

RePro | Real-Life Business Projects in
Project | Multicultural Student Centered Learning



RePro Case



Baibinya Ltd
Woodprocessing Company

INTRODUCTION

Driving along Riga – Moscow motorway, 5 km out of Rezekne one should take turn to the left. Gravel road of good quality leads to the centre of one of Rezekne district's parishes – Stolerova. Probably name of the site comes from Russian "stolyari"



which means – "carpenter, woodworker". Small village seems neat and tidy. Although registered unemployment rate in Rezekne district comprises 27,3% of economically active population (data on 31 December 2003; in Latvia average rate 8,6% in 2003), Stolerova's corresponding data is more optimistic in comparison with the district - 13,7%. The parish has 789 inhabitants. Many of economically active population commute for work to Rezekne city. The local company "BAIBINA" Ltd ensures work for 30 village men. After 2 km out of the village large piles of logs catch sight. 2 large storages, couple of trucks with loads of timber, and smiling young man coming across – visitor has arrived to the wood processing company "BAIBINA".

HISTORY

The office is located in cosy log-house's second floor. There are 2 rooms – one for the manager Imants A., the first which one enters the secretary sits and there is another workplace for sales manager. The company became known during last 5 years as a producer of log houses. Nevertheless the company's history is already 10 years long, which is solid age for Latvia's small private companies.

Everything started 10 years ago in 1996. That was the decade (1990-ties) when many people in Latvia regained their properties after the Soviet rule. Land plots, real estates were privatised by descendants of former (before

1940) landowners. Some of regained heritage was sold because for organizing economic activities it was necessary to have financial resources, knowledge, ideas, and entrepreneurial spirit after all. However a couple of young daring men made use of timber forests belonging to them, constructed themselves sawing mill with several machines, and started production of timber planks for construction and timber sleepers for railroads. Imants A. joined his friends 5 years later in 2001. Construction business steadily started to increase in Latvia after economic decline. Value of ecological products – in food, clothes, household, construction, etc. – became popular on threshold of the 21st century. Upper middle class customers building their summerhouses preferred to use timber construction materials. In addition the significance of *pirts* (*bathhouse*, kind of sauna, or Russian *banya*) culture for Latvians is undoubted, and ecological *pirts* supposes that it should be built of good quality conifer logs. Thus Imants arrived in the company with the idea about producing log houses. The owners re-registered the company that after had 3 owners – Dainis and her spouse having 70% each, and Imants owning 30%. The company operates with profit.

LOG HOUSES

Cheap second-hand machine tools were bought from Russia at the first year. Afterwards one machine local constructors assembled themselves. as experts were involved. So started 5 years period



when the main activity was production of log houses and timber. With the existing resources it was possible to produce 7-9 objects a year. **Imants** consider that “BAIBINA” was the first company in the region that offered qualitative log houses. The process of production is divided in 3 stages: preparation of logs and timber, assembling the framework of house, delivering it to the customer, and assembling it on the spot. The longest stage is preparation of logs. Wood should be cut in winter when it consists the least

moisture. Conifer wood (pine, spruce) is used for building log houses that costs more than soft wood. Then logs are processed – skinned, turned, and



planed. Afterwards – at least 4 months of ventilating in draughty premises. After ventilating timber is considered qualitative, logs are dried and ready houses don't crack after construction. It is necessary to prepare 300 – 400 m³ of timber for work in

summer. With current price of conifer wood at least 30 000 LVL should be invested in January.

During last 5 years most of buyers of log houses have been tourism enterprises. "Ezerkrasti" (Rezekne district), "Sidari" (Kraslava district) are the most popular among the tourists visiting Latgale – the Blue Lakes Region. "BAIBINA" hasn't used advertising or promotion campaigns, rather being popular and advertised by "word of mouth" of satisfied clients. Coincidentally 2 log houses the last year were exported for 2 customers to Germany.

Imants explains why company has decided to give up this business activity starting from this season. The first reason, is necessity to freeze significant amount of finances for 4-6 months. It makes technology expensive. Secondly, it is difficult work with clients: the explanation work takes a lot of time, and only one of 20 or 30 of negotiations would end with contract. It has been very time consuming: share of log houses



in turnover of the company comprised 20% although share of time spend for serving customers was much larger. Lack of foreign language knowledge

doesn't allow communicating with foreign partners. Thirdly, just 15-17% of purchased timber could be used for production of log houses; rest is to be sawn in planks. There were problems in selling conifer planks because they are expensive and there is severe competition in planks' production. The last but not the least reason is the quality of the houses. The first season we tried to assemble the entire house from A to Z, or from floor to door key. Details finishing material was purchased from suppliers. It meant that "BAIBINA" had to bear responsibility for the quality of all details, and they weren't sometimes. Then we made decision to sell log house as such – roof and walls' constructions.

