

EXPAND YOUR BUSINESS

Case Study of a Growth-Oriented Entrepreneur



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PREFACE

ACKNOWLEDGEMENTS



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LIST OF ABBREVIATIONS

AMG	Action My Business Growth
A/R	Accounts receivable
A/P	Accounts payable
BDS	Business Development Services
ESS	Employee Suggestion Systems
EYB	Expand Your Business
GYBI	Generate Your Business Idea
GOE	Growth Oriented Entrepreneur
HRM	Human resource management
ILO	International Labour Organization
ISO	International Organization for Standardization
IYB	Improve Your Business
KPI	Key performance indicator
KSF	Key success factor
M&E	Monitoring and evaluation
NPD	New product development
NPV	Net present value
QCC	Quality Control Circles
R&D	Research and development
ROA	Return on total assets
ROE	Return on equity
SIYB	Start and Improve Your Business
SME	Small and medium enterprise
STEEP	Socio-cultural, technological, economic, ecologic and political/ legal analysis
SYB	Start Your Business
TNA	Training Needs Analysis
WACC	Weighted average cost of capital

ABOUT THE EYB PROGRAMME



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The Expand Your Business (EYB) programme is a business management training package for growth oriented entrepreneurs who own or manage a business that has been in existence for at least 1 year and employs between 5 and 100 employees and seek strategic advice and planning support about how to expand their business.

The EYB programme was originally developed by the International Labour Organization (ILO), a specialized agency of the United Nations system. The objective of EYB training is to enable growth oriented entrepreneurs (GOEs) to successfully grow their business. By the end of the EYB training course, participants would have developed a feasible growth strategy, and adequately prepared to successfully steer the strategy implementation process.

EYB training is delivered through experts selected from private sector-led Business Development Service providers (BDS) that have been trained and certified by ILO. The ILO monitors the quality of training through the Programme Coordinators and thus ensures high service delivery standards.

EYB training is suitable for manufacturers as well as businesses involved in trade and services since it focuses on the facilitation of business growth irrespective of the nature of business.

The EYB training course helps entrepreneurs answer the following questions:

- Why am I in business?
- What is the growth potential of my business?
- How can I grow my business?
- How can I make my growth strategy actionable?

How to use the EYB Manual

The EYB manual presents a step by step process of developing a business growth strategy. It contains exercises that help you to complete a strategic plan for your own business. A separate booklet containing an in-depth case study about a fictional manufacturing company accompanies the manual and it enables you to study how another business has developed a growth strategy. In addition the EYB manual supports the training sessions with additional background information and serves as reference after the training course.

EYB Service Delivery Process

The EYB delivery process covers a number of steps. The **first** step of the service cycle is a product briefing to introduce you to our service offer, and to enable you to make an informed buying decision. The **second** step of the service cycle is a Training Needs

Analysis (TNA) to enable the EYB trainer to group you with other prospective clients and to customize the training intervention in response to your training needs and wants. The **third** step of the service cycle is the training course, followed in the **fourth** step by individual counselling sessions.

After the training course, and at your request, your EYB trainer will link you up with other business development service providers and potential investors. Your EYB trainer will also systematically monitor and evaluate (M&E) your satisfaction with the service treatment and impact derived from participating in EYB activities. Your feedback will be further used to refine the service package. The EYB delivery road map is presented in figure 1.

EYB DELIVERY ROAD MAP

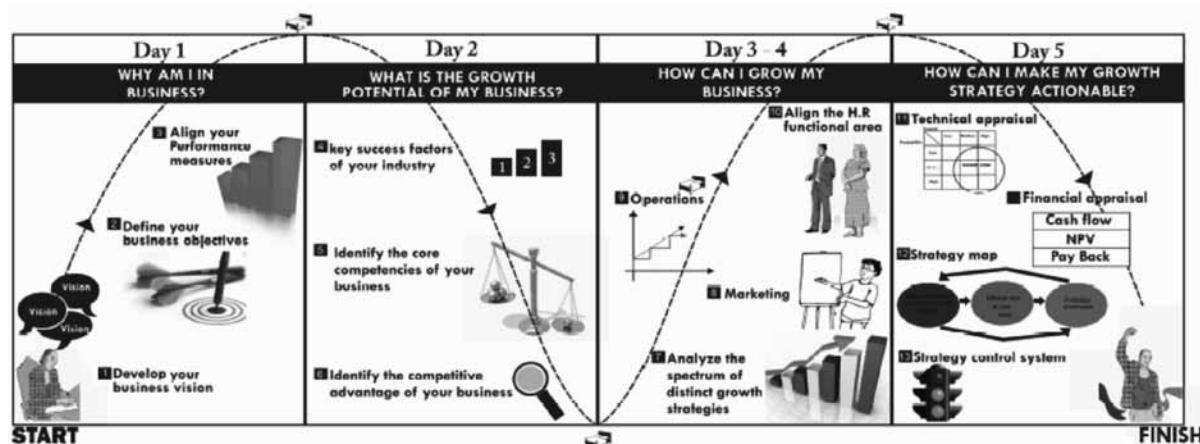


Figure 1: EYB Delivery Road Map

INTRODUCTION TO THE MEGA JUICE INDUSTRIES



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Background and Introduction

Mega Juice Enterprises (MJI) is a small fruit processing company owned and managed by Mrs. Baso Kuna. Mrs. Kuna is married with one child at school. The business is located in relatively small rented premises in an industrial area. Baso started the company in 2005 together with the support of her husband after having worked for 10 years as production manager for a fruit juice company. Her experience in the corporate world exposed her to managing production processes and teams.

Baso Kuna and her husband grew fruit trees on their farm. When her child was young and she was working in the home Baso used her experience in making fruit juice to process the fruits and sell to her local community. The business started very small and they produced the fruit juice in the kitchen of their house and sold it in the local market. However, people learned about the product and orders began to come in from all over the district. When the local hotels began to order fruit juice, Baso realized that they were really on to something and decided to build their first small factory on the farm.

Baso Kuna's experience in production was critical in directing the layout of the factory and developing the production lines. The factory included a simple assembly line for processing fruits and a couple of machines for bottling and canning. The factory started out small, but as demand for the product has grown, the factory has also grown.

At the time she thought about starting the business, Baso did not have a significant amount of capital and had difficulty borrowing money from banks due to her not owning assets for security for the loan. She asked for an interest-free loan from her husband, who obliged by advancing her the amount needed to start the business. Baso's husband is still working as a manager in one of the country's biggest firms, but he has taken a keen interest in the business, helping wherever he has time especially with the financial aspects of the business. In the business, Baso owns 60% of the company shares with the balance owned by her husband.

Mega Juice Industries (MJI) Current Business Performance and Structure

MJ Industries specializes in processing oranges bought from neighbouring farms in the district. During off-season, they supplement their stocks with oranges bought from the local fruit wholesale market. The seasonally adjusted price for the fruit is 3 units for a kilogramme of oranges.

MJ Industries main product is high quality orange juice. Its clients are tourist hotels as

well as a wholesaler that in turn supplies the product to local grocery stores. They sell the freshly pressed orange juice at 17.5 per litre to their hotel customers and at 10.5 per litre to their wholesale customers. For the hotel customers, the freshly-pressed orange juice is delivered every two days in five litre re-usable containers to the doorstep of the client. For the wholesaler client, the juice is preserved and then filled in non-reusable one-litre plastic bottles and packed in crates delivered once a week to the clients' warehouse.

As a side business activity, Baso processes and cans pineapples bought from neighboring farms in the district at a seasonally adjusted price of 1.2 units per kilogram. She uses glass containers to can the pineapple and they sell the containers in bulk at 6.5 units per unit to the wholesaler that also buys their orange juice.

Mega Juice Industries' factory is housed in two rented buildings located in the industrial area. The production process is relatively simple and divided in two production lines, one line processing the oranges and one line processing the pineapples. The facility is very clean and runs with semi-automatic machines. It operates at about 85 percent capacity, but when customer orders are at peak, the plant runs at full capacity. The factory runs one 10-hour shift daily from 08:00 in the morning to 18:00 hours in the evening, including eight hours of production and two hours of cleaning and resetting the machines.

Baso Kuna is the Managing Director of MJI and her responsibilities are to provide leadership in all the key strategic functions such as marketing, operations and human resources. Mr. Kuna comes in at intervals to assist where necessary. Baso employs a staff complement of 20 women and men out of which 16 workers are involved in the production side of the business. Baso has employed more men in the Production Department as she thinks the work in the department is hard and can better be performed by men. One worker drives the delivery van, two workers help the driver to deliver the goods and one administrative assistant helps Baso to maintain the books.

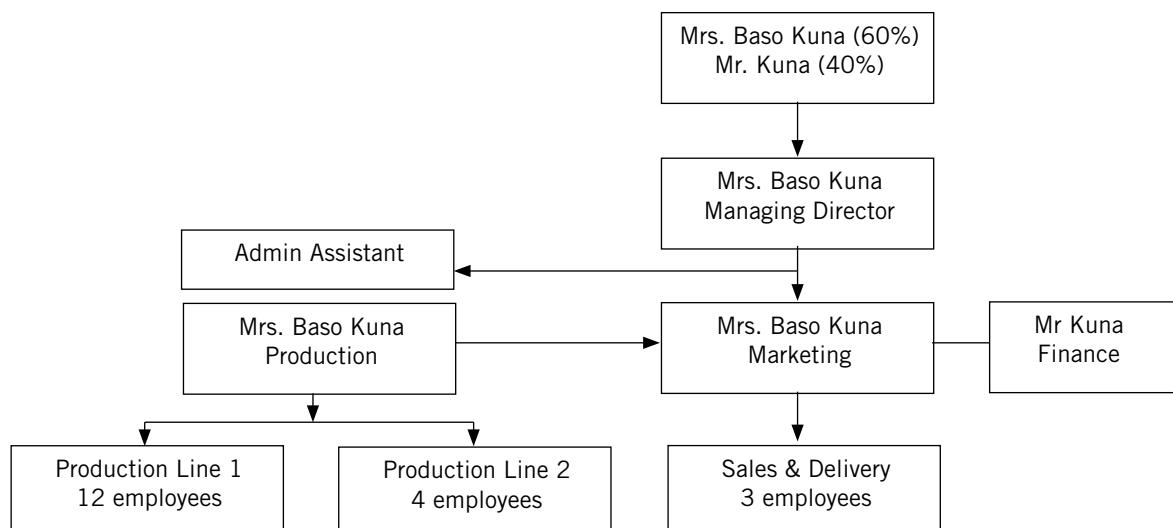


Figure 1: Organogram of Mega Juice Industries

Mega Juice Industries Financial Performance

Baso Kuna analyses the financial position of her business on a monthly bases and relies on the profit and loss statement and a balance sheet and cash flow statement to make decision on the future of the business. Current financial statements prepared by the bookkeeper and supervised by Mr Kuna shows that MJI is profitable. Baso as Managing Director is able to draw a salary from the company and at the end of each year there is always some money left. However, sometimes, when faced with family emergencies Baso draws money from the company to pay them. She is, however continually wondering, though, if the company is really as profitable as it could be?

