper. It is free advertising.

#### **Case 15: Oleksandr Zherlitsyn, Director, Okmash**

##### Company profile

1. Number of employees: 20
2. The company was established in 1988 to provide technical assistance to agricultural companies in mechanization of time-consuming operation services; and to manufacture non-

standard equipment. The company originally began manufacturing bulldozers, cabbage-harvesting combines, and units for harvesting sunflowers. Later the company started manufacturing parts and components for agricultural machines. At present the company manufactures equipment for the bakery industry including: containers, carts, bend conveyers, hauling chains and their parts. 90% of the output are equipment, 10 % are spare parts and components.

3. The company has long-term agreements with 60 Ukrainian companies to sell products to them.

#### Oleksandr Zherlitsyn presentation

I started work in the aviation institute and I have seen all the Soviet industries. I was surprised by the Toyota plant visit compared with what I had seen at the Toliati plant that makes the Soviet version of the Fiat. At Toliati they produce 2,000 units per day with basically 50,000 people, as opposed to 8,000 employees in the entire Toyota plant.

What I really liked at Toyota was the attractive outside façade and all those production achievement banners, the free press, and the very casual atmosphere.

Twice a year different agencies came to the Toliati plant to verify that uniforms had been given to the workers and that they were wearing them. In Ukraine each plant is required to provide uniforms and this is something I did not see here.

Of course there is a high demand for quality in the U.S. and there is a constant study of competitors making similar products. And all competitors always have very good laboratories. They verify in their labs both the product and the packaging. In all companies the safety issue is a very important one. There are all kinds of safety instruction notices such as “the floor is wet and slippery”. Also, everybody wears protective eyeglasses.

There is a very negative reaction to people who don't work and invariably they will be terminated. It is very difficult in our part of the world to get those unproductive people out. Unions are a very serious problem back home. The city council also has many rules regarding safety and other matters back in Ukraine. It is very difficult to fire any people. They cause constant trouble and the factory discipline keeps on falling when you allow a disruptive worker in the plant. I liked the U.S. practice of hourly and overtime payments. In some companies they have incentives by giving special fruit gifts. They make weekly payments to workers in some companies. And finally they give a very high warranty to their products. For example, in Amana they give a lifetime warranty. They have a very well defined network of dealers. I saw a large flow of traffic on the highway without many traffic jams, attesting to the general prosperity.

I have decided there are a lot of things that I like. The first thing that I am going to do is that I am going to give a face lift to my whole factory. That means landscaping and other things because this creates a special reflection on the company.

In Toyota there is a banner that says “Your quality will be verified by the next employee”. That means that the next inspector is sitting next to you. I will also expand my dealer network in other regions. Of course this operation will take a few months, maybe half a year.

My company makes the racks that go into ovens and CEI has seen them in bakeries. We have been providing various types of rollers made from two different types of plastic and also aluminum and steel depending on the temperature used. Products similar to the ones we make are widely used in the U.S. For example, in the U.S. factories where they make vacuum cleaners, the workers on the conveyors have parts brought to them on racks like ours. Basically racks have multiple uses.

We have had a group discussion about the name of our company which is very long and complicated. It could be abbreviated to Okmash which could stand for OK Machine.

I liked the automobiles in the U.S. and the fact that everybody can drive, stay in good hotels, and get very quick reception service and amenities. Most of the motels are equipped with a swimming pool. All the gadgets in the bathrooms work very beautifully. The American shops are very wide and open with lots of light and there is a large choice of goods. Electronics are very cheap.

Question: Where do you market your products?

Answer: To bread making plants throughout Eastern Ukraine.

Question: Have you considered supplying plastic trays for the racks you sell?

Answer: We would like to see how they are made. Lots of people are interested in buying them. We have been thinking about that. I will give this information to my construction people.

I liked the composition of U.S. roads. We have been traveling for many days and everywhere the roads are of a very high standard.

It is better to pick up four people and continue this program from smaller companies who can quickly do something in their companies. Not those big companies who cannot move things very quickly.

Question: Will this tour have an impact on sales, costs, profits?

Answer: Of course. It will have a lot of benefits. I will try to increase the number of dealers in the Kiev area and then work with them. Technically we are quite capable of increasing our production but it is a question of our dealers – the marketing. I think it will increase by 30% based on what I learned here.

