

# Integral Diagnostic Review Final Report Sibra Chemical Industries Limited



10-11 April, 2014, Palapye-Botswana

# Summary

- Background
- Diagnosis process
- Preliminary results
- 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 (10 April 2014)
- Co-construction: management validation of preliminary findings (11 April 2014)
- Preliminary reporting ( 11 April 2014)
- Final reporting (15 April 2014)

# Background

- Sibra Chemical Industries (Pty) Ltd is located in the new industrial site in Palapye, was formally registered August 2011, and started operation in 2012. The owner is a qualified Chemist by profession.
- The company was financed with seed money coming from CEDA of P80, 000 which was used to purchase raw materials used in the business
- The company operates in a chemical industry and specializes in manufacturing of wide range of both household and industrial cleaning chemicals
- The company's main target markets: Government, lodges, car wash entities, garages, restaurants and income individuals from Palapye and surrounding area.
- The company's vision is to become a leading manufacturer and distributor of high quality cleaning chemicals in Southern Africa, through application of skills, expertise and technology.
- The company is relocating to Gaborone from Palapye. The reasons are: (1) growth of the customer base in Gaborone (2) the distance between the customers and operation of the business
- The company has two employees : owner and operations officer.
- Main challenge is the low market penetration; the products are not compliant: no bar code, specifications on ingredients on the labelling of the product.

# Preliminary Findings

# Preliminary Findings

## Subareas Needing Improvement (Refer to attached co-construction report)

### Strategic Management

- Mission-Vision
- Strategic Objectives

### Human Resource

- Staff Performance

### Marketing and Sales

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

### Information Management

- Communication

### Production and Operations

- Planning
- Inventory Handling

### Quality Management

- Quality Control
- Product Quality

### Finance

- Cost Analysis
- Accounting Records
- Financial Administration

# Results

# The Company Strengths and Areas for Improvement

| Strengths  | Areas for Improvement  |
|--|--|
| 1. The owner is passionate about her business                        | 1. Strategic Management - Strategic Objectives                     |
| 2. The owner is a Chemist by profession                              | 2. Marketing & Sales – Segmentation, Target Market and Positioning |
| 3. The company adherence and compliance to environmental regulations | 3. Marketing & Sales – Sales Management                            |
|  | 4. Production & Operations - Planning                              |
|  | 5. Finance – Accounting Records                                    |
|  | 6. Finance – Cost Analysis   |
|  | 7. Quality Management - Product Quality                            |



## Best Practices -Cont'd

### Strategic Management – Strategic Objectives

Outlining clear strategic objectives and plans will enable the company to:

- Make better decisions based on company priorities
- Guide allocation of resources
- Guide the company to fulfil the higher goals efficiently
- Inspire and motivate staff to be more productive leading to greater revenue
- Better position of the organization on the market
- Avoid many unanticipated problems and expenses that have the potential to derail the business

### Marketing and Sales – Segmentation, Target Market & Positioning

If the company has its market well segmented, it will enable the company to:

- Enables the business to align with current trends and demands
- To meet the needs and requirements of the different market segments with specific products, prices, distribution channels and promotions that match customers needs
- Focus on profitable customers and products
- Therefore, improve brand awareness, market penetration and increase revenue

## Marketing & Sales – Sales Management

Sales Management systems (sales plans per category, sales targets, sales incentives) in place will assist in:

- Create unique value proposition for customers
- Develop the right blend (product, packaging, price, etc.) to deliver true value for customers
- Defining targets and levels of production
- Improved inputs into customization for each segment resulting from interaction – product development
- Maximizing stock turnover
- Cost structuring and management.
- Ultimately, generate sales and long term growth

## 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

## Finance – Accounting Records

Correct data capture and accurate financial recording enables:

- Regular and consistent monitoring of company finances
- 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

## Finance - Cost Analysis

Accurate costing of products:

Make informed decisions on investments (better allocation of resources)

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 to secure the profit margin

Therefore contributes to reduce costs and improve margin

## Quality Management - Product Quality

There is need for the company to have documented quality checks, and guarantee 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

## Financial Analysis

### Disclaimer

- *Though some financial and accounting related information was communicated at interview, Sibra Chemical Industries (Pty) Ltd could not provide the Consultant's team with complete financial statements, including the balance sheet and the income statement for the last three years. Therefore a full assessment of economic and financial performance of the company could not be carried out.*
- *This assessment would have corroborated or invalidated the qualitative analyzes and the diagnostic results in terms of growth, profitability, liquidity and solvency of the company in short and long term.*



## Observations

- The company does not budget for activities and therefore does not perform analysis of actual expenditures against budget. There is limited use of financial and accounting information in decision making including those of investments in and acquisitions of new machinery and assets in general.
- The company keeps a separate sales tax books (receipts) and purchases tax books (invoices).
- The company is reliant on the secretary for maintaining their accounting/bookkeeping service.
- There is a lack in internal cost control capabilities as well as a more efficient accounting system, including its related procedures.

