

Integral Diagnostic Review

Final Report

How To Us Investment (Pty)Ltd

22nd March , 2014, Gaborone-Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team

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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) – 26 March 2014
- Final reporting – 31 March 2014

Background

- How to Us Investment which is a limited liability company, is located in Molepolole. The company started operating in 2005 with FAP grant of P364,598.45 after the purchase of the shelf company. It has seven shareholders who are also the directors of the company.
- The company carries out manufacture of school uniforms, bedding, curtains, protective clothing, german print, fashion wear, chair covers.
- Their mission is to achieve economic benefits and happiness for shareholders, customers employees and their families.
- The company has a workforce of ten permanent personnel. Seven of whom are directors and three other permanent employees. The 7 directors have had some in house training in the relevant field of operation.
- The majority of the assets owned by the company has been acquired by grants or gifts.
- The company has recently acquired a plot from the land board for the construction of its permanent factory. PPC cement has agreed to provide cement to assist in the construction.
- The main clientele are individuals who purchase from the factory and schools.
- Incomplete financial statements were made available for the consultants.
- The annual sales of the Company in 2012/2013 financial year was P196,763 and P136,766 for April 2013 to February 2014 (11months)
- LEA gives some assistance to the business management.
- Challenges faced by the business include low market penetration, sourcing of raw materials, absence of highly qualified and very erratic water supply to the premises.

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement

Strategic Management

- Mission and Vision
- Strategic Objectives

Production and Operations

- Inventory handling
- Planning

Management and Leadership

- Autonomy

Finance

- Accounting records
- Cost Analysis

Marketing and Sales

- Segmentation, Target Market, and Positioning
- Product
- Price
- Sales Management
- Client relationship

Quality Management

- Procedures
- Product quality

Human Resources

- Staff performance

Results

The Company Strengths and Areas for Improvement

Strengths	Areas for Improvement
1. The company has been in existence for many years.	1. Strategic Management – Mission and vision
2. The directors of the company has a passion for the business.	2. Strategic management- Objectives
3. The company is in a technically solvent position	3. Marketing & Sales – Sales management
4.The company has recently been allocated a plot in Molepolole where they intend to construct their own factory.	4. Production and Operation-Inventory handling
	5. Finance-Accounting records
	6. Finance –Cost analyses
	7.Quality management - Procedures

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 clarity as to why it exists
- Define its boundary of operations and values of the business.
- Identify and define competitive advantages.
- Have a clear roadmap
- Better plan
- Better allocate resources
- Track operational performance
- Improve decision making across the company

Strategic Management – Strategic Objectives

Having strategic objectives and specific projects and action plans will enable the company to:

- Have a clear roadmap
- Better planning and decision making(short and long term)
- Have clarity regarding future goals and consistency between the company's action and proposed strategic objectives
- Develop and prioritize functions and activities and allocation of resources
- Have consistency between the objectives and the company structure. Changes being demonstrated in those areas which are strategic.

The Strategic Process of Value Creation



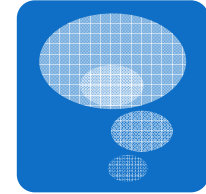
Best Practices -Cont'd

Marketing and Sales - Sales Management

A sales management system includes the planning, implementation and control of sales programs, as well as recruiting, training and motivating individuals dedicated to carry out the sales function.

Having formalised Sales Management Systems (sales plans per category, sales targets, sales incentives and a delegated sales officer) in place will assist in:

- Tracking revenue and possible causes of revenue decline if any
- Tracking fast moving products and identifying optimal distribution network
- Maintaining an up-to-date client database
- Differentiating client buying patterns therefore identifying possible niche markets
- Improving efficiency of the sales workforce through training
- Motivates sales performance when incentives are offered
- A company is better able to withstand competitors through deliberate action



Production and Operations - Inventory Handling

The benefits of correct inventory handling are:

- The company has a systematized inventory of the raw materials deliveries received ,raw materials stored and products. It is tied to a program to track raw material use and demand and sales of products.
- Raw materials and products are warehoused separately, considering their physical and chemical characteristics. The system guarantees adequate stock rotation, and their use and control.
- The physical inventory is checked periodically and compared to the register kept in kardex or on a computer system. The necessary corrections are made and the company analyzes the possible reasons for discrepancies.
- Purchasing the correct inventory in the right amount, helps to meet customer demand, and timely delivery of goods while eliminating slow-moving, obsolete inventory, leading to higher profits and better cash flow.

