

Integral Diagnostic Review Final Report Tshwaraganang Basadi Peanut Butter Limited



8-9 April, 2014, Palapye-Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team

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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 (8 April 2014)
- Co-construction: management validation of preliminary findings (9 April 2014)
- Preliminary reporting (9 April 2014)
- Final reporting (14 April 2014)

Background

- Tshwaraganang Basadi Peanut Butter Limited, located in Palapye 300km from the City of Gaborone, the company was registered on January 11th, 2011 and started operations in 2005.
- Initial funding was provided by a grant from Botswana's Gender Affairs Unit which encourages women to organize in groups of five.
- The company operates in the food sector and specializes in manufacturing of peanut.
- The owner's vision is to grow and expand the business to supply the country with its products
- The company raw materials is sourced from the local market.
- The company's main target markets are low income individuals from Palapye.
- Company employs 5 staff who are all shareholders of the company.
- Only financials for year 2012/2013 are made available to the consultant team.
- The company has a turnover of P7,488 in 2013. Sales revenues realized are not sufficient to cover operating expenses. Revenues only make 16% of operating expenses.
- Main challenges are the limited market for local peanut and the competition from imported products

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (refer to the co-construction report)

Strategic Management

- Mission and Vision
- Strategic Objectives

Finance

- Cost Analysis
- Financial Administration

Marketing and Sales

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

Production and Operations

- Suppliers
- Inventory Handling
- Planning
- Machinery Maintenance

Environmental Management

- Occupational Risk and Health

Quality Management

- Product quality

Results

The Company Strengths and Areas for Intervention

| Strengths | Subareas for Intervention |
|---|--|
| 1. Business Environment Analysis – Alliances | 1. Strategic Management - Strategic Objectives |
| 2. Environmental Management-Environmental Regulations | 2. Marketing & Sales – Segmentation, Target Market and Positioning |
| 3. Information Management-Communication | 3. Marketing & Sales – Sales Management |
| 4. Finance – Tax Laws and Regulations | 4. Production & Operations - Planning |
| | 5. Finance - Cost Analysis |
| | 6. Finance - Financial Administration |
| | 7. Quality Management - Quality Control |

Best Practices -Cont'd

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, medium and long term)
- Inspire and motivate staff to be more productive leading to greater revenue
- Better allocation of resources
- Improve decision making across the company

Best practices- Cont'd

Marketing and Sales – Segmentation, Target Market & Positioning

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

- Effectively focus on profitable customers and products with potential for growth
- 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
- Improve brand awareness, market penetration and increase revenue

Ultimately, improve 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:

- 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 and involve customers in product development
- Improving efficiency of the sales workforce

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 - 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

Finance-Financial Administration

Having proper financial administration (budgets and cash flows) will allow the company:

- Control and monitor company's expenses and revenue
- Systematic assessment of company's investment
- Have financial control (comparisons of historical, actual and forecast data) of its resources.
- Help the company to make informed decisions on business investment and re-investments
- Improved efficiency: better utilization of resources

Quality Management - Quality Control

Having in place documented quality control measures, with specific criteria used in maintaining quality will ensure:

- Systematic checks that will allow timely application of corrective measures
- Less rejection of products
- Consistency in products quality
- Increase in sales and customer loyalty

Financial Analysis - Disclaimer

Disclaimer

The strategic financial indicators are based on financial statements provided by the company. The company has only provided statements for the year 2013. No comparative analysis has been made to determine performance trends.

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.

Income Statement for the year ending Dec. 2013

| PROFIT/LOSS STATEMENT | | 2013 |
|------------------------------|--|-------------------|
| 37 | Sales revenues | 7,488 |
| 38 | Cost of goods sold | |
| 39 | <i>Materials</i> | 1,182 |
| 40 | NET VALUE ADDED | 6,305 |
| 41 | <i>Wages & salaries</i> | 6,710 |
| 42 | <i>Other costs</i> | |
| 43 | GROSS PROFIT | -405 |
| 44 | Depreciation | 15,795 |
| 45 | Operating Expenses (G&A, selling, R&D) | 40,541 |
| 46 | OPERATING INCOME | -56,740.27 |
| 47 | Financial income | 0 |
| 48 | Financial expenses | 0 |
| 49 | Other non-operating income | |
| 50 | Other non-operating expenses | |
| 51 | INCOME BEFORE INCOME TAX | -56,740 |
| 52 | Income Tax Provision | 0 |
| 53 | NET INCOME | -56,740 |