Once per year, Baso meets with a tax consultant who helps them prepare financial statements for the Revenue Authority. The consultant prepares financial statements including a Profit and Loss statement and Balance Sheet. However, Baso has limitations in analysing these statements and prefers to run the business on a day-to-day basis. Table 1 on the next page presents the Balance sheet for Mega Juice Industries for 2010 trading year and table 2 presents the Profit and Loss statement for the same year.

Table 2: Mega Juice Industries Profit and Loss Statement for 2010

Item	Year 2010
1. Gross Sales from main business*	2,629,000
Less: Costs of goods sold**	1,590,960
Less: G.S.T. (27%)	709,830
2. Gross Profit from main business	328,210
Add: Profit from other businesses	0
Less: Sales expenses***:	122,400
Administration expenses****	32,100
Financial expenses	18,000
In which: Interest	18,000
Loss in exchange rate	
3. Operating profit	155,710
Add: Income from investment	0
Other income	0
Less: Other expenses	0
Add: Prior year income adjustment	
4. Profit before tax	155,710
Less: Business Income Tax (33%)	51,384.30
Profit After Taxes	104,325.70

* Assuming: annual sales of 100,000 litres of orange juice to local five star and four star hotels @ 17.5 / litre = 1,750,000

annual sales of 70,000 litres of orange juice to a local wholesaler @ 10.5 per litre = 735,000

annual sales of 24,000 containers of processed pineapple @ 6 units per unit = 144,000

** Assuming: annual production of 170,000 liters of orange juice and 24,000 containers of processed pineapple and that it takes 2.2 kilograms of oranges (incl. 10% raw material wastage) to produce one liter of orange juice @ three rand per kilogram, and 2 kilograms of pineapple to produce one container @1.2 per kilogram ex plantation

resulting in annual raw material input of 374,000 kilograms of oranges and 52,800 kilograms of pineapple at total costs of 1,122,000 and 63,360 rand respectively.

adding 96,000 thousand per year for other factor inputs (e.g. electricity, water, packaging) but excluding labour costs

adding 309,600 direct labour costs (249,600 thousand for 16 employees in production @15,600 thousand per employee per year for 16 employees) + 60,000 thousand annual salary for Baso Kuna)

***Assuming: 46,800 rand for three employees involved in sales (@15,600 thousand per employee per year) + 60,000 thousand for the annual salary of Baso Kuna) and 24,000 thousand costs for the delivery vehicle

****Assuming: 15,600 thousand for one administrative assistant + 16,500 thousand per year for other administrative expenses



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Table 1: Mega Juice Industries Balance Sheet as of 31 December 2010

2010-12-31			
Company: Mega Juice Industries			
Assets	Beginning of Year	End of Year	Liability and Equity
Current assets			Current liability:
Cash	76,501.14	154,400.00	short-term loan
short-term investment			notes payable
notes receivable			A/P
A/R	49,500.00	49,500.00	accrued wages
Deduct: bad debt reserves			tax payable
advance money			dividends payable
other A/R			deposit received
deferred and prepaid expenses			other payable
Stocks	12,000.00	12,000.00	provisions for possible expenses
			accrued welfarism
other current assets			other due payments
			other current liabilities
Subtotal current assets	138,001.14	215,900.00	Subtotal current liabilities
Long-term investment:			Long-term liabilities:
			long-term loan
			bonds payable
Subtotal long-term investment	0.00	0.00	long-term payable
Fixed assets:			Subtotal long-term liabilities
Original value of fixed assets	800,000.00	800,000.00	
Deduct: accumulated depreciation	104,500.00	156,750.00	
Net value of fixed assets	695,500.00	643,250.00	Other liabilities:
Liquidation of fixed assets			exchange surplus during preparation
Subtotal fixed assets:	695,500.00	643,250.00	deferred yield
Construction-in-process:			other deferred items
construction-in-process			
materials for construction-in-process			subtotal other liabilities
Invisible assets:			total liabilities
land use right	85,500.00	81,000.00	
other invisible assets			Equity:
Subtotal invisible assets	85,500.00	81,000.00	capital investment
			in which:
Other assets:			domestic investment
long-term expenses to be apportioned			foreign investment
exchange lost during preparation			fiscal transfer
deferred lost of investment			capital reserve
			surplus reserves
			in which: reserve fund
Subtotal other assets	0.00	0.00	enterprise expansion fund
			retained profit
			total equity
Total assets	919,001.14	940,150.00	Total liabilities and equity



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	Unit:
Beginning of Year	End of Year
24,000.00	24,000.00
20,000.00	21,000.00
55,500.00	60,000.00
99,500.00	105,000.00
300,000.00	300,000.00
300,000.00	300,000.00
399,500.00	405,000.00
500,000.00	500,000.00
19,501.14	35,150.00
519,501.14	535,150.00
919,001.14	940,150.00

Remarks

1. Depreciation of property and equipment: Depreciated starting from 2005 when the company was established. Property shall be depreciated for 20 years with a residual value of 5% according to national policy. Equipment shall be depreciated for 10 years with a residual value of 5% according to national policy.
2. Land: Assuming the land use right was granted to MJI for 20 years at a total price of 90,000 Rand
3. Other Accounts Payable: For example pensions, medical insurances etc.
4. Accrued welfarism: According to national policy, 14% of total annual salary shall be preserved as accrued welfarism to provide basic labour protection to employees
5. Surplus reserves: According to national policy at least 15% of total net profit shall be preserved each year as surplus reserves for unforeseen events.



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Business Expansion

MJI has put together a business plan and applied for a loan with a local bank under a credit guarantee scheme to expand the business, and is awaiting approval and disbursement. Baso however realises that she needs to develop a clear business growth strategy to chart the medium to long term direction of her business. Until now, she has not yet developed a business strategy, and has been focussing on the operational aspects, trying to make things work in every department.

Baso Kuna has thought for some time about the possibility of expanding their factory to increase production and boost sales because she realises that there are opportunities for Mega Juice Industries products both in the local market and in the market of neighbouring provinces. She is however, not sure about the best growth strategy, how much money it would cost her to expand and how to raise the capital. She also realises that her factory building has excess capacity that she is not utilising. She has decided that it is time to realize her ambitions and dreams and to work out a growth strategy for her business. She is hoping that after enrolling for the newly launched Expand Your Business (EYB) programme, she will be assisted to develop a clear growth strategy which she can share with her partner and staff to move the company forward.

The following section will highlight the process followed by Mega Juice Industries in developing their growth strategy with the assistance of the EYB trainer who trained Baso.

MEGA JUICE INDUSTRIES (MJI) DEFINE WHY THEY ARE IN BUSINESS



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Reason for being in Business

Based on the discussions she had engaged in, during chapter 1 in the EYB training, Baso knew that the starting point for drafting a business growth strategy is to set a strategic vision for Mega Juice Industries. The process of developing the company vision and strategy has to include key stakeholders like her husband who is a partner in the business and employees.

Baso agreed with her staff and husband to meet at the end of the shift to brainstorm on the vision for Mega Juice Industries. She asked each staff member to write down on small cards what they think are the core values, purpose and goals of MJ Industries. She then collected the cards, pinned them on a large blackboard and discussed their meaning and implications with the staff.

First, the employees hesitated to openly express their thoughts but eventually everybody actively participated in the exercise and together; they came up with a list of values, purposes and goals for MJ Industries. Baso, together with her business partner used these cards to consolidate the thoughts and come up with a vision for MJI.

“Our vision is to become an internationally competitive company that meets the demand of consumers in for high quality fruit juice and other processed fruit products while ensuring attractive returns for our shareholders. We acknowledge our social responsibility to the welfare of our employees and our environmental responsibility to the communities with whom we are involved.”

The vision statement reflects the financial and non-financial business aspirations of MJI. Baso has an interest to earn an attractive income from her business, and she acknowledges that the same interest motivates her employees to work hard for the success of the business.

The vision statement also reflects the non-financial business goals of MJI. Baso feels genuine social responsibility for her employees and for the protection of the environment because she understands that they are both part of the social and ecological systems surrounding them and that ultimately, the long-term survival of Mega Juice Industries depends on the stability of these systems.

Mega Juice Industries Objectives

Baso Kuna refers to the business objective navigator introduced during EYB training to specify the financial and non-financial business objectives of MJ Industries. Regarding her financial objectives, she decides to stick to the three financial objectives that have



guided her business operations in the past, namely an 'attractive return', 'high profits' and 'low cost structures'.

Regarding her non-financial objectives related to the process dimension, she feels that her aim to maintain low cost structures will need to be reflected in a concern for 'high operational efficiency'. Another non-financial objective for the process dimension that quickly comes to her mind when she looks at her business vision as well as the type of clients her business is serving is 'an emphasis on quality products'.

Baso furthermore decides to add 'close relationships with suppliers' as a non-financial objective to the process dimension to reflect the high importance of a reliable supply with high quality fruits from the local producers. Finally, since the vision statement of MJI emphasizes environmental sustainability, Baso adds 'cleaner production' to her non-financial business objectives in the process dimension.

Regarding non-financial objectives related to the stakeholder dimension, Baso decides to focus on two stakeholder groups, namely her customers and the local community. She writes down 'high customer satisfaction' as a non-financial business objective because she knows that in the market for premium fruit juice the 'customer is king'. She furthermore writes down 'close relationships with business customers' as another non-financial objective in the stakeholder dimension since her sales to local tourist hotels largely depend on personal and close network linkages with the food & beverage managers. Regarding the local community, she specifies 'good community reputation' as a non-financial objective, because she knows that her capacity to sell fruit juice in the local market and to ensure a reliable supply of raw materials at a fair price also depends on the reputation enjoyed by her business.

With regards to non-financial objectives related to the learning dimension, Baso after some discussion, put her staff as the centre of attention. She acknowledges that ultimately the learning capacity of her business is a function of the qualifications and motivation of her employees as well as her own. This observation holds particularly true if she wants to emphasize product quality in her growth strategy. She therefore writes down 'qualified workers' and 'motivated workers' as two non-financial objectives. Baso is also proud of her distinct product formula for orange juice, and she is determined to further develop her capacity to innovate their product. Therefore, she lists 'high innovation capacity' as another non-financial objective in the learning dimension.

The complete list of draft business objectives of Mega Juice Industries is presented in table 3.

