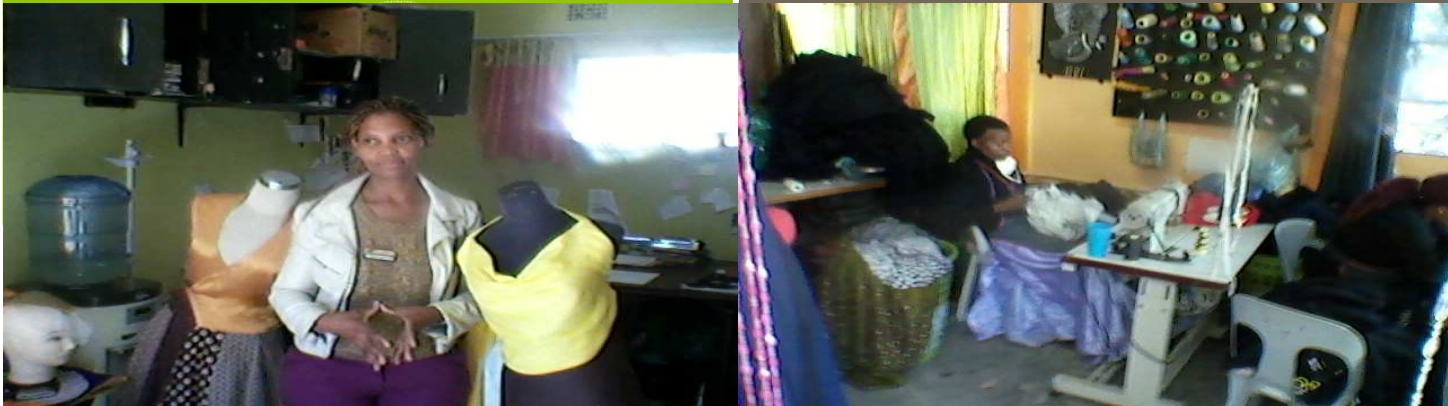


Centre for the Development of Enterprise

Integral Diagnostic Review

Final Report

O's House of Design



30thth May 2014, Gaborone, Botswana

Summary

- Diagnosis process
- Background
- Preliminary results
- Conclusions
- 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 – 27th April 2014
- Co-construction (management validation of preliminary findings) – 28th May 2014
- Preliminary Report 30th May 2014
- Final reporting – 2nd June 2014

Background

- O's House of Designs is a 100% citizen owned company engaged in fashion design industry. It started operating in 2003 as a sole proprietorship, but was later registered as a Limited liability company in 2011.
- It operates on a portion of the family owned residential premises, Plot 744, Extension 2 in Gaborone
- Its main products are fashion wear, wedding wear, jerseys and school uniforms.
- The main inspiration for the company start-up was the business owner/M.D., who is quite conversant on this line of business and is qualified with a degree in fashion design. She had some inspiration from her grandmother who was in the textile industry.
- The company was started without loans.
- The M.D. vision is to have a large business manufacturing uniforms, Jerseys etc..
- The company's main clients are boutiques, private individuals, government & private schools.
- Financials were provided to the team by the business.
- The business has a total of 4 employees: 1 office clerk, 2 machinists and the managing director
- The sales for the 2011/2012 financial year was P411,948 and for 2010/2011 it was P378,035
- Challenges faced include low market penetration which is influenced by the market environment not being conducive. There is also inadequate space in the building where it operates and the building requires renovation to make it more attractive to prospective clients. Currently it does not have licence from relevant authority. According to the manager, they were told that it was not necessary to get licence to operate at that level of production.

Preliminary Findings

Preliminary Findings

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

Strategic Management

- Mission and Vision
- Strategic Objective

Finance

- Cost Analysis
- Accounting records
- Financial administration

Quality Management

- Procedures
- Quality control

Production and Operations

- Inventory Handling
- Planning

Business Environment Analysis

- Understanding the sector

Information Management

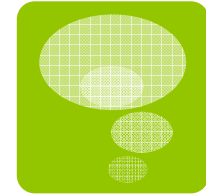
- Information

Marketing and Sales

- Price
- Sales Management
- Client Relationship
- Segmentation, Target Market and positioning

Results

Strengths	Subareas for Intervention
1. Management is passionate about the business and is qualified with a degree in Fashion Design.	1. Strategic Management - Mission and Vision
2. The company has qualified support staff	2. Business Environment Analyses - Understanding the Sector
3. The company operate from a family owned premises.	3. Marketing and Sales - Sales Management
	4. Finance - Accounting Records
	5. Finance – Cost Analysis
	6. Quality Management - Procedures
	7. Information Management - Information



Strategic Management – Mission and Vision

Having a clear mission and vision, supported by strategic objectives and specific projects and action plans will enable the company 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

