

Integral Diagnostic Review
Final Report
Cavlexious Investments (Pty) Ltd

May 14 - 15, 2014, Mathangwane - Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team Mr. Obert Yuyi
 Ms. Modesta Nyirenda

The Company's Diagnostic Process

- Company's background review
- Interview with the management to understand the different elements of the company (14th May 2014)
- Co-construction: management validation of preliminary findings (15th May 2014)
- Preliminary reporting (16th May 2014)
- Final reporting (17th May 2014)

Background

- The company is located in Mathangwane approximately 20km North East from the City of Francistown
- In 1997 the owner of the business was initially funded P25,000 by Financial Assistance Programme (FAP) towards brick moulding.
- The company's core business is brick moulding with product range: 4 inch, 6 inch and stock bricks, and sells mainly to government departments and to individuals.
- Calexious (Pty) Ltd was registered in 2003. It had no trucks and river sand was brought to the premises of operation was brought through hired pick-trucks and donkey carts. The delivery to customers was also sub-contracted.
- It has employed 10 people including the Managing Director (5 permanent and 5 casual employees)
- In 2003 a contract was awarded to the company by Central District Council through drought relieve programme.
- Its recorded turnover in 2012 stood at P397,441.
- For the following years no government tender has been awarded to the company and has interrupted their income flow
- The absence of mining rights has affected the cost of procuring sand, which is the main input to their product

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (see attachment for explanations)

Strategic Management

- Mission and Vision
- Strategic Objectives

Finance

- Accounting Records
- Cost Analysis

Business Environment Analysis

- Understanding the business sector
- Alliances

Information Management

- Communication

Marketing and Sales

- Segmentation, Target Market, and Positioning
- Product
- Sales and Marketing

Quality Management

- Quality Control
- Product quality

Production and Operations

- Planning
- Plant Layout

Technological Innovation

- Information Technologies

Results

The Company Strengths and Subareas for Intervention

Strengths	Areas for Intervention
1. Management and Leadership-Style	1. Strategic Management – Strategic Objectives
2. Marketing and Sales-Client Relationship	2. Business Environment Analysis– Alliances
3 Marketing and Sales-Price	3. Marketing and Sales – Segmentation, Target Market and Positioning
4. Information Management-Information	4. Marketing and Sales - Product
	5. Marketing and Sales – Sales Management
	6. Quality Management– Product Quality
	7. Technological Innovation- Information Technologies

Strategic Management – Strategic Objectives

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

- Provide guidance and direction, facilitate planning, motivate and inspire employees, and help organizations evaluate and control performance.
- Help to channel employees throughout the company toward common goals, concentrate and conserve valuable resources in the organization and to work collectively in a more timely manner
- Ultimately improve the company's efficiency and competitive advantage on the markets

The Strategic Process of Value Creation



Business Environment Analysis - Alliances

Developing and nurturing strategic alliances and partnerships offer a course to a company's viability and progress. It can also :

- Allow companies to streamline critical information exchange, gain business intelligence and proactively manage negotiations.
- Help reduce business risk and increase growth opportunities by shortening the due diligence process and optimizing ongoing partner information exchange
- Leverage limited resources when pursuing an opportunity. An alliance can provide easier access to new opportunities and a lower barrier to entry.
- Alliances enable many companies to make continuous improvements.
- By sharing with others, you can direct resources and capabilities to priority projects

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 for desired segments
- Improve market penetration and increase revenue
- Enhance brand awareness and customer loyalty

Marketing and Sales - Product

A winning product dominant marketing strategy begins with a well defined combination of products and targeted market segments and a coordination among production and marketing team and sales force as well to develop or adapt company offering. Such a system in place would enable the company to:

- To clearly define product specifications and quality standards
- Deliver a product that meets customers needs
- Develop effective product centric marketing and promotional plans
- Improve market penetration and increase revenue
- Improve efficiency of the sales workforce because of product intelligence
- Improve coordination between production and marketingthe involvement of the sales force and input from customers to adapt the product.

Marketing and Sales – Sales Management

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

- Defining targets and levels of production
- Effective focus on targets with potential for growth
- Improved inputs into customization for each segment resulting from interaction – product development
- Implementing appropriate procurement and inventory procedures.
- Maximizing stock turnover
- Cost structuring and management.

Quality Management – Product Quality

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

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

Technological Innovation- Information Technologies

Incorporating information technologies in the business will help:

- Ensure more efficient and effective internal 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 through web presence such as social media and websites.
- Improve ability to respond to, receive and transmit sales and marketing information.

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.



