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Jane Nyakiongora
Charles Mayaka

Primavara Picknick Snacks Ltd.: Family Dynamics in Managing a Business

George Wambugu, the Chairman and CEO of Primavara Picknick Snacks Ltd, sat there deep in thought, staring blankly at the demand note that had been delivered from one of the suppliers just before 5pm. Thursday 23rd September 2010. He felt benumbed, not knowing how to respond to the demand note, he had used all manner of excuses to the creditors, but now he had run out of options. He had to find a way of injecting working capital to the company soon otherwise operations will grind to halt. The ringing telephone interrupted his thoughts. He reached for the phone and answered with a barely audible voice. It was his wife Jennifer asking when he will get home. He answered curtly; “I will get there, don’t worry I will get there. I am in the office trying to sort out matters.” He put the phone down with a sigh, “If only she knew the huge responsibility I have to shoulder to keep the business running,” he muttered.

Looking up from his desk he noticed it was already past 6.00pm; he had not noticed the time fly. That evening he decided to examine possible options the company could take to plug the mess left by two of his trusted workers who had systematically siphoned off money through fraud. Only that week he had discovered the duplicity that had been perpetuated by the sales and dispatch clerk; under invoicing to customers and diversion of products during delivery, to be resold under a different label. He had summarily dismissed the two, handed them to the police while awaiting investigation to determine the extent of the loss. That he will try to address later, his immediate concern was finding means to plug the financial hole the company was in as a result. The company needed an injection of about Ksh. 450, 000 to meet its operational obligations. The problem was; how to raise this large sum in short notice. He had explored several options to raise the cash to inject into working capital to improve the company’s financial position. He needed to act quickly otherwise the business would soon be totally unable to meet its financial obligations as they arose. What option should he pursue given the tight spot the company was in? George wondered.

Jane Nyakiongora Adjunct Faculty at USIU & Charles Mayaka, Assistant Professor of Marketing, prepared this case with the assistance of Professor Leif M. Sjöblom of IMD Business School, Switzerland, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. United States International University (USIU) acknowledges the support of Global Business School Network (GBSN and financial support from Bill & Melinda Gates Foundation) in the preparation of this case study.

Director's Profiles

George was a focused and determined person. He was passionate about his work. He had learned the value of hard work from his grandfather who was an industrialist in the 50s and 60s. He believed in doing good, supporting society and above all providing family security. He valued stability and predictability. If there were issues pending, he would not settle until they were addressed. George never missed going to church, as he believed that was the foundation of a progressive and prosperous society.

He was born and bred in Nairobi and took a liberal approach to issues. He attended school in Central Province in his formative years but completed his basic education in Nairobi. He joined Upper Hill School in Nairobi for O levels. George started work at an early age, doing odd jobs before securing employment in CFC Bank as a cashier after high school. While working in the Bank, he had trained in accounts and management. His lifelong dream had been to become a ranger for he had great love for animals. George venturing into business was prompted by what he saw happen to a number of his colleagues who after they retired had nothing to fall back on.

Jenifer Wambugu, the administration manager of Primavara Picknick Snacks Ltd. was quiet spoken, insightful, and very positive. She grew up with her father, from the age of two, the parents having separated. She learned and took responsibility for tending to house chores at an early age. She went to Race Course Primary in Nairobi and later joined senior Chief Koinange Girls Secondary School in Central Province.

Jenifer's childhood desire was to become a lawyer, but with the kind of life she led, her grades were not good to enable her join University to pursue her dream course. She had worked as untrained teacher for one year after completing secondary school, and later trained in Early Childhood Development (ECD) for two years. After Graduating she worked as a kindergarten teacher for 11 years before joining George in his business.

History of Primavara Picknick Snacks Ltd.

Primavara Picknick Snacks was incepted in 1998, while George was working in CFC Bank. George established the business out of fear of falling victim of retrenchment that was prevalent in those years. He could not bear the thought of landing in the streets as a destitute. At the risk of losing his job; George started his own business on the side. Being an employee of a bank, he was not allowed to own or engage in any business. It was perceived that the demands in the bank could not go hand in hand with entrepreneurship, and to engage in both constituted a conflict of interest.