Balance Sheet as of end of year 2013-TSHARAGANANG BASADI

| ASSETS | 2013 |
|--|----------------|
| Cash and cash equivalents | 48,343 |
| Accounts receivable (debtors) | |
| Inventory | 6,500 |
| Prepaid expenses | |
| Other Current Assets | |
| TOTAL CURRENT ASSETS | 54,843 |
| Physical fixed assets | 89,506 |
| Financial Fixed Assets | |
| Intangible assets | |
| Other Assets | |
| TOTAL FIXED ASSETS | 89,506 |
| TOTAL ASSETS | 144,349 |
| LIABILITIES | 2013 |
| Account payable | |
| Short term portion of loans payables | |
| Taxes liabilities | |
| Short term provisions | |
| Other Current Liabilities | |
| TOTAL CURRENT LIABILITIES | 0 |
| Long term debt to banks and fin. Inst. | |
| Long term Provisions | |
| Other Long term debt | |
| TOTAL LONG TERM LIABILITIES | 0 |
| TOTAL PAYABLE LIABILITIES | 0 |
| Paid in Capital | 3,000 |
| Reserves (Retained Earnings, other reserve | 198,089 |
| Current year net profit | -56,740 |
| Other | |
| EQUITY | 144,349 |
| TOTAL LIABILITIES | 144,349 |

Strategic & Financial Indicators

| Strategic Indicators | 2013 |
|---------------------------------|----------|
| Local sales per employee | 1,497.52 |
| Net value added, NVA | -405.00 |
| Productivity | -80.92 |
| Net profit margin | -7.58% |
| Net worth | 144,349 |
| Fixed Assets Turnover | 0.08 |
| Number of managers to employees | 0.25 |

| Financial Indicators | 2013 |
|------------------------------------|-------|
| Current Ratio | - |
| Acid test (Quick ratio) | - |
| Average collection period (days) | - |
| Average payment period (days) | - |
| Inventory Conversion period (days) | 301 |
| Debt to equity ratio (%) | 0 |
| Time interest earned | - |
| % Over (Under) Break-even point | -101% |

Financial Analysis

➤ Sales and profitability

- Sales revenues realized are not sufficient to cover operating expenses. Revenues only make 16% of operating expenses.
- The company has a turnover of P7,488 in 2013. Their expenses stand at P47,251.
- Though the gross profit margin is at 84%, the company is experiencing a net profit margin of -7.58%

➤ Assets turnover

- The assets turnover ratio is 0.08 indicating that the company is not fully utilizing their assets in 2013.
- Basadi Peanut Butter in general appears to be unproductive . The rate of productivity is very low at -80.92.

➤ Working Capital

- The status of working capital could not be determined with the limited information available
- It takes 301 days for the product to be converted to cash



Financial Analysis

➤ Solvency

- Solvency ratios could not be calculated as no current liabilities have been declared.
- The company's current assets are at P54,843 of which 88% is cash.
- It has realized a loss of P56,740 in 2013 and is operating at 101% below break even point

➤ Gearing/long term debt to equity

- The company carries no debt on its books
- The company has positive equity base worth P149,349 at end of year 2013. This amount is mainly made of the grant money from the Botswana's Gender Affairs Unit reduced by losses accumulated by the company.

Conclusions of the Diagnosis

Conclusion

Conclusion

- Tshwaraganang Basadi Peanut Butter Limited, located in Palapye 300km from the City of Gaborone, the company was registered on January 11th, 2011 and started operations in 2005.
- The company activities were initiated with a grant from Botswana's Gender Affairs Unit.
- After 7 years of operations, the company is still at the inception phase where cash flow and sales are critical. The evidence shows that the company has not been able to address these challenges. Turnover in 2013 was P7,488 in 2013; this was not sufficient to cover operating expenses. Company is operating at 101% below break even point. The company is not adding any value: net value added in 2013 was negative at -P405. Management skills are below standards and no management systems are in place.
- It is important to note that the business was formed to pursue a social objective that would bring a group of 5 women together in order to start a small income generating project. This implies that the company may not have been founded for business success purposes and therefore, Tshwaraganang Basadi Peanut Butter LTD may not be necessarily striving for profit and growth. But sustainability of the business is at risk, meaning that this enterprise may not be around for a long time.

