Centre for the Development of Enterprise

Integral Diagnostic Review

Final Report

Mums Bakery

11th April 2014, Serowe, Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

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The Company’s Diagnostic Proces

- Company’s background review
- Interview with the management and staff to understand the different elements of the company – 10th April 2014
- Co-construction (management validation of preliminary findings) – 11th April 2014
- Final reporting – 11 April 2014

Background

• Mums Bakery is a sole proprietorship is located in Serowe, approximately 300km from Gaborone. The premises where the business is located is owned by the business owner.

•The business was registered in 2002 but started operations in 2003 with a P67,000 grant from Financial Assistance Policy (FAP) and P30,000 from personal contribution.

•The business is a bakery producing mainly bread. It however also produces small quantities of other bakery products such as cup cakes.

•Currently they produce an average of 60 loaves per day but have a production capacity of 500 loaves per day

•Business is conducted from the shop or through orders secured through tenders and the managers sales initiatives

•Some of the baking equipment being used are 11 years and others 3 years old.

•The Enterprise's main clients are government (including Botswana Defense Force), schools, tuck-shops, general dealers and individuals

•The vision of the business is to expand and have a reputable business that employs more people

•The owner attended 3 weeks of training in 2000 organized by RIIC and later did another training to update her skills.

•The business has a total of 3 employees (manager included)

•The turnover was P86,501 in 2011/2012 and P127,079 in 2012/ 2013 financial year

• Challenges faced by the business include low market penetration, inadequate factory space,

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (refer to co-construction report)

Strategic Management • Mission and Vision • Strategic Objectives	**Human Resources** • Staff Performance
Marketing and Sales • Segmentation, Target Market, and Positioning • Sales Management • Communications	**Quality Management** • Quality Control • Procedures • Product quality
Production and Operations • Inventory Handling	**Information Management** • Information
Finance • Accounting Records • Cost Analysis	**Technological Innovation** • Execution of Innovation Projects • Information Technologies

Results

The Company Strengths and Subareas of Intervention

Strengths	Subareas of Intervention
1. The Enterprise operates from own premises .	1. Strategic Management – Mission and Vision.
2. The Enterprise has been in operation for a long time	2. Strategic Management - Strategic Objectives
3. The owner is passionate about her business	3. Marketing and Sales - Segmentation, Target Market, and Positioning
4. The owner has had some training in Baking	4. Marketing and Sales - Sales Management
	5. Finance – Accounting Records
	6. Quality Management - Quality Control
	7. Quality Management - Product quality

Strategic Management – Mission and Vision

Having a clear mission and vision, supported by strategic objectives and specific projects and action plans will enable the business 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
- Improve decision making across the company

Best Practices

Strategic Management – Strategic Objectives

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

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

The Strategic Process of Value Creation

mission	Why we exist
values	What is important to us
vision	Where we want to be
strategy	How we plan to arrive there
Objectives & initiatives	What we owe to achieve our goals
Individual objectives	What I must do

results

• Satisfied customers •Satisfied shareholders	Efficient and effective processes Motivated and prepared staff

Best Practices -Cont'd

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:

- Effectively focus on profitable customers and products 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
- Improve market penetration and increase revenue

Best practices- Cont'd

Marketing & Sales – Communications

Having a properly defined market segments with differentiated marketing strategy including adequate communication plan will enable the company to:

- Effectively focus on profitable customers & products
- Adopt specific messages to targeted customers
- Determine the effectiveness of its promotional activities
- Enhance product positioning and customer loyalty
- Ultimately increase market penetration & revenue

Best practices- Cont'd

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 business to its financial budget
- Correct and quick cost analyses

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

Best practices- Cont'd

Quality Management - Quality Control

There is need for the business 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

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Best Practices -Cont'd

Quality Management - Product Quality

There is a need for the business to have documented quality checks, and a guarantee system of its product. This will result in:

- Implementation of critical check point procedures and easy identification of quality control failures.
- Uniformity and consistency of products.
- Easy identification batch production details of products returned or which clients express dissatisfaction about
- Maintenance of product quality standards
- Implementation of product guarantee

Best practices- Cont'd

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.

The financial year of the company ends on 30th June of each year i.e. the financial year is from 1st July to 30th June of the following year.

Best practices

Financial Figures Consistency

- Director's remuneration has been taken as salary because this is not a Limited Liability company
- For the purpose of this calculation, the shareholder's loan has been considered as a company loan
- Expenses total has omitted the addition of telephone expenses
- Trade and other payables have not been broken down; we have therefore entered it as other current liabilities
- The financial reports received are in the format of a company. However Mums Bakery is not a company; it is a sole proprietorship. It includes share capital shareholder's loan, director's remunerations
- Although there is motor vehicle expenses, there is no transportation expenses. This may be included in miscellaneous (needs clarification)
- Wages and Salaries: the total wages and salaries cost is P36,100 (P21,100 salaries +P15,000 director's remunerations) in 2012 and P33,500 (P21,000 salaries +P12,500 director's remuneration) in 2013. These figures are rather low and require clarification
- Expenses total has omitted the addition of telephone expenses. We have therefore omitted this in our analyses
- The balance sheet does not reflect the grant amount as a separate entry.

