

Integral Diagnostic Review

Preliminary Report

Serokolwane Farms T/A Serokolwane Lawns



15 –17 April, 2014, Gaborone-Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

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- Company's background review
- Interview with the management and staff to understand the different elements of the company (15 April 2014)
- Co-construction: management validation of preliminary findings (16 April 2014)
- Preliminary reporting (17 April 2014)
- Final reporting (22 April 2014)



- Serokolwane Farms (Pty) Ltd, trading as Serokolwane Lawns, is situated in the Kgatleng District about 3.8 km from the Gaborone – Francistown road.
- Serokolwane Lawns acquired Kikuyu Lawns through public auction in 2011. The farm is a family owned company registered in June 2011. The family members are the principal shareholders.
- It has a total area of approximately 15 hectares, of which the core business line is production of Kikuyu instant grass lawn. Since acquisition, they have expanded their production to include stock breeding of sheep and rabbits, poultry (both guinea fowl and chicken), vegetable farming (cabbage, tomato, green pepper) and various plant seedlings.
- The recent business expansion has been to include venue hiring and catering facilities to their offerings.
- Their turnover in 2013 is P1,162,944 . The company has a total staff count of 18 (including the MD).
- It is challenged by its lack of agricultural management expertise and therefore not fully capitalising on farm implements and land available for agriculture, as well as the breeding capacity for existing livestock.



Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (refer to the co-construction report)

Business Environment Analysis

- Understanding of the Sector
- Alliances

Marketing and Sales

- Client Relationship
- Segmentation, Target Marketing and Positioning
- Product
- Sales Management

Production and Operations

- Planning
- Technological Level

Finance

- Cost Analysis

Information Management

- Communication
- Information

Quality Management

- Quality Control
- Procedures
- Product quality

Technological Innovation

- Corporate Culture for Innovation



Results

The Company Strengths and Subareas for Intervention

Strengths	Subareas for Intervention
1. The company has very clear short and long term strategic objectives.	1. Marketing & Sales – Product
2. Strong managerial background and experience; backed up with formal qualifications. This also compliments farming experience of key shareholders / board members.	2. Marketing & Sales – Sales Management
3. Accounting function is supported by outsourced professionals who not only advise and engage in weekly, fortnightly and monthly data checks and reviews.	3. Production & Operations- Planning
4. The company has adequate farm implements / machinery	4. Information Management- Communication
5. The farm has a reliable water source.	5. Quality Management- Quality Control
	6. Quality Management– Procedures
	7. Technological Innovation- Corporate Culture for Innovation



Marketing and Sales – Product

The company offering is not well structured. A proper coordination between Production and Marketing and Sales would enable the company to :

- Identify and target the market segments with high growth potential
- Taylor its product offering to meet the specific needs of each target
- Provide a precise description of product specifications and unique value proposition as well as quality standards
- Develop effective marketing and promotional plans

Ultimately, 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

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



Information Management - Communication

A proper information management system will help the company to:

- Improve communication internally and externally
- Become market intelligent
- Identify and seize opportunities ahead of competition
- Develop strategic alliances to support growth strategy
- Enable staff to appreciate their contribution to support company's objectives
- Assess and reward staff performance
- Easily follow up on agreed actions



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



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:

- Ensure business continuity even during staff turn over periods
- Competiveness in the market
- A step towards compliance to existing standards
- Allow seamless functioning and communication between business or cost units
- Implementation of training and benchmarking for the relevant personnel to maintain high quality products and competiveness in the market.

Technological Innovation - Corporate Culture for Innovation

Documenting and implementing a corporate culture for technological innovation, will enable the company to:

- Improve services and products to meet client preferences.
- Develop new products to meet clients requirements - product diversification
- Improve farm processes of production
- Plan and carry out training technical programs for employees
- Introduce incentive system for employees
- Incorporate employees ideas in improving product and service delivery – increased motivation
- Budget for technical innovation



Financial Analysis - Disclaimer

➤ Disclaimer

The strategic financial indicators are based on financial statements provided by the company for the years 2013 (12 months) and 2012 (covering 18 months). The labelling of the statements suggested that the statements were produced for Serokolwane Farms Pty Ltd.

