

Integral Diagnostic Review Final Report Clean Cities and Towns (Pty) Ltd



29 April-5 May 2014, Gaborone-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 (29 April 2014)
- Co-construction (management validation of preliminary findings (02 May 2014)
- Preliminary report (02 May 2014)
- Final reporting (06 May 2014)

Background

- Clean Cities and Towns was registered as a company limited by guarantee (Pty Ltd) in 2006 and started operations in waste management in the same year.
- Company's offices located in Block 8 in Gaborone and its warehouse is located in Tsolamosese-Mogoditshane and has a branch office in Francistown city.
- Core business of the company is to collect and dispose waste for domestic and non-hazardous waste. It has ventured into renting out portable toilets and skip hire for collection of industrial waste
- Their vision is to be the champions in the waste management industry, handling hazardous and non-hazardous waste, for both private and corporate clients.
- It's main customers are government, retail sector and individuals
- The company owns a fleet of seven (7) trucks. Two (2) more new trucks will be added into the fleet.
- Company manufacturer's its own skip containers
- The company envisages expanding into collecting and disposing hazardous and clinical waste, and waste recycling.
- Company has created 21 permanent jobs.
- In 2013 turnover has been P 3 million from P 1.3 million in 2011.
- Challenges faced by the company are the lack of space to park her fleet and store her equipment. Sourcing raw materials is costly and not locally available

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement

Strategic Management

- Strategic Objectives

Environmental Management

- Waste Management

Marketing and Sales

- Segmentation, Target and Positioning
- Product
- Sales Management

Finance

- Accounting Records
- Cost Analysis
- Financial Administration

Production and Operations

- Suppliers
- Inventory Handling
- Planning
- Machine Maintenance

Quality Management

- Quality Control
- Procedures
- Product quality

Results

The Company Strengths and Areas of Intervention

Strengths	Areas for Improvement
1. Business Environment Analysis – Regulation and Institutionality	1. Strategic Management – Strategic Objectives
2. Production and Operations – Technological Level	2. Marketing & Sales- Sales Management
3. Environmental Management- Environmental regulations	3. Production and operations - Planning
4. Human Resources-Staff Performance	4. Environmental Management - Waste Management
	5. Finance – Accounting Records
	6. Finance-Cost Analysis
	7. Quality Management – Product Quality

Best Practices

Strategic Management – Strategic Objectives

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

The Strategic Process of Value Creation



Best Practices -Cont'd

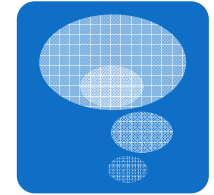
Marketing and Sales - Sales Management

A sales management system includes the planning, implementation and control of sales programs, as well as recruiting, training and motivating individuals dedicated to carry out the sales function.

Having formalised Sales Management Systems (sales plans per category, sales targets, sales incentives and a delegated sales officer) 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 therefore identifying possible niche markets
- Improving efficiency of the sales workforce through training
- Motivates sales performance when incentives are offered
- A company is better able to withstand competitors through deliberate action

Best Practices -Cont'd

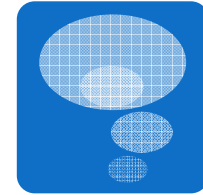


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Production and Operations - Planning

Proper planning will enable the company to increase their productivity in that it:

- Enables the company to respond to market demands on time
- Guides in product demand forecasting
- Can track production flow and possible causes of production decline if any
- Allows for advance planning for purchased of production materials.
- Facilitates procurement and handling of inventory
- Make better arrangement for needed working capital



Environmental Management – Waste Management

Waste management is an essential role in any business, and is required nationally to prevent harm to the environment. It can offer benefit or savings in a number of ways:

- If the amount of waste Clean Cities produces is reduced at its business premises, it means there will be no cost for removal .e.g. oils and grime from the truck repair bay may be costly to remove
- Minimising waste will mean that less material is being used in the manufacturing processes e.g. less metal will have to be thrown away and more can be utilised in different ways
- Improved reputation among customers, suppliers and potential employees, who may want to be sure that you take your environmental responsibilities seriously. The morale of existing staff is also boosted.
- Without proper waste management, contamination of land can be the result e.g. the cleaning of portable loos at the Tsholamosese premises that is in close proximity to residences
- Having effective policies and procedures in place should make it cheaper and easier for your business to comply with waste regulations .e.g. receiving the EIA certificate.



