Centre for the Development of Enterprise

Integral Diagnostic Review

Final Report

A. Nkau T/A Angie Fashions



March 25 - 28, 2014, Gaborone-Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team

Ms. Gorata B. Selelo
Ms. Modesta Nyirenda
Mr. Kakanyang Mojakgesa

The Company’s Diagnostic Process

- Company’s background review
- Interview with the management and staff to understand the different elements of the company (25 March 2014)
- Co-construction: management validation of preliminary findings (27 March 2014)
- Preliminary reporting (28 March 2014)
- Final reporting (31 March 2014)

Background

- Angie Fashions is a business in the textile industry, which started operating in 1998, and formally registered in 2008.
- Angie Fashions has gone through various milestones. It started from home (Ramotswa), moved to a factory in Boatle (2003) and finally to the current location in African Mall (Gaborone) in 2012.
- The company's main clients are individuals, with its main products being: formal wear, bridal wear, corporate clothing and casual fashion.
- The company's annual turnover was BWP 488,740 in 2013.
- The business has a total staff count of 10 (including 1 manager, 1 administrative personnel, 6 production staff and 2 interns yet to complete studies with Limkokwing University).
- The owner's vision is to grow and expand the business from designing and manufacturing customized apparel to owning a signature line boutique and a fabrics store.
- Major challenge facing the company is the limited space. Cashflow is not allowing them to secure bigger space.

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Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (see attachment for explanations)	
Business Environment Analysis • Understanding the Business Sector • Regulations and Institutionality	**Finance** • Accounting Records • Cost Analysis • Financial Administration
Marketing and Sales • Segmentation, Target Market, and Positioning • Sales Management • Communications	**Technological Innovation** • Corporate Culture for Innovation • Execution of Innovative Projects • Information Technologies
Production and Operations • Technological Level	**Quality Management** • Procedures • Product Quality
Information Management • Information	

Results

The Company Strengths and Subareas for Intervention

Strengths	Areas for Intervention
1. Management is passionate and knowledgeable about the business.	1. Business Environment Analysis- Understanding of the Sector
2. The acquisition of a business plot for future business expansion.	2. Marketing and Sales – Segmentation, Target Market and Positioning
3. The company is geared towards achieving quality products- aesthetically superior finish of goods.	3. Finance – Accounting Records
4. Great inventory control system in place (between sales front and production floor)	4. Finance –Cost Analysis
5. Strategically located in an area with historic relevance and reputation to the industry	5. Finance – Financial Administration
6. Trade mark registration	6. Quality Management– Product Quality
7. A well established cost structure is in place	7. Technological Innovation- Information Technologies

Best Practices -Cont’d

Business Environment Analysis- Understanding of the Sector

Having a clear and formalized system for gathering information about the business environment will enable the company to:

- Have necessary and updated information on current industry trends
- Identify macroeconomic variables that affect the company and take appropriate actions
- Establish strategic partnerships with trade support institutions to support the company

Best practices- Cont'd

Marketing and Sales – Segmentation, Target Market & Positioning

Regrouping customers in categories based on specific criteria and targeting the ones that have potential for growth and adapting the company offering to each target market will enable the company to:

- Effectively focus on profitable customers and products
- Develop effective marketing and promotional plans
- Improve market penetration and increase revenue
- Enhance brand awareness and customer loyalty

Best practices- Cont'd

Finance - Accounting Records

Good record keeping is a legal requirement for all businesses in Botswana. It will help enable the company to:

- Be managed better and make it grow - reliable information can only be extracted from the records.
- Stay organised when dealing with customers and suppliers - producing invoices, quotations and estimates promptly is vital.
- Easily prepare management accounts
- Get financing easily- bank loans or overdraft etc
- Maintain proper financial control of the business in order to maximize profit.
- Better determine whether or not the resources of the business are being managed efficiently.

Best Practices - Cont'd

Finance - Cost Analysis

Accurate tracking and analysis of all product costs (variable and fixed):

- Provides a clear picture of product costs
- Enables the company to appropriately price its products and services to secure the profit margin
- Ensures positive cash flows and prevents the tying up of capital on products or services that are not profitable.
- Encourages good procurement practices
- Makes it easier to estimate the company's break even point (level of sales where all fixed costs are covered by revenue)
- Enables costs reduction and benchmark

Best practices- Cont'd

Finance - Financial Administration

Having proper financial administration (budgets and benchmarks) will allow the company:

- Control of company's expenses and revenue
- Systematic assessment of company's investments
- Have financial control (comparisons of historical, actual and forecasts) of its resources.
- Help the company to make informed decisions on investments
- Improve efficiency: better utilization of resources

Best practices- Cont'd

Quality Management – Product Quality

Having a set criteria for product quality checks and a product guarantee will help:

- Ensure consistency in handling and identifying products which do not meet the set standards.
- Enhance level of compliance with standards.
- Improve overall quality of products.
- Highlight the company's confidence in its own quality assurance process and as such appeal to more customers.

