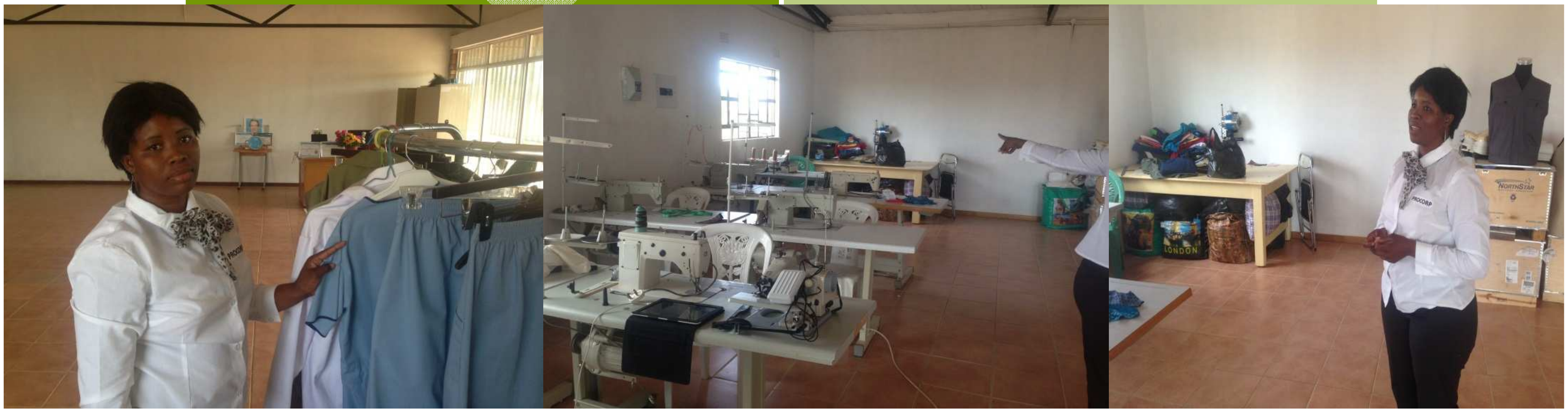
Centre for the Development of Enterprise

Integral Diagnostic Review

Final Report

Anija Fashions Limited



14-15 April, 2014, Tonota-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 (14 April 2014)
- Co-construction: management validation of preliminary findings (15 April 2014)
- Preliminary reporting (15 April 2014)
- Final reporting (21 April 2014)

Background

- Anija Fashions was registered in 2008 and started operating in 2010, as a propriety limited company located in Tonota in Tholo Ward, 40km from the City of Francistown. Ms. Anitah Jacobs owns 100% shares in the company and is the sole director.
- The company operates in the textile and apparel sector and specializes in manufacturing protective clothing, bedding, sportswear, men's attire, wedding gowns and children's wear.
- The company's vision is to become a major player in the production and supply of protective clothing
- The business was financed by Financial Assistance Programme (FAP) grant of P100, 000.
- The company employs 2 full time employees including the owner plus three part-time employees
- The company's main market is composed of the mining companies located in the northern region of Botswana: Mupane Mines and Tati Nickel both in Francistown, BCL in S/Phikwe, Copper Mines in Dukwi, Discovery Metal Limited in Maun, Debswana in Orapa and individuals from Tonota and surrounding area.
- The main challenge for the company has been cash flow problems resulting in loss of business.