Table 3: MJI Business Objectives

Objective	Comments
Attractive return	Financial objective
High profits	Financial objective
Low cost structures	Financial objective
High customer satisfaction	Non-financial objective, stakeholder dimension
Close relationships with business customers	Non-financial objective, stakeholder dimension
Good community reputation	Non-financial objective, stakeholder dimension
High operational efficiency	Non-financial objective, process dimension
Emphasis on quality products	Non-financial objective, process dimension
Close relationships with suppliers	Non-financial objective, process dimension
Clean production	Non-financial objective, process dimension
Qualified workers	Non-financial objective, learning dimension
Motivated workers	Non-financial objective, learning dimension
High innovation capacity	Non-financial objective, learning dimension



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Mega Juice Performance Indicators

The EYB training emphasized the importance of measuring business performance using financial and non financial measures. Baso carefully studies the range of indicators frequently used by other businesses to measure their own performance. She decides to opt for a combination of financial and non-financial measures in reflection of her financial and non-financial business objectives.

To measure her performance as regards the financial objectives of MJI, Baso decides to use three measures expressed as ratios, namely 'annual return on assets in %', 'net profit margin (%)' and the 'ratio of administrative costs to total cost'. She chose these measures because she has already tracked them in the past and can take the existing data set to forecast their return on assets, profitability and overhead costs in various scenarios.

As regards her non-financial objectives, Baso Kuna opted for measures expressed in numbers because she finds it easier to collect the required data. She also prefers ratios to absolute numbers because these ratios enable her to analyse attributes of business performance in a context.

Furthermore, Baso opted for a combination of lead and lag indicators to track both investments made today in expectation of performance delivered tomorrow, and performance delivered today as a result of wise investments made in the past. For example, Baso chose the lead indicator 'time in training per machine operator' and the lag indicator 'training course pass rate' to track the performance of MJI in achieving the objective of 'qualified workers'. The 'no of days in training' indicates whether MJI is making the necessary investments today to have better qualified workers tomorrow while the course pass rate indicates whether these investments were well made and actually resulted in a higher qualification of the intended beneficiaries.



At this early point in the strategy development process, Baso finds it difficult to set targets for the performance measures assigned to her non-financial business objectives because, in most cases, she lacks the management information required to forecast her likely performance in the future.

Also, she doesn't know yet how to grow her business and as a result what performance she can expect. Therefore, Baso decides to fix only tentative performance thresholds for each measure and to refine these targets later in the strategy development process once she has a clear picture about the business growth strategy.

Table 4 presents a list of MJI draft business objectives and tentative performance thresholds:

Table 4: Performance thresholds for Mega Juice Industries

Objective	Measures	Target				
		2012	2013	2014	2015	2016
Attractive returns	Return on assets in % (annual profit after tax x100 divided by value of fixed assets)	15	15	20	25	25
	Growth in production output in%	15	15	15	15	15
High profits	Net Profit Margin in%	4	4	5	6	7
Low cost structures	Ratio of overheads to total costs (administrative expenses x 100 divided by total business expenses)	0.02	0.05	0.08	0.08	0.08
High customer satisfaction	Customer satisfaction rate in% (no of satisfied customer x 100 divided by total no of customers p.a.)	85	90	90	90	90
Close relationships with buyers	Average time spent with each business customer (no of days per year per business customer)	5	5	6	7	7
Good community reputation	No of community projects supported by MJI	1	2	2	2	3
High operational efficiency	Speed of management decision making (average time in days for management to decide on proposals made by line managers)	10	10	7	7	7
	Machine productivity (no of litres per machine p.a.)	60,000	65,000	70,000	77,000	85,000
	Lead time, production (time in days from receiving a product order to product delivery)	2	2	2	2	2
Emphasis on quality	Product reject rate (no of deliveries rejected by customers x 100 divided by total no of deliveries made p.a.)	5	5	5	3	2

Close relationships with suppliers	Supplier turnover (no of suppliers lost x 100 divided by total number of suppliers p.a.)	15	15	15	10	10
Systematic market information management	No of new document entries in the market information database of MJI	100	150	200	250	300
Cleaner production	Recycling rate, machine oil (litres of machine oil recycled x 100 over total litres of machine oil used in production p.a.)	0	25	50	75	100
	Wastage rate, raw materials (kilograms of orange wasted x 100 divided by total kilograms of oranges processed in production p.a.)	10	10	10	8	7
Qualified workers	No of days in training per machine operators	5	5	7	10	10
	Training course pass rate (no of machine operators successfully graduating from training x 100 divided by total no of operators in training p.a.)	75	85	85	85	85
Motivated workers	Worker satisfaction rate with salary packages (no of workers satisfied with salary package x 100 divided by total no of workers p.a.)	60	75	75	80	85
	Worker satisfaction rate with career development opportunities (no of workers satisfied with salary package x 100 divided by total no of workers p.a.)	60	75	75	80	85
High innovation capacity*	% of customers describing MJI as an innovative company	50	75	75	75	75



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WHAT IS THE GROWTH POTENTIAL OF MEGA JUICE INDUSTRIES?

MJI Assessment of Industry Key Success Factors

The EYB training emphasised the need to assess the key industry success factors to identify business core competencies and identify the business competitiveness. Baso now knows that knowing her business competitive advantage will help her choose a growth strategy that builds on her business strengths and takes advantage of market opportunities. Baso then carries out an analysis of the critical success factors in the local markets for fresh orange juice and canned pineapples. She carries out a customer analysis, a competitor analysis and a market environment analysis. She treats fresh orange juice and canned pineapple as distinct products since she serves distinct customer needs.

Customer Analysis

Baso combines the variables 'usage rate/delivery frequency' and 'main benefit sought (quality or price) to segment the spectrum of their existing and potential customers in the local market for orange juice. She chose these variables because she feels that the combination is key for her line of business and helps her to identify customer segments where MJI has potential to expand its sales.

Based on the segmentation variables above, Baso identified five-star hotels and wholesale companies as her main existing customer segments. Furthermore, she identifies tourist guesthouses, grocery stores and school canteens as potential new customer segments.

Baso plots these market segments in a market segmentation matrix to obtain a better overview of her customer spectrum. Potential customer segments are marked with a question mark because Baso is not sure about the characteristics of these clients. Refer to table 5 for the customer segmentation matrix of MJI.

Baso repeated the same segmentation exercise for the market for canned pineapples. She identified the wholesaler as her existing customer segment, and local grocery stores as a potential customer segment. The market segmentation matrix for the local market for canned pineapples is illustrated in table 6.

Table 5: Mega Juice Industries segmentation matrix of the local market for orange juice

		Heavy buyers	Frequent buyers	Occasional buyers
Main benefit sought: Quality	Low price sensitivity	Five star hotels		
	High price sensitivity		Guesthouses?	
Main benefit sought: Price	Low price sensitivity	Wholesale companies		
	High price sensitivity		School canteens? Grocery stores?	



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Table 6: Mega Juice Industries segmentation matrix of the local market for canned Pineapple

		Heavy buyers	Frequent buyers	Occasional buyers
Main benefit sought: Quality	Low price sensitivity			
	High price sensitivity			
Main benefit sought: Price	Low price sensitivity			
	High price sensitivity	Wholesale companies	Grocery stores?	

Taking her market segmentation matrix as a starting point, Baso analysed and described the buying behaviour and buying needs of each customer segment in further detail, separately, for the market for orange juice and the market for canned pineapple. In the case of the school canteen segment, the guesthouse segment and the grocery store segment in the market for orange juice, and the grocery store segment in the market for canned pineapple, she decides to carry out market research first to collect the required market intelligence about their potential customers. The results of the profiling effort are as follows:

Market for Orange Juice

Existing customers:

In the hotel segment, Mega Juice Industries directly supplies fruit juice in five-litre containers to 2 local five star hotels and 4, four-star hotels. The hotels want a regular and reliable supply with orange fruit juice of invariably high quality, delivered to the doorstep. They typically require fresh orange juice every two days and together they receive about 550 litres at 17.5 units per litre with each delivery, bringing total annual consumption



to about 100,000 litres and generating revenues for MJI amounting to 1,750,000 in 2010. Baso has counted two more five star hotels and eight more four-star hotels in the city – this means that they currently capture about 60% of the business customers in this segment and still have potential to further increase their sales.

The hotels are willingly paying a premium for the fresh fruit juice because they in turn can sell it with a high mark-up to foreign tourists. MJI has developed close, personal relationships with the food and beverages managers of the two hotels and feels that these clients are loyal as long as the price for the orange juice remains competitive.

In the wholesaler segment, Mega Juice Industries has one client, Lucky Star Distributors, who holds an exclusive buyer agreement with them. The delivery of the order directly to the warehouse of Lucky Star is made once a week by MJI delivery vehicle. Lucky Star Distributors buy preserved quality orange juice in one-litre plastic bottles for onward distribution to small retail shops and supermarkets in the Province. The wholesaler buys a guaranteed amount of 70,000 litres of orange juice and pays 10.5 per litre, bringing annual revenues to 735,000 in 2010. The buyer agreement will expire in 2011.

Baso Kuna has identified two other wholesalers in the local market – this means that theoretically they could break their buyer agreement with Lucky Star and market their juice to its direct competitor. Baso is not inclined to consider this option because she wants to honour their contract obligations and is also not sure whether they would be able to negotiate better terms with the other wholesalers. This means that sales volumes in this segment are fixed until 2011 and that growth potential is therefore very limited.

Potential customers

To carry out their market research about the tourist guesthouses, Baso visited a number of local guesthouses and studied the price lists and range of beverages on their menu. She also talked to some of the guesthouse managers to find out whether they would have an interest in buying high quality fruit juice for their clients. To obtain a second opinion, Baso conducted her assessment in more than one location, focussing on cities famous with tourists and having numerous guesthouses.

Her market research about the guesthouses reveals that this segment is very price sensitive and might not be willing to pay more than 8 units per litre of orange juice. Also, guesthouses do not cater for large group of tourists and hence would only order small quantities of fruit juice at a time, about 1 litre a day or seven litres a week, bringing total projected annual demand to 364 litres per year per guesthouse. Furthermore, their clients often do not make advance reservations, hence it is very difficult for the guesthouse managers to forecast their actual occupancy rate and to order fruit juice in advance; they would rather place flexible orders and still need the product delivered quickly.

To carry out market research about the school canteens, Baso first categorized the local schools in primary level schools, secondary level schools and tertiary level schools. She

decides to focus on secondary and tertiary level educational institutions because she knows that older students have comparatively more pocket money to spend on juice. She also decides to focus on public sector schools, because these schools typically operate adjoined canteens.

Baso Kuna then visited the websites of various local authorities and found out that by end 2010, there were a total of 38 senior middle schools and another 40 middle schools (providing both junior and senior education) in the local market, catering for a total of 89,000 students. Also, Baso found that in 2010 there were 3 main universities in the area that had enrolled approximately 50,000 students. Most of these schools and all universities run one or several kiosks and canteens on their premises.

