



UNITED STATES INTERNATIONAL UNIVERSITY

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## TEACHING NOTE:

### **SPRING IMPEX (A, B & C)**

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#### **Abstract and purpose of the Case Series**

The Spring Impex Case series describe the milk processing enterprise founded by Mr. and Mrs. Githongo in 1994. This case series is aimed at enabling the students understand the role of planning in business as well as how to write a working business plan. Ideally, the case series will enable the students to:

- critique an initial business plan for a start up,
- understand how to transform a start-up into a professional business,
- identify the challenges that come with professionalism, and,
- identify the ways of solving the challenges that come with professionalizing a business.

The case series is suited for teaching the business Plan. Reference may also be made to this case series with regard to assembling resources for start-up. Each case is focused on a specific issue:

Case A: critiquing a business plan

Case B: introducing professionalism into a start-up and the challenges that come with this

Case C: solving challenges from professionalism in an entrepreneurial venture.<sup>1</sup>

#### **Target audience**

Agribusiness trainee participants and any entrepreneurship class at certificate, diploma and degree level students.

### **Teaching Strategy**

Each case will be handed out to the audience in advance. The instructor can make the decision to hand out each case separately or the three series at the same time. However, for purposes of teaching the Business Plan, case A should be used with the introductory part dealing with what planning is, the importance of, what a business plan is, why it is written and the elements of a Business Plan. Cases B and C can be used with the Implementation and use of the business plan. The entire case series A, B and C can further be used with the section on why business plans fail. The discussion of each case can take 45 minutes to one hour, which translates to 2hrs 15 mins to 3 hours of class interaction. This could be less depending on the prior preparation by the students.

### **Assignment question Case A**

1. *Critique the business plan for Spring Impex. Was it adequate in form and content?*
2. *What improvements can be made to the body of the business plan, and its overall presentation?*

From a general perspective, the Spring Impex business plan gives the reader what goes into a business plan. However, it would be important to strengthen the vision and improve on identifying the target consumer. The executive summary is inadequate. This should provide the reader with a comprehensive understanding of the business. This is not currently the case. There is need to improve the marketing strategy to support the envisaged business growth as well as help justify the required financing. As the business plan is currently, it is not clear who the target customer is and what the marketing mix is. The Competitor analysis should also be improved so as to determine how competitive Spring Impex's product is. There is a description of the product but there is no information regarding how this product compares to similar one in the market. This is totally lacking from the business plan. This will enable the company think in terms of differentiating themselves either through branding and/or diversification into other dairy products.

The operations plan, describes what will be done once the equipment is bought. It does not specify how the business is currently operating with regard to the business model. How is the business making its money? There is need to have a breakdown of the production process and costs to allow the reader to understand the manufacturing process of the business.

The management team is described. What are the strengths and weaknesses of this team? What kind of professional advice are the children offering and how useful is this? The answers to these questions will clarify to the reader and potential partner and financier whether this team has what it takes to drive the business to success. This helps give them confidence.

The financial plan is lacking in form and content. It is not clear, these figures were determined. A profit and Loss account would be helpful in helping understanding the cash flow analysis? A break-even point would give a clear indication when the business is likely to be profitable. Can the marketing plan justify the estimated budget? This is crucial information for an investor.

Lastly, the business plan should adequately explain the intended uses of the required capital. As presented, the business plan is not persuasive to any investor. Mr. Githongo needs to have a good understanding of the business operations to explain to the investor how the business would survive with the requested financing and/or a lesser amount.

### **Key Learning Points:**

- understanding the role of planning in business
- understanding what a business plan is and why it is important
- know the parts of a business plan and what information goes into each part
- write a business plan for use.