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (see attachment co-construction)

Strategic Management • Mission and Vision • Strategic Objectives	**Organizational Structure** • Division of Labour • Decision Making Power
Business Environment Analysis • Alliances	**Finance** • Cost Analysis • Financial Administration
Marketing and Sales • Client Relationship • Segmentation, Target Market, and Positioning • Product • Sales Management • Communication	**Quality Management** • Quality Control
Production and Operations • Planning	**Technological Innovation** • Execution of Innovation Projects

Results

The Company Strengths and Subareas for Intervention

Strengths	Subareas for Intervention
1. Business Environment Analysis – Regulation and Institutionality.	1. Strategic Management - Strategic Objectives
2. Production and Operations – Technological Level	2. Marketing & Sales – Segmentation, Target Market and Positioning
3. Environmental Management- Environmental regulations	3. Marketing & Sales – Sales Management
4. Finance – Tax Laws and Regulations	4. Production & Operations - Planning
	5. Finance - Cost Analysis
	6. Finance - Financial Administration
	7. Quality Management - Quality Control

Best Practices -Cont'd

Strategic Management – Strategic Objectives

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

- Develop and prioritize functions and activities
- Better planning (short and long term)
- Better allocation of resources
- Track operational performance
- Improve decision making across the company

Best Practices -Cont'd

Marketing and Sale-Segmentation, Target Market and Positioning

A proper segmentation based on purchasing characteristics of each segment will help the company to target the right market segment and tailor the services to their expectations, that will enable the company to:

- Develop effective marketing (marketing mix) and promotional plans per segment
- Promote the company's brand and develop customer's loyalty
- Effectively focus on profitable customers and products
- Enhance brand awareness and customer loyalty

Therefore, improve market penetration and increase revenue

Best Practices -Cont'd

Marketing and Sales-Sales Management

Having formalised 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 and identifying optimal distribution network
- Maintaining an up-to-date client database
- Differentiating client buying patterns
- Improving efficiency of the sales workforce

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 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

Best practices- Cont'd

Finance – Financial Administration

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

- Control and monitor company's expenses and revenue
- Systematic assessment of company's investment
- Have financial control (comparisons of historical, actual and forecast data) of its resources.
- Help the company to make informed decisions on business investment and re-investments
- Improved efficiency: better utilization of resources

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

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.

Salaries were not recorded in 2013.

Best practices- Cont'd

Anija Fashions (Pty) Ltd.: Income Statement 2011 – 2013

PROFIT/LOSS STATEMENT	2013	2012	2011
Sales revenues	46,840	154,863	47,083
Cost of goods sold			
Materials	20,925	57,590	26,755
GROSS PROFIT	**25,915**	**97,273**	**20,328**
Wages & salaries		31,926	17,243
Other costs			
NET ADDED VALUE	**25,915**	**65,347**	**3,085**
Depreciation	1,215	1,215	1,215
Operating Expenses (G&A, selling, R&D)	37,443	68,837	16,611
OPERATING INCOME	**-12,743**	**-4,705**	**-14,741**
Financial income			
Financial expenses			
Other non-operating income			
Other non-operating expenses			
INCOME BEFORE INCOME TAX	**-12,743**	**-4,705**	**-14,741**
Income Tax Provision	0	0	0
NET INCOME	**-12,743**	**-4,705**	**-14,741**

Best practices- Cont'd

Anija Fashions (Pty) Ltd: Balance Sheet 2011 - 2013

ASSETS	2013	2012	2011
Cash and cash equivalents	650	5,834	262
Accounts receivable (debtors)	4,306	15,825	9,000
Inventory	12,661	0	19,647
Prepaid expenses	0	0	0
Other Current Assets	0	0	0
TOTAL CURRENT ASSETS	**17,617**	**21,659**	**28,909**
Physical fixed assets	4,452	5,667	6,882
Financial Fixed Assets		0	0
Intangible assets		0	0
Other Assets		0	0
TOTAL FIXED ASSETS	**4,452**	**5,667**	**6,882**
TOTAL ASSETS	**22,069**	**27,326**	**35,791**