Conclusion

Conclusion

- However if the owners are led by commercial goals, they must take steps to improve in key areas of the business.
- Our assessment has revealed five broad areas that require improvement: Strategic management, Marketing and sales, Production and Operations, Finance and Quality management
- Specific subareas that require interventions are: strategic objectives, segmentation, target market and positioning, sales management, planning, cost analysis, financial administration and quality control.

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This should go to your priority intervention if you judge these actions critical to get the business back on its feet. Otherwise, they should form part of your recommendations on the 7 points.

VA Invest; 18/06/2014

Recommendations For Improvement

| SUB-AREAS | RECOMMENDATIONS | |
|---|--|---|
| | INTERNALLY | WITH SUPPORT OF EXTERNAL RESOURCES |
| STRATEGIC OBJECTIVES | <ul style="list-style-type: none"> ➤ Formulate strategic objectives and set target for the short, medium and long term . ➤ Define the sales target for 2014, 2015, 2016 and 2017 per quarter | <ul style="list-style-type: none"> ➤ Develop Strategic Plan: 2014-2017 Get the assistance of a Mentor to help structure the strategic objectives per: Year, Market |
| SEGMENTATION, TARGET MARKET & POSITIONING | <ul style="list-style-type: none"> ➤ Develop criteria for and categorise precisely the customers based on their specific purchasing habits and requirements. ➤ Consider the resulting customers segment (or categories) and target those with growth potentials and for which the company has competitive advantages | <ul style="list-style-type: none"> ➤ Get the assistance of a Mentor to help build a proper segmentation and develop a marketing plan |

| SUB-AREAS | RECOMMENDATIONS | |
|------------------|---|--|
| | INTERNALLY | WITH SUPPORT OF EXTERNAL RESOURCES |
| SALES MANAGEMENT | <ul style="list-style-type: none"> ➤ Develop a sales plan. ➤ Have monthly sales forecasts. ➤ Develop sales targets for sales team ➤ Build a sales team | <ul style="list-style-type: none"> ➤ Training in sales and marketing. ➤ Assistance with development of Sales plan. |
| PLANNING | <ul style="list-style-type: none"> ➤ Set clear production plan in coordination with sales goals, develop timetable and procurement plan accordingly proper sales goals to achieve the company objectives | <ul style="list-style-type: none"> ➤ Develop a business plan together with an investment plan for the company and mobilize adequate resources to fund future growth |

| SUB-AREAS | RECOMMENDATIONS | |
|----------------------------------|--|--|
| | INTERNALLY | WITH SUPPORT OF EXTERNAL RESOURCES |
| COST ANALYSIS | <ul style="list-style-type: none"> ➤ Develop a cost structure per business line or product that includes relevant, variable and fixed cost(overheads). ➤ Update the existing pricing to ensure all costs are captured ➤ Constantly reconcile the costing with financial records | <ul style="list-style-type: none"> ➤ Get assistance of mentor to develop a proper cost structure ➤ Get the assistance of a financial consultant to make financial analysis |
| FINANACIAL ADMINISTRATION | <ul style="list-style-type: none"> ➤ Set up a budget and cash flow projections ➤ Draw up financial plans and objectives ➤ Set up financial administration procedures such as petty cash register and proper filing system | <ul style="list-style-type: none"> ➤ Training on Quick Books system in place ➤ Support for Quick Books in the form of quarterly review of entries and reconciliation of accounts |

| SUB-AREAS | RECOMMENDATIONS | |
|-----------------|--|--|
| | INTERNALLY | WITH SUPPORT OF EXTERNAL RESOURCES |
| QUALITY CONTROL | <ul style="list-style-type: none"> ➤ Develop a documented quality control policy ➤ Define documented responsibilities and train quality control personal ➤ Develop procedures and documentation to monitor rejection and wastage. | <ul style="list-style-type: none"> ➤ Enlist the help of an expert to develop, train and document procedures |

Priority Intervention

In order to turn the business into a profitable and viable entity, the company needs to develop and implement a business launching/start-up plan. This implies to:

- a) Restructure: downsize, reduce operating charges and enlist the services of a professional manager with the following scope of work
 - Further investigate the market and put together a market development plan (segmentation, target market and positioning, product offering)
 - Develop a sales plan and a sales force to generate additional business
 - Develop a comprehensive cost structure and use it to determine product pricing so as to secure adequate profit margin.
 - Implement basic food safety standards, including (i) obtaining the guidelines from the food safety and standard board and (ii) implement food safety standards and train the staff
- b) Shareholders to inject personal money to finance the plan.



Thank You