

Integral Diagnostic Review

Preliminary Report

ISSUES FASHION STUDIO

(Jophes 09267)



March 12 - 14, 2014, Gaborone-Botswana



- Background
- Diagnosis process
- Preliminary results
- Recommendations

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- Company's background review
- Interview with the management and staff to understand the different elements of the company (11 March 2014)
- Co-construction (management validation of preliminary findings) (13 March 2014)
- Preliminary report (14 March 2014)
- Final reporting (18 March 2014)

Background



- An established clothing manufacturing company serving high end individual customers & a local popular trendy store. Main products are formal & casual garments, uniforms (school & corporate).
- The business started in 2003 and at that time was based at the home of the co-owners.
- 2004-2006 :-The Company initially supplied Y Clothing, a store then based at the up-market Riverwalk Mall.
- 2006-2008 :- Moved to Riverwalk and shared space with Timba Trading, a fabric store.
- 2009 – Opened Issues Boutique at Riverwalk Mall.
- 2011 – Acquired Factory Space and moved production.
- Employs 10 staff at both sites including the MD.
- The owner would like to expand production to cater for the potential in the retail market, and exports and to purchase modern equipment to cope with increased production.
- Although initially profitable, turnover has declined sharply since 2011

The Company Strengths and Areas for Improvement

Strengths	Areas for Improvement
1. Knowledge of the business environment- market, trends.	1. Strategic Management - Mission & Vision
2. Capacity to make alliances and leverage support and resources- leads lobbying for the industry.	2. Marketing & Sales - Segmentation, target markets and positioning
3. Presence in a high volume high end Mall - Riverwalk	3. Marketing & Sales - Sales management
4. Space is available at the Factory for further expansion	4. Finance - Cost analysis
5. Brand recognition on the Continent – Industry award	5. Finance - Financial administration
	6. Quality Management- Procedures
	7. Technological Innovation- Execution of innovation projects

Strategic Management – Mission and Vision

Having a clear mission and vision, supported by strategic objectives and specific projects and action plans will enable the company to:

- Have a clear roadmap
- Better plan
- Better allocate resources
- Track operational performance
- Improve decision making across the company

Therefore, an efficient process and a motivated and prepared staff

The Strategic Process of Value Creation



Marketing and Sales – Segmentation, Target Market & Positioning

Benefits of a proper segmentation is the ability to adapt to the different needs and requirements of the different segments based on specific criteria. This enables informed marketing and positioning. Ultimately this results in:

- Effective focus especially on targets with potential for growth
- Improved inputs into customization for each segment resulting from interaction – product development
- Effective marketing, promotional and distribution plans
- Improved brand awareness and customer loyalty

Ultimately, improve market penetration and increase revenue

Marketing and Sales – Sales Management

Sales management systems (sales plans per category, sales targets, sales incentives) in place will assist in:

- Tracking revenue and possible causes of revenue decline if any
- Tracking fast moving products (cash cows)
- Identifying optimal distribution network
- Keeping an up-to-date client database
- Differentiating client buying patterns
- Improving efficiency of the sales workforce

Ultimately, improving efficiency and sales revenues



Finance – Cost Analysis

Accurate costing of products:

- Ensures positive cash flows and non tying up of capital on products that are not profitable.
- Makes it easier to estimate the company's break even point (level of sales where all fixed costs are covered by revenue)
- Encourages good procurement methods
- Enables the company to appropriately price its products to secure the profit margin

Therefore contributes to reduce costs and improve margin



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 investment
- Have financial control (comparisons of historical, actual and forecasts) of its resources.
- Help the company to make informed decisions on investments

Therefore, improve company's responses to changes and result in better utilization of company's resources



Quality Management – Quality Control

Putting in place a quality control policy, with specific criteria used in maintaining quality will ensure:

- Systematic checks are maintained
- A clearly defined procedure for handling complaints
- Less rejection of products

Ultimately, improve customer satisfaction and loyalty and sales revenue as well.



Technological Innovation – Execution of Innovation Projects

Having a budget for and measuring impact of incorporating innovation in the business and providing incentives accordingly will help:

- Improve product development
- Ensure efficiency in the business (cost reduction)

Ultimately create a climate which encourages innovation needed to give the small company a leading edge over competition



Financial Analysis – Disclaimer

➤ Disclaimer

The strategic financial indicators are based on financial statements provided by the company. There are a number of apparent discrepancies leading to some extreme ratios which are the subject of outstanding queries. 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.



Strategic & Financial Indicators

Profitability Indicators	2012	2011
Net profit margin	-229.54%	-74.00%
Net value added, NVA	93,927.00	327,880.00
Strategic Indicators		
Local sales per employee	24,489.30	49,084.60
Productivity	9,392.70	32,788.00
Net profit margin	-229.54%	-74.00%
Net worth	-1,474,046.00	-911,915.00
Fixed assets turnover	0.18	0.31
Number of managers to employees	0.11	0.11



Strategic & Financial Indicators

Financial Indicators	2012	2011
Current Ratio	1.32	1.14
Acid test (Quick ratio)	0.35	0.28
Debt to equity ratio	(2.03)	(2.87)
Times interest earned	(3.77)	(1.00)
% Over (Under) Break-even point	(1.05)	(0.50)



Financial Analysis

Sales and profitability

- Sales declined by almost 51% from 2011 to 2012
- Gross profit has been constant at 40% in 2010 & 2011 and in 2012 dropped to -9% - **To be investigated**
- In 2012 the company recorded a decline of 229% in terms of net profit when compared to a -74% the previous year - **To be explained**

Financial Analysis

Working Capital and Liquidity

➤ **Current ratio should be 1:1**

- The current ratio indicates that the company is in a healthy position to cover its short term obligations however, acid test ratio indicates that the company is at risk of failing to honor its immediate creditors as 60% of its current assets consist of stock which is illiquid.