George looked for an opportunity that would not interfere with his regular work, typically running from 8:00am to 5:00pm. He started several businesses, including making icicles (sugared ice sticks) which he sold to school children during lunch, evenings and weekends. He even reared chicken broilers which he sold for meat for a while. He could not proceed with both ventures because they proved too involving and yet yielded little returns. He kept looking for a business opportunity that was more promising. George settled on making popcorn which he produced at night and distributed early in the morning before proceeding to work. The new business, 'Picknick Snacks,' was registered under his mother's name, Catherine Watheha Wambugu, who was living

with him after retiring from a nursing career at the age of 70 years. Catherine Watheha had worked hard to raise four children single handed, and could have continued to work, even though the children were grown and independent, if it were not for George's insistence that she retire. Catherine Watheha helped to take care of the new business while George was away at work. In return she was paid a salary, which she continued to draw for 12 years, long after she had stopped being actively involved in Primavara Picknick Snacks Ltd.

For a while the snacks were sold near his house at Zimmermann Estate, but soon George realized that he needed to introduce the products to more distribution channels if the business was to make significant returns.

Breakthrough in Distribution

George approached a number of supermarkets to carry his products. It was not easy to get the product listed since his business was virtually unknown. He however got a break-through towards the end of 1998, when the owner of Safeways Supermarkets, Stanley Thuo, accepted to try his product. This first big order opened doors for many more from other supermarkets. He soon landed orders from Jack & Jill Supermarkets and Tuskys Supermarket at Mfangano Street. George later became a close friend to Mzee Joram Kamau, the founder of Tuskys, who became a source of encouragement and inspiration as George struggled to establish the fledgling business. Over time Tuskys became the largest distributor of Primavara Picknick Snacks products.

George soon learned new lessons regarding dealing with big clients; they did not pay in cash and only honoured invoices after 30 days, while on the other hand they put pressure on the supplier to ensure that the shelves were well stocked with the product. Clearly George had not prepared for the demand from the three stores. His production capacity and working capital were way below the market demand. The one domestic popcorn making machine had burned the motor several times and it became uneconomical to repair.

To keep the business going George needed to increase production capacity; machines, workers and working space. All these components called for more capital expenditure and increased working capital. With the help of his mother and a few family members, he was able to raise KSh. 200,000. He then bought all the seven popcorn making machines that were available at Uchumi Supermarkets. With these he was set to produce popcorn continuously having set the seven machines in sequence.

“Those early days were tough; I used to make popcorn at night in my two bed roomed rented house. And due to cramped space, everything smelled popcorn, and my friends at work would ask jokingly what kind of cologne I used,” George recalled with a chuckle.

After a while the money started flowing in and he knew that at last his patience and persistence had paid off. With increased demand, he hired two employees and added a second product, roasted peanuts, to the initial product. In all instances George was the business. He played the roles of financier, producer, manager, distributor; name it. It didn't take long for George to realize that it was not easy to balance the demands of both his employer and his business. It is at this point that he decided to resign from CFC Bank in 2001.

On leaving formal employment, George registered the company under a new name, ‘Primavara Picknick Snacks Ltd’, this time under his name. By this time the company’s products had been accepted in the market with a turnover of Ksh. 400,000 per month. To ease on delivery, George decided to buy a delivery vehicle. He purchased a second-hand Toyota DX, this enabled him to distribute the goods to other locations in Nairobi.

Enter Jennifer into His Life

Early 2003, George married Jennifer, a trained ECD teacher who he had known for a couple of years. Jennifer was at that time teaching in a nearby Kindergarten. Realizing the level of dedication and commitment George had for the start-up business, Jennifer wondered whether joining him at work will ease the stress of running the business. At first George resisted the idea, but eventually got persuaded, after Jennifer showed up at work several times after school to help out with operational tasks. George found Jennifer’s incursions into the business refreshing as she seemed to flow naturally with the work rhythm, with workers being at ease working under her direction. He then agreed that she join the company on one condition; that they co-own the business on equal terms, Jennifer was to get 50% of the company shares. Jennifer resigned from teaching in April 2003 and joined her husband at Primavara Picknick Snacks on a full time basis.

