

# Integral Diagnostic Review

## Preliminary Report

### Gabdin Investment



March 11-14, 2014, Gaborone-Botswana

# Summary

- **Background**
- **Diagnosis process**
- **Preliminary results**
- **Recommendations**

## Consultant Team

Mr. McKay Mojakgesa  
Mr. Nonfo Mmatli

Mr. Norman Moleele  
Mr. Obert M. Yuyi

## Background

- Formally registered in 2010 as a Joint Venture
- The company currently owned by a woman and business is based in Lentsweletau, about 60km from Gaborone
- The company's focus is horticulture products with main markets being: Main coverage of supplies are Gaborone, Kanye, Mochudi, Jwaneng and Molepolole
- The business is run by a total of 12 staff members (has potential to create temporary employment of 30-40 depending on the season)
- In 2012 the company recorded higher gross profit of P887,819.00 when compared 2013 gross profit
- Market potential is high and the company seeks to improve share.



# The Company's Diagnostic Process



- Company's background review
- Interview with the management and staff to understand the different elements of the company (11 March 2014)
- Co-construction (management validation of preliminary findings) (13 March 2014)
- Preliminary report (14 March 2014)
- Final reporting (18 March 2014)



# RESULTS



# The Company Strengths and Areas for Improvement

<b>Strengths</b>	<b>Areas for Improvement</b>
1. Strategic Management- Company History	1. Strategic Management- Strategic Objectives
2. Management and Leadership- Style	2. Marketing and Sales - Segmentation, Target Market and Positioning
3. Business Environment Analysis- Alliances	3. Production and Operations - Planning
4. Production and Operations- Technological Level	4. Finance-Cost Analysis
	5. Human Resources-Staff Performance
	6. Quality Management-Product Quality
	7. Technological Innovation- Corporate Culture for Innovation

## Best practices- Cont'd

### Strategic Management – Strategic Objectives

Having strategic clear and formalized objectives, and action plans in line with the company's vision will enable the company to :

- Be Specific, with main objective and goals for the company in the short, medium and long term
- Bring consistency with operations, developed priority plans of action
- Improve on better allocation of resources
- Improve decision making across the company
- Ensure alignment between company's operational areas and structure



## Best Practices - Cont'd



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

Regrouping customers in categories based on specific criteria (revenue, life style buying habit, location, etc.) 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 (marketing mix) and promotional plans per segment
- Promote the company's brand (not yet) and develop customer's loyalty
- Enhance brand awareness and customer loyalty
- Therefore, improve market penetration and increase revenue

## Best Practices - Cont'd

### Production & Operations - Planning

Proper planning will enable the company to:

- knowing in advance what needs to be produced can facilitate procurement, handling of inventory
- Clear operations timetable kept daily, weekly, monthly
- it enables the company to respond to market :
- ensures optimal capacity

Therefore, reduce cost of procurement and improve responsiveness to market demand

## Best Practices - Cont'd

### Finance - Cost Analysis

Accurate costing of products:

- Ensures positive cash flows and prevents the tying up of capital on products or services 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 practices
- Enables the company to appropriately price its products and services to secure the profit margin
- Enables costs reduction and benchmark



## Best Practices - Cont'd



### Human Resources - Staff Performance

Setting and implementing a personnel policy will help the company to:

- Attract, recruit and retain human capital with relevant experience that is in line with company strategy
- Systematically track employee performance

## Best practices- Cont'd

### Quality Management – Product Quality

A quality management system, includes product specifications and grading method will enable the company to:

- Define critical control points and system
- Ensure that products meet targeted customer' s needs and requirements
- Develop brand loyalty

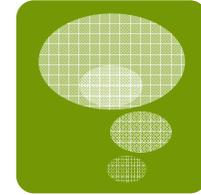
Therefore, work smarter to reduce costs and improve efficiency

## Best practices- Cont'd

### Technological Innovation - Corporate Culture for Innovation

Developing a corporate culture for innovation can assist the company to:

- Maintain effective communication with clients and respond accordingly
- Partner if appropriate with research institutions so as to anticipate market future and market trend for product development
- Improve productivity through innovative process
- Improve staff engagement in innovation



## 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.*



## Strategic & Financial Indicators

Financial Indicators	2013	2012
Local sales per employee	47 849.25	100 747.25
Variation of local sales	52.51%	0
Net value added, NVA	479 286	887 819
Productivity	29 955	55 489
Gross Profit		
Net profit margin	2.03%	-17.40%
Net worth	246 716	262 290
Fixed assets turnover	1.51	3.05
Number of managers to employees	0.125	0.125

## Strategic & Financial Indicators

Financial Indicators	2013	2012
Current Ratio	7.3	4.6
Acid test (Quick ratio)	5.7	3.2
Average collection period (# days)	43.61	4.80
Average payment period (# days)	22.39	36.92
Inventory conversion period (# days)	217.81	113.41
Debt to equity ratio	6.24	5.95
Times interest earned	1.09	-3.38
% Over (Under) Break-even point	60.99%	-19.60%

## Best practices- Cont'd

### Financial Analysis

#### Sales and profitability

- Sales declined by 52.51% from 2012 to 2013
- In 2012 the sales value was worth 3 times assets value, however in 2013 a marginal ratio of 1.3 time sales value to assets value. This corroborates the fact that the company was more efficient with its resources in 2012.
- In 2012 employees were more productive with each employee contributing 55 489 worth of net value addition. However a sharp decline was recorded in 2013 with each employee contributing only to P29,955 worth of NVA
- Current assets covered current liabilities 4.5 times in 2012, the ratio improved to 7.3 times in 2013. the business is liquid enough to pay its short-term obligations.