LIABILITIES	2013	2012	2011
Account payable	22,169	2,000	500
Short term portion of loans payables			
Taxes liabilities	0	0	0
Short term provisions			
Other Current Liabilities		0	0
TOTAL CURRENT LIABILITIES	**22,169**	**2,000**	**500**
Long term debt to banks and fin. Inst.	0	0	0
Long term Provisions			
Other Long term debt (Directors Loan)	31,989	44,672	49,932
TOTAL LONG TERM LIABILITIES	**31,989**	**44,672**	**49,932**
TOTAL PAYABLE LIABILITIES	**54,158**	**46,672**	**50,432**
Paid in Capital	100	100	100
Reserves (Retained Earnings, other reserve	-19,446	-14,741	0
Current year net profit	-12,743	-4,705	-14,741
Other (Directors loans and grants)			
EQUITY	**-32,089**	**-19,346**	**-14,641**
TOTAL LIABILITIES	**22,069**	**27,326**	**35,791**

Strategic & Financial Indicators

Strategic Indicators	2013	2012	2011
Local sales per employee	23,420	77,431	23,541
Exports as a percent of total sales	0.0%	0.0%	0.0%
Variation of local sales	-70%	229%	-
Net value added, NVA	25,915	65,347	3,085
Productivity	12,958	32,674	1,543
Net profit margin	-27%	-3%	-31%
Net worth	-32,089	-19,346	-14,641
Number of managers to employees	1	1	1

Strategic & Financial Indicators

Financial Indicators	2013	2012	2011
Current Ratio	0.79	10.83	57.82
Acid test (Quick ratio)	0.22	10.83	18.52
Average collection period (days)	33.55	37.30	69.77
Average payment period (days)	386.7	8.15	4.15
Inventory Conversion period (days)	221	-	163
Debt to equity ratio (%)	-1.69	-2.41	-3.44
% Over (Under) Break-even point	-33%	-7%	-83%

Best practices- Cont'd

Financial Analysis

- **Sales and profitability**
- Sales increased between 2011 and 2012 from P47,083 to P154,863, representing a spike of 228%. Revenues in 2013 dropped by 70% to P46,840.
- Gross profit margins have varied from 43% in 2011, to 63% in 2012 and finally to 55% in 2013. This points to deficiencies in the procurement or inventory management system..
- Operating expenses have peaked in 2012 at P68,837. It appears that there was an increase in human resources in 2012 that enabled them to produce more.
- Similarly, net operating income has worsen in 2013 (-37%) to from -3% in 2012.
- Salaries and wages grew to P31,926 in 2012 from P17,243 in 2011. No salary data was available for the year 2013.
- **Assets turnover**
- The assets turnover ratio decreased to 10.52 in 2013, from 27.33 in 2012, indicating that the company has been utilizing their assets less in 2013.
- Company has been operating below break-en points for the past three years.

Best practices- Cont’d

Financial Analysis

- **Working capital**
- Debt collection period has remained steady at an average of 35 days for the period 2012 and 2013. It stood at 70 days in 2011.
- The average supplier payment period is 386 days in 2013. This is because the business owed P22,169, which was a significant jump from the previous year’s creditor of only P2,000 and payment period of only 8 days.
- It is taking 221 days to convert inventory into revenue. Business activity is very low.
- Taking into account the average collection period and conversion rate of inventory, it reveals that the company is not engaged in any profitable activity and company’s cash ‘s cash is tied up in receivables and slow moving inventory.
- As a result, working capital in 2013 is negative at 4,552 computed as such: current assets (17,617) minus current liabilities (22,169).

Best practices- Cont'd

Financial Analysis

- **Solvency**
- The current ratio is at 0.79 (2013), indicating that the company is unable to meet its current obligations.
- Though there are abnormally high current solvency ratios of 10.83 and 57.85 (2012 and 2011), this simply reflects that there were extremely lower payables as compared to its receivables during that time.
- The acid test ratio of 0.22 confirms that the company is not liquid at a satisfactory level and is unable to meet its short term financial obligations.
- Anija Fashions assets are below its liabilities. The bulk of its current assets (72%) sits as inventory.

Best practices- Cont'd

Financial Analysis

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

- The company has abnormal debt to equity ratios for the past three years: -3.44 in 2010, -- 2.41 in 2012 and -1.60 in 2013. Accumulated losses over the past 3 years have depleted the company's equity base. Balance at end of 2013 is -32,089.
- The largest contributor to debts in 2013 are account payable (22,169) and Director's loans (31,989). The company has been dependent on grants and loans from the business owners/directors for the past three years to finance operations.