Finance- Accounting Records

Good record keeping is a legal requirement for all businesses in Botswana. It will help enable the company to:

- Be managed better and make it grow - reliable information can only be extracted from the records.
- Stay organised when dealing with customers and suppliers - producing invoices, quotations and estimates promptly and with ease is vital.
- Saves time on the preparation of management accounts
- Adds leverage to requests for financing - bank loans or overdraft etc
- Minimise costs incurred from accountant's fees as time is saved
- Builds historical data on which financial control, future budgeting and forecasting can be based .
- Better determine whether or not the resources of the business are being managed efficiently and in alignment with the budget.

Best Practices - Cont'd

Finance - Cost Analysis

Cost analysis is the accumulation, examination and manipulation of cost information for purposes of comparison, future planning and projections. Accurate costing of products:

- Helps management make informed decisions regarding activities to be undertaken
- Allows the company to determine the true cost of providing a product or service
- Enables the company to appropriately price its products and services to secure the profit margin
- Cost analyses may reveal unexpected or hidden costs to the company
- Encourages good procurement practices
- Enables costs reduction and benchmark
- Helps set priorities when resources are limited.
- Can produce important information that can persuade funders invest in particular in the business.

Quality Management – Product Quality

A quality management system, includes product specification and grading method. Such a system will enable the company:

- Work smarter (cost and process efficiency)
- Better targeting
- Brand improvement

Therefore, reduce costs and improve revenue.

Financial Analysis

Disclaimer

The strategic financial indicators are based on financial statements provided by the company for the years 2011 to 2013. There are a number of apparent discrepancies leading to some extreme ratios and variations 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.



Clean Cities & Towns (Pty) Ltd : Balance Sheet 2011 - 2013

ASSETS	2013	2012	2011
Cash and cash equivalents	126,963	2,596	111,642
Accounts receivable (debtors)	0	0	0
Inventory	0	0	0
Prepaid expenses	0	57	41
Other Current Assets	0	0	0
TOTAL CURRENT ASSETS	126,963	2,653	111,683
Physical fixed assets	2,139,239	1,458,481	935,650
Financial Fixed Assets	0	0	0
Intangible assets	0	0	0
Other Assets	0	0	0
TOTAL FIXED ASSETS	2,139,239	1,458,481	935,650
TOTAL ASSETS	2,266,202	1,461,134	1,047,333
LIABILITIES	2013	2012	2011
Account payable	112,595	25,633	22,629
Short term portion of loans payables	0	0	0
Taxes liabilities	0	0	0
Short term provisions	0	0	0
Other Current Liabilities	0	0	0
TOTAL CURRENT LIABILITIES	112,595	25,633	22,629
Long term debt to banks and fin. Inst.	1,795,040	1,914,621	1,218,820
Long term Provisions	0	0	0
Other Long term debt	0	0	0
TOTAL LONG TERM LIABILITIES	1,795,040	1,914,621	1,218,820
TOTAL PAYABLE LIABILITIES	1,907,635	1,940,254	1,241,449
Paid in Capital	3,000	3,000	3,000
Reserves (Retained Earnings, other reserve)	-585,167	-227,194	-230,261
Current year net profit	860,897	-357,973	3,067
Other (Share holder loans)	79,837	79,837	30,078
EQUITY	358,567	-502,330	-194,116
TOTAL LIABILITIES	2,266,202	1,437,924	1,047,333



Clean Cities & Towns (Pty) Ltd – Profit And Loss Statement 2011 – 2013

PROFIT/LOSS STATEMENT	2013	2012	2011
Sales revenues	2,961,222	2,359,134	1,298,989
Cost of goods sold	0		
<i>Materials</i>	111,072	0	0
GROSS PROFIT	2,850,150	2,359,134	1,298,989
<i>Wages & salaries</i>	320,752	488,464	272,431
<i>Other costs</i>	0	0	0
NET VALUE ADDED	2,529,398	1,870,670	1,026,558
Depreciation	0	504,644	263,225
Operating Expenses (G&A, selling, R&D)	1,628,314	1,526,505	630,190
OPERATING INCOME	901,084	-160,479	133,143
Financial income	8,929	157	546
Financial expenses	-49,116	-197,651	-130,622
Other non-operating income			
Other non-operating expenses			
INCOME BEFORE INCOME TAX	860,897	-357,973	3,067
Income Tax Provision	0	0	0
NET INCOME	860,897	-357,973	3,067