Jennifer was eager to learn how the business was operated because of the passion the husband had for it, and she wanted to support him achieve his dreams. Despite being a co-owner, Jennifer joined the staff in doing all sorts of manual jobs; she sorted peanuts, peeled potatoes, and even washed the factory floor with the workers. After a while Jennifer had learned all the facets of the business. Now she was ready to provide leadership in managing the company. They settled for the position of administrator/customer service including invoicing and dispatch. George remained with the core responsibility of managing production with the related functions of procurement and inventory management.

This arrangement eased a lot of pressure from George. Besides, he now had somebody he could fully trust. “If I had known the difference Jennifer would bring into my life, we could have got married much earlier. My wife’s entry into my life was like a breath of fresh air. I don’t know what I would do without her.” George commented.

Managing Business Growth

George’s goal was to build a strong competitive company that produced and marketed healthy snacks primarily for the children and the youth segments. His major preoccupation wherever he went was to identify new product ideas, which he would later work on to develop new products to build the company’s product portfolio. With each new product idea he shared with Jennifer, she would ask questions that made him sober up and face the reality of the proposition. Her probing questions would make him reflect, work out the numbers, clarify the target group and very importantly address the issue of how to finance the new product. George conceded that they made a perfect team, complementing each other on business skills. “Jennifer is soft spoken, and assertive in a subtle way. When there is an issue she is convinced about but I don’t share her view, she somehow gets me round to her point of view in the long run.” George commented. As they continued to search for new products to add, George and Jennifer learned that if they got it right

the first time, money will surely come. And indeed the company added products over the years, although with difficulty, to build a strong competitive product portfolio all under one brand umbrella.

In 2004 the company added fried peanuts and chilly flavored peanuts to its original two products. In the same year it introduced potato crisps and chevda, a favorite spiced snack for the youth. This was followed by the addition of peanut butter (**See Exhibit 1 for Company Product portfolio**). The product additions stretched the company resources; manpower, working capital, and facilities. The addition of potato crisps proved to be a bad idea since its production was labour intensive but with minimal returns (thin margin). Although George would have preferred to continue with the product for a while longer, Jennifer had had enough with peeling potatoes. They ultimately eliminate the potato crisps after one year.

With some research and keenly studying competition, George suggested they add fryams and corn crisps in 2006.

“We are already over stretched with the current product mix,” was Jennifer’s response to the idea. “You seem to have forgotten the problems we are experiencing sourcing raw peanuts from Malawi and Zambia. As if that is not enough, you are now suggesting that we introduce new products whose raw materials have to be source from India! These are good product ideas but we are up to our neck with cash flow challenges. Are you sure we can absorb additional problems? With more products we get more headaches for additional finance, more workers who I have to train, and obviously payments to everybody else except us! We hardly have time for ourselves and we have young children who also need our attention too! New products, new products new products....!”

George did not have the words to respond to this unexpected outburst. Jennifer had hit a soft spot, and she knew it, but his desire was to build a business to safeguard the family’s future. Moreover he was with his wife at work and at home and yet she felt he did not create time for the family. He thought it wise to keep his thoughts to himself.

For the next two years discussions between George and Jennifer revolved around the best way to actualize the three new products. George did financial projections for the products; did due diligence on market performance of the products; and visited suppliers of the semi-processed fryams and corn crisps in India, while Jennifer searched and identified sources for the machinery to produce korn kurls. Having gathered and analyzed lots of information on the proposed products, the ideas were translated into a viable business proposition. In early 2008 the company introduced fryams, corn crisps and korn kurls which came in various colours according to the flavours; tomato, cheese and onion. The company had to sort out supply challenges, especially for fryams and corn crisps to assure continuous and consistent supply. Corn grit to make korn kurls was readily available from local maize miller.

Value Addition Process at Primavara

The company bought various raw materials from local and international suppliers. These were converted into finished products through the value addition process. Value addition took different

processes depending on the end product. For example peanuts were converted into a ready to eat snacks and a bread spread. The value addition process took labour, fuel, oil, flavour and permitted colour.

