5.6 CASE STUDY N0.6 :

1. Name : Company "F" ("the Company")

2. Location : East Africa

3. Primary Products : Paint manufacture and distribution mainly to automotive and industrial customers.

4. Secondary Products : Decorative paints, and packaging ink and resin manufacture.

5. Principal Shareholders : 100% by local company Owned by 4 local investors.

6. Size (as at December 31, 1992 audited financial statements)
   - No. of Employees : 124
   - Annual Sales : US$4.5 million equivalent
   - Fixed Asset Value : US$878,000 equivalent
   - Annual Net Profit (before taxes) : US$230,000 equivalent

7. Summary

The Company has responded exceptionally well during the AMSCO intervention. It is currently operating at a net profit level of US$600,000 per annum, and operating profit of US$800,000, each almost doubled the rate in 1992.

Dividend distributions in excess of US$600,000 have been made. This, plus the strengthening of the entire management structure through the AMSCO human resources development programme has enabled the present Company's shareholders to make further Group acquisitions in the same sector in two neighbouring countries, plus the acquisition of two local companies - a food processing operation and a hardware and electrical supplies distributor for an artisan market.

The annual national economic contribution of the Company in terms of import substitution has doubled in the period, to US$ 6 million per annum, and export earnings have risen from US$44,000 to US$250,000 per annum. 37 more jobs have been created to a total of 147, plus the additional employment in the four acquired associate companies.

The Company itself is now on the threshold of becoming a serious challenge to the local market leader. In 1992, the volume of the Company was approximately 10% of that of the leader; currently the volume is up to one
third of the leader. In the view of the management the main targets for dramatic growth in the future are industrial paints, printing inks and coatings for cans. The company intends to attack these markets aggressively.

To date, AMSCO has earned a performance bonus payment of US$3,553 in 1993, and bonuses for 1994 and 1995 are currently under negotiation with the Company. The Company has also fully repaid the MLF loan.

8. Brief History of the Company:

The Company was established in 1959 to manufacture automotive paints for the local market. The Company traded profitably and was able to grow from a small cottage-type industry to a prominent local business.

Prior to 1991 the Company was a subsidiary of a leading European paint manufacturer. In 1991 it was taken over by a local company representing a group of local investors. The Company retained a trade mark and technology agreement with the European paint manufacturer. Since take over it has been managed by one of the local investors, as Managing Director.

The Managing Director has spent more than 25 years with the leading manufacture of paint in the country. For several years he had been deputy managing director of the local market leader, and two years as managing director of a subsidiary paint manufacturing company.

For the first six months following acquisition the new management studied the Company, identifying weaknesses and initiating the sale of intermediate products for which there was excess capacity, particularly resins.

As a result of its earlier expansion the Company had outgrown its system for control of production, administration and marketing. It was recognised that although the Company was moderately profitable, it was vulnerable to production breakdown and/or market attack in its narrow principal market of automotive paint. The Company urgently needed to plan for development of its product range and markets, including exports. To achieve this it required systems installations, management strengthening and training. However, the Company did not have the cash or management resources for such a programme, and was introduced to AMSCO by another local client of AMSCO.

9. <u>AMSCO Management Contract</u>

The AMSCO Management and Training Contract between AMSCO and the Company was signed at the end of March 1993, for the three year period from April 1993 to April 1996. The total AMSCO management fee, for the provision of a general manager was US$420,000 plus a management training budget of Nfl 240,000, of which Nfl 45,826 has been expensed as at June 30, 1995. AMSCO arranged a loan of US$215,200 from the management loan fund, and assisted in obtaining a technical assistance grant of Nfl 284,000 (US$173,170) from FMO/IBTA, to contribute to the AMSCO budget for the expatriate manager.

10. <u>AMSCO Intervention</u>

AMSCO, jointly with the local Managing Director, identified and appointed a general manager who joined the Company in April 1993.

i) <u>Management</u>
In May 1993 the management produced a comprehensive business plan and five year financial projections for the Company. The plan included a detailed analysis and projections of the local market for the range of the Company's products, a technical audit of the production plant, and a full marketing plan for each product. The plan established specific annual targets for all key financial performance ratios. The organisational structure of the Company was critically examined, and individual manager appraisals made. Specific departmental strategic

objectives were identified. The future marketing strategy was spelled out in great detail.

