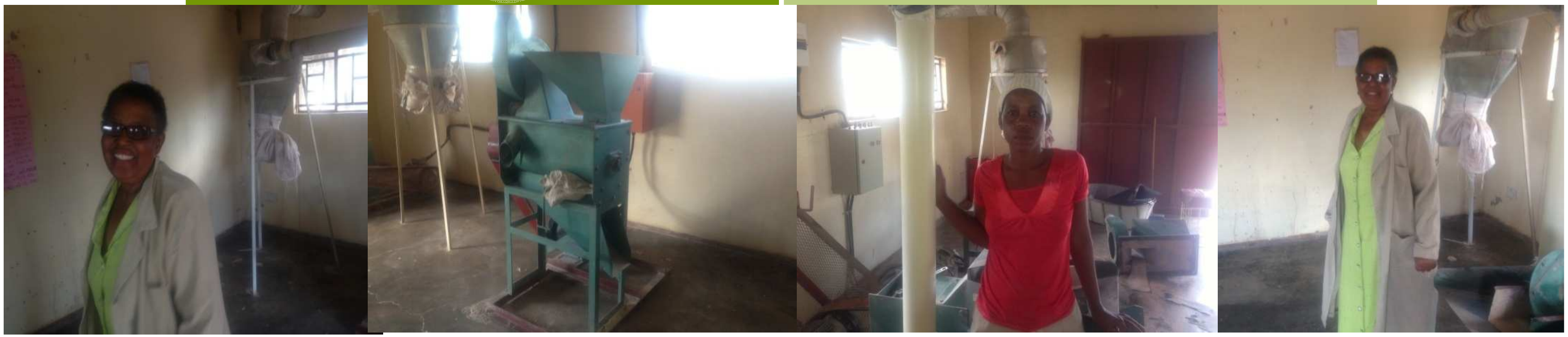
Centre for the Development of Enterprise

Integral Diagnostic Review

Final Report

Goyagoileng Holdings (Pty) Ltd ta Shashe Mooke Milling



16-17 April, 2014, Shashe Mooke-Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

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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 (16 April 2014)
- Co-construction: management validation of preliminary findings (17 April 2014)
- Preliminary reporting (17 April 2014)
- Final reporting (20 April 2014)

Background

- Goyagoileng Holdings (Pty) Ltd ta Shashe Mooke Milling is a propriety limited company located in Shashemooke, 10km East from the City of Francistown, and started operations in 2004
- The company operates in the milling sector and specializes in milling production and distribution. The company is a beneficiary of Financial Assistance Program.
- The owner's vision for the company is to enter the export markets.
- The company main products are sorghum meal, millet meal, chicken feed and chaff. The company also does contract milling
- Sales revenues of P195,567 in 2012 were more than adequate to cover both operating expenses and direct production costs
- The companies main markets customers are Choppies Supermarket and individuals with contributions to turnover of 75% and 25%, respectively.
- The company employs 3 people including the Managing Director: 1 Manager, 2 staff.
- .Main challenges are shortage in the availability of raw materials, load shedding, and limited working capital.

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (see attachment co-construction)	
Strategic Management • Mission and Vision • Strategic Objectives	**Finance** • Accounting records • Cost Analysis
Marketing and Sales • Segmentation, Target Market, and Positioning • Sales Management • Communication	**Quality Management** • Quality Control • Procedures • Product Quality
Production and Operations • Inventory Handling • Planning	**Technological Innovation** • Execution of Innovation Projects • Information Technology
Organizational Structure • Decision Making Power	

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Results

The Company Strengths and Subareas for Intervention

Strengths	Subareas for Intervention
1. The Enterprise operates from own premises	1. Strategic Management-Strategic Objectives
2. The company is up to date with its legal and tax requirements	2. Marketing & Sales – Segmentation, Target Market and Positioning
3. The business has been in existence for a long time	3. Production & Operations - Planning
	4. Finance-Cost Analysis
	5. Finance-Accounting Records
	6. Quality Management- Quality Control
	7. Quality Management- Product Quality

Best practices- Cont'd

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Strategic Management – Strategic Objectives

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

- Have a clear roadmap
- Develop and prioritize functions and activities
- Better planning (short, medium and long term)
- Inspire and motivate staff to be more productive leading to greater revenue
- Better allocation of resources
- Improve decision making across the company

Best Practices -Cont’d

Marketing and Sales-Segmentation, Target Marketing and Positioning

Regrouping customers in categories based on specific criteria (revenue, life style buying habit, location, etc.) 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 (marketing mix) and promotional plans per segment
- Promote the company’s brand (not yet) and develop customer’s loyalty
- Enhance brand awareness and customer loyalty
- Therefore, improve market penetration and increase revenue