The Strategic Process of Value Creation



Business Environment Analysis - Understanding the Sector

Having a clear and formalized system for gathering information about the business environment will enable the company to:

- Have necessary and updated information on current industry trends
- Identify macroeconomic variables that affect the company and take appropriate actions
- Establish strategic partnerships with trade support institutions to support the company

Best Practices -Cont'd

Marketing and Sales – Sales Management

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 (cash cows)
- Identifying optimal distribution network
- Keeping an up-to-date client database
- Differentiating client buying patterns
- Improving efficiency of the sales workforce

Ultimately, improving efficiency and sales revenues

Finance – Accounting Records

Correct data capture and accurate financial recording enables:

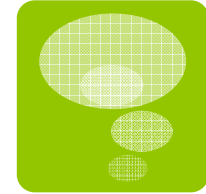
- Regular and consistent monitoring of company finances (expenses and revenue)
- Cash flow forecasts
- Quick access to financial information
- Efficient and correct assessment and comparison of the company's performance
- Monitoring of compliance of the company to its financial budget
- Correct and quick cost analyses

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

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

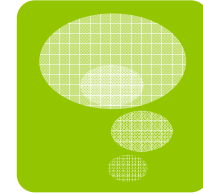


Quality Management – Procedures

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

- Systematic checks are maintained
- A clearly defined procedure for handling complaints
- Less rejection of products
- Consistency in products quality
- Improved customer loyalty
- More sales

Best practices- Cont'd



Information Management - Information

A proper information management system will help the company to:

- Have a clear definition of the requirements and an identification of the relevant information sources.
- Have a formal and regular processing of information that is documented in periodic reports according to company needs.
- Have information reports which are used for decision making at the different levels of the company.
- Improve communication internally and externally and become market intelligent
- Capture and monitor key performance indicators



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.

The figures indicated for 2012-2013 financial year are from a management account covering the period July 2012 – March 2013. Comparison with data from the two previous years could therefore not be carried out.

Financial Analysis - Disclaimer

➤ Financial Figures Consistency

- Gross profit variation: There is a 98% increase in gross profit combined with a 38% decline in cost of sales between 2010/2011 and 2011/2012 financial year.
- Wages and Salaries: The total wages and salaries cost of P29,951 in 2010/2011 financial year, P127 048 in 2011/2012 financial year and P45 057 in 9 months of 2012/2013 in financial year are rather low for 5 employees. This would imply for example in the 9 months ending March 2013 average monthly salary per person would be P1,001 (manager inclusive)
- There was a 38% decrease in cost of materials from P247,860 in 2010/2011/ financial year to P 54,099 in 2011/2012 financial year. However there was a 9% increase in sales revenue and 98% increase in gross profit during the same period.

These figures need clarifications.

Best practices- Cont'd

0's House Design Balance Sheet 2010/2011, 2011/2012 and management account July 2012 to March 2013 (percent variation calculated for 2010-2012)

ASSETS	2012-2013	2011-2012	2010-2011	Variation (%)
Cash and cash equivalents	24 023	22 703	56 426	-60%
Inventory	65 150	40 189	21 777	85%
TOTAL CURRENT ASSETS	89 173	62 892	78 203	-20%
Physical fixed assets	60 955	87 524	60 033	46%
TOTAL FIXED ASSETS	60 955	87 524	60 033	46%
TOTAL ASSETS	150 128	150 416	138 236	9%
LIABILITIES	2012-2013	2011-2012	2010-2011	Variation (%)
Account payable			27 938	-100%
bank overdraft	18 942	17 918		100%
Tax liabilities	911	5 451	2 574	112%
TOTAL CURRENT LIABILITIES	19 853	23 369	30 512	-23%
Long term debt .				
TOTAL LONG TERM LIABILITIES	0	0	0	
TOTAL PAYABLE LIABILITIES	19 853	23 369	30 512	-23%
Paid in Capital	100 000	100 000	100 000	0%
Current year net profit	3 228	7 724		100%
Reserves (Retained Earnings, other reserves)	27 048	19 324	7 723	150%
EQUITY	130 276	127 048	107 723	18%
TOTAL LIABILITIES	150 129	150 417	138 235	9%

Best practices- Cont'd

O's House of Design (Pty)Ltd Profit & Loss Statement 2010/2011,2011/2012 and July 1012-March 2013