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.



Inconsistency in figures

- *There are a number of abnormalities in figures and corresponding ratios that indicate the need for further financial and accounting probing,*
- *For example, a sharp increase in depreciation from P52,596 in 2012 to P481,111 in xxx. Even though fixed assets have only increased by P375,374 in the same period, depreciation increased by P428,515.*
- *The reserves account balance moves from P231,452 in 2012 to P332,615 in 2013 after the company incurred a loss of P370,557 in 2012. The balance should have been negative in 2013 (-P139,105) as a result of the year 2012 loss.*
- *Provision is not made for the current portion of loans from financial institutions.*



Serokolwane Farms (Pty.) Ltd. T/A Serokolwane Lawns: Balance Sheet 2011 - 2013

ASSETS	2,013	2,012
Cash and cash equivalents	86,289	1,232
Accounts receivable (debtors)	135,879	124,289
Inventory	49,851	0
Prepaid expenses	0	0
Other Current Assets	0	0
TOTAL CURRENT ASSETS	272,019	125,521
Physical fixed assets	2,103,096	1,727,722
Financial Fixed Assets	0	0
Intangible assets	0	0
Other Assets	0	0
TOTAL FIXED ASSETS	2,103,096	1,727,722
TOTAL ASSETS	2,375,115	1,853,243
LIABILITIES	2,013	2,012
Account payable	90,233	0
Short term portion of loans payables	0	19,413
Taxes liabilities	0	0
Short term provisions	0	0
Other Current Liabilities	142,131	114,963
TOTAL CURRENT LIABILITIES	232,364	134,376
Long term debt to banks and fin. Inst.	1,889,293	1,830,849
Long term Provisions	295,745	24,123
Other Long term debt	0	0
TOTAL LONG TERM LIABILITIES	2,185,038	1,854,972
TOTAL PAYABLE LIABILITIES	2,417,402	1,989,348
Paid in Capital	3,000	3,000
Reserves (Retained Earnings, other reserves)	332,615	231,452
Current year net profit	-377,902	-370,557
Other		
EQUITY	-42,287	-136,105
TOTAL LIABILITIES	2,375,115	1,853,243

Best practices- Cont'd

Serokolwane Farms (Pty.) Ltd. T/A Serokolwane Lawns

PROFIT/LOSS STATEMENT	2,013	2,012
Sales revenues	1,162,944	668,383
Cost of goods sold	0	
<i>Materials</i>	326,415	262,435
GROSS PROFIT	836,529	405,948
<i>Wages & salaries</i>	207,418	204,865
<i>Other costs</i>	0	0
NET VALUE ADDED	629,111	201,083
	0.54	0.30
Depreciation	481,111	52,596
Operating Expenses (G&A, selling, R&D)	292,934	405,362
OPERATING INCOME	-144,934	-256,875
Financial income	2,892	2,044
Financial expenses	235,860	115,726
Other non-operating income		
Other non-operating expenses		
INCOME BEFORE INCOME TAX	-377,902	-370,557
Income Tax Provision	0	0
NET INCOME	-377,902	-370,557

Strategic Indicators	2013	2012	2011
Local sales per employee	64,608	37,132	
Variation of local sales	74%	-	
Net value added, NVA	629,111	201,083	
Productivity	46,474	22,553	
Gross profit margin	72%	61%	
Net profit margin	-32%	-55%	
Net worth	-42,287	-136,105	
Number of managers to employees	0.06	0.06	
Fixed Assets turnover (Times)	0.55	0.39	