Best practices- Cont'd

Technological Innovation- Information Technologies

Incorporating information technologies in the business will help:

- Ensure more efficient and effective processes.
- Enhance communication with clients (both existing and prospective) and suppliers.
- Aid research and innovation, and ultimately improve product design.
- Improve the company's exposure in the market/ industry.

Best practices- Cont'd

Financial Analysis - Disclaimer

- **Disclaimer**

The strategic financial indicators are based on financial statements provided by the company. The inclusion by the CDE consulting team of these figures and ratios in no way implies verification of the figures and ratios by the CDE consulting team.

Best practices- Cont'd

A. Nkau T/A Angie's Designers : Balance Sheet 2011 - 2013

	ASSETS	2,013	2,012	2,011
1	Cash and cash equivalents	5,972	10,732	5,362
2	Accounts receivable (debtors)	80,107	60,100	0
3	Inventory	40,000	40,000	0
4	Prepaid expenses	0	0	0
5	Other Current Assets	0	0	
6	**TOTAL CURRENT ASSETS**	**126,079**	**110,832**	**5,362**
7	Physical fixed assets	13,091	13,291	17,791
8	Financial Fixed Assets	0	0	0
9	Intangible assets	0	0	0
10	Other Assets	0	0	0
11	**TOTAL FIXED ASSETS**	**13,091**	**13,291**	**17,791**
12	**TOTAL ASSETS**	**139,170**	**124,123**	**23,153**

	LIABILITIES	2,013	2,012	2,011
20	Account payable	47,070	47,070	0
21	Short term portion of loans payables	0	0	0
22	Taxes liabilities	2,217	1,885	2,014
23	Short term provisions	0	0	0
24	Other Current Liabilities	0	0	0
25	**TOTAL CURRENT LIABILITIES**	**49,287**	**48,955**	**2,014**
26	Long term debt to banks and fin. Inst.	70,782	89,259	0
27	Long term Provisions			
28	Other Long term debt	0	0	0
29	**TOTAL LONG TERM LIABILITIES**	**70,782**	**89,259**	**0**
30	**TOTAL PAYABLE LIABILITIES**	**120,069**	**138,214**	**2,014**
31	Paid in Capital	15,095	15,095	15,095
32	Reserves (Retained Earnings, other reserve	-29,186	6,044	410
33	Current year net profit	33,191	-35,230	5,634
34	Other			
35	**EQUITY**	**19,100**	**-14,091**	**21,139**
36	**TOTAL LIABILITIES**	**139,169**	**124,123**	**23,153**

Best practices- Cont'd

. Nkau T/A Angie's Designers 2011 - 2013

PROFIT AND LOSS STATEMENT OF **A. Nkau T/A Angie Fashions**

	PROFIT/LOSS STATEMENT	2 013	2 012	2 011	Variation (%)
37	Sales revenues	488 741	363 258	332 466	35%
38	Cost of goods sold	0			
39	*Materials*	154 546	222 482	94 003	-31%
40	**GROSS PROFIT**	**334 195**	**140 776**	**238 463**	137%
41	*Wages & salaries*	135 151	73 862	181 910	83%
42	*Other costs*	0	0	0	
43	**NET VALUE ADDED**	**199 044**	**66 914**	**56 553**	**197%**
44	Depreciation	4 500	4 500	410	0%
45	Operating Expenses (G&A, selling, R&D)	136 345	81 357	48 495	68%
46	**OPERATING INCOME**	**58 199**	**-18 943**	**7 648**	**-407%**
47	Financial income	0	0	0	
48	Financial expenses	24 640	16 287	0	51%
49	Other non-operating income				
50	Other non-operating expenses				
51	**INCOME BEFORE INCOME TAX**	**33 559**	**-35 230**	**7 648**	**-195%**
52	Income Tax Provision	368	0	2 014	
53	**NET INCOME**	**33 191**	**-35 230**	**5 634**	**-194%**