Cavlexious Investments (Pty) Ltd : Balance Sheet 2011 – 2012

ASSETS	2,012	2,011
Cash and cash equivalents	20,073	32,074
Accounts receivable (debtors)	5,863	5,042
Inventory	228,765	188,324
Prepaid expenses	0	0
Other Current Assets	0	0
TOTAL CURRENT ASSETS	254,701	225,440
Physical fixed assets	27,299	48,474
Financial Fixed Assets	0	0
Intangible assets	0	0
Other Assets	2,850	2,850
TOTAL FIXED ASSETS	30,149	51,324
TOTAL ASSETS	284,850	276,764
LIABILITIES	2,012	2,011
Account payable	7,994	0
Short term portion of loans payables	195,742	142,126
Taxes liabilities	0	0
Short term provisions	0	0
Other Current Liabilities	21,500	16,500
TOTAL CURRENT LIABILITIES	225,236	158,626
Long term debt to banks and fin. Inst.	283,356	345,940
Long term Provisions	83,138	5,723
Other Long term debt	23,383	23,383
TOTAL LONG TERM LIABILITIES	389,877	375,046
TOTAL PAYABLE LIABILITIES	615,113	533,672
Paid in Capital	0	0
Reserves (Retained Earnings, other reserve)	-257,008	-193,208
Current year net profit	-73,354	-63,800
Other	0	0
EQUITY	-330,362	-257,008
TOTAL LIABILITIES	284,751	276,664



Cavlexious Investments (Pty) Ltd: 2011 - 2012

PROFIT/LOSS STATEMENT	2,012	2,011
Sales revenues	397,441	434,654
Cost of goods sold	1	
<i>Materials</i>	239,342	158,939
GROSS PROFIT	158,099	275,715
<i>Wages & salaries</i>	36,542	58,498
<i>Other costs</i>	0	0
NET VALUE ADDED	121,557	217,217
Depreciation	21,175	68,027
Operating Expenses (G&A, selling, R&D)	98,275	117,551
OPERATING INCOME	2,107	31,639
Financial income	0	0
Financial expenses	75,461	95,439
Other non-operating income		
Other non-operating expenses		
INCOME BEFORE INCOME TAX	-73,354	-63,800
Income Tax Provision	0	0
NET INCOME	-73,354	-63,800

Strategic & Financial Indicators

Strategic Indicators	2012	2011
Local sales per employee	39,744	43,465
Exports as a percent of total sales	0.0%	0.0%
Variation of local sales	-9%	-
Net value added, NVA	158,099	275,715
Productivity	15,810	27,572
Net profit margin	-18%	-15%
Net worth	-330,262	-256,908
Fixed Assets Turnover	13.18	8.47
Number of managers to employees	0.11	0.11

Strategic & Financial Indicators

Financial Indicators	2012	2011
Current Ratio	1.13	1.42
Acid test (Quick ratio)	0.12	0.23
Average collection period (days)	5.38	4.23
Average payment period (days)	10.58	-
Debt to equity ratio	-1.86	-2.08
Times Interest Earned	0.03	0.33
% Over (Under) Break-even point	2%	17%



Financial Analysis

➤ Sales and profitability

- Sales declined by 9% in 2012 from 2011 which attracted revenues of P434,654.
- The gross profit margin has declined to 40% from the previous years' 63% confirming the increase in the cost of procurement of sand.
- This is also explained by the fact that the business, which previously had relied on order from government bodies such as City Council, clinics and from the Drought Relief Program; including supply of bricks to construct the Francistown Stadium, had been affected the effects of the economic recession. The government did not issue new jobs in the year 2012.
- Operating expenses declined by a higher margin of 16% in the same time period as a result of the declining gross profit.
- The assets turnover ratio is at 13.18 times in 2012 and 8.47 times in 2011 indicating a good utilization of assets.

Financial Analysis

➤ Working capital

- Average debt collection period has slightly increased from 4 days (2011) to 5 days in 2012. This short period reflects typical payment patterns of individuals who's transactions are cash sales.
- The company is also taking a relatively short time to pay suppliers (10 Days) reflecting the fact that they have deliberately chosen not to take advantage of credit lines readily available for their convenience.

Financial Analysis

➤ Solvency

- The current ratio is at 1.13 (2012), slightly dropping from the previous year at 1.42. This indicates that the company is increasingly unable to meet its financial obligations. It also has decreasing capital to run the business .The industry average current ration is at 2.
- Cavlexious current assets of 2012 at P254,701 are only slightly above its liabilities of P225,236.
- Considering a 37.4 % reduced cash position in 2012 coupled with an increase in payable loans at 37.7%, the company is under financial stress.
- The acid test ratio of 0.12 indicates that the company is not financially healthy and is unable to meet its short term financial obligations.

Financial Analysis

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

- The debt to equity ratio is 1.86 in 2012, and 2.08 in 2011. Normally this would entail that for every 1.86 shares, there would be 1.0 debt. However, it is important to note that Cavlexious equity stands at a negative figure of P330,362 indicating an accumulation of losses over time.

➤ **Time Interest Earned Ratio**

- Cavlexious Pty Ltd in 2012 has an improved time earned ratio of 1.97 times from -1.67 times in 2011.
- This normally would indicate that the company is able to pay its interest on borrowing nearly 2 times over by its net operating income
- However, because the company is experiencing a negative net income and a reduced cash position, it is highly unlikely that the company is able to pay its current obligations.