### Dissemination

The first thing I will do is to speak with all my management staff and to all the important people in the decision making chain. Then I am also going to talk to the neighboring companies and explain to them what I have learned. I will also speak about the Cincinnati airport which was really very impressive. I took lots of photographs. Our group will take part in a city television

program and talk about all we have seen. I am going to make a video with lots of pictures I have taken.

### **Case 16: Oleksiy Izotov, Deputy Marketing Director, Kommunarschetmash**

#### Company profile

1. Number of employees: 270
2. The company is engaged in manufacturing water and electric meters. In 2002 the company started manufacturing 6 new models of electric meters and 2 models of water meters. The meters are used both for domestic and industrial purposes. Production volume of electric meters is 36,000 items per year. The company market share for all types of electric meters is 7 % and for electronic meters is 80 %.
3. The production of water meters started in 2000. By the end of 2001 the production volume was 10,000 items per month. In 2002 the company is planning to achieve a volume of 15,000 items per month. The market share for water meters will be 15 %. In Ukraine electric meters are also produced in Kyiv, at the Kharkiv Plant of Electric Devices, in Zholtve Vody, Feodosia and Dnipropetrovsk. Water meters are produced in Lutsk, Donetsk, Rovno, Kyiv, Sumy and at Kharkiv Plant of Electric Devices.
4. The company has 9 distributors, 4 of which are located close to the enterprise, 2 are located in Russia and 3 other distributors and 12 dealers are in Ukraine. The company advertises in mass media, in metro and at trade-shows.

#### Oleksiy Izotov presentation

We are negotiating with Motorola right now so we will be using all the new expertise we learned on the tour, all we have learned here in the U.S. in our new business plan and new product development. We have already signed a memorandum of understanding with Motorola. We are going to produce cell phones for Motorola in Ukraine. Under the Nunn-Lugar bill we received \$3.2 million and are developing a relationship with the Federal Systems Group. This is a group of fewer than 15 people who buy all kinds of military hardware systems. The Federal Systems Group of Motorola suggested that we manufacture these cell phones.

I was most impressed by the relationships between people in industry, by the products, and by every aspect of U.S. industries. The company organizational structure is built up in such a way that employees give a maximum effort and the productivity is very high. Production costs are constantly being reduced and I learned how these costs are being reduced. The employee who puts his heart and soul into the work has it reflected into the quality of the product. The more he puts his effort into the product, the greater the value of the product.

Question: What will you be able to do back in Kharkiv to improve productivity?

Answer: Basically everything to do with the whole cycle of production, the functional elements of the company and the relationships between people. Most of the production here is in a closed cycle so there is not too much difference between the U.S. and Ukraine, but it is the corporate functional elements, relations with the workers and the management that are different. In the U.S. there is a very well defined function for each individual working on each task, with excellent cooperation between each of the individuals. The quality control system is very well established and in place. We have a separate quality control department but here the quality is

controlled right among the employees at the grass roots. Our people who are dealing with quality control have lower qualifications than the people doing the jobs.

In Ukraine we do not give much attention to the market and we need to concentrate on that one. For example, we lost a contract for the production of television sets. At this time the TV set production volumes are falling. Competition among firms is very aggressively pushing their higher quality products into the same niche. We lost the contract since our price was very high and we need to work on reducing costs. We need to work ourselves out of the break even point. Our marketing is very weak. We should have looked in depth into our competition a long time ago and taken all kinds of corrective measures.

Question: Did you learn anything on this tour that will help with marketing?

Answer: I got some information and it would have been better if I could have met with some of the marketing people directly. In that way I could have found out how some of the marketing calculations are done. I would like to know how the work with the distributors is done and how the product is priced. We calculate the price based on the production cost and then we add something for taxes, transportation and other costs. The government formerly would say that they are not interested in that price so they would set another price. And then they would give the company a subsidy. The cost made no difference in the price of the product. This was all before Perestroika. Now we are out in the real world and we have to survive in our own. We have to do everything from square one because of the free market; we are making changes in the plant because of the new products. We have to do a lot things including reorganizing.

Question: What are you going to recommend when you go back?

Answer: Our situation was very similar to that at Royal Appliances where the competition was forcing them out of the market and they had to come out with innovative new products such as the TeleZapper. We will probably have to do something like that.

Question: Did you see any products in the U.S. that could be manufactures and sold in Ukraine?

Answer: Most of the homes in Ukraine don't have upright vacuum cleaners. I think there is a market for horizontal vacuum cleaners.

### Dissemination

I am going to talk with a lot of people who work under me and I am going to try my best to get them tuned to the American way of working.