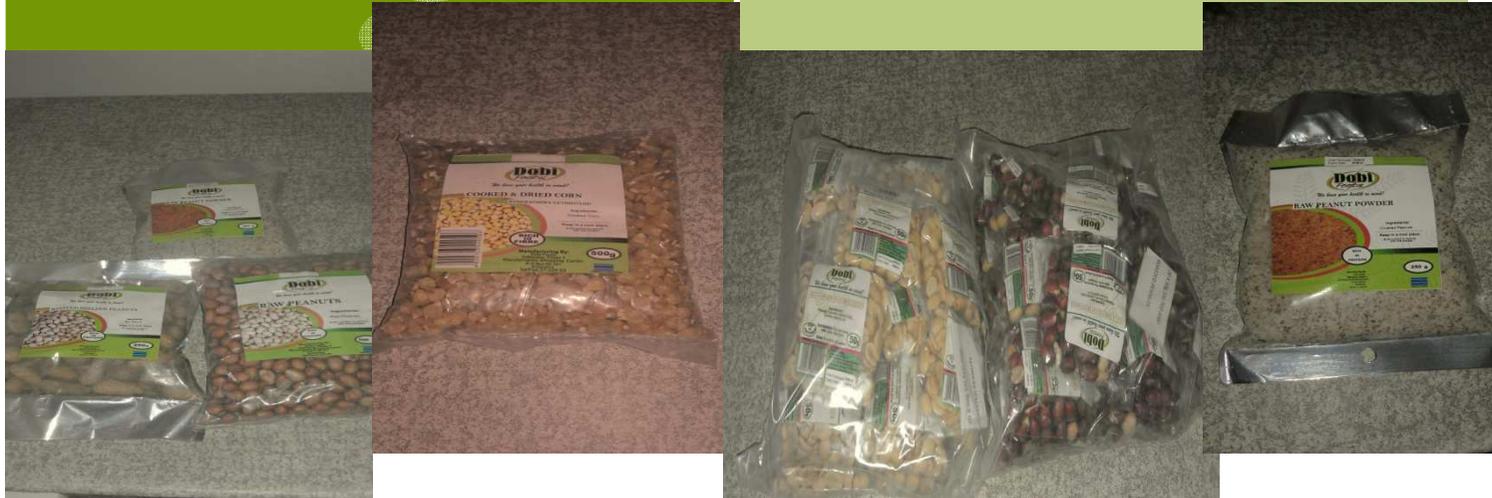


Integral Diagnostic Review Final Report Khokho B. Holdings T/A Dobi Foods



March 31 – April 3, 2014, Gaborone-Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team

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- Company's background review
- Interview with the management and staff to understand the different elements of the company (31 March 2014)
- Co-construction: management validation of preliminary findings (2 April 2014)
- Preliminary reporting (3 April 2014)
- Final reporting (4 April 2014)

Background

- Khokho B. Holdings was formally registered in 2012. The current trading business name, Dobi Foods, started operating in 2007.
- The business started off as a restaurant that serves traditional cuisine, which later expanded onto processing and packaging of various traditional food items. The business is currently concentrating on the processing and packaging activities.
- The company's main products are processed Dobi bean leaf, Dobi spinach, roasted peanuts and peanut powder; as well as packaged Bean leaf, Beans and Dried corn. The main clients are petrol service stations, individuals and wholesale retailers.
- Dobi Foods shop and processing is situated at Marulamantsi shopping center in Gaborone. The business currently comprises of a total of 5 employees (including the MD and an intern).
- The owner envisions a fully established business, with wide penetration into the local and international retail market.



Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (see attachment for explanations)

Business Environment Analysis

- Alliances

Finance

- Accounting Records
- Cost Analysis
- Financial Administration

Marketing and Sales

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

Production and Operations

- Planning
- Plant Layout
- Machinery Maintenance

Information Management

- Information

Technological Innovation

- Corporate Culture for Innovation

Quality Management

- Procedures



RESULTS

The Company Strengths and Subareas of Intervention

Strengths	Subareas of Intervention
1. Management is passionate and knowledgeable about the business environment.	1. Marketing & Sales – Segmentation, Target Market and Positioning
2. The company mission and objectives are clear and in actions are geared towards achieving these.	2. Marketing & Sales – Sales Management
3. Financial prudent- the business has never taken any loans so far.	3. Production & Operations- Planning
4. Product quality is emphasized, even at supplier's level.	4. Production & Operations- Machinery Maintenance
	5. Finance – Cost Analysis
	6. Finance – Financial Administration
	7. Quality Management– Procedures



Marketing and Sales-Segmentation, Target Market and Positioning

Regrouping customers in categories based on specific criteria (revenue, life style, buying habits, location etc.) and adapting company offering to its well segmented target market(i.e. upper end, middle and lower end) will enable the company to:

- Target clients in the different segments with specific products, prices, distribution channels and promotions that match customers needs
- Focus on profitable customers and products
- Promote the company's brand/positioning and develop customer's loyalty

Therefore, improve market penetration and increase revenue

Best Practices -Cont'd

Marketing and Sales-Sales Management

Having formalised 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
- Keeping an up-to-date client database
- Differentiating client buying patterns
- Improving efficiency of the sales workforce

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



Production and Operations- Machinery Maintenance

Having a maintenance plan and ensuring it is followed will help:

- Utilize equipment at its optimal level.
- Ensure machinery problems are detected and dealt with well in advance.
- Reduce machine downtime and as such no disruptions to production.
- Reduce company costs.

