



Integral Diagnostic Review **Final Report** **Greenhouse Technologies (Pty)Ltd**

8th May 2014, Gaborone, Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team Mr. H. E. Johnson
Mr. Mckay Kakanyang Mojakgesa

The Company's Diagnostic Process

- Company's background review
- Interview with the management and staff to understand the different elements of the company – 29th April 2014
- Co-construction (management validation of preliminary findings) – 30th April 2014
- Preliminary Report 8th May 2014
- Final reporting –12th May 2014

Background

Greenhouse Technologies is a 100% citizen owned company in the Agro inputs and Technologies industry. It started operating in June 2011. The main inspiration for the company start-up was the market opportunities and the availability of a business partner who was quite conversant on this line of business of offering turnkey solutions to the horticulture and dry land farming farmers.

The company currently operates from rented premises in Plot 20689, Block 3 Industrial in Gaborone.

Greenhouse Technologies is fairly new in the industry (has been in existence for approximately 3 years now).

The company aims at becoming a leader in green technology in Botswana and to become a “one stop” shop for farmers.(where proposals and all farm requisites can be purchased)

Their main clients are individual farmers & government with its main products being: Greenhouse tunnels, shade net structures, reservoirs, fertilisers and Agro chemicals

The business currently comprises of a total of Permanent 6 employees: and 2 freelancers.

Greenhouse Technologies has managed to expand its range of products to include consultancy and training.

The annual turnover in 2013/2014 financial year was P1,352,395 and in 2013/2012 was P2,596,968 .This represents a 47.9% drop in annual turnover.

Challenges faced by the business include low market penetration, reduced cash flow, seemingly high staff turnover, presence of academically qualified staff who lack experience, lack of relevant training and skills of the manager in the agricultural sector.

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (see attached report)

Strategic Management

- Mission and Vision
- Strategic Objectives

Production and Operations

- Inventory handling

Management and Leadership

- Style

Finance

- Financial Administration
- Cost Analysis

Marketing and Sales

- Segmentation, Target Market, and Positioning
- Product
- Price
- Marketing and Client relationship

Quality Management

- Procedures
- Product quality

Business Environment Analyses

- Alliances

Information Management

- Information

Results

The Company Strengths and Areas for Improvement

Strengths	Subareas for Intervention
<ul style="list-style-type: none"> •Management is passionate about the business. •The Company has strategic relationship with development institution to support the company (e.g. BOCCIM,WIBA,LEA) •Manager has full knowledge of the company history and sector. 	<ol style="list-style-type: none"> 1. Strategic Management-Strategic Objectives 2. Marketing and Sales- Price 3. .Marketing and Sales-Sales Management 4. Production and Operation-Inventory Handling 5. Finance –Cost Analysis 6. Quality Management-Procedures 7. Information Management-Information

Strategic Management – Strategic Objectives

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

- Have a clear roadmap
- Better planning and decision making(short and long term)
- Have clarity regarding future goals and consistency between the company's action and proposed strategic objectives
- Develop and prioritize functions and activities and allocation of resources
- Have consistency between the objectives and the company structure. Changes being demonstrated in those areas which are strategic.

The Strategic Process of Value Creation



Marketing and Sales - Price

Appropriate and competitive price setting :

- Encourages good and systematic procurement methods
- Ensures that the company having a defined the cost structure for setting prices for specific segments to secure profit margin
- Ensures that external factors are taken into account and trends are analyzed for price setting, and there is documented information for this..
- Ensures constant price comparison with competitors products and the company has established policies or criteria for price setting in relations to the studies.
- Increases revenue by Improved market penetration.