Finance – Accounting Records

Correct data capture and accurate financial recording enables:

- Regular and consistent monitoring of company finances (expenses and revenue)
- Cash flow forecasts
- Quick access to financial information
- Efficient and correct assessment and comparison of the company's performance
- Monitoring of compliance of the company to its financial budget
- Correct and quick cost analyses

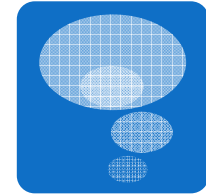
This will ultimately result in more financially sound decisions being made for the company, and increased revenue and profitability.



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
- Assist in monitoring finance costs and returns and allows maximization of returns from available resources.
- Enables cost reduction and benchmarking



Quality Management – Procedures

There is need for the company to have set quality control procedures, with specific criteria used in maintaining quality. This will ensure:

- Systematic checks are maintained
- A clearly defined procedure for handling complaints
- Less rejection of products
- Consistency in products quality
- Improved customer loyalty
- More sales



Financial Analysis – Disclaimer

How to Us Investment Pty)Ltd could not provide the Consultant's team with complete financial statements, including the balance sheet and the income statement for the last three years. Therefore a full assessment of economic and financial performance of the company could not be ascertained. This assessment would have corroborated or invalidated the qualitative analyzes and the diagnostic results in terms of growth, profitability, liquidity and solvency of the company in short and long term.

*The strategic financial indicators are based on **incomplete financial statements** provided by the company. The only accounts which was utilized was the 2012/2013 profit and loss account . The inclusion by the CDE consulting team in no way implies verification of the figures and ratios by the CDE consulting team.*

The Business financial year is 1st April to 31st March of the following year.

Best practices- Cont'd

How to Us Investment(Pty)Ltd Profit & Loss Statement 2012/2013

PROFIT/LOSS STATEMENT	2012-2013
Sales revenues	196 763
Cost of goods sold	
<i>Materials</i>	56 326
GROSS PROFIT	140 437
<i>Wages & salaries</i>	71 100
<i>Other costs</i>	0
NET VALUE ADDED	69 337
	0,35
Depreciation	
Operating Expenses (G&A, selling, R&D)	27 455
OPERATING INCOME	41 882
other non operating income	0
Financial expenses	
INCOME BEFORE INCOME TAX	41 882
Income Tax Provision	0
NET INCOME	41 882

Strategic & Financial Indicators

Strategic Indicators	2013
Local sales per employee	19,676
Exports as a percent of total sales	N/A
Variation of local sales	N/A
Net value added, NVA	69,337
Productivity (pula)	6,933
Gross profit margin (%)	71%
Net profit Margin (%)	21%
Number of managers to employees	0.1
Financial Indicators	
% Over (Under) Break-even point	153%

Financial Figures Consistency

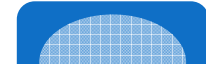
- Though some financial and accounting related information was provided, an comprehensive and comparative analysis of the company's financial position could not be carried out due to insufficient data / records. Only 2013 financial accounts was analysed. However inconsistencies were recognized such as:
 - **Wages and Salaries:** The total wages and salaries cost of P71,000 in 2013 is rather low for the number of employees.
 - **Omitted entries :** Some entries, such as bank charges and repairs and maintenance, did not appear in the accounts.
 - A contributing factor to the company operating 153% above break even point is that 7 of the 10 employees are also directors who do not have fixed salary structures.