Finance - Cost Analysis

Accurate tracking and analysis of all product costs (variable and fixed):

- Provides a clear picture of product costs
- Enables the company to appropriately price its products and services to secure the profit margin
- Ensures positive cash flows and prevents the tying up of capital on products or services that are not profitable.
- Encourages good procurement practices
- Makes it easier to estimate the company's break even point (level of sales where all fixed costs are covered by revenue)
- Enables costs reduction and benchmark



Finance - Financial Administration

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

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

Best Practices -Cont'd

Quality Management - Procedures

Having a clear quality management system, including product specification, procedures, grading and packaging method will enable the company:

- Work smarter (cost and process efficiency)
- Build customer loyalty by delivering consistent quality products
- Employees to be aware of the standardised requirements for each product
- Adhere to international standards for brand improvement

Therefore, reduce costs and improve revenue.



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.

Note:

Only financial accounts for the year of 2013 were provided (the only year that the company had financial statements made). Therefore no prior financials are available to allow data comparison.



KhoKho B. Holdings T/A Dobi Foods: Balance Sheet 2013

ASSETS	2013
Cash and cash equivalents	6519
Accounts receivable (debtors)	4,000
Inventory	28,132
TOTAL CURRENT ASSETS	38,651
Physical fixed assets	140,699
Other Assets	0
TOTAL FIXED ASSETS	140,699
TOTAL ASSETS	179,350
LIABILITIES	2013
Account payable	50,000
Other Current Liabilities	
TOTAL CURRENT LIABILITIES	50,000
Long term debt to banks and fin. Inst.	0
Other Long term debt	0
TOTAL LONG TERM LIABILITIES	0
TOTAL PAYABLE LIABILITIES	50,000
Paid in Capital	155,433
Reserves (Retained Earnings, other reserves)	0
Current year net profit	-26,083
EQUITY	129,350
TOTAL LIABILITIES	179,350



KhoKho B. Holdings T/A Dobi Foods 2013

PROFIT/LOSS STATEMENT	2,013
Sales revenues	97,106
Cost of goods sold	9,685
<i>Materials</i>	87,421
NET VALUE ADDED	87,421
<i>Wages & salaries</i>	39,206
<i>Other costs</i>	34,470
GROSS PROFIT	13,745
Depreciation	39,829
Operating Expenses (G&A, selling, R&D)	0
OPERATING INCOME	-26,084
Financial income	0
Financial expenses	0
INCOME BEFORE INCOME TAX	-26,084
Income Tax Provision	0
NET INCOME	-26,084

Strategic Indicators	2013	2012
Local sales per employee (Pula)	19,421	0
Net value added, NVA (Pula)	87,421	0
Productivity (Pula)	17,484	0
Net profit margin (%)	-0.27%	0
Net worth (Pula)	129,350	0
Fixed assets turnover (activity ratio)	0.69	0
Number of managers to employees	0.25	0

Financial Indicators	2013	2012
Current Ratio	0.77	0
Acid test (Quick ratio)	0.21	0
Average collection period (days)	15	0
Average payment period (days)	113	0
Inventory conversion period (days)	64	0
Debt to equity ratio (%)	38%	0
% Over (Under) Break-even point	-0.65%	0



Financial Analysis

➤ Sales and profitability

- Sales income of P97,106 included P27,600 earned from equipment rental (which accounted for 28% of total revenue for the year).
- Labeling costs are the second highest expense after wages, being 16,337 and representing 22% of expenses.
- In 2013, the operating profit was at (P26,083).
- The company is 35% below break even point at -0.65%

➤ Working capital

- Average debt collection period is at 15 days. This can be explained by limited credit extended to wholesalers.
- The average supplier payment period is at 113 days. This could be indicative of cash flow constraints.

Financial Analysis

➤ **Solvency**

- The current ratio is at 0.77. The company is not in a healthy position. This ratio is below the desired result of 1.5.
- The acid test ratio of 0.21 confirms that the company is not liquid at a satisfactory level and would not be able to meet its short term financial obligations.

