

Integral Diagnostic Review Final Report

Smart Butter Investments

09 April 2014, Gaborone, Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team Mr. H. E. Johnson
Mr. Temo Ntapu

The Company's Diagnostic Process

- Company's background review
- Interview with the management and staff to understand the different elements of the company – 08 April 2014
- Co-construction (management validation of preliminary findings) – 09 April 2014
- Final reporting – 11 April 2014

Background

- Smart Butter Investments is a Limited liability Company located in Serowe, approximately 300km from Gaborone. It specializes in the manufacture of peanut butter. It was started by a group of women as a society in 2010, production started in 2012. Smart Butter Investments has 5 shareholders who are the only employees of the company.
- The mission of the business was to create employment for members and youth. The vision of this business could not be ascertained.
- All of the major raw material (groundnuts) are purchased from Zambia, while the plastic bottles are imported from South Africa. Initially at start up it was given a grant of P240,105 in August 2012 by Gender Affairs Department part of which was used to purchase the equipment.
- The main clientele are individuals. However they intend to target other market segments such as government, schools and supermarkets.
- Financial statements were not available for the consultants.
- Management estimates that the annual turnover in 2013 was P6 309.85, which is very low
- Challenges faced by the business include low market penetration, Lack of compliance of its products by BOBS standards, high cost of raw materials, lack of clearly defined organizational structures, Inadequate mentoring and training.

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (refer to co-construction report)

Strategic Management

- Mission and Vision
- Strategic Objectives

Production and Operations

- Inventory handling

Organizational Structure

- Division of Labour
- Decision Making Power

Finance

- Accounting Records
- Cost Analysis

Marketing and Sales

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

Quality Management

- Procedures
- Quality Control
- Product Quality

Technological Innovation

- Execution of Innovation Projects
- Information Technologies

Results

The Company Strengths and Areas for Improvement

Strengths	Areas for Improvement
1.The five owners of the enterprise are passionate about the business and its success	1. Strategic Management –Strategic Objectives
2.Availability of equipment obtained through a grant from Gender Affairs Department.	2.Marketing and Sales- Segmentation, Target Market, and Positioning
3.Owners have training in peanut butter making	3. Organizational Structure-Division of Labour
	4. Finance – Accounting Records
	5. Finance-Cost Analysis
	6. Quality Management-Quality Control
	7. Quality management- Procedures

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 – Segmentation, Target Market & Positioning

Benefits of a proper segmentation is the ability to adapt to the different needs and requirements of the different segments based on specific criteria. This enables informed marketing and positioning. Ultimately this results in:

- Effectively focus on profitable customers and products with potential for growth
- Improved inputs into customization for each segment resulting from interaction – product development
- Effective marketing, promotional and distribution plans
- Improved brand awareness and customer loyalty
- Improve market penetration and increase revenue

Organizational Structure - Division of Labour

It is critical that the company has in place a well defined and structured organizational structure with clearly defined division of labour. This will result in :

- Determining how work is divided among the employees.
- Having specialized and appropriately qualified persons or departments.
- Having clearly defined and formalized tasks and responsibilities.
- Prioritizing functions according to importance.
- Appropriately structuring work.
- The company having a clearly specified division of labour with rules and procedures for functions and their interrelations.

Finance – Accounting Records

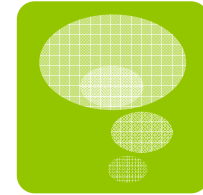
Correct data capture and accurate financial recording enables:

- 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 cost analyses

Finance - Cost Analysis

Accurate costing of products:

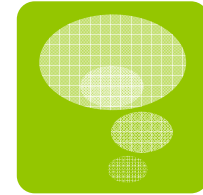
- Ensures positive cash flows and non tying up of capital on products that are not profitable.
- Makes it easier to estimate the company's break even point (level of sales where all fixed costs are covered by revenue)
- Encourages good procurement methods
- Enables the company to appropriately price 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 – Quality Control

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

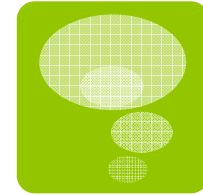
- Systematic checks that will allow timely application of corrective measures
- A clearly defined procedure for handling complaints
- Less rejection of products
- Consistency in products quality
- Improved customer loyalty
- Increase in sales



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:

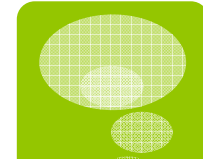
- Systematic checks are maintained
- A clearly defined procedure for handling complaints
- Less rejection of products
- Consistency in products quality
- Improved customer loyalty
- More sales



Financial Analysis – Disclaimer

The Business could not provide the Consultant's team with financial statements, including the balance sheet and the income statement for the last three years. Therefore an assessment of economic and financial performance of Smart Butter could not be ascertained. 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.