## Financial Analysis

### Working capital and liquidity

- Current assets covered current liabilities 4.5 times in 2012, the ratio improved to 7.3 times in 2013. This ratio should not be more than 2. The high level of inventory may explain this situation. Even the acid test ratio indicates that they have access working capital.
- The collection period for the client in 2013 (43 days) is almost double the average payment period. An ideal situation would be shorter collection period and longer payment period.

## Financial Analysis

### Solvency Indicators

#### ➤ Debt Equity Ratio

- The debt to equity ratio remains almost the same over 2012 and 2013 at the level of 6. The ratio indicates that the company over geared and raising further capital through loan financing would be difficult

#### ➤ Times interest Earned

- Interest cover has improved from -3.38 times in 2012 to a 1,09 times in 2013. This ratio indicates that in 2013 the company has improved its cash flows to cover interest due. This is corroborated by their improvement in profitability, they have been operating 61% above break even point in 2013 compared to -19.6% in 2012

# Conclusions Of the diagnosis



## Summary

Gabdin Investment was established in 2010 to undertake mandatory of producing horticulture produce. The company has 6 permanent employees, the owner of the business showed keen interest in the diagnostic process conducted and cooperated fully in providing information requested

The company envisions to expand from current level of production (2, 5 ha) to 6 ha. This requires to sustain the operations through revenues and adequate cash flow to cover expenses and maintain/replace production assets

The diagnostic exercise drew attention to five key areas for attention namely, Finance, Human Resources, Production and Operations, Strategic Management and Technological Innovation

The critical aspects requiring improvement were: Strategic roadmap, Market Segmentation and targeting, Operations Planning, Product Quality Management, cost structure and analysis, Staff Performance Management and Technological



# Recommendations for improvement



SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
STRATEGIC OBJECTIVES	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Cascade these goals to the various operational levels of the company (Farm Manager, Finance and worker)</li> <li>• Define the sales target for 2014 and 2015 per quarter and per Product line</li> </ul>	<ul style="list-style-type: none"> <li>• Develop Strategic Plan: 2014-2016</li> <li>• Get the assistance of a Mentor to help structure the strategic objectives per: Year, Market</li> </ul>
SEGMENTATION, TARGET MARKET & POSITIONING	<ul style="list-style-type: none"> <li>• Clearly identify and present in a document the differentiators and the key benefits Gabdin Investment is offering to each customer category.</li> <li>• Develop criteria for and categorise precisely the customers based on their specific purchasing habits and requirements.</li> <li>• Consider the resulting customers segment (or categories) and target those with growth potentials and for which the company has competitive advantages</li> </ul>	<ul style="list-style-type: none"> <li>• Get the assistance of a Mentor to help build a proper segmentation and develop a marketing plan.</li> </ul>

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PRODUCTION AND OPERATIONS-PLANNING	<ul style="list-style-type: none"> <li>Set clear production plan in coordination with sales goals, develop timetable and procurement plan accordingly proper sales goals to achieve the company objectives</li> </ul>	
FINANCE-COST ANALYSIS	<ul style="list-style-type: none"> <li>Clearly identify all fixed and variable costs</li> <li>Develop a cost structure per business line or product that includes relevant, variable and fixed cost(overheads).</li> <li>Update the existing pricing to ensure all costs are captured</li> <li>Establish job-cards to capture effective variable costs</li> <li>Constantly reconcile the costing with financial records</li> </ul>	<ul style="list-style-type: none"> <li>Get assistance of mentor to develop a proper cost structure</li> <li>Get the assistance of a financial consultant to make financial analysis of every strategic investment decisions and business opportunities in order to enable Gabdin Investment Management to make informed decisions</li> </ul>
HUMAN RESOURCES-STAFF PERFORMANCE	<ul style="list-style-type: none"> <li>Allocate responsibilities based on skills and competencies</li> <li>Define performance criteria and put in place quarterly performance target and review meetings for all the staff</li> <li>Summarize all the Define all the human resource measures in a "Human Resource Policy" document</li> </ul>	No recommendation

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
QUALITY MANAGEMENT- PRODUCT QUALITY	<ul style="list-style-type: none"> <li>• Source the vegetables Standards from Botswana Bureau of Standards (BOBS) to implement the first stages with the help of BOBS.</li> <li>• The standards should also be used to inform product specifications and compliance procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance on training of standards</li> </ul>
TECHNOLOGICAL INNOVATION - CORPORATE CULTURE FOR INNOVATION	<ul style="list-style-type: none"> <li>• Put in place mechanism and incentives to constantly engage clients and staff to gather their views/input for product development.</li> <li>• Partner with research institutions for new ideas and innovations e.g. development of high yield seeds</li> </ul>	

## Priority Interventions

Develop and implement a stabilisation plan with the aid of management support prior to business expansion. This implies:

- a) Proper market segmentation and targeting
- b) Product differentiation at both production and marketing level (sorting, grading, packaging)
- c) Channel products to high end of markets to capture premium
- d) Put in place proper cost structure and control, including inventory
- e) Proper financial administration (budget, proper record keeping, monthly financials, cash flows management and corrective actions)



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