Best practices- Cont’d

Production and Operations - Planning

Systematic and detailed planning for production, consistent with the company’s sales plan will help:

- Align production with sales targets and forecasts
- Ensure minimal wastage and as such less costs
- Aid efficient resource distribution
- Improve overall efficiency
- Increase revenue

Best practices- Cont'd

Finance – Cost Analysis

Accurate costing of products:

- Ensures positive cash flows and prevents the tying up of capital on products or services 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 practices
- Enables the company to appropriately price its products and services to secure the profit margin
- Make informed decisions on investments (better allocation of resources)

Therefore contributes to reduce costs and improve margin

Best practices- Cont’d

Finance – Accounting records

Correct data capture and accurate financial recording enables:

- Regular and consistent monitoring of company finances
- 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

Best practices- Cont'd

Quality Management - Quality Control

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

- Systematic checks that will allow timely application of corrective measures
- A clearly defined procedure for handling complaints
- Less rejection of products
- Consistency in products quality
- Improved customer loyalty
- Increase in sales

Best practices- Cont'd

Quality Management – Product Quality

A quality management system, includes product specification and grading method. Such a system will enable the company:

Work smarter (cost and process efficiency)
Better targeting
Brand improvement

Therefore, reduce costs and improve revenue

Financial Analysis - Disclaimer

- **Disclaimer**

The strategic financial indicators are based on financial statements provided by the company for the year 2012 (7 month period only).

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. The analysis will not be extensive as it is not possible to make any comparative analysis or extract business performance trends based on the limited information provided.

Financials

Shashe Mooke Milling: Balance Sheet 2012

ASSETS	2012
Cash and cash equivalents	10,272
Accounts receivable (debtors)	15,689
Inventory	40,198
Prepaid expenses	0
Other Current Assets	0
TOTAL CURRENT ASSETS	**66,159**
Physical fixed assets	160,873
Financial Fixed Assets	0
Intangible assets	0
Other Assets	0
TOTAL FIXED ASSETS	**160,873**
TOTAL ASSETS	**227,032**

LIABILITIES	2012
Account payable	9,712
Short term portion of loans payables	2,000
Taxes liabilities	2,376
Short term provisions	0
Other Current Liabilities	0
TOTAL CURRENT LIABILITIES	**14,088**
Long term debt to banks and fin. Inst.	155,175
Long term Provisions	0
Other Long term debt	5,013
TOTAL LONG TERM LIABILITIES	**160,188**
TOTAL PAYABLE LIABILITIES	**174,276**
Paid in Capital	100
Reserves (Retained Earnings, other reserve	44,230
Current year net profit	8,426
Other	
EQUITY	**52,756**
TOTAL LIABILITIES	**227,032**

Financials

Shashe Mooke Milling: 2012

PROFIT/LOSS STATEMENT	2012
Sales revenues	195,567
Cost of goods sold	
Materials	98,878
GROSS PROFIT	**96,689**
Wages & salaries	15,595
Other costs	0
NET VALUE ADDED	**81,094**
Depreciation	20,887
Operating Expenses (G&A, selling, R&D)	46,038
OPERATING INCOME	**14,169**
Financial income	0
Financial expenses	3,367
Other non-operating income	
Other non-operating expenses	
INCOME BEFORE INCOME TAX	**10,802**
Income Tax Provision	2,376
NET INCOME	**8,426**

Strategic & Financial Indicators

Strategic Indicators	2012
Local sales per employee	65,189
Variation of local sales	-
Net value added, NVA	81,094
Productivity	32,230
Net profit margin	4%
Net worth	52,756
Number of managers to employees	0.5
Fixed Assets turnover	1.22

Strategic & Financial Indicators

Financial Indicators	2012
Current Ratio	4.7
Acid test (Quick ratio)	1.84
Average collection period (day)	29.28
Average payment period (day)	30.97
Debt to equity ratio	3.30
Times interest earned	4.21
% Over (Under) Break-even point	21%

Best practices- Cont’d

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Financial Analysis

- **Sales and profitability**
  - Sales revenues of P195,567 in 2012 were more than adequate to cover both operating expenses and direct production costs.
  - The company has a turnover of P195,567 in the same year, with a gross margin of 49%
- **Assets turnover**
  - The assets turnover ratio is 1.22 indicating that the company is fully utilizing their assets.
- **Working Capital**
  - They have a working capital of P 52,071 which should allow flexibility to expand their day to day operations. However P40,198 is tied up as inventory.