PROFIT/LOSS STATEMENT	2012-2013	2011-2012	2010-2011	Variation (%)
Sales revenues	155 924	411 948	378 035	9%
Cost of goods sold				
<i>Materials</i>	50 014	154 099	247 860	-38%
GROSS PROFIT	105 910	257 849	130 175	98%
<i>Wages & salaries</i>	45 057	123 027	29 951	311%
<i>Other costs</i>				
NET VALUE ADDED	60 853	134 822	100 224	35%
	0,39	0,33	0,27	
Depreciation	26 569	35 425	21 776	63%
Operating Expenses (G&A, selling, R&D)	27 490	74 623	68 150	9%
OPERATING INCOME	6 794	24 774	10 298	141%
other non operating income				
Financial expenses	2 655			
INCOME BEFORE INCOME TAX	4 139	24 774	10 298	141%
Income Tax Provision	911	5 450	2 574	112%
NET INCOME	3 228	19 324	7 724	150%

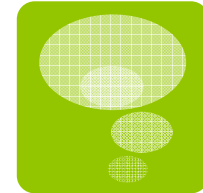
Percent variation calculated for 2010-2012 and not 2012-2013 which is extracted from a management account

Strategic & Financial Indicators

Strategic Indicators	2012-2013(March)	2011-2012	2010-2011
Local sales per employee	31,184	82,389	75,607
Exports as a percent of total sales	N/A	N/A	N/A
Variation of local sales	N/A	9%	N/A
Net value added, NVA	105,910	134,822	100,224
Productivity	21 182	51 569	26 035
Gross profit Margin (%)	32%	62%	34%
Net profit margin (%)	2.1%	4.7%	2.0%
Net worth	130,275	127,047	107,724
Number of managers to employees	0.25	0.25	0.25

Strategic & Financial Indicators

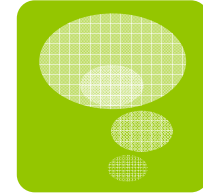
Financial Indicators	2012-2013(March)	2011-2012	2010-2011
Current Ratio	4.5	2.7	2.6
Acid test (Quick ratio)	1.2	0.97	1.9
Average collection period (days)	N/A	N/A	N/A
Average payment period (days)	N/A	N/A	38
Inventory Conversion (days)	N/A	53	27
Debt to equity ratio	0.15	0.18	0.28
Times interest earned	2.6	N/A	N/A
% Over (Under) Break-even point	12.5%	22%	11%



Financial Analysis

Sales and profitability

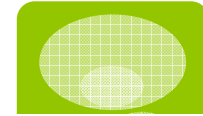
- Turnover increased by 9% between 2010/2011 and 2011/2012 from P378,035 to P411,948 . However during the 9 months period ending March 2013 , sales appeared to have declined sharply to P155,924.
- Gross profit increased by 98% between the 2010/2011 and 2011/2012 financial year.
- Actual operating expenses have increased by 9% between 2010/2011 and 2011/2012 financial year .
- The net profit over the period 2010/2011 to 2011/ 2012 increased by 150% from P7,724 to P19 324. In the 9 months period (July 2012 to March 2013) the net profit was P 3,228. These net profit figures are very low ranging from 2 to 4.7% .



Financial Analysis

Working capital

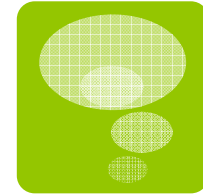
- The average supplier payment period was 38 days in 2010/2011. However it can be concluded that in all subsequent years that the business conducts cash transactions or pays within a very short period of time for purchases.
- The inventory conversion had worsened from 27days to 53 days over the two financial years, implying that the period taken to convert stock into cash had increased. This results in the tying up of cash in stock for excessively long periods.
- The net working capital had fallen over the 2010-2012 period from P47 619 to P39 469 .There is need to have proper management of inventories, accounts receivable and payable, and cash.



Financial Analysis

Solvency

- The current ratios remained almost constant at 2.6 in 2010/2011 and 2.7 in 2011/2012. However in the nine months ending March 2013, it increased to 4.5. The desired figure is 2, indicating that the company could easily meet its current obligations and has excess liquidity
- The acid test ratio has worsened from 1.9 in 2010/11 to 0.97 in 2011/2012. However in the 9 months period thereafter, it improved slightly to 1.2. This indicates that the company's state of short term solvency is stable. 1 is a healthy level. The company liquidity is at acceptable limits.
- The company's debt/equity ratio declined from 0.28 in 2010/2011 to 0.18 in 2011/2012. For the nine months ending March 2013 it further declined to 0.15. The company is lowly geared.
- Times interest earned ratio was 2.6 for the nine months ending March 2013; this is an indication that the company had the ability to meet its interest commitments without putting too much strain on its cash resources.