Best practices - Cont'd

Mums Bakery: Balance Sheet 2011/2012 and 2012/2013

ASSETS	2012-2013	2011-2012		Variation (%)
Cash and cash equivalents	13 875	11 869		17%
Accounts receivable (debtors)			0	
Inventory			0	
TOTAL CURRENT ASSETS	**13 875**	**11 869**	**0**	17%
Physical fixed assets	30 405	37 447		-19%
TOTAL FIXED ASSETS	**30 405**	**37 447**	**0**	-19%
TOTAL ASSETS	**44 280**	**49 316**	**0**	-10%

LIABILITIES	2012-2013	2011-2012	0	Variation (%)
Account payable	8 966	10 480	0	-14%
Taxes liabilities				
TOTAL CURRENT LIABILITIES	**8 966**	**10 480**	**0**	-14%
Long term debt to an individual.(no interest)	22 845	39 310	0	-42%
TOTAL LONG TERM LIABILITIES	**22 845**	**39 310**	**0**	-42%
TOTAL PAYABLE LIABILITIES	**31 811**	**49 790**	**0**	-36%
Paid in Capital	100	100		0%
current year net profit/loss	12 943	-574		
Reserves (retained earnings,other reserves)	-574			
EQUITY	**12 469**	**-474**	**0**	-2731%
TOTAL LIABILITIES	**44 280**	**49 316**	**0**	-10%

Best practices- Cont'd

Mums Bakery Profit and Loss Statement

PROFIT/LOSS STATEMENT	2012-2013	2011-2012		Variation (%)
Sales revenues	127 079	86 501		47%
Cost of goods sold				
Materials	48 428	32 119		51%
GROSS PROFIT	**78 651**	**54 382**	**0**	45%
Wages & salaries	33 500	36 100		-7%
Other costs	0	0	0	0%
NET VALUE ADDED	**45 151**	**18 282**	**0**	148%
	0,36	**0,21**	**#DIV/0!**	
Depreciation	5 972	7 404		-19%
Operating Expenses (G&A, selling, R&D)	22 585	11 452	48 495	97%
OPERATING INCOME	**16 594**	**-574**		2991%
Financial income	0	0	0	0%
Financial expenses			0	
INCOME BEFORE INCOME TAX	**16 594**	**-574**		2991%
Income Tax Provision	3 651	0		100%
NET INCOME	**12 943**	**-574**	**0**	2355%

Strategic & Financial Indicators

Strategic Indicators	2012/2013	2011/2012	
Local sales per employee (Pula)	42,360	28,834	
Exports as a percent of total sales	N/A	N/A	
Variation of local sales (%)	47%	N/A	
Net value added, NVA (Pula)	45,151	18,282	
Productivity (Pula)	15,050	6,094	
Gross profit margin (%)	36%	21%	
Net profit margin (%)	10%	-0.66%	
Net worth (Pula)	12,469	-474	
Number of managers to employees	0.5	0.5	

Strategic & Financial Indicators

Financial Indicators	2012/2013	2011/2012	
Current Ratio	1.55	1.13	
Acid test (Quick ratio)	1.55	1.13	
Average collection period (day)	N/A	N/A	
Average payment period (day)	39	56	
Inventory conversion rate (day)	N/A	N/A	
Debt to equity ratio	2.55	-105.04	
Times interest earned	N/A	N/A	
% Over (Under) Break-even point	58%	-0.03%	

Best practices- Cont'd

Financial Analysis

Sales and profitability

- Turnover increased between 2011/2012 and 2012/2013 financial year from P86,501 to P127,079 which represents an increase of 47%.
- The gross profit margin had increased from 21% to 36% during the period. This indicates a good management of purchase and inventory system over the two year period.
- Similarly, the profit margin jumps to 10% from -0,66% during the same period.
- Actual operating expenses increased by 97% over the period due mainly to an increase in utility , stationary, motor vehicle and miscellaneous expenses. Also percentage operating expenses to sales revenue increased from 13% to 17%
- Break even point has improved from -0.03 (operating below break even point) to 58% over the period.

Best practices- Cont'd

Financial Analysis

Working capital

- The net working capital increases from P1,389 to P4,909 over the period. This is very low and indicates that the company does not have adequate resources to expand and grow.
- The company carries a significant balance of liabilities with no inventory at year end. This points to difficulties that the business may be experiencing in sourcing its raw materials.
- The average supplier payment period has improved from 56 days to 39 days. This will improve the credit worthiness of the company.
- The receivables are not existent indicating sales are carried out on cash, or short term basis.

Best practices- Cont'd

Financial Analysis

Solvency

- The current ratio has improved slightly from 1.13 to 1.15 over the period. The desired figure is 2, indicating that the business will not easily meet any current obligations.
- The acid test ratio also improved slightly from 1.13 to 1.15 over the period. This indicates that the state of solvency of the business is acceptable. The ratio should ideally be at least 1.
- The debt/equity ratio was initially -105.04 in the 2011/2012 financial year due to depleted equity base and accumulated losses. It improved from -105.04 to 2.55 during the period. This points negatively to its ability to source external finance; e.g. bank loans.