Conclusions of the Diagnosis



Conclusion

- Smart Butter Investments is a Limited Liability Company located in Serowe, approximately 300km from Gaborone. It specializes in the manufacture of peanut butter. Production started in 2012. Smart Butter Investments has 5 shareholders who are the only employees of the company.
- No financial statement was made available to the team. Management estimates that the annual turnover in 2013 was P6,309.85
- Although the company has been in existence for a number of years, it is still at infantile stage. Challenges faced by the business are lack of compliance of its products by Botswana Bureau of Standards (BOBS). Determination of the shelf life of its product by NAFTEC is still pending.
- It has low market penetration, high costs of raw materials, and insufficient business management and accounting skills. There is no clearly defined division of labour.
- This company is not viable and is on the verge of bankruptcy; the business is currently not profitable and does not have the ability and the capability to generate enough cash flow to sustain the business and grow.
- The diagnostic exercise revealed 5 broad areas that require interventions. These are Strategic Management, Organizational Structure, Marketing and Sales, Finance and Quality Management – Quality Control, Procedures.
- Specific subareas needing interventions are: Strategic Objectives, Division of Labour, Segmentation, Target Market, & Positioning; Accounting Records and Cost Analysis, Quality Control, and Procedures.
- The company should strive to closing the gaps in above related subareas so as to unleash performance and improve competitiveness in target markets.

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
ORGANIZATIONAL STRUCTURE-DIVISION OF LABOUR	<ul style="list-style-type: none"> ➤ . Describe the organization, recognizing functional areas, roles, and people responsible ➤ Develop clearly specified division of labour with rules and procedures for functions and their interrelations. For the company 	<ul style="list-style-type: none"> ➤ Engage the services of an expert to develop an appropriate organizational structure with clearly defined division of labour for the business

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
SEGMENTATION, TARGET MARKET & POSITIONING	<ul style="list-style-type: none"> ➤ Identify basis for segmentation ➤ Establish essential characteristics of each market segment ➤ Establish the potential and feasibility of each segment ➤ Select target segment/s to focus on ➤ Develop detailed product positioning for the selected segments 	<ul style="list-style-type: none"> ➤ Assistance with carrying out a market survey ➤ Assistance with developing a marketing model
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 ANALYSES	<ul style="list-style-type: none"> ➤ Clearly identify all fixed and variable costs ➤ Update the existing pricing to ensure all costs are captured ➤ 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
QUALITY MANAGEMENT-QUALITY CONTROL	<ul style="list-style-type: none"> ➤ Develop and document quality control policies which comply to existing standards e.g. BOBS ➤ Establish documented measurement criteria's ➤ Define and document responsibilities ➤ Develop procedures and documentation to monitor rejection and wastage. 	<ul style="list-style-type: none"> ➤ Engage the help of experts to put in place documented quality check policies and product quality checks check points. ➤ Develop rejection procedures and documentation ➤ Engage the help of an expert train relevant quality control staff.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
QUALITY MANAGEMENT-PROCEDURES	<ul style="list-style-type: none"> ➤ Determine clientele preference ➤ Implement and document recognized standards such as BOBS ➤ Identify and document critical control points which should be adhered to ➤ Implement quality checks procedures ➤ Develop and document quality management procedures ➤ Develop product specification. 	<ul style="list-style-type: none"> ➤ Assist in identifying and improving procedures for standards and quality assurance ➤ Assist with developing documented quality measurement techniques

Priority Interventions

In order to avoid the bankruptcy, management should develop and implement a turnaround plan with the view to improving its revenues and profitability. This implies:

1. Engage a qualified and experienced personnel with the following scope of work:
 - Understand the market and put together a market development plan (segmentation, target market and positioning) and develop a sales strategy to generate additional business
 - Develop new offering (possibility of product diversification ; eg, confectionary, sweets) and get the produces authorised or licensed by the relevant authority
 - Properly costing their products in a way to secure adequate margin for the company
 - Set up a complete financial administration system to inform operations and decision making.
2. Shareholders to inject personal resources to finance the turnaround plan.
3. Develop a business plan together with an investment plan to address future development of the company.



Thank You