➤ **Gearing/long term debt to equity**

- The company carries no long term loan obligations to bankers or funders. The debt to equity ratio stands at 38%, which reflects indebtedness of the company.
- The only debt is in the form of accounts payable to the amount of P50,000, which has been due from 2012.

Strategic indicators

➤ **Assets turnover**

- The assets turnover ratio is 0.69% indicating that the company is not acceptably utilizing their assets. This can be supported in the example of the roaster that has still not been successfully and optimally utilized from purchase to date. The heavy duty blenders are also not fully utilized

➤ **Net worth**

- The company recorded a net worth of P129,350 as result of the loss incurred in 2013 (P26,083). Paid in capital is P155,433.

Conclusions of the Diagnosis

Conclusion

- Dobi Foods started operating in 2007, though was officially registered as a trade name under Khokho B Holdings in 2012.
- It initially started out as a local foods restaurant but re-positioned the business to specializing in the processing and packaging of traditional foods such as peanuts (and its powder), Dobi (spinach and bean leaf), dried legumes and maize.
- Dobi Foods shop and processing is situated at Marulamantsi shopping center in Gaborone.
- The company has been in business for over 7 years now, and currently has 5 employees including the Managing Director. The business owner envisions expansion of the current operations to include export distribution.
- In repositioning and refocusing its business to food processing, the company relieved itself from excess rental overhead and leased out kitchen equipment to maximize income opportunity.
- Dobi Foods is operative below desired level as it is not generating enough income to cover overheads. It is running at a loss of P26,083.00 as at 2013
- The company's net worth could easily fall as it is mainly comprised of short shelf life assets and equipment that could be redundant due to lack of service and technical support.

Conclusion

The diagnostic exercise revealed 7 areas that require attention in 4 broad areas of Marketing & Sales, Production and Operations, Finance and Quality Management. Specifically the subareas that require critical intervention are:

- Segmentation, Target Market and Positioning
- Sales Management
- Coordination between Operations and Marketing for planning
- Machinery Maintenance
- Cost Analysis
- Financial Administration
- Procedures for Quality Management.



Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
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. ➤ Clearly identify and present in a document the differentiators and the key benefits Dobi Foods is offering to each customer category. ➤ 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 strategy per segment (Clients, price, place, promotion).
SALES AND MARKETING	<ul style="list-style-type: none"> ➤ Develop a sales plan ➤ Have monthly sales forecasts ➤ Have dedicated sales staff ➤ Consider performance based compensation(Commission) ➤ Sales staff to provide feedback to marketing on a regular basis 	<ul style="list-style-type: none"> ➤ Get the assistance to develop an appropriate sales management system (i.e. a system tracking weekly, monthly and yearly sales)

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, develop a timetable and procurement plan. These should be according to sales goals to achieve the company objectives. 	<ul style="list-style-type: none"> ➤ No recommendation
MACHINERY MAINTENANCE	<ul style="list-style-type: none"> ➤ Develop a schedule for upkeep of machines and equipment (preventative maintenance plan). ➤ ensure coordination between production and machine maintenance 	<ul style="list-style-type: none"> ➤ Engage qualified and competent personnel to be responsible for the maintenance.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
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 cost structure to capture costs related to each end product ➤ 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
FINANCIAL ADMINISTRATION	<ul style="list-style-type: none"> ➤ Establish financial forecasts including cash flow and budgets ➤ Regularly produce financial reports, supported by financial analysis ➤ Draw up financial plans and objectives ➤ Develop a financial administration procedure 	<ul style="list-style-type: none"> ➤ Get an accounting software to capture all accounting data ➤ Engage a professional to support monthly and quarterly review of accounts ➤ Produce annual financial statements ➤ Training in accounts for non-finance managers

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PROCEDURES	<ul style="list-style-type: none"> ➤ Develop and document quality management procedures and practices. 	<ul style="list-style-type: none"> ➤ Assistance with developing quality management system

PRIORITY INTERVENTIONS

In order to enhance performance, the company needs to develop and implement a consolidation plan with a view to increase sales, enhance internal systems and profitability and build its equity base before engaging in any expansion. This implies:

1. Marketing & Sales - Segmentation, target markets and positioning

- The company should engage in proper segmentation of customers. This process will enable the company to market and position its products to the right target group. This will enhance the company's sales revenue, improved brand awareness and customer loyalty.

2. Marketing and Sales – Sales Management

- The company needs to build on its existing sales system to include systematic efforts at capturing new sales, encouraging repeat sales, and having a sales plan that will reflect periodic sales targets and objectives. A sales management system will also ensure that Dobi Foods is marketed to the right groups, in the right manner.

3. Finance – Cost Analysis

- The company should set up a cost structure that will guide product pricing, setting up of profit margins and also establishment of break even point (level of sales where all fixed costs are covered by revenue). The cost analysis will build on the financial administration and inventory handling (to be improved). It will also enable the company to know whether or not it is making money and to track possible areas for cost saving.



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