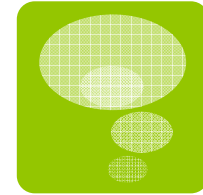
Best Practices -Cont'd

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



Production and Operations - Inventory Handling

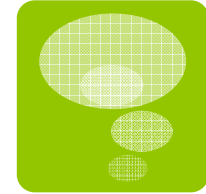
The benefits of correct inventory handling are:

- The company has a systematized inventory of the raw materials deliveries received ,raw materials stored and products. It is tied to a program to track raw material use and demand and sales of products.
- Raw materials and products are warehoused separately, considering their physical and chemical characteristics. The system guarantees adequate stock rotation, and their use and control.
- The physical inventory is checked periodically and compared to the register kept in kardex or on a computer system. The necessary corrections are made and the company analyzes the possible reasons for discrepancies.
- Purchasing the correct inventory in the right amount, helps to meet customer demand, and timely delivery of goods while eliminating slow-moving, obsolete inventory, leading to higher profits and better cash flow.

Finance - Cost Analysis

Accurate costing analyses:

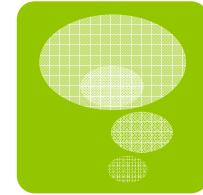
- Ensures positive cash flows and non tying up of capital on products that are not profitable.
- Makes available a historical cost data that allows the company to forecast and identify important and relevant costs.
- Enables the company to have a cost control that permits cost/benefit analysis and the programming of cost reduction activities.
- Encourages good procurement methods
- Enables the company to appropriately price its products to secure the profit margin taking into account break even points.
- Assist in monitoring finance costs and returns and allows maximization of returns from available resources.



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



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 coordination adding value to decision making within the company.
- Improve communication internally and externally
- Become market intelligent
- Identify and seize opportunities ahead of competition

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 for this company from 1st March to 28th February of the following year

Best practices- Cont'd

Greenhouse Technologies: Balance Sheet 2013 - 2014

ASSETS	2013-2014	2012-2013		Variation (%)
Cash and cash equivalents	2 382	13 758		-83%
Accounts receivable (debtors)	188 667	936 350	0	-80%
Inventory	277 192	117 875	0	135%
TOTAL CURRENT ASSETS	468 241	1 067 983	0	-56%
Physical fixed assets	122 738	191 801		-36%
TOTAL FIXED ASSETS	122 738	191 801	0	-36%
TOTAL ASSETS	590 979	1 259 784	0	-53%
LIABILITIES	2013-2014	2012-2013	0	Variation (%)
Account payable	293 533	357 789	0	-18%
short term portion of loan payable	46 889	99 983		-53%
other current liabilities	541 344	523 260		3%
TOTAL CURRENT LIABILITIES	881 766	981 032	0	-10%
Long term debt to an individual.(no interest)	226 513	198 578	0	14%
TOTAL LONG TERM LIABILITIES	226 513	198 578	0	14%
TOTAL PAYABLE LIABILITIES	1 108 279	1 179 610	0	-6%
Paid in Capital	3 000	3 000		0%
other current liabilities	34 221	34 221		0%
Reserves (Retained Earnings, other reserves)	-544 519	42 953		-1368%
EQUITY	-507 298	80 174	0	-733%
TOTAL LIABILITIES	600 981	1 259 784	0	-52%

Greenhouse Technologies Profit & Loss Statement

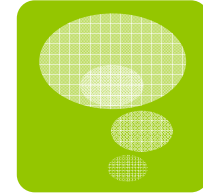
PROFIT/LOSS STATEMENT	2013-2014	2012-2013		Variation (%)
Sales revenues	1 352 395	2 596 968		-48%
Cost of goods sold				
<i>Materials</i>	1 273 232	1 975 017		55%
GROSS PROFIT	1 273 232	1 975 017	0	55%
<i>Wages & salaries</i>	99 514	115 504		16%
<i>Other costs</i>	0	0	0	0%
NET VALUE ADDED	-20 351	506 447	0	-2589%
Depreciation	42 563	27 313		-36%
Operating Expenses (G&A, selling, R&D)	451 677	355 158		-21%
OPERATING INCOME	-514 591	123 976		-124%
other non operating income	13 500	0	0	-100%
Financial expenses	96 381	43 258	0	-55%
INCOME BEFORE INCOME TAX	-597 472	80 718		-114%
Income Tax Provision		0		0%
NET INCOME	-597 472	80 718	0	-114%