# Conclusions of the Diagnosis

## Conclusion

### Conclusion

- Sibra Chemical Industries (Pty) Ltd was formally registered 2011 and is located in the new industrial site in Palapye and started operating in 2012.
- The company operates in the chemical industry and specializes in manufacturing 26 different chemicals e.g. dishwashing liquid, pine gel etc.
- 60% of the raw material is purchased locally from Chemical Man Limited and the rest 40% are purchased from chemical suppliers in South Africa.
- The observations made are that, there is underutilization of the existing equipment and facilities and the process of manufacturing chemicals is done manually. The plant is not automated. There was stockpile of products which was still to be sold.
- The company is still in its infancy stage, has 2 years in operation in Palapye.
- The main challenge for the company has been to penetrate the market and supplying retail outlets. The products are not certified and do not have bar codes

# Conclusion

## Conclusion

- The diagnostic exercise drew attention to five key areas for improvement, namely Strategic Management, Marketing and Sales, Production and Operations , Finance and Quality Management.
- The critical subareas requiring intervention were: Strategic Objectives, Segmentation, Target Market and Positioning, Sales Management, Planning, Accounting Records, Cost Analysis and Product Quality

Sibra Chemicals needs to close the gaps in above indicated subareas to unleash performance and gain competitive advantages on target markets.

# Recommendations For Improvement

| SUB-AREAS                                 | RECOMMENDATIONS   |   |
|---|---|---|
|   | INTERNALLY  | WITH SUPPORT OF EXTERNAL RESOURCES  |
| STRATEGIC OBJECTIVES                      | <ul style="list-style-type: none"> <li>➤ Formulate strategic objectives.</li> <li>➤ Strategic objectives to be unpacked into operational goals</li> <li>➤ Define the sales target for 2014, 2015 and 2016 per quarter and per Product line</li> </ul>   | <ul style="list-style-type: none"> <li>➤ Develop Strategic Plan: 2014-2016<br/>Get the assistance of a Mentor to help structure the strategic objectives per: Year, Market</li> <li>➤ Assistance with the formulation and development of objectives and plan</li> </ul> |
| SEGMENTATION, TARGET MARKET & POSITIONING | <ul style="list-style-type: none"> <li>➤ Consider the resulting customers segment (or categories) and target those with growth potentials and for which the company has competitive advantages</li> <li>➤ Develop and regularly update a customer database with descriptions of specifications</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   |
| SALES MANAGEMENT | <ul style="list-style-type: none"> <li>➤ Develop a sales plan.</li> <li>➤ Build a sales team</li> <li>➤ Have monthly sales forecasts.</li> <li>➤ Develop sales targets</li> </ul>                                       | <ul style="list-style-type: none"> <li>➤ Training in sales and marketing.</li> <li>➤ Assistance with development of Sales plan.</li> </ul>   |
| 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> | <ul style="list-style-type: none"> <li>➤ Develop a business plan together with an investment plan for the company and mobilize adequate resources to fund future growth</li> </ul> |

| SUB-AREAS          | RECOMMENDATIONS  |  |
|--------------------|--|--|
|                    | INTERNALLY   | WITH SUPPORT OF EXTERNAL RESOURCES   |
| ACCOUNTING RECORDS | <ul style="list-style-type: none"> <li>➤ Create a filing system</li> <li>➤ Continue to file all accounting documents such as receipts, Banks slips, and quotations</li> <li>➤ Update the expense and income registers</li> <li>➤ Set up a petty cash register</li> </ul>   | <ul style="list-style-type: none"> <li>➤ No recommendation</li> </ul>  |
| 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 in order to enable Investment Management to have a clear understanding of their financial requirements and consequences</li> </ul> |



| SUB-AREAS       | RECOMMENDATIONS   |  |
|-----------------|---|--|
|                 | INTERNALLY  | WITH SUPPORT OF EXTERNAL RESOURCES   |
| PRODUCT QUALITY | <ul style="list-style-type: none"> <li>➤ Develop and document quality control policies which comply to existing standards</li> <li>➤ Establish documented measurement criterias</li> <li>➤ Develop procedures and documentation to monitor rejection</li> </ul> | <ul style="list-style-type: none"> <li>➤ Engage the help of experts to put in place documented quality check policies and product quality checks check points.</li> <li>➤ Develop rejection procedures and documentation</li> <li>➤ Engage the help of an expert train relevant quality control staff</li> </ul> |

## Priority Intervention

In order for Sibra Chemical Industries to become fully established and manage impending growth, it needs to consolidate its operations. This entails that:

a) Boost sales revenues

- Document and implement recognized standards such as BOBS
- Further investigate the market to identify segments with growth and profit potential e.g. hotels, restaurants
- Put a marketing and sales plan to generate new business

b) Quality Management

- Seek measurement instruments to ensure quality is maintained. This includes a set criteria for product quality to ensure consistency and confidence in customers.

c) Plan for future growth

Develop a business plan together with an investment plan for the company and mobilize adequate resources to fund future growth.



# Thank You