- **Time Interest Earned Ratio**

- Anija Fashions does not have any borrowing from external financiers such as banks, therefore is not affected by interest payments.

Conclusions of the Diagnosis

Conclusion

Conclusions

- Anija Fashions is a sole proprietorship located in Tonota in the Northern part of Botswana. The company was registered in 2008 and started operating in 2010.
- The company operates in the textile and apparel sector and specializes in manufacturing protective clothing, bedding, sportswear, men's attire, wedding gowns and children's wear.
- The company is in the growth development stage but has been affected by the fact that it is not registered and listed with procurement department in the mines. After a jump in 2012, the turnover has sharply declined in 2013.
- The company's existence was prompted by unsatisfied market niche in the high demand of protective clothing in Botswana and majority of imports coming from South Africa. Cumulative losses over time have completely depleted the equity base. Operations are very slow as the company's cash is tied up in slow moving inventory and receivable. Working capital is negative indicating that the company is unable to respond to market demand and maintain or replace its equipment as well. Company has relied on grants and owner' sloan to finance operations.

Conclusion-Cont'd

Conclusions

- The diagnostic exercise drew attention to five key areas for attention namely, Strategic Management, Marketing and Sales, Production and Operations, Finance and Quality Management.
- The critical subareas requiring interventions were: strategic objectives, segmentation, target market and Positioning, sales management, cost analysis, operations planning, financial administration and quality control.
- Anija Fashions Ltd 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	➢ Formulate strategic objectives. ➢ Strategic objectives to be unpacked into operational goals ➢ Document strategic objectives and strategic plan	➢ Assistance with the formulation and development of objectives and plan
SEGMENTATION, TARGET MARKET & POSITIONING	➢ 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 descriptions of specifications	➢ Support to undertake a light market research ➢ Support to develop a marketing plan per category (products, price, communication and distribution)

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
SALES MANAGEMENT	➢ Develop a sales plan. ➢ Build a sales team ➢ Have monthly sales forecasts and targets ➢ Analyze sales data regularly to inform decision making.	➢ Assistance with development of Sales plan. ➢ Assistance with setting up a sales management system. ➢ Training in sales and marketing.
PLANNING	➢ Set clear production plan aligned with sales goals, develop a work time table and procurement plan according to sales targets	➢ Development of job cards, sales plans and budgeting documents

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
FINANACIAL ADMINISTRATION	➢ Set up a budget and cash flow projections ➢ Draw up financial plans and objectives ➢ Set up financial administration procedures such as petty cash register and proper filing system	➢ Training on Quick Books system in place ➢ Support for Quick Books in the form of quarterly review of entries and reconciliation of accounts
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
QUALITY CONTROL	➢ Develop and document quality control policies which comply to existing standards ➢ Establish documented measurement criterias ➢ Define and document responsibilities ➢ Develop procedures and documentation to monitor rejection and wastage.	➢ Engage the help of experts to put in place documented quality check policies and product quality checks check points. ➢ Develop rejection procedures and documentation ➢ Engage the help of an expert train relevant quality control staff.

Priority Intervention

To avoid bankruptcy and get the business back on feet, the company needs to develop and implement a turnaround plan before any intended diversification. This implies :

1. **Boost the sales**

- Get register with procurement department of mines
- Further investigate the market to identify untapped segments with growth potential and for with the company has competitive advantage
- Develop differentiated product offering to meet the demand of each targeted segment
- Develop a sales plan for each target and support the sales to generate new business

2. **Financial administration**

- Cash flow management system should be based on weekly reviews against sales
- Take advantage of available credit lines e.g. CEDA,
- Consider injecting additional funds into the business to finance the plan

3. **Define and plan for future development of the company:**

- 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.
- Get assistance to develop a business plan to guide future development of the company

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Thank You