Baso then paid a visit to selected junior and senior middle schools and also two universities during lunchtime to study the range of beverages on offer. She quickly found out that the canteens only serve water and tea for lunch. She disqualified them as potential retailers of high quality fruit juice, but she also saw that many students buy sweets and soft drinks from the kiosks. She approached a number of these kiosk operators to find out whether they would have an interest to buy premium fruit juice.

The kiosk operators were generally interested in the proposal but pointed out that they would require high quality fruit juice packed in small bottles because their clients usually asked for small unit sizes. Also, the fruit juice would need to be branded and systematically promoted because their clients are sensitive on product quality and other product features but also relatively price-sensitive.

Baso also considered that students' ability to pay a higher price for fruit juice depends on how much money they get from their parents. Discussions with the kiosk operators revealed that parents normally complain about their children consuming too many fizzy drinks. A premium fruit juice might therefore have a market. However MJI needed to interest students to buy fruit juice. Promotion was therefore important to project fruit juice as a drink that is trendier than the fizzy drinks. Provided MJI would succeed to brand the product, the kiosk operators are confident that they can sell 0.25 litres fruit juice packs for as much as 4 units each, equivalent to 16 units per litre. Taking into account their own mark-up on the fruit juice, they would be willing to pay MJI 3.5 per 0.25 litre pack, equivalent to 14 units per litre.

Kiosk operators would be able to guarantee a certain order volume because they can reliably forecast the number of clients visiting their kiosk every day. Average daily demand for fruit juice per kiosk adjusted by demand fluctuations would be an estimated 10 litres per kiosk, packaged in 400, 25 litres tetra-packs. This translates into a demand of about 3,650 litres per kiosk per year, or 313,900 litres if one kiosk per school / university registered in the local market. This would translate into annual revenues of up to 4,4 million.

To carry out market research about the local grocery stores, Baso paid a visit to the shops



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in their neighbourhood. For a second opinion, they also travelled once again around the local community. She first studied the range and prices of beverages on sale, and she spent some time observing the customers in the shops, and how often they pick high quality fruit juice from the shelves. From observation, it appears that high quality juice is not a fast-moving stock.

Baso Kuna approached the managers of the shops and inquired about their interest in buying fruit juice directly from MJI. It turned out that these shops were not very interested in making direct business with MJI. Many of them buy their products in bulk from a local wholesaler. Also, some managers say that they don't want to take the risk of selling an unknown product with a short shelf life.

Furthermore, many of these managers were not willing to buy fruit juice at a premium price because their clients are typically very price-sensitive and not willing to pay extra for higher quality. Finally, none of the managers were willing to share their actual sales figures for fruit juice with Baso, or to specify their actual demand for this product, making it very difficult to forecast prospective demand per client in this segment.

Market for Canned Pineapple

Existing customers

In the wholesaler segment MJI has one client, Lucky Star Distributors. Lucky Star Distributors buys the processed pineapple canned in 1 litre glass containers for onward sales to small retail shops and supermarkets. Usually, Lucky Star orders the product in crates of 100 containers. In 2010, Lucky Star ordered 24,000 containers and paid 6 units each, which translated into annual revenues of 144,000 thousand. As with the fruit juice product, Lucky Star Distributors currently holds the sole right to market MJI canned pineapples to retailers but the agreement is about to expire in 2011.

Baso Kuna sees little prospect for expanding sales of canned pineapple with Lucky Star because the wholesaler has not signalled any increased demand but in fact indicated that it would want to negotiate lower prices in a possible new buyer agreement. Baso fears that other wholesalers would not give them more favourable terms because canned pineapple is regarded as a commodity.

Potential customers

As part of their earlier research on the grocery store customer segment in the market for orange juice, Baso also observed that actual sales of pineapple containers in the shops is low and that canned pineapple, like orange juice, is not a fast moving stock. As a result the grocery store owner placed the product on the lower shelves and is not frequently picked by customers.

Baso Kuna also asked the store managers about their interest in buying canned pineapple.

The store managers are less sceptical about buying canned pineapple from MJI because they know that the product is much cheaper than orange juice and has a much longer shelf life. Still, most store managers prefer buying their products in bulk from a single wholesaler because they receive quantity discounts from their current suppliers.

In the final step of their customer analysis, Baso Kuna looks at their segment profiles to deduce the customer-focussed key success factors in the local market for premium fruit juice and canned pine apples. The results of their analysis are presented in figure 2 and 3 on page 28 and 39.



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Competitor Analysis

Baso Kuna analyzed the competition in her industry in order to identify the competition-specific key industry success factors. This information would assist her to identify the attractiveness and growth potential of the Orange Juice industry. She looked at new market entrants, bargaining power of supplies and buyers, the threat of market substitutes and level of rivalry with main competitors for each of her products.

Market for Orange Juice

Determinants of competitor rivalry:

Market size: In 2010, the registered population of the city and surrounding districts was 4.95 million people, excluding temporary residents like migrant workers and tourists. The city attracts about 500,000 domestic tourists and 1.5 million international tourists a year. The number of migrants is not known but thought to be tens of thousands of people because the service industry (particularly tourism) and the agricultural sector are strong pillars of the local economy and typically attract many seasonal workers. Baso estimates the total annual consumption of high quality orange fruit juice in the local market to be roughly 500,000 litres.

Number and size of direct competitors: Baso Kuna is not aware of any domestic competitors in the local market for orange fruit juice. Numerous restaurants and hotels offer their own freshly squeezed fruit juice to their patrons, but none of them sells the juice outside their own premises. However, Baso is aware that there are at least two national brands for quality fruit juice marketed throughout the country by large-scale domestic producers. Furthermore, Baso has noticed that local wholesalers of late aggressively market selected international fruit juice brands from neighbouring countries.

Heterogeneity of the competitor spectrum: From the number and size of direct competitors, it emerges that the heterogeneity level of the competitor spectrum is low – in essence there is one domestic large-scale producer and two international large-scale producers selling their products in bulk on the local markets. Other than these large-scale players, no medium scale or small-scale producers of fruit juice operate in the local market.



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**Segment 1:
Up-market
hotels**

Existing customers

What, how often and why do they buy?

High quality fruit juice in five-litre containers, delivered to the doorstep. Clients order about 550 litres every two days, @ 17.5 per litre, totalling 100,000 litres a year and revenues of 1,75 million. Clients are willingly paying a premium and they are loyal because MJI has built up close, personal relationships with the food and beverages managers. The segment has good growth potential (up to an additional 70,000 litres per year)

Key Success Factor

MJI needs to be able to produce high quality fruit juice and to deliver it at the doorstep of the client. Furthermore, MJI needs to be able to respond quickly if product demand peaks and to maintain close and personal relationships with the decision making unit in the hotel, here the food and beverages manager.

**Segment 2:
Wholesalers**

One client, Lucky Star Distributors. Client buys orange juice in one-litre plastic bottles for onward distribution to small retail shops and supermarkets. Client places bulk orders once a week. Total annual orders amount to 70,000 litres @ 10.5 per litre. Order volumes are secure until 2011. No growth potential

MJI needs to be able to produce high quality fruit juice in large volume and at a low unit price.

**Segment 3: Tourist
guesthouses**

Potential customers

What, how often and why do they buy?

Guesthouses are very price-sensitive and would only order small quantities of fruit juice at a time, about 1 litre a day or 364 litres per year per guesthouse. Guesthouses would place orders at short notice, subject to seasonal demand and want the product delivered quickly to their doorstep. They are not willing to pay more than 8 units per litre.

Key Success Factor

MJI would need to be able to produce high quality fruit juice at a very low price and also need to be able to distribute their product in low quantities, at a low price and with a short lead time.

**Segment 4:
Kiosks in School
canteens**

Clients would require high quality fruit juice packed in 0.25 litre and pay up to 3.5 units each, provided the product has been branded. Demand fluctuates according to school semester; adjusted demand per kiosk is equivalent to 10 litres per day per kiosk, or 3,650 litres per kiosk per year. Total projected demand in the market (one kiosk per school on 86 registered institutions) is 313,900 litres. Potential clients very interested in buying the product, potential revenues of up to 4.4 million.

MJI would need to master the capacity to brand its product as a healthy choice (to parents of students) and as a fashionable drink (to students). They would also need to be able to package their juice in small bottles. They would furthermore need to be able to distribute their product on a daily basis, and respond to the fact that demand fluctuates strongly.

**Segment 5:
Grocery stores
(retailers)**

Would be clients not very interested in making business with MJI. Clients prefer buying their products in bulk from wholesaler. Many clients also risk averse to placing 'unknown' MJI products on their shelves. Clients are very price sensitive. Very difficult to forecast prospective demand per client in this segment; anecdotic evidence suggests that demand per client is rather low – fruit juice does not seem to be a fast moving stock.

MJI would have to enter the market for wholesaling food and beverages and to either build up, or take a stake in, a wholesaling company. MJI would also need to be able to offer fruit juice at a low price.

Figure 2: Mega Juice Industries Customer focused Key Success Factors for the orange juice market

Existing customers

What, how often and why do they buy?

Segment 1: Wholesalers

Only one customer, Lucky Star Distributors. Lucky Star Distributors buys the processed pineapple canned in 1 litre glass containers for onward sales to small retail shops and supermarkets. Lucky Star pays 6 units per container. Usually, Lucky Star orders the product in crates with 100 units per crate. Total annual orders amounted to 24,000 units in 2010, equivalent to a revenue of 144,000 thousand. Buyer agreement will expire; client is highly price-sensitive and has low product loyalty. No growth in market demand projected.

Key Success Factor

Capacity to compete on price (e.g. to produce canned pineapple at very low cost and to pass this cost advantage on by way of low product price)

Potential customers

What, how often and why do they buy?

Segment 2: Grocery stores

The store managers are skeptical about buying canned pineapple from MJI because most of them preferring to buy their products in bulk from a single wholesaler. Potential clients are highly price-sensitive and not likely to order canned pineapple frequently and in larger volumes.

Key Success Factor

Capacity to compete on price



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Figure 3: Mega Juice Industries Customer focused Key Success Factors for the canned pineapple market

Industry growth rate and profitability: Baso finds it very difficult to collect reliable information about the industry growth rate and profitability in the local market since she has no access to the financial data of the large-scale competitors. However, from her own financial data she thinks that the growth prospects for fruit juice in the local market are bright and that the profitability of the industry is high. She also notices an increasing concern by local urban customers for high quality and healthy beverages, and an increasing capacity to buy premium drinks because of improved earning capacity. In rural areas, the picture is different; most residents can produce their own fresh fruit juice from their farm products and also do not have the disposable income to buy fruit juice in a shop.