Strategic & Financial Indicators

Strategic Indicators	2013	2012	2011
Local sales per employee	141,011	112,340	61,857
Variation of local sales	26%	82%	-
Net value added, NVA	2,850,150	2,359,134	1,298,989
Productivity	135,721	112,340	61,857
Net profit margin	29%	-15%	0%
Net worth	358,567	-502,330	-194,116
Number of managers to employees	0.17	0.17	0.17
Fixed Assets turnover	1.38	1.62	1.39

Strategic & Financial Indicators

Financial Indicators	2013	2012	2011
Current Ratio	1.13	0.10	4.94
Acid test (Quick ratio)	1.13	0.10	4.94
Average collection period	-	-	-
Average payment period	95.17	19.15	30.32
Debt to equity ratio	5.32	-3.86	-6.40
Times interest earned	-16.53	2.81	0.98
% Over (Under) Break-even point	55%	-8%	15%

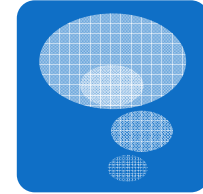
Financial Analysis

➤ Sales and profitability

- Sales increased between 2011 and 2012 was 81%. During the same period the wage component rose by 93% and operating expenses by nearly 135% , resulting in a negative operating income of BWP 160, 479
- This implies that there may have been a decision to undertake a job in 2012 that was not well analyzed in terms of cost and benefits.
- On a positive extension, the project may have attracted its returns in 2013 reflecting a net income of BWP 860,897 in 2013

Financial Analysis

- **Strategic indicators**
- Assets turnover
 - It can be concluded that the assets are generally utilized at a rate of 1.38. The increased asset turnover in 2012 at 1.62 reflects the additional business activity in the year and is in harmony with the fact that more human resources were employed.
 - Net worth only improved in 2013, reflecting positive financial health. Prior to that, there had been declining net worth at a rate of 158% from 2011 to 2012.



Financial Analysis

➤ Solvency

- The current ratio is at 1.13 (2013), an improvement from the previous year which was at 0.10. In 2012 the company was not in a good position to meet any financial obligations. Cash and cash equivalents only amounted to P2,596.00. The company was in debt.
- The acid test ratios of 1.13 (2013) and 0.05 (2012) also reflect the same situation of immediate debt.
- It is important to note here that for a period in 2011-2012, there was a halt in business as the owner was away on a short course.

Financial Analysis

- **Gearing / long term debt to equity**
 - The company was had an increased debt to equity ratio in 2013 at 5.32 from -3.91 (2012). The 2013 ratio can be explained by an apparent increase in bank loan 2012 to the amount of P695,000 that financed additional assets and operations.
 - Although the increase in debt (P695,000) is slightly above the increase in revenue generated by the debt (P602,088) for the period 2012-2013, the situation still reflects concerning indebtedness and risk as the business still has a great amount liability in comparison to its equity or net worth.

Conclusions of the Diagnosis

Conclusions

- Clean Cities and Towns was registered as a company in 2006 in Gaborone
- The company has diversified into renting out portable toilets and skip hire for collection of industrial waste
- Company has recently, in 2014, won a tender with the City Council of Gaborone to collect and dispose waste around Tsholofelo area for a period of two years.
- The company envisages collecting and disposing hazardous and clinical waste, and waste recycling.
- The owner wants to explore selling tyres for trucks.
- The company is currently at growth stage and is still financially unstable. Growth stage experiences increase in revenue , staff size and operations.
- However, the equity is not as solid as it should be for a capital intensive business as they are.
- They need to consolidate current operations and build their equity base so as to attract external financing required for future growth.

Conclusions

Our assessment has revealed 6 areas that require attention. These are in Strategic Management, Marketing and Sales, Production and Operations, Environmental Management, Finance and Quality Management.

Specifically the areas that require critical intervention are: clarification of strategic objectives, marketing and sales management, operations planning, financial accounts record keeping and cost analysis, product quality management and the management of waste.