Strategic & Financial Indicators

Strategic Indicators	2014/2013	2013/2012	
Local sales per employee (Pula)	169 049	324 621	
Exports as a percent of total sales	0	0	
Variation of local sales (%)	-0.48	2.40	
Net value added, NVA	-20 351	506 447	
Productivity (Pula)	-5 088	126 612	
Net profit margin(%)	-44%	3%	
Net worth (Pula)	-507.30	80 174	
Number of managers to employees	0.33	0.33	

Strategic & Financial Indicators

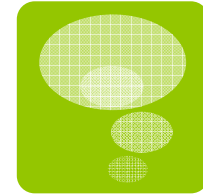
Financial Indicators	2013/2014	2012/2013	
Current Ratio	0.53	1.10	
Acid test (Quick ratio)	0.22	0.97	
Average collection period (day)	50.92	131.60	
Average payment period (day)	78.04	62.07	
Inventory conversion period	74	21	
Debt to equity ratio	-2.18	14.71	
Times interest earned	-5.2	2.87	
% Over (Under) Break-even point	-104	32	



Financial Analysis

Sales and profitability

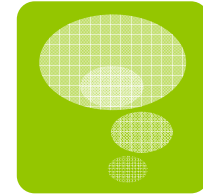
- Sales/Turnover decreased between 2013 and 2014 from P2,596,968 to P1,352,395 which represents a decline of 48%.
- Actual operating expenses have increased over the period from P355,158 to P451,677. Percentage operating expenses to sales revenue have also increased over the period from 13.7% to 33% due to the drastic decline in revenues for that period.
- Likewise the net profit dropped from 3% in 2012/2013 to -44% in 2013/2012 financial year .



Financial Analysis

Working capital

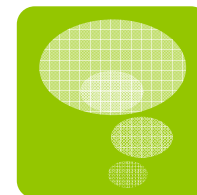
- Average debt collection period has declined from 132 to 51 days, implying improvement in debt collection . There is however need for further improvement.
- The average supplier payment period has worsened from 62 days to 78 days. This can affect the credit worthiness and goodwill of the company.
- The working capital became negative(-P413,525) in 2013/2014 financial year. indicating that the firm does not have sufficient funds to satisfy both maturing short term debt and upcoming operational expenses.
- The inventory conversion period has worsened from 21 to 71 days which implies that the period taken to convert stock into cash has increased.



Financial Analysis

Solvency

- The current ratio has dropped from 1.10 in 2013 to 0.53 in 2014. The desired figure is 2, indicating that the company will not easily meet its current obligations.
- The acid test ratio has worsened from 0.96 in 2013 to 0.22 in 2014. This indicates that the company's state of solvency is worsening. 1 is a healthy level. The company liquidity is worsening.
- The net profit margin has declined from 0.33 to -0.44 over the period. The low net profit margin in 2013 indicated a low margin of safety. This has become negative in 2014 by a decline in sales.
- The company's debt/equity ratio declined from 14.7 to -2.18 during the period. This points negatively to its ability to source external finance; bank loans etc.
- Time Interest earning ratios declined from 2.87 to -5.2 an indication that the company is currently does not have the ability to meet its interest commitments without putting too much strain on its cash resources



Financial Analysis

Conclusion :

- The company is not financially sound. They are operating below break even point. The percentage gross profit to revenue has declined over the period from 24% to 6% ,the operating expenses has increases and sales have declined.
- The is need to improve management of working capital which involves managing inventories, accounts receivable and payable, and cash.
- It is recommended that corrective action be taken to ensure that's there is correlation and alignment of payment and collection To maintain the credit worthiness and goodwill of the company
- The company will not easily meet its current obligations. It has poor short term financial strength and is technically at the borderline of being insolvent and in a perilous financial position
- The equity is under capitalize as equity is negative at the end of the 2013/14 financial year. The company needs to be recapitalized.