Strategic & Financial Indicators

Strategic Indicators	2013	2012	2011
Local sales per employee	48,874	51,894	47,495
Exports as a percent of total sales	0.0%	0.0%	0.0%
Variation of local sales	35%	9%	-
Net value added, NVA	199,044	66,914	56,553
Productivity	19,904	9,559	8,079
Net profit margin	7%	-10%	2%
Net worth	19,100	-14,092	21,139
Number of managers to employees	0.11	0.17	0.17

Strategic & Financial Indicators

Financial Indicators	2013	2012	2011
Current Ratio	2.56	2.26	2.66
Acid test (Quick ratio)	1.75	1.45	2.66
Average collection period (days)	59.83	60.39	0
Average payment period (days)	59.31	57.98	0
Inventory Conversion period (days)	50.4	49.3	
Debt to equity ratio (%)	6.29	-9.81	0.10
Time interest earned	2.36	-1.16	0
% Over (Under) Break-even point	41%	-22%	16%

Best practices- Cont'd

Financial Analysis

- **Sales and profitability**
- Sales increased between 2011 and 2012 by about 10% subsequently increasing by 34% between 2012 and 2013.
- Gross profit margins have varied from 72% in 2011, to 39% in 2012 and finally to 68% in 2013. This reflects an instability in the procurement or accounting of raw materials.
- Net operating income improved in 2013 to 7% from its negative position in 2012 (-10%). increased revenues.
- The improvement if gross profit margin in 2013 was sufficient to cover the doubling of operating expenses following the relocation of company's operations to a new outlet (rentals, salaries, renovations and general overheads).
- The new production activities that led to spike in 2013 expenses are mainly due to the recruitment of additional production staff that resulted in salaries amounting to P135,151 in 2013 compared to P73,862 spent on salaries in 2012.
- **Assets turnover**
- The assets turnover ratio increased to 37%, from 27% in 2012, indicating that company's assets have been better utilized since the relocation in 2013.

Best practices- Cont'd

Financial Analysis

➢ **Working capital**

- Average debt collection period has remained steady at an average of 60 days. This can be explained by conditions and payment pattern for credit sales.
- The average supplier payment period is also at 60 days. However, the company asserts that there are minimal accounts payable.
- It is taking an average of 50 days to convert inventory into revenue.
- Taking into account the average collection period and conversion rate of inventory, it reveals that cash is tied up for approximately 110 days against suppliers credit terms of 60 days.
- There is room for improved working capital.

Best practices- Cont'd

Financial Analysis

- **Solvency**
- The current ratio is at 2.56 (2013), slightly improving from the previous year. This indicates that the company is able to meet its current obligations with relative ease. The industry average current ration is at 1.8 (Retail Owners Institute benchmarks).
- Angie Fashions has an abnormal current ratio as its current assets of P126,076 far exceed that of its current liabilities of P49, 287.
- The acid test ratio of 1.75 indicates that the company is liquid at a satisfactory level and is able to meet its short term financial obligations.
- This is also abnormal given its levels of current assets and current liabilities, and inventory of P40,000.

Best practices- Cont'd

Financial Analysis

- **Gearing/long term debt to equity**
- The company had a negative debt to equity ratio in 2012 (-9.81) indicating that the accumulated losses have depleted the company's equity base.
- In 2013, the situation reflected at 6.29 , which shows that the company has partially recovered from the downturn and had shown a profit in 2013.
- The last loan taken was in 2012, to the amount of P89,259 (including its financing fees) which was used primarily to purchases materials and textiles for use in production.
- Even though the debt is being timely serviced, it's straining the company's cash flow as it represents 25% in 2012 and 14% in 2013 of the sales revenues.
- **Time Interest Earned Ratio**
- Angie Fashions in 2013 has an increasing time earned ratio of 2,36 from its negative position is 2012 (-1.16). This indicates that the company is increasingly able to pay its interest on borrowing.

Conclusions of the Diagnosis

Conclusion

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Conclusion

- Angie Fashions started operating in 1998, specializing in clothing and textiles; the company targets individuals and companies for formal wear, bridal wear, corporate clothing and casual fashion.
- The company has been in business for over 10 years now, and currently has 10 employees including the Managing Director. The business owner envisions expansion into retail (owning a signature line boutique) and fabrics store.
- It is observed that there was a positive movement in earnings when the company moved to a more strategic area in 2013. The same relationship is reflected in gross margins.
- Though wages increased by 83% and a general increase of cost of goods by 44%, the overall result was a 35% increase in revenue. It would be wise for the company to continue with caution so as to maintain the balance between expanded growth and revenues.
- This company is in growth phase. Though they have productive machinery and production systems in place, the viability is yet to be sustain. Besides, the company operates from a limited space and needs financing to expand while the equity base remains inadequate.