Level of differentiation of the product on offer: The level of differentiation of fruit juice is comparatively high. It requires machinery to extract the fruit juice and to bottle it, and it requires special know how to conserve it without artificial preservatives.

Incremental industry (over)capacity: Generally, the risk of incremental industry overcapacity is considered medium in the local market for fruit juice. MJI has invested heavily in buildings and machinery to manufacture the product and is under financial pressure to run these facilities at high capacity utilization levels. MJI also has binding supplier agreements with local orange growers, forcing it to always accept a certain volume of raw materials, notwithstanding seasonal slumps in demand. On the other,



hand, MJI has a cold storage facility that allows it to store raw materials and the preserved fruit juice for the wholesaler, as a buffer against fluctuations in demand and supply.

Level of capacity utilization: The current level of capacity utilization stands at around 90% in the case of the production line for orange juice but sometimes, when demand peaks, the plant runs at full capacity. Baso does not know the capacity utilization of her large-scale competitors, but she assumes that for economic reasons it must be at a similar level – it is very difficult to earn a profit in the fruit juice production industry if the capacity utilization level of the plant drops below a minimum level. The current level of capacity utilization in the production line for orange juice indicates that MJI has almost reached its capacity limits. To further expand their output, MJI might need free some capacity by optimizing workflows but eventually they would need to invest in more machines and a second car, recruit new workers and expand their factory building.

Type and diversity in competitive strategies: The diversity in the competitiveness strategies among fruit juice producers in the local market is comparatively high: The international competition emphasizes differentiation, while the local large-scale producer emphasizes cost and MJI emphasizes focus (complemented with differentiation in the hotel segment and cost in the wholesaler segment).

High exit barriers for competitors: Because it requires upfront investment to install production capacity for fruit juice, the exiting barriers from the industry are rather high – put simply, investors will want to at least recoup their money before they close down a factory. The same observation holds true for MJI; Baso knows that she can close her business any time but she invested her savings in the factory and would therefore not entertain this option except under extreme financial pressure.

As part of her analysis of the level of competitor rivalry in the local market for orange juice, Baso also carries out a competitor analysis of one of local large-scale manufacturer of fruit juice called 'Gold Fruit'. For market information on her competitor, she refers to the company website of Gold Fruit. The information on the website is rather sketchy but it still provides them with a glimpse about the competitiveness strategy of Gold Fruit, and how Gold Fruit might react to an aggressive growth drive by MJI in the local market.

Threat of new market entrants

On the overall, Baso feels that the threat of new market entrants is limited, but a certain risk remains. The threat is limited because of the required level of product differentiation – it requires access to technology and know-how to produce fruit juice on an industrial scale. Furthermore, fruit juice production requires substantial upfront investment in buildings, machinery and the training of machine operators. Also, a new competitor would need to establish first reliable supplier relationships with local orange growers, not easy because the local communities are rather conservative and do not easily accept outsiders. Also, MJI enjoys a good community reputation and therefore it can be assumed that local fruit growers would be loyal to MJI.

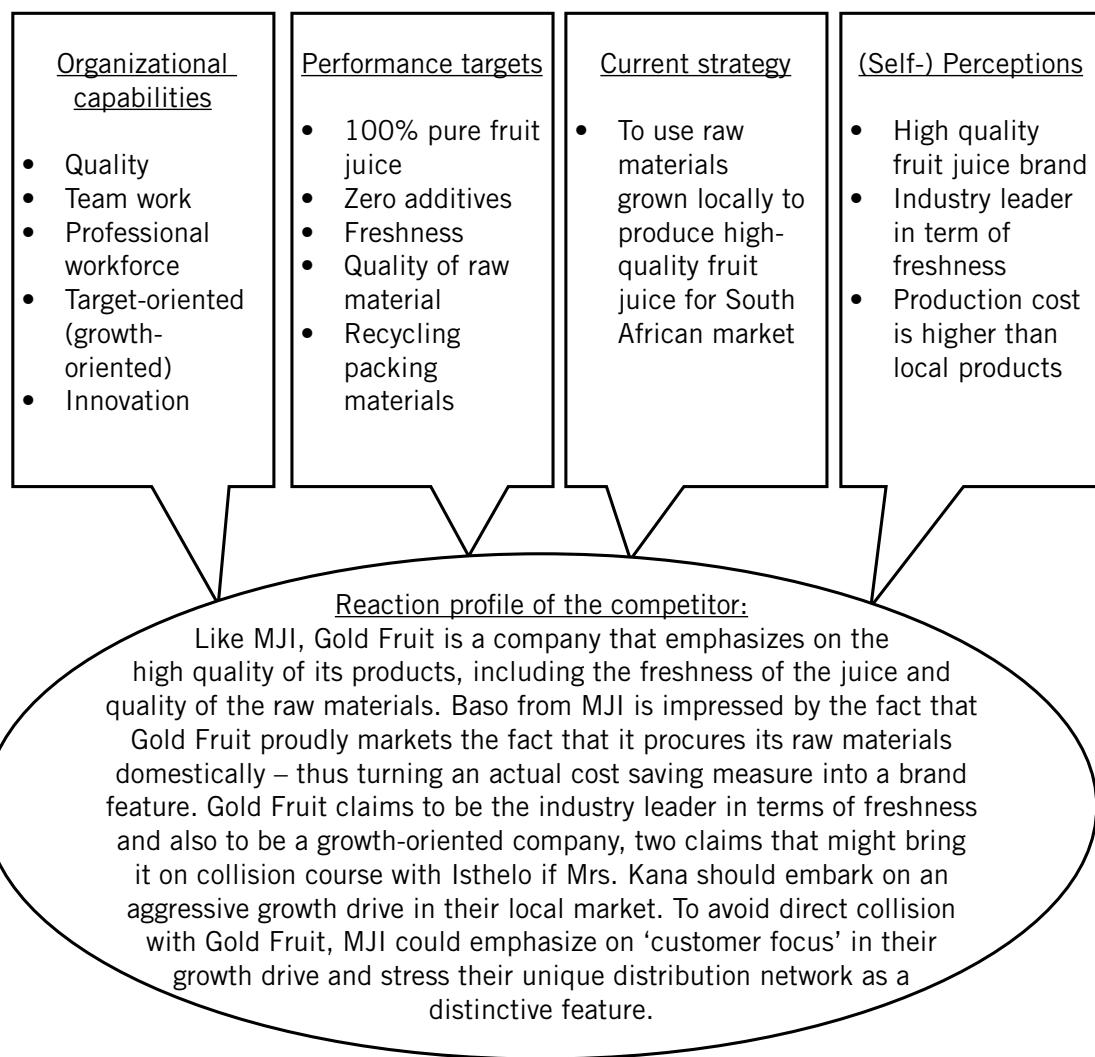


Figure 4: Competitor analysis chart for Gold Fruit

On the other hand, Baso also notes that there is currently an oversupply of oranges in the local market. Hence, local growers might be willing to sell excess production to a new market entrant. Also, the current attractive buyer agreements enjoyed by MJI with the local up-market hotels have caught the attention of other people and Baso can not entirely rule out that other business persons with money and (access to) technology and skills needed for fruit juice production might decide to take the risk of an investment. Baso also does not have any allies, for example other producers or local authorities, in the local market place yet that could help them for various reasons to fend off the threat of a new market entrant.

Bargaining Power of Suppliers

Baso Kuna thinks that the bargaining power of her suppliers is currently low, but could any time become very high. Baso counts at least 60 small-scale orange growers in nearby community, and none of these growers has a commercial market for their fruits other than the daily market in the village or selling fruits by the wayside to tourists.

In addition the small scale growers are not organized in a cooperative or a growers



association; hence they do not coordinate their pricing policies or share market information among themselves. This fragmentation means that Baso finds it easier to negotiate individual agreements and varying prices with each grower. Furthermore, the level of differentiation of the supplied product is low – theoretically, MJI could terminate the buying agreements with the local buyers any time and buy their fruits from growers in neighboring districts. Finally, Baso realizes that none of the growers has the money or access to the technological know-how to rival MJI and to set up a fruit juice-processing factory.

In the future, the bargaining power of suppliers could quickly increase, though. For example, a new market entrant might rival MJI and win over suppliers. Also, the orange growers might seek to organize their interests and collectively bargain for higher prices. For MJI, switching suppliers in response might be more difficult than imagined because while Baso knows that the quality of the oranges from her neighborhood is reliably high, she doesn't know whether the same quality guarantee applies to oranges from neighboring districts. Ultimately, Baso also knows that her survival as a business will depend on her reputation as a corporate citizen. The local growers make up a part of the local community and MJI cannot easily terminate its buyer agreements without damaging its reputation badly.

Bargaining power of buyers

Baso thinks that the bargaining power of their current buyers is very high, both in the hotel segment and in the wholesaler segment. In the hotel segment, MJI sells its products currently to 6 business clients. The fruit juice supplied by MJI is freshly produced and of high quality, hence it is considered a differentiated product by the hotels and will not be easily replaced by fruit juice off the supermarket shelves.

Also, hotels are generally willing to pay higher prices for the fruit juice, because they can sell it on to their own quality conscious clients with a high mark-up. Furthermore, none of the hotels is likely to seek backward integration and to set up its own fruit juice production facility – it's much easier and cheaper for them to buy the fruit juice and sell it.

Still, Baso suspects that the local upmarket hotels are at least informally coordinating their pricing and buying policies and she fears that one day they might use this coordination capacity to exert pressure for lower prices from MJI. Currently, the close relationships with the food & beverage managers in those hotels mean that the clients remain loyal but if these managers are replaced Baso sees pressure for lowering their prices.

In the wholesaler segment, Baso knows that they are over-dependent on a single key account Lucky Star. It is one of three main wholesalers in the local market and fruit juice is one product beside many other products which can be comparatively easily substituted with another brand. The main determining criteria to switch away from MJI is price, and Baso knows that her large-scale domestic competitor can offer better bulk purchase conditions because it benefits from economies of scale. Another disadvantage for MJI is that Lucky Star is well aware of its importance as a buyer for MJI, and knows that it

largely controls MJI's access to retailer shelf space. Baso also suspects that they cannot expect more favourable terms with the other wholesaler in the local market.

In analysing the bargaining power of would-be buyers in the school kiosk segment, Baso feels that the bargaining power of the buyers would be limited because as their market research has shown there are many kiosks in the local market. Also, it does not look like kiosk operators coordinate their buying policies. Like the hotels, the kiosks are able and presumably willing to buy the fruit juice and still sell it on with a mark up to their own clients. Careful branding and right packaging of the product is important. The kiosks would have few incentives for switching away from MJI, because they can take deliver the goods at their doorstep – a service none of the direct competitors offers.