### **Assignment question Case B**

With Spring Impex transformed into a Family business that sees the entry of qualified and experienced sons:

1. *What expertise did Spring Impex require? Did the sons and their parents have the necessary expertise?*
2. *Were the sons and their parents forming the right management team for the business?*
3. *What are the likely challenges for Spring Impex as a result of becoming a professional family business?*

### **Discussion**

#### **Qs 1**

In many entrepreneurs' minds, a start-up can hardly be run professionally. In most cases, professionalism is associated with well established and large businesses. "Professionalization" is often thought to mean "changing from family management to non-family management." Sometimes professionalization does occur when a non-family manager is chosen to lead the business. But changing to non-family management is only one possible element of professionalizing a family business. A company is regarded as professional when it exhibits high standards of performance and ethics. How do organizations achieve this? Do you see this in Spring Impex?

Organizations achieve these standards by building cultures that: emphasize performance while adhering to core values of the company, are constantly learning, and strive for fairness and consistency in rewards. Professional business cultures are nurtured through the efforts of leaders and through “formal” processes like setting clear goals and rules, appraising employee performance and ethics, hiring based on the ability to contribute, and promoting based on contribution. It would be important to find out the pillars of professionalism. These may include, but not limited to:

**1. Attracting, developing, and retaining great family and non-family talent**

Businesses largely compete on the basis of their talent. If a family produces a business leader with enough of the skills, values, and ability to keep shareholders, employees, key customers, and suppliers loyal, then family leadership of the business can be the best option. A family must be realistic about its talents and passions and make rational decisions about who will manage and lead the business. However, a family cannot take all of the top leadership roles in a company and hope to retain great non-family talent. A family business that wants to attract and retain the best non-family talent must always have a few senior management roles, with real authority in the business, for non-family managers.

**2. Ensuring that the organization can always make timely big decisions**

A business that cannot make timely decisions will probably fail. Having boards of advisors or directors with external members who can raise issues that need to be addressed and press for timely decisions would be a good approach.

**3. Strengthening family discipline and commitment toward the business**

A family business' chances of survival and success are increased when there is enough family discipline to act responsibly toward the business, and when there is adequate dialogue in the family and business. Families need to design ways to have disciplined discussions and be able to make objective decisions that will support their business.

**4. Respecting the management hierarchy and empowering employees to make decisions**

Like all businesses, family companies need to empower employees to make those decisions they are best able to make. This requires trust. Employees need to be trained and mentored to be able to make decisions, then they need to be allowed to decide. Good decisions should be recognized and even rewarded, while wrong ones should be corrected with more training and mentoring. This allows the employees to grow in skills and values to become more professional.

**5. Creating systems to ensure consistently high performance and fairness**

As is typical in most entrepreneurial ventures, the founder often has maximum discretion in responding to opportunities and charting the course for the company. Typically, he does not devote much effort to planning, budgeting, appraising or controlling, or developing consistency in the company's practices. For sustainable growth, the management needs to be more systematic. Systems are often the fundamental driver of

professionalism, raising standards of performance and creating consistent methods of appraising and rewarding employees.

#### **6. Guarding one's (the Business's) core values jealously**

Employees must embody the core values of the business as well as basic ethical standards of honesty, respect, and fairness. This requires support from the managers who are the most visible and active stewards of the company. The owners must support the goals and culture of the business. It is the ownership group that ultimately determines the nature of a business.

The discussion should then proceed to focus on identifying the expertise that was required for Spring Impex and whether the parents and their sons had these. Generally, professionalizing family business management is about transitioning from an informal management style to a more formal management style. This is not easy work. This can provoke difficult and emotionally destructive issues and problems for the family and the business. It is important to identify the individual characteristics of each of the four family members.

The parents and their children were all of different professional backgrounds. From case A, Sammy and David, were a marketer and accountant respectively. Mr. Githongo was himself an accountant while his wife was a clerk at a commercial bank.

Even though trained in their respective careers, did the business require this expertise? They each had some employment background, which is different from running one's own business. Of course the entry of the sons to the business is a threat to their mother who did not see herself growing this business beyond the current market and products. This was for survival and keeping busy on retirement. What are the likely challenges given their different personalities and their professional backgrounds? How about the differences between their intentions? For instance, their mother wanted to keep busy on retirement. The sons on their father were interested in growing a sustainable business. How were these intentions influencing the business performance?