Best practices- Cont'd

Financial Analysis

Conclusion

• The business is not financially sound. A net profit of P12,943 for the financial year is very low. There is low market penetration and viability cannot be ascertained.

- The low net working capital prevents the business from seizing opportunities and grow
- Company's equity base is depleted and points to inability to attract external resources
- Short term solvency is acceptable.
- Overall the financial inconsistencies adding to low turnover and profit indicates that the business does not have adequate resources to carry out the required expansion of the working space and to upgrade the building and its productive assets. The owner has to recapitalize the business to enable it to become competitive and to grow.

Conclusions of the Diagnosis

Conclusion

Conclusion

• The business was registered in 2002 and started operations in 2003. It is a sole proprietorship which is located in Serowe, approximately 300km from Gaborone

• Of the initial finance for starting up the enterprise P67,500 was a grant from FAP and a P30,000 from personal contribution. This money was used to buy machinery, pay employees and as working capital.

• The company has been in operation for approximately 11 years but is still in an infantile stage. The premises where the enterprise operates from requires expansion and renovation with additional furniture and fixtures.

• The low profitability, working capital and equity base indicate that company does not have adequate resources to seize new business opportunities, maintain its equipment or upgrade its operations, neither can it attract external funds.

• The business needs to consolidate its profitability and assets base and put in place adequate management system in order to sustain itself and grow.

Conclusion

Conclusion Cont'd

- The diagnostic exercise revealed 4 broad areas that require interventions. These are Strategic Management; Marketing & Sales; Finance and Quality Management.
- Specific subareas that need interventions are: Mission and Vision, Strategic Objectives, Market Segmentation, Target Market and Positioning; Sales Management, Accounting Records, Product Quality and Quality Control.
- Mums Bakery should strive to close the gaps in above indicated subareas with a view to gain competitiveness on target markets and grow.

Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	**WITH SUPPORT OF EXTERNAL RESOURCES**
STRATEGIC MANAGEMENT – MISSION AND VISION	➢ Collectively reformulate vision and mission statements. ➢ Deepen staff's understanding about the company's vision and mission	➢ Assistance with refining vision and mission statements
STRATEGIC MANAGEMENT- OBJECTIVES	➢ Define strategic objectives & set key indicators and targets for the short, medium, and long term	➢ Assistance with developing strategic objectives

<table>
<tr><th rowspan="2">SUB-AREAS</th><th colspan="2">RECOMMENDATIONS</th></tr>
<tr><th>INTERNALLY</th><th>WITH SUPPORT OF EXTERNAL RESOURCES</th></tr>
<tr><td>MARKETING AND SALES - SEGMENTATION, TARGET MARKET & POSITIONING</td><td>➢ Identify basis for segmentation
➢ Establish essential characteristics of each market segment
➢ Establish the potential and feasibility of each segment
➢ Select target segment/s to focus on
➢ Develop detailed product positioning for the selected segments</td><td>➢ Assistance with carrying out a market survey
➢ Assistance with developing a marketing model</td></tr>
<tr><td>MARKETING AND SALES-SALES MANAGEMENT</td><td>➢ Develop marketing and sales plan.
➢ Have monthly sales forecasts.
➢ Develop sales targets and objectives
➢ Analyze sales data regularly to inform decision making.</td><td>➢ Assistance with development of Sales and Marketing plan.
➢ Assistance with setting up a sales management system.
➢ Training on product pricing.</td></tr>
</table>

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
FINANCE-ACCOUNTING RECORDS	➢ Utilize financial records for business planning. ➢ Consider engaging personnel with accounting background to do the books	➢ Enlist accountant to Establish appropriate accounting records to capture all business expenses and income ➢ Staff capacity building on interpreting financial records.
QUALITY MANAGEMENT-QUALITY CONTROL	➢ Develop and document quality control policies which comply to existing standards e.g. BOBS ➢ Establish documented measurement criteria's ➢ 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.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	**WITH SUPPORT OF EXTERNAL RESOURCES**
QUALITY MANAGEMENT-PRODUCT QUALITY	➢ Identify and document quality check mechanisms ➢ Develop and implement appropriate records to monitor and assess compliance to product quality ➢ Define and document and implement product guarantee and customer satisfaction checks.	➢ Enlist the assistance of an expert in this field

Priority Intervention

In order to grow and to increase profit margin, the company should develop and implement a consolidation plan implying the following:

- **Boost sales and improve market share**
- Further investigation of the market to determine the targets and where the company has competitive advantage.
- For each segment to develop product pricing and communication appropriately
- A sales force needs to be established in order to generate new business
- **Control cost and improve margin**
- Develop a proper cost structure
- Clearly identify variable and fixed cost and have a mechanism to allocate fixed cost into the pricing
- To improve on financial management (working capital/cash flow management with weekly check, budgeting and comparing actual to the plan)
- **Recapitalize the company:**
- Owner to inject personal money to finance the consolidation plan

Thank You