Regarding would-be buyers in the guesthouse and the grocery stores segment, Baso feels that the bargaining power of both groups would be limited because there are many grocery stores and many guesthouses. Other than grocery stores that are affiliated to a supermarket chain and the guesthouses that belong to the same company/family few of them coordinate their pricing and procurement policies. However, the risk in both segments is that the clients are price sensitive and would presumably switch MJI products if they could get a better deal somewhere else.

Threat of substitute products

According to Baso, the threat of substitute products is limited. Substitute products that could replace orange juice are other types of high quality fruit juice like peach juice or apple juice. She also recognizes, though, that within the product group of high quality fresh fruit juice, preference for a certain type of fruit juice is mostly a matter of taste and that therefore the threat of apple juice or peach juice to replace orange juice is limited.

Beyond fruit juice, the other substitute products on Baso's list are soft drinks. She listed soft drinks because she plans to promote her fruit juice as a health alternative to the fizzy drinks sold by the kiosks in the schools. If fruit juice has the capacity to replace fizzy drinks, then in turn, fizzy drinks should have the capacity to replace fruit juice. Baso is convinced, though, that the threat of fizzy drinks as a substitute product for fruit juice in any of their current or potential customer segments is limited because buyers of fruit juice are typically more health- and quality-conscious and less price-sensitive, and as a result more wary of carbonized sweet drinks.

Baso Kuna discusses the implications of the findings of their competition analysis and deduces the competition-related KSF for their own industry in the local market as presented in figure 5.

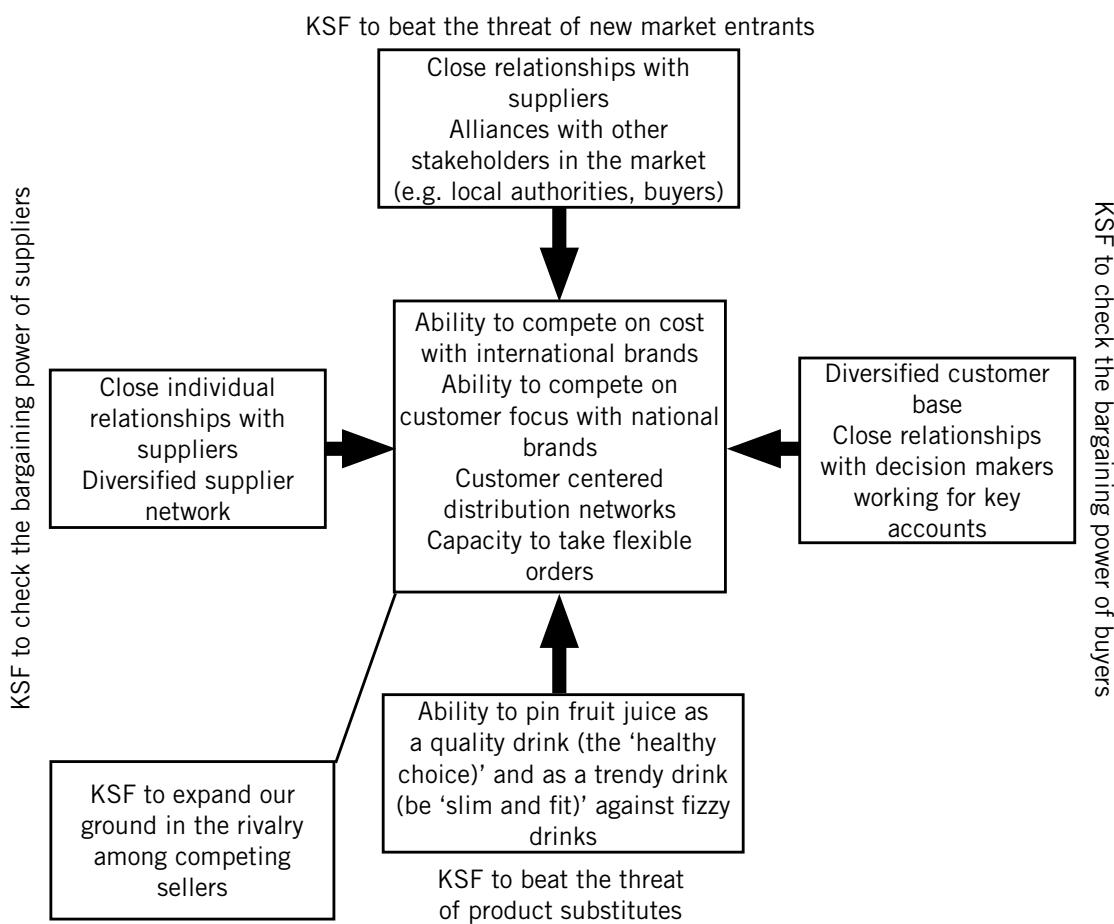


Figure 5: Competition Related Key Success Factors in the local market for orange juice

Market for Canned Pineapple

Determinants of competitor rivalry:

- Market size:** To come up with an estimate of the annual consumption of canned pineapple in the local market, Baso took their sales figures of 24,000 one-litre glass containers as absolute minimum consumption threshold and multiply the sales figure by the number of direct competitors in the market. Baso has seen canned pineapple from at least three other companies on the shelves of the local supermarkets – among them two brands from local and export market – and they assume that on average each of these products sells at least as well as their own label. This means that taken together the four companies sell at least 96,000 cans a year. Based on their rough formula, MJI would hold up to 25% of the local market for canned pineapple.
- Number and size of direct competitors:** Baso has seen the products of one large-scale manufacturer located in another city and two foreign companies on the shelves of the local supermarkets. They know that the foreign registered companies are global players and they assume that its products take the major share in the local market because of the famous brand name.
- Heterogeneity of the competitor spectrum:** From the number and size of direct

competitors it emerges that the heterogeneity level of the competitor spectrum is low – one large scale domestic producer, two foreign producers and MJI. All three direct competitors seem to market their products through local wholesalers and are not physically present in the local market.

- **Industry growth rate and profitability:** Baso struggles to collect reliable information about the industry growth rate and profitability in the local market since she has no access to the financial data of the large-scale competitors. The foreign companies publish their financial data on the internet but they do not disaggregate them by national or local markets. The domestic competitor does not publish any financial data on the website. However, from their financial data, Baso can see that the local market for canned pineapple seems to be mature. Sales figures for canned pineapple have seen virtually no growth between 2009 and 2010 – possible indications that demand is saturated even though the disposable incomes of the local customers are on the rise.
- **Level of differentiation of the product on offer:** The level of differentiation of canned pineapple is comparatively low, at least lower than the level of differentiation of fruit juice. It requires machinery to process and can the pineapple, but the formula to conserve the content is simple.
- **Incremental industry (over)capacity:** Generally, the risk of incremental industry overcapacity is comparatively low. Like in the case of orange juice, MJI had to buy and install machinery to manufacture the product, and the company has an economic interest to run these facilities at high capacity utilization level. However, demand for canned pineapple is comparatively steady throughout the year and the canned pineapple has a shelf-life of 48 months – this means that MJI can easily build a buffer against slumps in demand and supply both from buyers and suppliers.
- **Level of capacity utilization:** The current level of capacity utilization stands at around 70% in the case of the production line for canned pineapple. Baso does not know the capacity utilization of their large-scale competitors, but they would assume that at least the international competition reaches higher levels. The current level of capacity utilization in the production line for canned pineapple indicates that MJI still have room to increase its output with the existing equipment.
- **Diversity in competitive strategies:** The diversity in the competitiveness strategies among producers of canned pineapple is comparatively low: The domestic producers including MJI compete on cost while the foreign producers compete on differentiation with branded products. MJI complements its emphasis on cost with an emphasis on focus, offering free delivery of its goods to the doorstep of the client.
- **Type of competitive strategies:** As indicated above, MJI and its national large-scale competitor exploit their cost advantage to undercut the prices of the international competition. In turn, the international competition emphasizes quality to justify the higher prices of their product.
- **High exit barriers for competitors:** Because it requires upfront investment to install production capacity for canned pineapple, the exiting barriers from the industry are rather high – put simply, investors will want to at least recoup their money before they close down a factory. The same observation holds true for MJI, they invested part of their savings when they bought the machinery some years ago. The assets are not yet fully depreciated.

As part of their analysis of the level of competitor rivalry in the local market for canned pineapple, Baso also carries out a competitor analysis of the major international competitor called 'Del Valle'. The information on the website is rather general, and does not give any insight into the competitiveness strategy of the company in the local market, but it still gives an overview about the self-perception and institutional capacity of the company.