Financial Analysis

Conclusion :

- The decline in sales revenue is a concern. The company is operating above break even point 11% in 2010/2011 and 22% in 2011/2012. These ratios would be lower if all operating expenses were reflected in the company's accounts.
- The gross profit margin increased from 34% in 2010/2011 to 62% in 2011/2012; however it fell back to 32% in the 9 months period ending March 2013.
- The company should be able to meet its current obligations. It is solvent .
- The equity is under capitalized as equity was only P107,723 in 2010/2011 and increased to P127,048 in 2011/2012; this as a result of low profit margin: P7,724 in 2010/2011 and P19,324 in 2011/2013
- The company needs to be recapitalized if it intends to grow.

Conclusions of the Diagnosis

Conclusion

Conclusion

- O's House of Designs is a 100% citizen owned company in fashion design industry, which started operating in 2003 under a business name but was later registered as a Limited liability company in 2011.
- The company has been in operation for approximately 10 years but is still in an infantile stage.
- Net profit of the company is very low P 7,224 (2010/2011) P19 324(2011/2012) and P 3,228 (July 2012/March 2013) indicating that the business is unable to generate enough cash flow needed to expand (the space is inadequate for current operations) , maintain or replace its equipment and renovate the building.
- Although most of the staff are qualified in their field of work, there are inadequate business management and accounting skills.
- The diagnostic exercise revealed 6 broad areas that require interventions. These are Strategic Management; Marketing & Sales; Finance and Quality Management, Information Management, and Business Environmental Analyses.
- Specific areas that need interventions are: mission and vision, understanding the sector, sales management, cost analysis and accounting records, quality and information management.

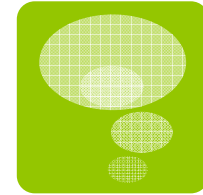
Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
STRATEGIC MANAGEMENT – MISSION AND VISION	<ul style="list-style-type: none"> ➤ Collectively reformulate vision and mission statements. ➤ Deepen staff's understanding about the company's vision and mission 	<ul style="list-style-type: none"> ➤ Assistance with Developing and refining vision and mission statements
BUSINESS ENVIRONMENT ANALYSES- UNDERSTANDING THE SECTOR	<ul style="list-style-type: none"> ➤ Determine what aspects of the economy affect your business sector the most and how they affect your company. ➤ Determine what economic sector is your company classified and how it develops. ➤ Collect/ receive sector specific information?. ➤ Join relevant business associations. ➤ Identify the main difficulties in your sector. 	<ul style="list-style-type: none"> ➤ Engage the services of an expert to Assist in Developing Business environment analyses tools and procedures. (how to gather information,what information to gather,how to use the information gathered)

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
MARKETING AND SALES-SALES MANAGEMENT	<ul style="list-style-type: none"> ➤ Develop marketing and sales plan. ➤ Have monthly sales forecasts. ➤ Develop sales targets and objectives ➤ Analyze sales data regularly to inform decision making. 	<ul style="list-style-type: none"> ➤ Assistance with development of Sales and Marketing plan. ➤ Assistance with setting up a sales management system. ➤ Training on product pricing.
FINANCE-ACCOUNTING RECORDS	<ul style="list-style-type: none"> ➤ Utilize financial records for business planning. ➤ Consider engaging personnel with accounting background to do the books 	<ul style="list-style-type: none"> ➤ Enlist accountant to Establish appropriate accounting records to capture all business expenses and income ➤ Staff capacity building on interpreting financial records.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
FINANCE-COST ANALYSIS	<ul style="list-style-type: none"> ➤ Clearly identify all fixed and variable costs ➤ Update the existing pricing to ensure all costs are captured ➤ Establish job-cards to capture effective variable costs ➤ Constantly reconcile the costing with financial records 	<ul style="list-style-type: none"> ➤ Enlist the help of a cost accountant to implement a costing system and train staff on using it
QUALITY MANAGEMENT-PROCEDURES	<ul style="list-style-type: none"> ➤ Establish clientele preference ➤ Implement and document recognized standards such as BOBS ➤ Establish documented measurement criteria's ➤ Identify and document critical control points which should be adhered to ➤ Implement quality checks procedures 	<ul style="list-style-type: none"> ➤ Enlist the assistance of experts in this field of business

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
INFORMATION MANAGEMENT_INFORMATION	<ul style="list-style-type: none"> ➤ Identify important information needs at all levels and that of partners ➤ Systematically collect data including market and report in a timely manner on key indicators for staff to make informed decisions ➤ Share management and operational information with staff on a regular basis 	<ul style="list-style-type: none"> ➤ Develop an appropriate management information system (i.e. a system with an inventory control / costing module).



Priority Intervention

To improve growth and profit margin, the company should develop and implement a consolidation strategy implying the following:

➤ **Boost sales through market segmentation and differentiated marketing**

- 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

➤ **Develop a proper cost structure and price product to secure adequate margin**

- 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)

➤ **Build owner's business management capacities**

- Train of the manager who is a degree holder in fashion design
- Put in place proper management information system to guide management decision making.



Thank You