During the balance of 1993, the local economy was in recession, This, together with the increased smuggling of products into the country (including paint products) caused a reduction of 20 - 25% on the demand in the local paint market, and a serious credit squeeze on all businesses.

The marketing plan of the Company included the establishment of a national distribution of all products, and the introduction of a new range of economy paint. Accounts with 20 distributors in key towns were opened up as general stockists, and the management launched a search for a depot to develop the principal other regional market.

The poor national economic environment resulted in a 16.4% lower physical volume of sales, but increased value and larger margins enabled the Company to achieve an annual net profit of US$1.75 million for 1993, to meet the original business plan target.

1994 was a period of growth and consolidation in the Company. Despite a 100% revaluation in the local currency against the US dollar, economic activity was still depressed, at 5% below the previous year. This led to increased price discounting by manufacturers in the paint industry.

Sales volume, revenue and net profit of the Company maintained their growth by 13 %, 12.5% and 50% respectively, again approximately on the targets set out in the business plan, but with lower volume and higher margins.

During the year the management of the production and technical departments were combined, and the earlier problems solved by promotion from within the Company of junior managers that had been trained.

The result of earlier marketing decisions and programmes started to bring results, and the position of the Company improved in all main product lines. With colour cards, redesigned tin livery, and country-wide distribution, the management turned attention to the improvement of the sales management and sales force.

External expansion by the Group continued with the acquisition of small paint manufacturing companies in two contiguous countries. AMSCO was invited to assist in the management of one of these enterprises.

Growth has continued in 1995, with much improved margins. In the first half year sales volume, sales revenue and net profit were up 31%, 31% and 53% respectively on the same period of 1994 - well above business plan.

ii) <u>Training</u>

In 1993, production break-downs were experienced, and a lack of production management commitment identified. This latter problem became a major objective for the training programme.

During 1994/95 the continued growth of the Company has stretched the controls, and highlighted the urgency for the introduction of computerisation, which is now taking place, together with plans for upgrading the accounts staff through a training programme.

The owner and senior management of the Company have been extremely supportive and active in the AMSCO management training programmes. This has covered both successor manager development and a wide range of individual training programmes and team building workshops. The management have also participated in regional training seminars organised by AMSCO.

The impact of these programmes in the Company has been effective in the wider field of human resource development and organisational development, rather than the narrower field of "management training". This is reflected in the breakdown of communication barriers within the Company and "empowerment" of local managers to grow into senior positions and work together as a team. An outstanding example of the effect of these programmes is the promotion earlier this year of the technical manager to the Board of Directors, as Technical and Production Director, the first African to be appointed to the Board in the history of the company.

11. Summary of Direct Economic Impact
(refer Table 4.6, page 66)

i) Turnover and profitability

The turnover of the Company has steadily improved during the first 26 months of AMSCO involvement and by June 1995 it was 264% above the 1992 level.

Over the same period operating profits and net profits have increased by 375%. This enabled the Company to make dividend distributions of US$146,000 and US$355,000 for the years 1993 and 1994, whilst doubling the shareholders' equity in the company and continuing to make capital investment in the plant.

ii) Balance Sheet

Whilst the working capital ratio of the Company has remained approximately the same at 1:1.5%, the ratio of fixed assets to long term debt has improved from 1:1.65 to 1: 3.8

iii) Labour and Capital Efficiency

Labour efficiency (in terms of annual turnover per employee) doubled, increasing from 1.48 million to 2.86 million in local currency per employee. Annual net profitability per employee has increased by 75% in local currency. This converts to US$340 net profit per employee, and US$1,435 operating profit per employee. Over the period the labour force increased by only 33% from 110 to 147 employees.

Similarly, the ratio of turnover to fixed asset value and net profit to fixed asset value has both doubled over the 26 month period.

iv) Export and/or Import Substitution

Over the past 30 months the level of annual exports of the Company has quadrupled, in terms of local currency, and is currently at the rate of US$250,000 per year, accounting for 3% of the total revenue.

The net value of import substitution (calculated as the full value of imports substitute sales less the total cost of imported materials, etc) doubled from US$3 million in 1992 to a rate of US$6 million in 1995.

v) Technology Transfer

Marketing and administration are the principal areas of contribution to the improved performance of the Company during the AMSCO intervention. Although the Company has benefited from some technical improvements introduced through the AMSCO manager.