Financial Analysis

Sales and profitability

- Turnover in 2013(1st April to 31st march) was P196,763 and P136,766 for April 2013 to February 2014.
- Gross profit was P140,437 representing a gross profit margin of 71% for 2012/2013 financial year.
- Actual operating expenses was 13% of sales in 2012-2013 financial year.
- Net profit was P41 882 for the 2012-2013 reflecting a net profit margin of 21%.
- There are further operating expenses which were not reflected in the financial expenses: wages and salaries of directors, bank charges and repairs and maintenance.
- With the absence of complete 3 year financial reports no complete conclusions can be made on the company's solvency and financial status.
- Although the account indicates that they are operating 153% above break even point, the cost structure is undetermined and taking into account the financial inconsistencies mentioned above this high figure does not reflect the real operational status of the business.

Conclusions of the Diagnosis



Conclusion



- How to us Investment (Pty)Ltd is located in Molepolole, started operating in 2005 with FAP (Financial Assistance Policy) assistance after the purchase of the shelf company. It has seven shareholders who are also the directors and employees of the company.
- The company carries out manufacture of school uniforms, bedding, curtains, protective clothing, german print, Fashion wear, chair covers.
- The company has a workforce of ten personnel: seven directors and three other permanent employees.
- The company is still in its infantile stage despite being in operation for over 9 years.
- The survival of the company is largely influenced by grants and the engagement of the 7 directors who sometimes work at a low and variable salary payment.
- There is underutilization of the existing equipment and facilities, and inadequate qualified and experienced management staff. There is an absence of clearly defined structure within the business.
- The diagnostic exercise revealed 5 broad areas that require attention. These are Strategic Management; Marketing & Sales ,Finance, Production and Operations and Quality Control.
- Specifically, the subareas that require improvement on are: Mission and Vision, Strategic Objectives, Sales Management, Inventory Handling, Cost Analysis: Quality Management – Procedures.

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 	<ul style="list-style-type: none"> ➤ Assistance with development of strategic plan

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
STRATEGIC MANAGEMENT-OBJECTIVES	<ul style="list-style-type: none"> ➤ Define strategic objectives & set key indicators and targets for the short, medium, and long term 	<ul style="list-style-type: none"> ➤ Assistance with developing strategic objectives

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
MARKETING AND SALES-SALES MANAGEMENT	<ul style="list-style-type: none"> ➤ Develop marketing and sales plan. ➤ Have monthly sales forecasts. ➤ Develop sales targets and objectives ➤ Analyze sales data regularly 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.
PRODUCTION & OPERATIONS – INVENTORY HANDLING	<ul style="list-style-type: none"> ➤ Develop inventory receiving and storage procedure. ➤ Develop records for movement of stock items. ➤ Conduct stock taking exercises on a regular basis. 	<ul style="list-style-type: none"> ➤ Assistance with developing inventory management system.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
FINANCE-ACCOUNTING RECORDS	<ul style="list-style-type: none"> ➤ Create a filing system ➤ File all accounting documents such as receipts, bank slips, and quotations ➤ Update the expense and income registers ➤ Set up a petty cash register 	<ul style="list-style-type: none"> ➤ Obtain the assistance of an accounting /bookkeeping service provider to set up a basic accounting and reporting system
FINANCE-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 ➤ Establish job-cards to capture effective variable costs ➤ Constantly reconcile the costing with financial records 	<ul style="list-style-type: none"> ➤ 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
QUALITY MANAGEMENT-PROCEDURES	<ul style="list-style-type: none"> ➤ Establish clientele preference ➤ Implement and document recognized standards such as BOBS ➤ Establish documented measurement criteria's ➤ Identify and document critical control points which should be adhered to ➤ Implement quality checks procedures 	<ul style="list-style-type: none"> ➤ Enlist the assistance of experts in this field of business

Priority Interventions

In order to enhance its performance and attract financials, the company should develop and implement a turnaround plan aimed at improving its profitability. This implies:

1. Obtain product compliance to existing standards such as BOBS
2. Upgrade the accounting system incorporating costs accounting and monthly management reporting
3. Develop marketing and sales strategy to boost sales
 - Carry out market surveys to identify segments with growth potentials and target those where the company has competitive advantage
 - Develop appropriate marketing and sales strategies for each segment
4. Engage a qualified and experienced manager or acquire as a director a qualified and experienced person, to implement the turnaround strategy.
5. Shareholders to inject personal resources to finance the turnaround.
6. Develop a business plan together with an investment plan to address future development of the company.



Thank You