Conclusions of the Diagnosis

Conclusion

Conclusion

- Greenhouse Technologies which started operations in June 2011 is a 100% citizen owned company which is engaged in Agro-inputs and Technologies industry .The main inspiration for the company start-up was the market opportunities and the availability of a business partner who was quite conversant on this line of business of offering turnkey solutions to the horticulture and dry land farming farmers.
- The company's main clients are individual farmers & government.
- Greenhouse Technologies has expanded its range of products to include consultancy and training. This was done to improve on market penetration however there is need to determine if this has benefitted the business or put more strain on resources and management.
- The Director is trying to form an alliance with larger companies in the same field. She is also considering taking a partner with relevant training and experience into her business.
- The company shows signs of declining from its original stage of growth. Solvency, profit sales and have declined.
- . Low liquidity has resulted in few farm supplies on display and limited range of products making the business less attractive to farmers who normally prefer to have most purchases made at one place.

Conclusion

Conclusion Cont'd

- The diagnostic exercise revealed 6 broad areas that require interventions. These are Strategic Management; Marketing & Sales; Finance and Quality Management, Information management, Production and handling
- Specific areas that need improvement are: strategic objectives, pricing and sales management; cost analysis, procedures for quality management, information systems and inventory handling.
- The company needs to close the gaps in above indicated subareas so as to gain competitiveness on target markets and sustain the business.

Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
STRATEGIC MANAGEMENT-OBJECTIVES	<ul style="list-style-type: none"> ➤ Define strategic objectives & set key indicators and targets for the short, medium, and long term 	<ul style="list-style-type: none"> ➤ Assistance with developing strategic objectives
MARKETING AND SALES -PRICE	<ul style="list-style-type: none"> ➤ Develop and document a cost structure and pricing plan with assistance of accountant. ➤ Gather information on competitor pricing for similar products 	<ul style="list-style-type: none"> ➤ Assistance with improving the pricing model and discount structure

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.
PRODUCTION & OPERATIONS – INVENTORY HANDLING	<ul style="list-style-type: none"> ➤ Develop inventory receiving and storage procedure. ➤ Develop records for movement of stock items. ➤ Conduct stock taking exercises on a regular basis. 	<ul style="list-style-type: none"> ➤ Assistance with developing inventory management system.

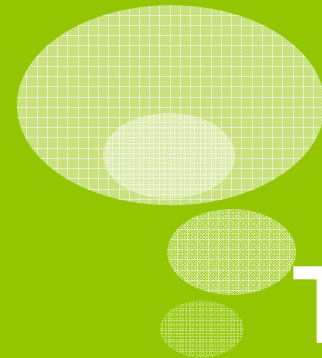
SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
FINANCE-COST ANALYSIS	<ul style="list-style-type: none"> ➤ Clearly identify all fixed and variable costs ➤ Update the existing pricing to ensure all costs are captured ➤ Establish job-cards to capture effective variable costs ➤ 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	<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 Interventions

In order to enhance its performance and attract financials, the company should develop and implement a turnaround plan aimed at improving its sales revenues and profitability. This implies:

1. Develop market segmentation and targeting. Further detailed survey of the market to determine where the company has competitive advantage. Implement appropriate marketing and sales plan for each target.
2. For each segment, develop competitive and profitable product pricing and appropriate communication strategy.
3. Set up a proper working capital management system e.g. weekly forecast .The Managing Director May be required to inject additional money into the business.
4. Upgrade the accounting system incorporating costs accounting and monthly management reporting to monitor expenditures and income..
5. Developing a business plan together with an investment plan for the company to identify and correct operational and structural weaknesses and to mobilize adequate resources to stabilize current operations and to fund future growth.



Thank You