Financial Indicators	2013	2012	2011
Current Ratio	1.17	0.93	
Acid test (Quick ratio)	0.96	0.93	
Average collection period (days)	42.65	67.87	
Average payment period (days)	61.70	0	
Debt to equity ratio	-57.17	-14.62	
Times interest earned	-0.60	-2.20	
% Over (Under) Break-even point	-19%	-56%	



Financial Analysis

➤ Sales and profitability

- Sales increased between 2013 and 2012 by about 74% from P668,383 to P1,162,994.
- Gross margin increased from 61% in 2012 to 72% in 2013 pointing to inconsistency in company's procurement.
- The company is experiencing a negative net income which has worsened from negative 32% in 2012 (-P370,557) to negative 55% in 2013 (-P377, 902).
- However, operating expenses have reduced by 28%; which is a positive reflection on management of costs.
- The company is operating at 19% below break even. Though this is not desirable, it has improved from 56% below break even the previous year.
- Assets turnover stands at 0.55 in 2013; assets are not being fully utilized yet.

Financial Analysis

➤ Liquidity and working capital

- The company has an accounts payable amount of P90,233, which outstrips its cash on hand and represents 62 days of purchase in 2013.
- It takes 68 days to collect the receivables in 2013 again 43 days in previous year
- It takes 34 days to convert inventory into cash. Inventory is at P49,851 at end of .
- the company's net working capital has improved from a negative P8,855 in 2012 to P39,655 in 2013. Still, this level is low and would not permit the company to cover its operating costs and seize new business opportunities

Financial Analysis

➤ Solvency

- Although the current ratio is at 1.17 (2013), slightly improving from the previous year at 0.93. This would normally indicate that the company is able to meet its current obligations. The acid test ratio of 0.96 also supports the current ratio position.
- Times interest earned: the company is only able to earn 0.6 times its interest. The conclusion is that the company is not able to service the loans.
- The company had an increased debt to equity ratio in 2013 (-57.17) from a negative 14.62 in 2012 indicating that the business accessed growth finance. However, it is important to point out that the equity account does not reflect the reality. The equity base was completely depleted as a result of losses incurred in 2012 and 2013.
- Annual financial expenses represent 17% and 20% in 2012 and 2013 respectively indicating that the loans are putting a heavy strain on company cashflow. The team could not ascertain if there are arrears in loan payment.

Conclusions of the Diagnosis

Conclusion

- Serokolwane Farms (Pty) Ltd is a family owned company acquired through public auction in 2011. The company is located in the Kgatleng District and trades as as Serokolwane Lawns.
- It has a total area of approximately 15 hectares, of which the core business line is production of Kikuyu instant grass lawn.
- Since acquisition, they have expanded their production to include stock breeding of sheep and rabbits, poultry , vegetable farming and various plant seedlings. The recent business expansion has been to include venue hiring and catering facilities to their offerings.
- Before acquisition, this farm was an established business with a loyal customer base and ready to expand into new markets and distribution channels. On purchase, business had lull due to discontinuity and changes in business direction. The company is now characteristic of a start up, facing challenges of negative operating income, limited cash, delayed time for product to market, re-establishing a new customer base and relying on external financing from owners, family, friends and banks.

Conclusion

- Diversifying services, to extend into catering and venue leasing, ought to be approached with caution not only because of the risk of cross infection of the animals, but because the company is not ready to do so. In addition, management lacks agriculture expertise which limits the company's ability to anticipate and seize opportunities leading to growth in the sector.
- The diagnostic exercise revealed 5 areas that require attention. These are Marketing & Sales; Production & Operations; Information Management; Quality Management and Technological Innovation.
- Specifically the subareas that require critical intervention are: product offering development, sales management, improving operations planning, communication and coordination as well as establishing quality management system, and fostering corporate culture for Innovation.
- Serokolwane Farms (Pty) Ltd needs to close the gaps in above indicated subareas to consolidate its current operations and unleash performance. This will give them competitive advantages on target markets.



Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PRODUCT	<ul style="list-style-type: none"> ➤ Improve coordination between production and marketing by enhancing communication between the two units ➤ Define product features and benefits against the competitor, profiling the competitor and identifying your competitive advantage ➤ Identify products that are easier to grow and move on the market 	<ul style="list-style-type: none"> ➤ Develop a product oriented market plan in which niche markets and market channels are identified and exploited ➤ Create a pricing strategy for products ➤ Expansion into new markets, including export markets
SALES MANAGEMENT	<ul style="list-style-type: none"> ➤ Improve on current sales management system ➤ Staff to be aware of the system ➤ Keeping an up-to-date client database ➤ Differentiate client buying patterns ➤ Soft skills training to staff in sales and service 	<ul style="list-style-type: none"> ➤ Engage sales personnel ➤ Create a sales commission program for internal staff ➤ Establish partnerships with exporters and volume distributors ➤ Secure and formalize bulk sale contracts

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PLANNING	<ul style="list-style-type: none"> ➤ Formulate a clear production plan in coordination with sales goals and land utilisation ➤ develop a timetable and procurement plan according to sales targets. ➤ Plan for rotational crop to accommodate seasonal changes 	<ul style="list-style-type: none"> ➤ Consider crop rotation as a means of optimal planning ➤ Seek advice on farm layout; with special consideration proximity of poultry pens and access to the animal stock & breeding areas ➤ Development of job cards, sales plans and budgeting documents.
COMMUNICATION	<ul style="list-style-type: none"> ➤ Identify important information needs at all levels in the company. ➤ Share management and operational information with staff on a regular basis, with a well kept record for such meetings. ➤ Develop a formalized communication plan that will inform; hold weekly/monthly meetings; ➤ Develop a system of information dissemination to staff and incorporate a feedback mechanism. 	<ul style="list-style-type: none"> ➤ Develop an appropriate management information system, including a communication plan within the company.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
QUALITY CONTROL	<ul style="list-style-type: none"> ➤ 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. 	<ul style="list-style-type: none"> ➤ 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.
PROCEDURES	<ul style="list-style-type: none"> ➤ Implement recognized standards ➤ Identify and document critical control points which should be adhered to ➤ Implement quality checks procedures ➤ Develop and document quality management systems procedures ➤ Develop product specifications. 	<ul style="list-style-type: none"> ➤ Assist in identifying and improving procedures for standards and quality assurance ➤ Assist with developing documented quality measurement techniques

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
CORPORATE CULTURE FOR INNOVATION	<ul style="list-style-type: none"> ➤ Develop and document client database. ➤ Develop a system which incorporates budgeting for corporate culture and innovation. ➤ Formalize existing incentive system for employees. ➤ Research innovations in business sector ➤ Continue with regular bench marking and enhance current levels competitor research. 	<ul style="list-style-type: none"> ➤ Engage expert to assist with the development of documented client database , feedback system and employees participation for service improvement and cost reduction ➤ Engage in business sector forums to access information about new trends ➤ Explore ways to offer incentives to employees

Priority Intervention

Serokolwane Farms needs to consolidate and stabilize their intended core business of farming before it can successfully venture into other activities. This implies:

1. Improving productivity of farms operations

- Formulate a clear production plan in coordination with sales goals and land utilisation
- Develop a plan based on core farming business in order to boost and stabilise productivity continuity
- Support the operation plan with finances to allow training to improve expertise in agricultural management, planning and production skills which is currently lacking.

2. Boosting sales

- The company should have a sales management plan, with sales targets, with focused priority on optimising sales in livestock and farming. Include in the sales team a person with expertise in animal farming and agriculture. Train the sales staff.
- Further investigate the market, looking into better segmentation and targeting of the market.
- Develop a product delivery schedule considering the perennial nature of farm products and livestock cycle to avoid unsalable stock and reduce waste which adds to costs.



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