Conclusion

Conclusion

- The company should aim at consolidating its operations before they can expand. They currently have to improve their equity base by securing adequate margins and improve on cash flow management.
- The diagnostic exercise revealed 5 broad areas that require attention. These are Business Environment Analysis; Marketing & Sales; Finance; Quality Management and Technological Innovation.
- Specifically the subareas that require critical intervention are: understanding of the business sector, marketing and sales segmentation, targeting and positioning, bookkeeping, cost analysis and financial administration, product quality management, technological innovation and information management.
- Angie Fashions needs to close the gaps in above indicated subareas to unleash performance and gain competitive advantages on target markets.

Recommendations For Improvement

<table>
<tr><th rowspan="2">SUB-AREAS</th><th colspan="2">RECOMMENDATIONS</th></tr>
<tr><th>INTERNALLY</th><th>WITH SUPPORT OF EXTERNAL RESOURCES</th></tr>
<tr><td>UNDERSTANDING OF THE SECTOR</td><td>➢ Systematically gather the necessary information about the business environment to be aware of the current industry trends, growth of the company and its position in the industry.
➢ Establish strategic relationships with institutions such as (LEA,BITC,CEDA,BOBS etc.) to benefit and get support to the company</td><td>➢ Undertake light market research</td></tr>
<tr><td>SEGMENTATION, TARGET MARKET & POSITIONING</td><td>➢ Develop criteria for and categorise precisely the customers based on their specific purchasing habits and requirements.
➢ Clearly identify and present in a document the differentiators and the key benefits Angie Fashions is offering to each customer category.
➢ Consider the resulting customers segment (or categories) and target those with growth potentials and for which the company has competitive advantages</td><td>➢ Get the assistance of a Mentor to help build a proper segmentation and develop a marketing strategy per segment (Clients, price, place, promotion).</td></tr>
</table>

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
ACCOUNTING RECORDS	➢ Create a filing system ➢ Continue to file all accounting documents such as receipts, Banks slips, and quotations ➢ Update the expense and income registers ➢ Set up a petty cash register	➢ No recommandation
COST ANALYSIS	➢ Clearly identify all fixed and variable costs ➢ Update the existing pricing to ensure all costs are captured ➢ Establish job-cards to capture effective variable costs ➢ Constantly reconcile the costing with financial records	➢ Enlist the help of a cost accountant to implement a costing system and train staff on using it

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	**WITH SUPPORT OF EXTERNAL RESOURCES**
FINANCIAL ADMINISTRATION	➢ Design and develop accounting policies and principles in line with relevant regulatory requirements ➢ Establish financial forecasts including cash flow and budgets ➢ Regularly produce financial reports, supported by financial analysis ➢ Draw up financial plans and objectives ➢ Develop a financial administration procedure	➢ Get an accounting software to capture all accounting data ➢ Engage a professional to support monthly and quarterly review of accounts ➢ Produce annual financial statements ➢ Training in accounts for non-finance managers

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PRODUCT QUALITY	➢ Develop criteria/ standards for product quality. ➢ Clearly outline systematic product quality check processes. ➢ Document the criteria and processes involved in quality checks	➢ Assistance developing standards in line with industry expectations.
INFORMATION & TECHNOLOGIES	➢ Transfer all company information into soft copy. ➢ Invest in a computer, internet connection and telephone for the business. ➢ Explore the use of social media and email to communicate with clients and suppliers.	➢ Assistance with basic computer skills training for the management and admin personnel. ➢ Assistance with acquiring specialized design software and equipment.

Priority Intervention

In order for Angie Fashion to become fully established and manage impending growth, it needs to consolidate its operations. This entails that:

1. Marketing & Sales – Sales Management

- The company need to pursue segments that are profitable and untapped such as corporates. Further survey the market to determine profitable segments such as construction companies.
- Clear the inventory urgently.
- The company needs to improve its existing sales system to include systematic efforts at timely collections from debtors.

2. Financial Administration

- Cash flow management system should be based on weekly reviews against sales
- Fully utilize the accounting system incorporating monthly budgeting/forecasting, and monthly financial reporting, to compare to budget and forecasts.
- Develop financial administration procedures .

3. Technological Innovation - Information Technologies

- The company should invest in a computer and sector specific software to make the design process more efficient. There is a need for design software and equipment to help reduce production costs and enhance efficiency.

Thank You