In 2010 a sack of 100 Kg bag of peanuts cost Ksh 8,000. Ten percent of the peanuts got lost as waste after sorting and cleaning. Depending on market demand, the peanuts were then processed into roasted peanuts, fried peanuts and peanut butter. A kilogram of peanuts yielded average gross margin of 175% and net margin of 70%. Peanuts were packaged into various stock keeping (SKUs) of 50gms, 80gm, 100gms, 200gms and 400gms. The net margin on peanut butter was however significantly lower, at about 30% due to additional costs of labour, containers and packaging. (See Exhibit 2 for peanut butter value addition process)

Management Challenges

As the business grew, there emerged business, management and personal challenges to both George and Jennifer. The business took 90% of their time causing a lot stress and a drain on their energy. The solution Jennifer thought was to train the supervisors and delegate more, but George seemed never to get round to it. Like any other caring wife and mother, Jennifer wanted to have more time for family and some time for recreation, but George seemed comfortable, totally engrossed in work. Even on weekends, they had to pass through the factory on Sunday to open for the limited operations of dispatch before heading to church. George's work experience at the bank proved valuable as he grappled with business operations and cash flow challenges. But they faced many business challenges that tested their mettle and business acumen.

“Every business requires good management be it micro or macro; however we have had to learn to cope with the demands of business and family through trial and error and it has not been easy. There is no school were one gets training on how to manage a family business. To a casual observer, a successful business would seem to be a bed of roses, but I tell you it is not! Business is not for the faint hearted. To run a successful business takes hard work”. George concluded with conviction.

Work Life Balance

First was the demand on their time from both the home and work fronts. Things had worked relatively well when it was just the two of them. Several years down the road, and with three school-going children and a two year old at home, they started feeling pressure on demand for their time. Even with a house worker, George and Jennifer had to create time to pick the children from school and ensure that their social, emotional and physical needs were attended to properly. On occasion issues at the factory would be so intense that it skipped their minds to pick the children on time. To overcome the challenge George and Jennifer made a pact that she would always leave work at 4.00pm to take care of the home front issues while he remained behind to manage the operations and close the factory. However it was not always possible as business matters could at time hold her until way after 5 pm, and she sensed that George did not find it comfortable closing the business alone.

Employee Management

Second were employee issues whose numbers had grown over the years. When Jennifer joined her husband in the business, it was George and a few workers. By 2010 the company had 3 managers; Sales Manager, Technical Manager, and Chief Accountant plus four supervisors and ‘numerous workers’. On building the workforce, George had been very particular on who got employed in the company. The employees were recruited on the basis of their abilities - right skills, knowledge, attitudes and suitability for the job. In the beginning there was debate on whether to employ more women or more men. Jennifer felt strongly that they should hire more men to minimize on down time. However, with time women proved to be more suitable for the job, especially on the product-line where dexterity in handling products was paramount. (See **Exhibit 3 for employees on production line**)

Jennifer’s view on the number of workers was that the more they employed, the more it ate into the business earnings, besides more employees diluted the level of trust. Mistakes had been made in the past when untrustworthy people had been hired. The most recent incident being that of two employees who had colluded and fleeced the company hundred thousands of shillings by stealing and diverting goods and reselling them on different label. The two had been trusted employees, or so George thought. They had been entrusted with factory keys and not supervised on dispatch and loading of products. To minimize hiring the wrong people, the company had initiated a process of developing and implementing proper human resources systems and structures, and Jennifer was to make sure that the policies were implemented to the letter.

To demonstrate management’s commitment in implementing policy, Jennifer had given a warning letter to one employee who had worked for the company for over seven years. The worker had asked permission to be away for two days to attend a conference on spiritual matter. Since it was high season for the company, and the business needed to use all available workers, permission was not granted. The employee nonetheless proceeded on two days’ off without permission. It is this that prompted Jennifer to issue a warning letter to the employee when he reported back. The employee refused to sign the letter and Jennifer referred the matter to George. After discussing with the employee, George asked Jennifer to let the matter ride since the employee was talented, was able to multi-task, carried out personal errand for the couple, and was very trustworthy. Jennifer was adamant that the employee had to sign the letter since it was a clear case of insubordination.