Best practices- Cont'd

Financial Analysis

- **Solvency**
  - Shashe Mooke's current ratio stands at 4.7, indicating high liquidity. The quick ratio also supports this premises at a rate of 1.84. The company was able to honor its short term liabilities at that time.
  - The company's current assets are at P66,159 of which 61% is in the form of inventory, which at an inventory conversion rate of 128 days could strain the cash flow.
- **Gearing/long term debt to equity**
  - The company carries a loan of P155,175 from Bank Gaborone
  - Its debt to equity ratio is at 3.3 indicating that the company faces business risks as its liabilities are three times more than its equity value. The company is heavily dependent on debt for its survival.

Conclusions of the Diagnosis

Conclusion

Conclusion

•Goyagoileng Holdings (Pty) Ltd ta Shashe Mooke Milling is a propriety limited company located in Shashemooke, 10km East from the City of Francistown, and started operations 2004

•The company operates in the milling sector and specializes in milling production and distribution. Company is at the development stage even though we cannot ascertain the average growth rate. It appears from the 2013 financial statements that company financial situation is sound even though they heavy rely on debtors.

•There is room for improvement as the company operates only at 21% above break-even point.

•The main challenges that are holding the business back are the dependency on one distributors, shortage of supply of good quality pearl millet grains and frequent power cuts. Choppies Supermarket (leading retail store in Botswana) no longer places orders of sorghum milled meal like before resulting in loss of business. Only the pearl millet milled meal produced by the company is bringing good business

Conclusion

Conclusion

- The company has intentions of diversifying its markets and is considering to approach Spar Supermarket to sell its produce
- The company's main challenges that are affected it operations included the and the low market penetration.
- The diagnostic exercise revealed 5 areas that require attention: Strategic Management, Marketing & Sales, Production & Operations, Finance and Quality Management.
- Specifically the subareas that require critical intervention are: Strategic Objectives, Market Segmentation and Targeting, Operations planning, Cost Analysis, Accounting Records, Quality Control and Product Quality.
- Goyagoileng Holdings (Pty) Ltd ta Shashe Mooke Milling needs to close the gaps in above indicated subareas in order to unleash performance and gain competitiveness on target markets.

Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
STRATEGIC OBJECTIVES	• Develop clear strategic goals in line with its mission and vision and define quarterly milestones and monthly targets as a break-down of these objectives.	• Develop Strategic Plan: 2014-2019 • Get the assistance of a Mentor to help structure the strategic objectives per: Year, Market
SEGMENTATION, TARGET MARKET & POSITIONING	• Develop criteria for and categorise precisely the customers based on their specific purchasing habits, preference, location and requirements. • Consider the resulting customers segment (or categories) and target those with growth potentials and for which the company has competitive advantages	• Get the assistance of a Mentor to help build a proper segmentation and develop a marketing strategy per segment (Clients, price, place, promotion). • Undertake light market research

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PLANNING	➢Formulate a clear production plan in coordination with sales goals and land utilisation ➢develop a timetable and procurement plan according to sales targets.	➢ Develop a business plan together with an investment plan for the company and mobilize adequate resources to fund future growth
COST ANALYSIS	➢ Clearly identify all fixed and variable costs ➢ Update the existing pricing to ensure all costs are captured ➢ Constantly reconcile the costing with financial records	➢ Enlist the help of a cost accountant to implement a costing system

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
ACCOUNTING RECORDS	• Record financial transactions in a systematic way e.g. by date or invoice number or type. • Have dedicated personnel for financial administration. • Utilize financial records for business planning.	• Training of staff on record keeping.
QUALITY CONTROL	• Develop a documented quality control policy • Define documented responsibilities and train quality control personal • Develop procedures and documentation to monitor rejection and wastage.	• Enlist the help of an expert to develop ,train and document procedures

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PRODUCT QUALITY	• The standards should also be used to inform product specifications and compliance procedures	• Assistance on training of standards

Priority Intervention

To improve growth and profit margin, the company should develop and implement a consolidation plan which implies:

a) Boost sales revenues

- Further investigate the market to identify segments with growth and profit potential e.g. retail stores, wholesales
- Put a marketing and sales plan and generate more sales

b) Plan for future growth

- Develop a business plan together with an investment plan for the company and mobilize adequate resources to fund future growth.
- Consider ploughing to feed its plan and improve on the value chain

c) Finance

- Converting its inventory to cash. Create a system that reduces inventory levels as there is a limit on the product life.
- Improve on book-keeping. Consider acquiring an accounting software and train staff in its utilization and in financial analysis as well.

Thank You