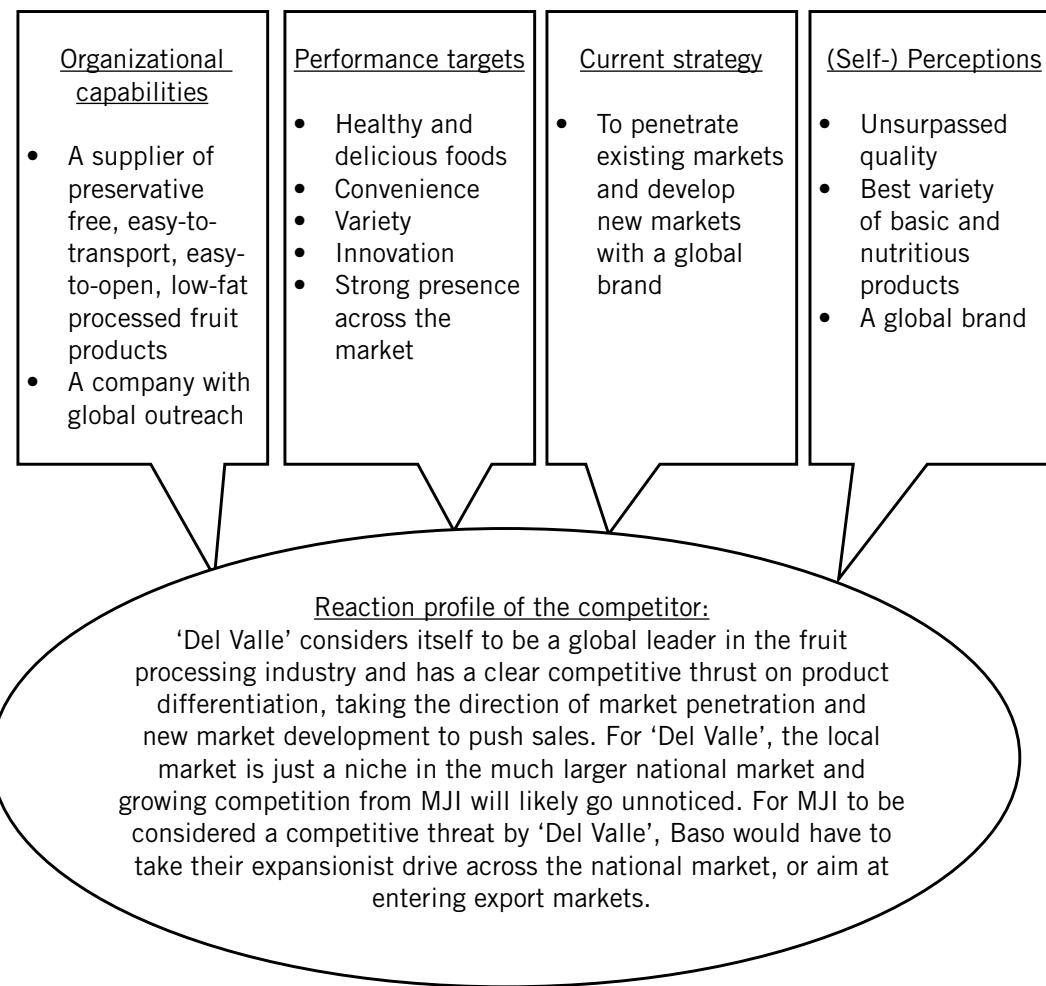


Figure 6: Competitor analysis chart for Del Valle

Threat of new market entrants

On the overall, Baso feels that the threat of new market entrants is limited for various reasons. Firstly, it requires significant upfront investment in buildings, machinery and the training of machine operators to set up and run a fruit-processing factory. Secondly, a new competitor would need to establish reliable supplier relationships with local pineapple growers, not easy as indicated earlier the local communities are rather conservative and do not easily accept outsiders. Thirdly, and most importantly, the attractiveness of the local market for canned fruit seems limited; sales have been flat over recent years and most customers are price sensitive.

Bargaining power of suppliers

Baso Kuna thinks that the bargaining power of her suppliers is currently low, but could increase in the future. There are at least 50 small-scale pineapple growers in their neighbourhood, and like in the case of the orange growers discussed earlier, none of these growers has a commercial market for their fruits other than the daily market in the village and selling fruits by the wayside to tourists. Small-scale growers are not organized in a cooperative or a grower association; hence they do not coordinate their pricing policies or share market information among themselves. This fragmentation means that MJI will find it easier to negotiate individual agreements and varying prices with each grower. Furthermore, the level of differentiation of the supplied product is low – theoretically, MJI could terminate the buying agreements with the local buyers any time and buy their fruits from growers in neighbouring districts. Finally, Baso estimates that none of the growers has the money or access to the technological know-how to rival MJI and to set up a fruit juice-processing factory.

In the future, the bargaining power of suppliers could gradually increase, though. While it is unlikely that a new market entrant might rival MJI and win over suppliers, the pineapple growers might seek to organize their interests and collectively bargain for higher prices. The threat seems limited, though, because pineapples are in abundant supply and the pineapple growers do not want to lose their only bigger client in the local market. Also, from the retail price of MJI's products the growers can see that Baso has a very slim margin on her own product and might not be able to afford higher input costs?

Bargaining power of buyers

On the bargaining power of their current buyer Baso, thinks it is dangerously high. Baso knows that they are over-dependent on a single key account, Lucky Star wholesalers. According to the perception of wholesalers in the local market, canned pineapples are a commodity and mainly judged by price. She also knows that their large-scale domestic competitor can offer better bulk purchase conditions because it benefits from economies of scale. Like in the local market for orange juice, another disadvantage is that Lucky Star is well aware of its importance as a buyer for MJI Industries.

Regarding their would-be buyers in the grocery stores segment, Baso feels that the bargaining power of these clients would be rather limited. The bargaining power of the grocery stores should be rather limited because there are at least 300 of them operating in the local market and they are not coordinating their interests centrally. However, quite a number of these stores are actually affiliated to a large-scale supermarket chain while others have signed exclusive supplier deals with local wholesalers. This means that MJI would end up negotiating with the central procurement unit of the supermarket chain or again with wholesalers like Lucky Star – both scenarios undermine its bargaining power.



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Threat of substitute products

Baso Kuna considers the threat of substitute products to be very limited. The only substitute products that could be a replacement for canned pineapple are other types of canned fruit like canned pear or canned peaches. They also think, though, that within the product group of canned fruit, preference for a certain type of fruit juice is mostly a matter of taste and that therefore the threat of canned pear or canned peaches to replace canned pineapple is limited.

Baso Kuna discusses the implications of the findings of their competition analysis and deduces the competition-related KSF for their own industry in the local market as presented in figure 7.

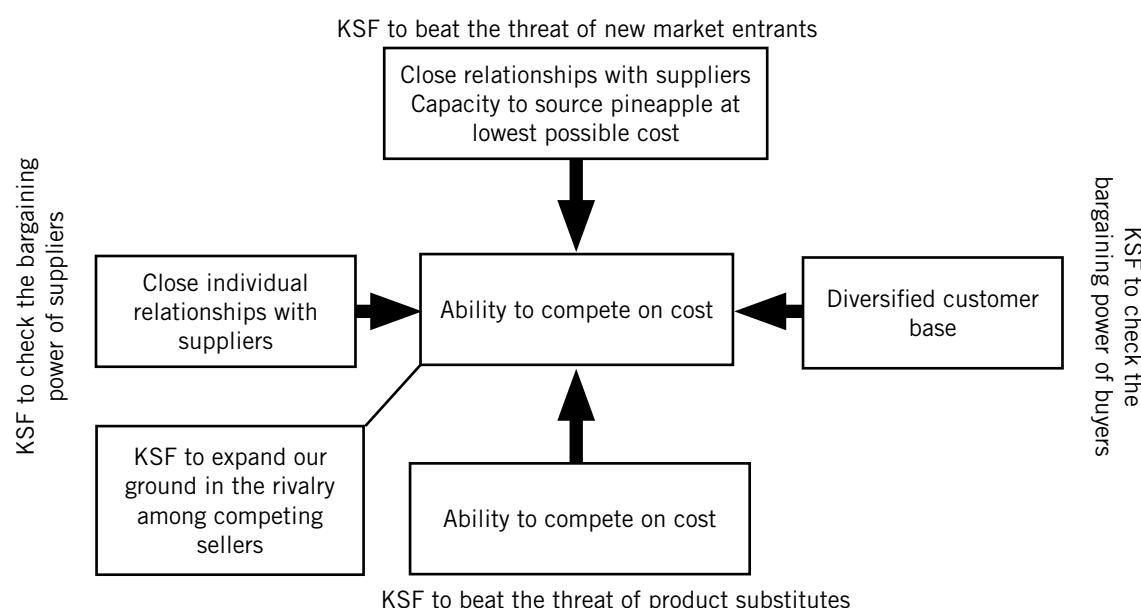


Figure 7: Competition Related KSF in the local market for canned pineapple

MARKET ENVIRONMENT Analysis

In the third step, Baso carries out a market environment analysis using the STEEP approach. They furthermore carry out a stakeholder analysis to further deepen their understanding about the forces and actors in the business environment that influence Mega Juice Industries. The STEEP analysis is presented in figure 8 and the stakeholder analysis in figure 9.

The stakeholder analysis in figure 9 illustrates the strong influence of local suppliers on Mega Juice Industries. It also shows that the local community is a stakeholder in its own right that has expectations from, and brings benefits to MJI. Furthermore, Baso has drawn a separate box for their family, including their child, their own parents and other relatives, because these family members harbor expectations from MJI and at the same time can benefit the company. The table 7 on page 40 specifies the expectations and benefits that MJI can expect from its stakeholders.