The two sons have different professional backgrounds and so is their experience. They are also different in their personalities. The business had also not been run professionally, for instance, the business account was one with that of their mother. Record keeping and accountability was not in place. On the other hand there is need to expand the market which has implications for more modern cheese making equipment, storage facilities, milk supply and personnel. Can the business afford this currently? Can this business plan convince any financier to put their money into this business?

Q2.

Did they make the most appropriate team for this business?

Professionalizing family business management should be considered as one of the most crucial elements of a successful succession plan. The sooner the professionalization process is recognized as a strategic objective for the family business, the better the odds are for successful generational transition for the family business. Generally, experience has shown that family business founders/owners are generally much better than professional managers in dealing with the problems associated with risk and growth because they are the stockholder - it is their money being spent. To what extent is this true of Spring Impex? The discussion here will have to draw from the expertise identified in question 1 above. Currently, there is Mr. Githongo as the CEO while Esther his wife is the managing director in charge of cash flows. She also supervised production. Sammy became the Business Development manager in charge of sales, marketing and new product development. He also supervised the sales team consisting of John and Douglas. David became the Administrative and Logistics manager in charge of deliveries, orders and book keeping. The Githongo daughters played an advisory role. Does this fit with the kind of expertise Spring Impex requires? Can the team's knowledge, skills and abilities drive this business to success? Should they hire non-family members with more talent than is here? What difference is this likely to bring to the business?

Q3

What were the likely challenges?

The focus of the discussion here is to list the likely challenges as found in the case:

- Friction between the brothers and between them and their parents due to their different personalities, professional backgrounds and intentions
- Traditional management style
- Lack of proper financial management
- The growing market hence demand for more quality milk
- Lack of separation of utilities
- Ban by government on logging, hence fuel implications
- Need for state-of-art equipment
- Capital requirements

### Key Learning Points:

- understand the role of a business plan in professionalizing family businesses
- identify the challenges of professionalizing a business

### Assignment Question Case C

1. *With the current financial performance of the business (see the Cash flow analysis statement - Case A), can the business afford the equipment needed?*
2. *How much does the business require in order to achieve its growth/expansion goals?*
3. *Should the management buy the equipment or build a new factory? How about the storage facilities?*
4. *Should the business diversify into other dairy products?*

Transition, developing management, building a unified shareholder vision, even maintaining sound buy-sell agreements, all of which serve to enhance the long term value of a firm, are processes that require a long range view. To become and remain profitable, the Githongos, must carefully analyze the options they have as regards each challenge. This requires that the family must act as one cohesive unit. This necessitates a Strategic plan that will address among other issues:

- integrating specific goals of each family member
- identifying the long-term personal and professional goals of each family member
- Identifying the family vision
- Getting to know why each family member is committed to establishing and operating the business
- Understanding how each family member envisions the firm in the future, and,
- Determining who of the family members will be active or passive in management.

Professionalizing a family business is about “responsibility.” It is about how we focus the dream (business) and nurture its growth so that it will continue to provide ample opportunity for as long as the family stays together. The four key elements, are:

- Defining Future Governance,
- Managing Ownership

- Organizing Management and
- Developing "vision."

Each of the challenges have several options that could be identified. For instance, with regard to more quality milk, the management of Spring Impex can invest in more dairy animals or choose to pay the local farmers better than the competition (the big players) was doing. But can the business afford it? They can buy the modern equipment to enhance production. However, does the business have the market for large production? What about storage facilities? Can the business afford to transport its cheese?

When it comes to raising capital, they can afford to seal the loopholes in expenditure by maintaining a high level of accountability to one another and the business. But will this raise adequate capital for them to buy the required modern equipment. Is the business plan convincing enough to a potential investor? What should they do? Why?

**Key learning Points:**

- importance of a business plan for successful business growth
- the importance of estimating costs
- how to source for finances
- managing growth
- identifying and analysis of different options for solving business problems