“We need to put a stop to running human resource matters casually. Employees’ future behavior depends on the precedence we set as we strive to strengthen internal systems and processes. Employees are watching to see how we treat this case. We must send the right signals to the employees on matters of discipline.” Jennifer had responded.

Even though George agreed with Jennifer, he still felt that the matter did not warrant such a drastic step. An issue that had seemed trivial had tested the couple’s ability to run the business professionally.

Managing Cash Flow

Third was the issue of managing cash flow. The company faced the challenge of getting a reliable and cost effective supplier of packaging materials. The main source of these packaging materials

required upfront payments. All imported materials, including groundnuts, semi –processed corn crisps and fryams were paid for in cash. The strain on cash flow was indeed high since payments from most of the large customers were on between 30 and 60 days. The company had to operate on overdraft throughout. Due to these challenges George and Jennifer went without regular pay, and had never rewarded themselves as any profit made was usually ploughed back into the business. This situation had been a point of numerous discussions at home, and especially when they could not agree to do something for themselves, but money would be found somehow to address business demands. It incensed Jennifer that it was the business that drove their live - it was business 24/7, and she wondered whether she could ever get used to it. They could discuss how they will invest some of the profits in something more tangible for family security, only to discover at the end of the year that there was no money in the bank, although the books reflected profits.

Production Facilities

Fourth was the challenge of financing and building capacity. Once popcorn production went big scale, the domestic popcorn making machines proved inadequate. George discussed with Jennifer possible options; whether to buy commercial popcorn machines from China or have them fabricated locally. Due to cash constraints Jennifer suggested they try making popcorns on large pans with lids over stove burners; insights from her kitchen. It worked, and they continue producing popcorn in huge pans today. Large commercial burners were also fabricated for use for roasting and frying of peanuts and making of popcorn. Long aluminum top tables were made for sorting, cooling and drying of snacks. The peanut butter machine was acquired from India at a cost of Ksh. 350,000, as a complete turnkey, allowing for training of personnel on the production process and machine maintenance. Most of the production and packing was manual, requiring a large number of workers along the value addition lines (**See Exhibit 4 for Production floor layout**). The directors planned to gradually replace the old machines with new ones over time but not through debt financing.

Towards the end of 2003, it became necessary to have a larger vehicle to transport the products. George made inquiries at General Motors and came with the report that they could buy a 2 tonner Mitsubishi Canter. The price was one and half million. They used the profits for that year of 450,000 to make a down payment, and took possession of the vehicle. The rest was to be paid over 4 years. As George was driving the vehicle from the show room along Mombasa Road he was involved in a minor accident, where he hit a police car. The incident notwithstanding, Jennifer was relieved that they had graduated from the Toyota DX to a brand new truck. Further in 2008, the company enhanced the transport fleet by adding a 4 tonner canter. This was in addition to the directors' Town Ace which also doubled up a supplies van.

Increased capacity and better deliveries enabled the business realize a turnover of KSh. 1,600,000 per month. While the business showed a lot of potential, Jenifer and George realized that they were not utilizing labour and other resources fully. They still operated from Zimmermann estate, where the harassment from city council personnel who demanded for bribes had become the order of the day. They needed to relocate the business, but to which location? They explored several locations including Kiambu, Thika and Njiru where they had acquired a piece of land. They finally settled on Kariobangi North Light Industries because of availability of services. They shifted to the new spacious premises, a large godown in the middle of 2006.

The korn kurl making machine was a major investment for the company. Once they decided to add the product which was quite popular with young children, Jennifer made inquiries and eventually identified the source of the machine as a company based in South Africa. The machine was quite costly, requiring KSh 4.5 million. The issue now turned to how to finance the asset. George approached their bank for financing. George and Jennifer had to carry their financial statements and prove of the assets they owned to negotiate with the bank. After an extended period of negotiation they secured asset financing loan from Equity bank that was to be repaid over a 5 year period. The machine was delivered in April 2008 but started operations six months later due to a technical fault during installation. A technician had to fly from the manufacturer in South Africa to install the machine properly.