➤ **Gearing/long term debt to equity**

- The company is highly indebted as debt represents at least double the equity(shareholder's net worth) value.

Financial Analysis

Strategic indicators

➤ Assets turnover

- The assets turnover ratio fell to 0.18 times in 2012 when compared to 0.31 times in 2011. This indicates that the company's assets have been under utilized over the period.

➤ Net worth

- Shareholders net worth declined dramatically from -911,915 in 2011 to -1,474,046 in 2012, a worrisome trend which might call for shareholders to re- capitalize,

Conclusions of the Diagnosis



Conclusion

- Issues Fashion Studio started in 2003, with the owner working from home, and has now evolved into a business with a boutique and a factory in Gaborone.
- The company has 10 employees including the Managing Director. The business owner envisions a fully fledged shop, which specializes in: uniforms (both school and corporate wear), fashion shows and individual orders.
- Issues fashions uses premium pricing, and targets the high end market. Main products are formal and casual garments and uniforms (school and corporate).

Conclusion

- The company envisions to expand and seeks to raise external capital to upgrade its equipment and cater for the growing demand for its products. However, the company's profitability could not be proved as its equity and cash flow bases are significantly weak.
- The diagnostic exercise revealed 5 areas that require attention. These are Strategic Management, Marketing and Sales, Finance, Quality Management and Technological Innovation.
- Specifically the areas requiring critical intervention are: alignment of Mission and Vision, market segmentation and positioning, cost analysis, financial administration, procedures for quality management, and execution of innovative projects.



Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
STRATEGIC MANAGEMENT - MISSION AND VISION	<ul style="list-style-type: none"> ➤ Formulate clear and concise vision and mission statements. ➤ Vision and mission statements must be used as a guide in formulation of strategic plan ➤ Formulate strategic plan ➤ Hire factory manager with business management skills 	<ul style="list-style-type: none"> ➤ Assistance with development of strategic plan ➤ Support in recruiting factory manager

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
SEGMENTATION, TARGET MARKET & POSITIONING	<ul style="list-style-type: none"> ➤ Develop criteria to categorize customers ➤ Target groups with growth potential where the company has competitive advantage ➤ Clearly identify the needs of each category ➤ Develop and regularly update a customer database with description of specifications 	<ul style="list-style-type: none"> ➤ Support to undertake a light market research ➤ Support to develop a marketing strategy per category/targeted segment (products, price, communication, promotion, packaging and distribution)
SALES MANAGEMENT	<ul style="list-style-type: none"> ➤ Develop marketing and sales plan. ➤ Have monthly sales forecasts. ➤ Develop sales targets for sales team ➤ Analyze sales data monthly to inform decision making. 	<ul style="list-style-type: none"> ➤ Assistance with development of Sales and Marketing plan. ➤ Assistance with setting up a sales management system. ➤ Training on product pricing.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
COST ANALYSIS	<ul style="list-style-type: none"> ➤ Clearly identify all fixed and variable costs ➤ Update the existing pricing to ensure all costs are captured ➤ Constantly reconcile the costing with financial records 	<ul style="list-style-type: none"> ➤ Enlist the help of a cost accountant to develop an effective cost structure and implement a costing system
FINANCIAL ADMINISTRATION	<ul style="list-style-type: none"> ➤ Establish financial forecasts including cash flow. ➤ Regularly produce financial reports (monthly) and take corrective actions based on analysis. ➤ Have a clear distinction between personal and business account. All business transactions should reflect this. ➤ Consider engaging an accounts clerk 	<ul style="list-style-type: none"> ➤ Training of management on finance for non financial managers’. ➤ What kind of accounting system do they have in place?

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
QUALITY MANAGEMENT - PROCEDURES	<ul style="list-style-type: none"> ➤ Develop and document quality management procedures and practices ➤ Develop product specification for mass produced items 	<ul style="list-style-type: none"> ➤ Assistance with developing quality management system ➤ Enlist the help of a specialist to acquire and implement a fashion design software
TECHNOLOGICAL INNOVATION - EXECUTION OF INNOVATION PROJECTS	<ul style="list-style-type: none"> ➤ Develop website ➤ Update the business social media pages ➤ Allocate budget for innovative projects ➤ Upgrade production equipment to match latest trends 	<ul style="list-style-type: none"> ➤ Assistance with formulation of investment plan ➤ Funding to buy latest machinery and ICT infrastructure

Priority Intervention

In order to enhance its performance and attract financiers, the company should develop and implement a stabilization plan aimed at improving its profitability. This includes:

1. Strategic Management

- The company should develop a strategic plan that will guide operations and investment decisions. The company should consider expanding commercial line and fully utilize current capacity. Company should consider recruiting a factory manager with business skills.

2. Marketing & Sales-Segmentation, target markets and positioning

- The company should engage in proper segmentation of customers. This process will enable the company to market and position its products to the right target groups. This will enhance the company's sales revenue, improved brand awareness and customer loyalty.

3. Finance- Cost analysis

- The company should set up a cost structure that will guide product pricing , setting up of profit margins and also establishment of break even point (level of sales where all fixed costs are covered by revenue). The cost analysis will build on the financial administration and inventory handling (to be improved). It will also enable the company to know whether or not it is making money and to track possible areas for cost saving.



Thank You