Conclusions of the Diagnosis

Conclusion

- This business was self funded in 1997 while the owner was working in Zimbabwe on livestock feed manufacturing plant.
- After a series of awarded commercial tenders in the period of 2003 – 2007, Cavlexious Investments Pty Ltd was able to purchase a 5 tonne tipper truck and a 10 tonne truck for materials movements.
- The company has been adversely affected by the reduction in government spending reflecting a decline in revenues and net income. Its net income stood at (P73,354) in 2012 after a decline of P9,554 from the previous year.
- The company is in the growth development stage but has been affected by the dwindling in the last few years. They are operating at only 2% above break even point. Therefore the profit is very low.
- The situation is exasperated by the fact that they are carrying a heavy debt burden. 19% of sales is going to financial expenses.

Conclusion

- The company intends to diversify its portfolio by producing cattle feeds
- Cavlexious need to stabilize its current operations before any intended diversification.
- The diagnostic exercise revealed 5 broad sections that require attention. These are in Strategic Management, Business Environment Analysis, Marketing & Sales, Quality Management and Technological Innovation.
- The specific areas that require critical intervention are: strategic objectives, alliances, Segmentation, Target Market and Positioning, Product, Sales Management, Product Quality and Information and Technologies.

Cavlexious needs to improve in above indicated subareas so as to close the gaps and gain competitiveness in target markets.

Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
STRATEGIC OBJECTIVES	<ul style="list-style-type: none"> ➤ 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. ➤ Cascade these goals to the operational levels of the company (Operations, Sales and Marketing...) and identify activities to support these goals ➤ Define reporting, dashboards and follow-up meetings to monitor the progress toward these targets achievement 	<ul style="list-style-type: none"> ➤ Review and develop existing company objectives ➤ Structure the strategic objectives per: Year, Market ➤ Develop Strategic Plan
ALLIANCES	<ul style="list-style-type: none"> ➤ Consider membership to bodies such as BOCCIM and BEMA ➤ Access existing networks to bodies you are already affiliated to such as LEA and brick moulding association in Francistown and Mathangwane 	<ul style="list-style-type: none"> ➤ Enlightenment on how to leverage and optimise alliances ➤ Research into possible beneficial alliances and affiliation bodies

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
SEGMENTATION, TARGET MARKET & POSITIONING	<ul style="list-style-type: none"> ➤ Develop criteria for and categorise customers based on their specific purchasing habits and requirements. ➤ Clearly identify and present in a document the differentiators and the key benefits Cavlexious 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 	<ul style="list-style-type: none"> ➤ Develop a marketing plan encompassing market segmentation and target marketing for each identified segment (inclusive of pre-and post-sale service and promotions).
PRODUCT	<ul style="list-style-type: none"> ➤ Improve coordination between production and marketing by enhancing communication between the two units ➤ Formalize defined product features and benefits against the competitor, profiling the competitor and identifying your competitive advantage ➤ Identify products that are more efficiently produced and quicker to sell on the market 	<ul style="list-style-type: none"> ➤ Develop a product oriented market plan in which markets and outlets are identified and exploited ➤ Create a pricing strategy for products at target markets

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
SALES MANAGEMENT	<ul style="list-style-type: none"> ➤ Develop a sales marketing team, initially from internal resources and consideration for external resources on a commission plan ➤ Develop marketing and sales plan. ➤ Have monthly sales forecasts, sales targets and objectives. ➤ Analyze sales data regularly to inform decision making. ➤ Consider sales incentives ➤ Increase capacity and capability of internally sourced salesperson 	<ul style="list-style-type: none"> ➤ Development of strategic sales and marketing plan. ➤ Development of a sales incentives program within the plan ➤ Assistance with setting up a sales management system. ➤ Training on product costing, pricing and promotion for the existing sales person and for future sales team members.
PRODUCT QUALITY	<ul style="list-style-type: none"> ➤ Document criteria/ standards for product quality for each block type. ➤ Clearly outline systematic product quality check processes. ➤ Document the criteria and processes involved in quality checks 	<ul style="list-style-type: none"> ➤ Assistance developing standards in line with industry expectations.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
INFORMATION & TECHNOLOGIES	<ul style="list-style-type: none"> ➤ Transfer all company information into soft copy. ➤ Invest in a computer for the business. ➤ Explore the use of social media and email to communicate with clients and suppliers. ➤ Continue to realise training for administration staff ➤ Continue to lobby BTC to install a communications line to the property 	<ul style="list-style-type: none"> ➤ Assistance with basic computer skills training for the management and administration personnel. ➤ Assistance with acquiring necessary software and equipment.

Priority Intervention

In order to enhance performance of the company, the company needs to develop and implement a stabilization plan before any intended diversification. This implies :

1. Marketing & Sales – Sales Management

- Further survey the market to determine profitable segments such as construction companies.
- Develop a sales force and a sales management system to generate new business and ensure that Cavlexious bricks and blocks are marketed to the right groups, in the right manner.
- Clear the inventory urgently. Consider less stock piling for the future
- The company needs to build a sales team and improve its existing sales system to include systematic efforts at capturing new sales, encouraging repeat sales.

2. Financial administration

- Cash flow management system should be based on weekly reviews against sales.
- Reduce inventory on hand
- Take advantage of available credit lines
- Get assistance to restructure existing loan and consider injecting additional funds into the business

3. Actively pursue the river sand site deed application.



Thank You