Dilemma Financing Working Capital

In the third quarter of business operations in 2010 George was a worried man. For the past six years, he and his wife, Jennifer had built the company with a lot of personal sacrifice, to make it a medium sized snacks manufacturer in Kenya. The company boasted a sizable market share in Kenya, and ranked 5th in the ready to eat locally produced snacks. The main local competitors in this category included ‘Tropical Heat’ famous for their spicy potato crisps; ‘Propack’ re-known for their cracos brand, ‘Amigos’ know for their Bambinos; ‘Premadosa’ with their well known brand – WOW and Depys known for their fried peanuts. Pemavara Picknick Snacks faced head-on-head competition from these companies, some of which had been in the business for decades. Although relatively new in the business, the company’s annual turnover had reached 54 million, with a work force of 48 employees over a period of ten years. Primavera Picknick Snacks Ltd. had become a company any entrepreneur would be proud of given its humble beginning.

In spite of this success, the company could not meet its financial obligations as they arose. Supplier demand notes were piling up day by day, and debtors were not turning to cash on the agreed 45days, some even extended to 90 days. Consultations with the chief accountant indicated that they needed to inject a huge sum of money to boost the company’s working capital. Closer scrutiny on management of debt, George realized that they were selling more and more but collecting less and less. More over the customers, mainly the big supermarkets took advantage every time the company gave a notice of price increase. According to the terms of trade, the price hike became effective two weeks after the company gave notice of such intention to its suppliers. George noticed that customers’ orders went up immediately after the notice. This he will try to address in consultation with the accountant; right now the company needed cash to continue its operations.

He and Jennifer had considered several options to raise the needed capital. Jennifer had ruled out sale of a family plot that they had bought in 2006 for future development. The company was still servicing the long term loan taken to buy the Korn Kurl making machine, and was on the maximum limit on the overdraft facility. George was convinced that the way to go was to sell the land, and replace it with another one once the company’s finances were sorted out. Jennifer had walked out saying he should do what he thought was best to resolve the financing challenge. George found himself in a catch twenty two situation; the business or the family!

Exhibits

Exhibit 1: Primavera Picknick Snacks Ltd. Product Portfolio 2010

Premavara Picknick Snacks Label (old)	Chevda with new Label	Skinned Peanuts
		
Popcorn	Fried peanut	Korn Kurls
		
Corn Crisps	Fryams	Peanut Butter
		

Exhibit 2: Value Adding Process: Peanut Butter Production and Packaging

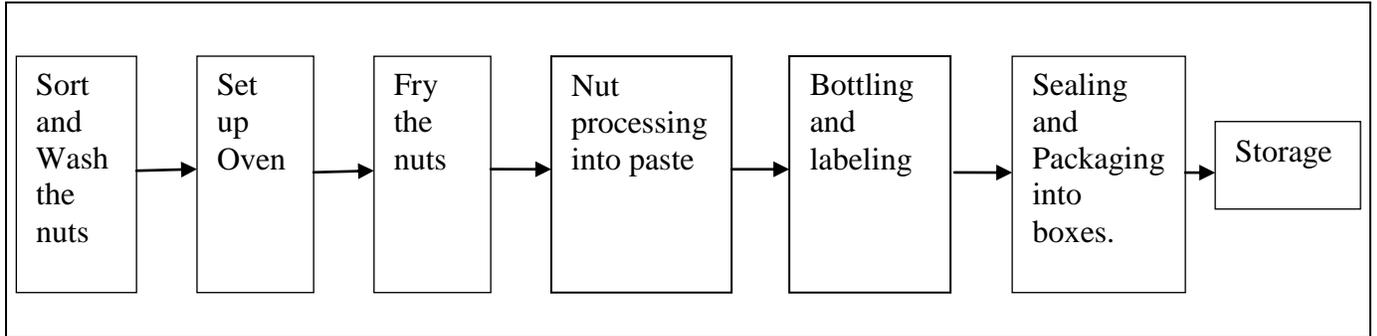


Exhibit 3: Primavara Picknick Snacks Ltd. Peanut Processing in Progress



Exhibit 4: Primavara Picknick Snacks Ltd. Part of the Production Floor