Asked if "BAIBINA" could renew again production of log houses Imants quite certainly answers "No".

PACKAGE PLANKS

2,5 years ago the idea about production of packaging planks was born. For packaging planks cheap low-grade soft wood could be used – alder, birch. Prices of conifer wood rapidly increased 2,5 years ago. That was one of the reasons that made log house production more expensive and the company was forced to look for new products from other raw materials. The company owners made a decision to receive a bank loan and together with private resources to invest 100 000 LVL for purchasing new production line. The credit was used to renovate premises that were acquired from the local municipality for production of log houses. Disadvantage is that the company still doesn't have its own "dry house". New regulations for transportation of timber came into being at the beginning of 2005. They are related mass and length of freight. Instead of 57 tons just 40 tons is allowed now. This makes more expensive transportation costs. Transporting costs at the moment are 4 LVL per m³.



CARGO PALLETS

To add value to the planks it was decided to attract neighbouring company as a subcontractor, which has a production line for producing pallets using packaging planks. Using subcontractor means being dependent on their problems, quality. And the company has decided to produce pallets themselves. The production line at the moment is ordered in Denmark and within few moments will be delivered and installed. Imants clearly puts the reasons for that decision:



The first, production costs of pallets will be lower because of using machine work. All the competing companies (80% of those offered in the market) in the region use handwork. The second, the

company won't be dependent on market prices of packaging planks, which is very varying. Price of pallets is relatively stable both in Latvia and Europe.

The financing source for the equipment is private investments, own resources. Advance payment is 20%, at the moment of installation the equipment – 60%, then – rest of the payment.

The added value of *pallets* will be higher as “BAIBINA” will ensure all the production process.

SLEEPER LOGS

The company still produces sleepers (10%). For production of those low grade



material of conifer wood is used. There exists quite high demand for this product. “BAIBINA” sells it to intermediary company, which exports sleepers to Ukraine and other countries. There is not

enough supplies of raw materials to increase production of those. Only 10% of clear cutting material could be used for sleepers.

SALES AND SUPPLIES

“BAIBINA” sells its production to dealer companies that are located in Riga and are specialised in exports. The company has 5-7 permanent partners. It is not profitable for small company to have direct deals, because it is necessary to have finances that could be frozen instead of putting them in production as payments could be delayed for several months.

Location near Riga – Moscow (and Daugavpils – Moscow) highway is one of important advantages for the company. In freight traffic between Europe and Russia this particular highroad is used intensively. Logistic companies try to organize full freights for trucks in both directions. As production in Moscow city decreases and moves to the regions of Russia, freight cars have to travel further to Kuibishev, Tolyatti to load a truck. Instead another option is on the way back from Russia to load truck just 50 km from Russian border in Stolyarova.

Suppliers are companies specialised in timber cutting. “BAIBINA” purchases soft wood, and is able to provide high purchase prices.

EMPLOYEES

There 40 persons working for the company at the moment, including 5 – managers (supplies, sales, technical engineer, managing director), secretary – accountant. Other are employees working in sawmill. In spite of large unemployment rate it is problem to have motivated workers. Imants considers that it is



because of old “soviet” culture of work: person was paid for hours worked and not for job done. In BAIBINA workers are paid in accordance with output. It is difficult work in sawmill. The owner admits that they have tried to employ more people and to organize work in 2 shifts. The root of the problem why they didn’t succeed with the initiative was attitude of workers towards workplace and equipment. Lack of motivation and responsibility of workers determined that the equipment without proper maintenance was out of order and under repairs more time then operating and producing.

COOPERATION WITH LOCAL SELF-GOVERNMENT

One of functions of Latvian self-governments is to support and to create favourable environment for business development. The benefits for the *pagasts* having production enterprises on its territory are obvious. BAIBINA employs local people. Enterprise real estate tax and inhabitants’ income tax supplement municipal budget. With the company operating in *pagasts* Stolyarova is not depressive rural settlement as many others in the region. The company provides support to the municipality in various ways. Regularly sawdust and chips are delivered for heating. The last year BAIBINA helped with finances for reconstruction of boiler house. Anyone who uses public transport could recognize BAIBINA’s log house which is shelter for passengers waiting for bus.



Education and Culture

Leonardo da Vinci

This project has been funded with support from the European Commission. This publication [communication] reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.