- Clean Cities and Towns needs to align its management and operations systems to its company objectives.
- Given its current financial position and instability, it is not advisable for the company to venture into diverse activities which are not in line with company goals (buying and selling of truck tyres).
- Though there is indication of improvement in revenue generation, mainly financed by debt, the company could still experience volatile earnings as a result of the additional interest expense.
- The company should aim to earn more than the debt incurred so as to improve the company's financial position and increase shareholder's worth

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 the sales target for 2014, 2015 and 2016 per quarter ➤ Define reporting, dashboards and follow-up meetings to monitor the progress toward these targets achievement. 	<ul style="list-style-type: none"> ➤ Develop Strategic Plan: 2014-2016 ➤ Get the assistance of a Mentor to help structure the strategic objectives per: Year, Market
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. ➤ Build a sales team ➤ Consider sales incentives ➤ Increase capacity and capability of newly recruited salesperson 	<ul style="list-style-type: none"> ➤ Assistance with strategic development of 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.

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 develop a time table accordingly in order efficiently deliver timely service ➤ develop a schedule for procurement and manufacturing according to sales targets. ➤ Plan for vehicle servicing so as to ensure zero percent downtime ➤ Plan for spare parts purchases in line with vehicle maintenance schedule in order to reduce excessive purchasing 	<ul style="list-style-type: none"> ➤ Consider training in production and service delivery planning ➤ Development of job cards, sales plans and job budgeting documents.
WASTE MANAGEMENT	<ul style="list-style-type: none"> ➤ Appropriately dispose of the unusable skips stored at Tsholamosese as they are attracting the dumping of garbage ➤ Find alternative area to store chambers of the portable toilets to avoid contamination ➤ Establish internal procedure for waste management and disposal ➤ Provide instructions for the handling of all types of waste including detailed instructions for equipment needed when managing waste, as well as any safety procedures 	<ul style="list-style-type: none"> ➤ Training in hazardous waste management ➤ Seek advice of layout of future expanding premises to incorporate waste management requirements in the work flow

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
FINANCE-ACCOUNTING RECORDS	<ul style="list-style-type: none"> ➤ Continue to file all accounting documents such as receipts, banks slips and quotations ➤ Update the expense and income registers ➤ Print out monthly and periodic reports for quick access and review ➤ Refer to accounting record in strategic goal decision making ➤ Incorporate accounting records in budgeting activities ➤ Vehicle service logs are a part of accounting records that need to be kept 	<ul style="list-style-type: none"> ➤ With assistance, light training to the book keeper about records and reports that need to be generated ➤ Training on record capturing and generating capability of currently software to ensure optimum utilisation in this regard
FINANCE-COST ANALYSIS	<ul style="list-style-type: none"> ➤ Clearly identify all fixed and variable costs ➤ Update the existing pricing for skips to ensure all costs are captured for each size skip manufactured ➤ Constantly reconcile the costing with financial records ➤ Ensure to keep a log of vehicle repair and service so as to track costs and more efficiently plan for scheduled service expenses ➤ Maintain and analyse purchasing records for consumables used in operations activities e.g chemicals, oils, disposables etc 	<ul style="list-style-type: none"> ➤ Enlist the help of a cost accountant to develop and implement a costing system and train staff on using it ➤ Expand the job scope of the outsourced accountant to include the financial analysis of every strategic investment decisions and business opportunity to offer a clear understanding of their financial requirements and consequences. ➤ The manager needs to receive training in accounts and financing for non-financial managers.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PRODUCT QUALITY	<ul style="list-style-type: none"> ➤ Source manufacturing Standards from Botswana Bureau of Standards (BOBS) to implement the first stages ➤ The standards should also be used to inform product specifications and compliance procedures ➤ Document all existing product specifications currently in use ➤ Document all product manufacturing procedures currently in use 	<ul style="list-style-type: none"> ➤ Formalize manufacturing Quality Management System with the engagement of standards authority ➤ Training in the development and implementation of a QMS

Priority Interventions

For the company to successfully move from their current stage to growth, they need a consolidation plan which implies:

I. Production and operations – Planning

- Establish work procedures
- The company requires assistance in the planning of its current and future operations and development

II- Finance-accounting records and cost analysis :

- Further training on the use of the current accounting system (Intuit Quick Books Pro)
- Training in accounts and finance for non-finance managers
- Engagement of cost accounting expertise

III- Quality Management – Product Quality :

- There is an urgent need to start implementing a quality management system with standards body assistance
- Quality control records regarding product standard and specification, service standard and vehicle maintenance to be instituted
- Training in quality control systems that will also address inventory, procedures and management processes



Thank You