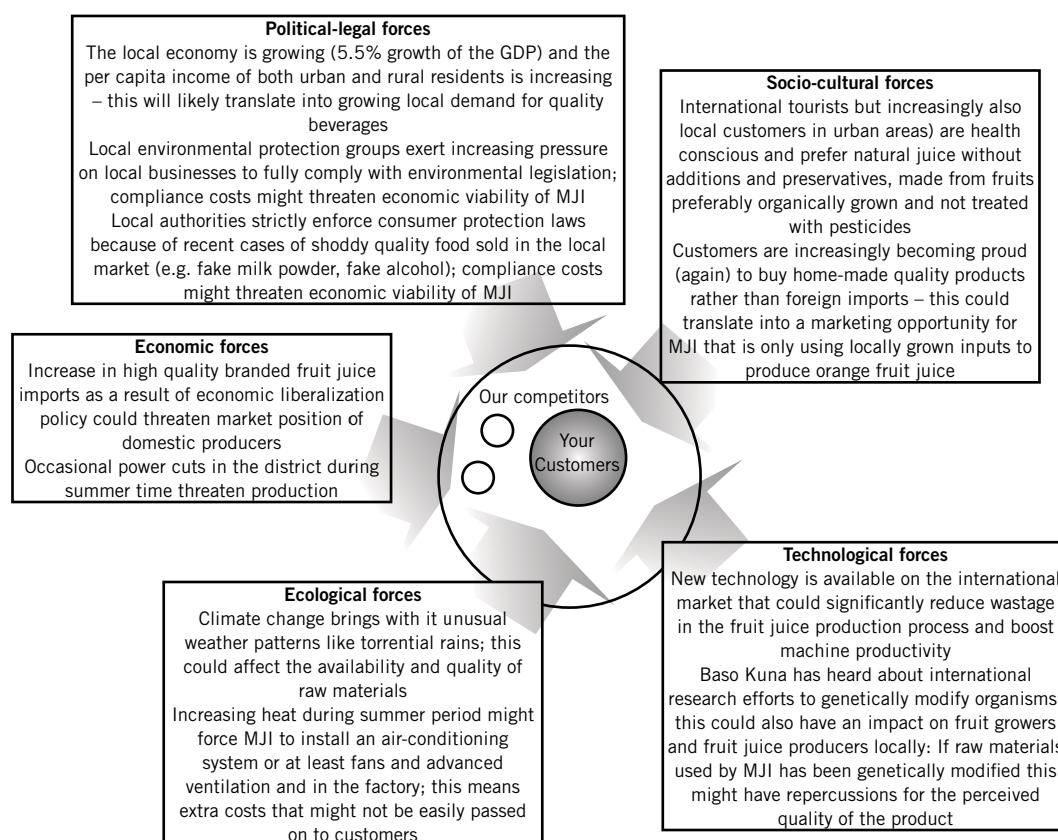


Figure 8: Results of the STEEP analysis for the high quality orange juice market

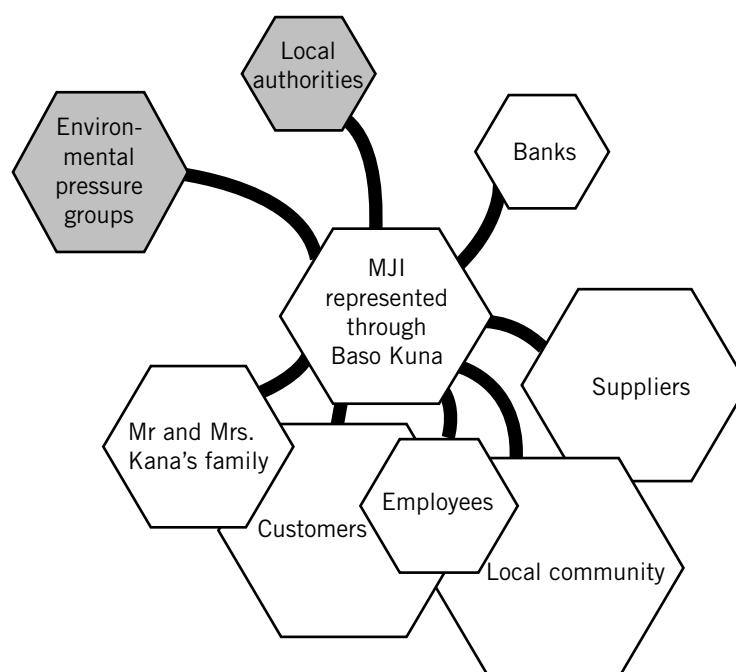


Figure 9: Results of MJI stakeholder analysis

Table 7: Mega Juice Industries stakeholders: Expectations and Benefits

Stakeholder group	What they expect from MJI	How MJI benefits from these stakeholders
Kuna family	Financial support Employment opportunities	Financial support Social protection and belonging
Customers	Quality products at attractive price	Revenue streams for MJI
Employees	Fair treatment and payment for their work Career development opportunities Recognition Job security	Without employees, the primary value creation activities in the business can not be performed
Local community	Employment opportunities for community members Tax income Corporate social and environmental responsibility	Revenue streams from community based customers buying your products Political support
Suppliers	Fair payment for quality raw materials Income security	Reliable supply with raw materials
Banks	Fair returns for their investment	Credit to co-finance growth
Local authorities	Compliance with laws Tax revenue Corporate social and environmental responsibility	Political support
Environmental pressure groups	Compliance with environmental laws	Political support

The key environment-related success factors for MJI in the market for orange juice are:

STEEP analysis

Diversified supplier relations to reduce risk of supply interruption
Capability to brand fruit juice (as a healthy, home-grown product)
Capability to access new generation fruit processing technology
Capability to track developments in research on genetically modified organisms
Capability to generate electricity on-site during summer period
Access to clean production technology to meet/surpass environmental standards
Promoting Waste recycling by local community

Stakeholder analysis

Good community reputation
Good relationships with the extended family
A workplace policy for employees
Good investor relations with the banks
Capacity to maintain good public relations with local political/social pressure groups

Figure 10: MJI Key environment related success factors for the orange juice market

Market for Canned Pineapple

Baso decides not to carry out a separate STEEP analysis for the local market for canned pineapple since the results of their earlier analysis for the local market for high quality orange juice largely apply. For example, the climate change in the province affects

pineapple growers as much as orange growers, and the recent power cuts impact on the production of canned pineapple as much as on the production of orange juice. The main difference is that unlike with orange juice, customers seem to remain clearly less sensitive for the quality and more sensitive for the price of canned pineapple (socio-cultural forces).

Baso also thinks that it is not necessary to carry out a separate stakeholder analysis for the market for canned pineapple since the results of the stakeholder analysis for the market of orange juice largely hold. Possibly, the role of the environmental pressure groups and the local authorities is even less pronounced in the market for canned pineapple since pineapple is considered a commodity and does therefore receive less attention from the public.

The key environment-related success factors for MJI in the market for canned pineapple are:

STEEP analysis

- Diversified and close supplier relationships
- Capability to access new generation fruit processing technology (to bring down costs of production)
- Capability to track developments in research on genetically modified crops
- Capability to generate electricity on-site during summer period
- Access to clean production technology to meet/surpass environmental standards

Stakeholder analysis

- Good community reputation
- Good relationships with the extended family
- A workplace policy for employees
- Good investor relations with the banks
- To a limited extent:* Capacity to maintain good public relations with local political/social pressure groups

Figure 11: MJI key environment related success factors for the canned pineapple market

In the final step of her industry analysis, Baso consolidated the list of customer centered, competition related and market environment related key success factors to survive and thrive in the local markets for high-quality orange juice and canned pineapple as presented in figure 12 and 13.

Analysis of Mega Juice Enterprises Core Competencies

Baso follows the process introduced in chapter 2 of the EYB training to identify the core capabilities of her business looking at the skills and assets that are not matched by competition related to the fruit juice industry. She assessed her financial, human resources, production facilities, company image, research and development, location and marketing related capabilities. Her findings are documented below:

Mega Juice Industries Financial Performance Analysis

From the Balance Sheet and the Profit and Loss Statement of her company, Baso Kuna can see that MJI has been a profitable business in 2010. Its net profit margin has been



Customer-focused KSF

MJI needs to be able to produce high quality fruit juice and to deliver it at the doorstep of the client. Furthermore, MJI needs to be able to respond quickly if products demand peaks and to maintain close and personal relationships with the decision making unit in the hotel (food and beverages managers). MJI needs to be able to produce high quality fruit juice in large volume and at a low unit price. MJI would need to be able to produce high quality fruit juice at a very low price and also need to be able to distribute their product in low quantities, at a low price and with a short lead time. MJI would need to master the capacity to brand its product as a healthy choice (to parents of students) and as a fashionable drink (to students). They would also need to be able to package their juice in small bottles. They would furthermore need to be able to distribute their product on a daily basis, and respond to the fact that demand fluctuates strongly. MJI would have to enter the market for wholesaling food and beverages and to either build up, or take a stake in, a wholesaling company. MJI would also need to be able to offer fruit juice at a low price.

Competitor-centered KSF

Close individual relationships with suppliers
Diversified supplier network
Alliances with other stakeholders in the market (e.g. local authorities, buyers)
Ability to compete on cost with international brands
Ability to compete on customer focus with national brands
Customer centered distribution networks
Capacity to take flexible orders
Diversified customer base
Close relationships with decision makers working for key accounts
Ability to position fruit juice as a quality drink (the 'healthy choice') and as a trendy drink (be 'slim and fit') against fizzy drinks

Market-environment related KSF

Diversified supplier relations to spread risk of supply interruption
Capability to brand fruit juice (as a healthy, home-grown product)
Capability to access new generation fruit processing technology
Capability to track developments in research on genetically modified crops
Capability to generate electricity on-site during summer period
Access to clean production technology to meet/surpass environmental standards
Good community reputation
Good relationships with the extended family
A workplace policy for employees
Good investor relations with the banks
Capacity to maintain good public relations with local political/social pressure groups

KSF in the local market for high quality orange juice

Intimate supplier relationships
Diversified supplier relations
Ability to compete on cost with international brands
Ability to compete on focus with local brands, namely flexibility in accepting orders even on short notice and by delivering our goods to the doorsteps of our clients
Ability to brand the product
Diversified customer base
Intimate relations with key accounts
Good public relations with local authorities and civil society groups
Access to latest generation fruit processing technology
Access to cleaner production technology
De-centralized power generation capacity (e.g. an on-site generator)
Access to market information on local and international best practice in fruit juice production
A workplace policy for employees
Good investor relations
Good community reputation

Figure 12: Analysis of the Market for high-quality orange juice

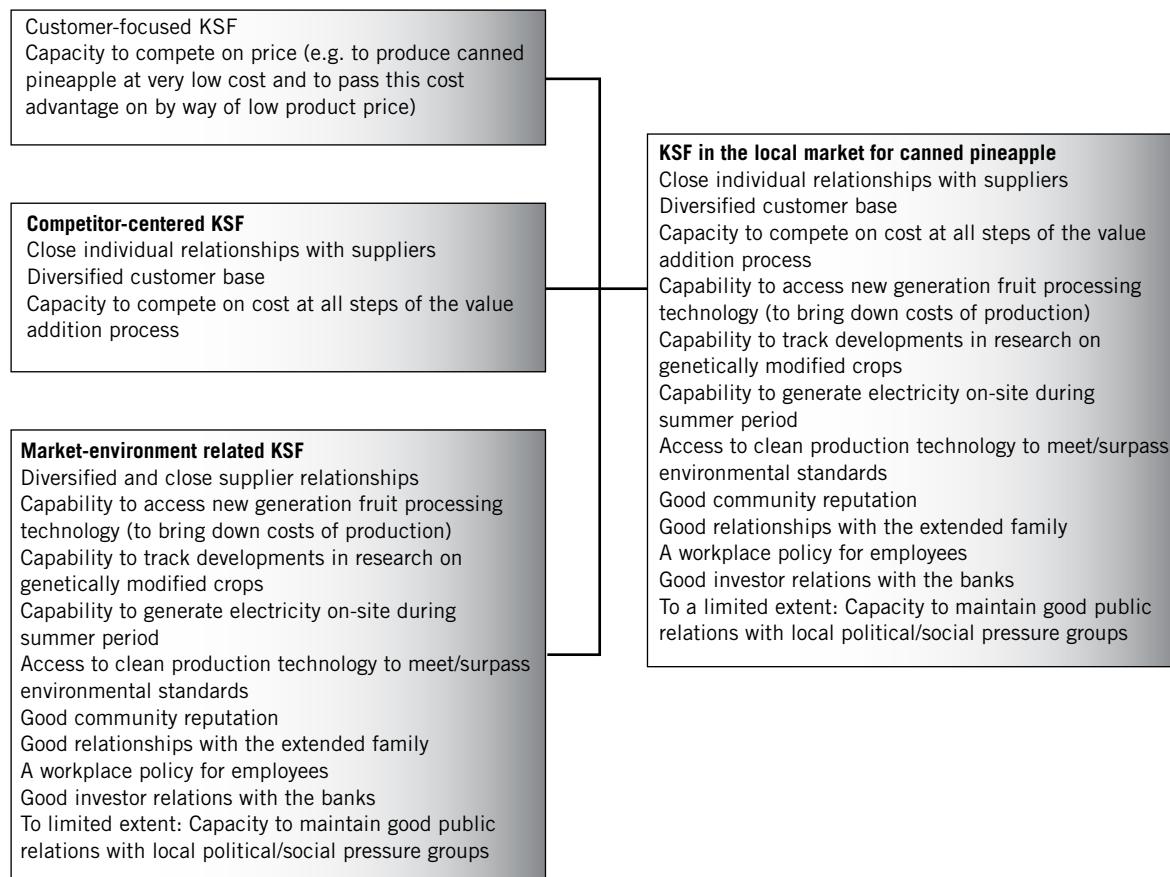


Figure 13: Analysis of market for canned pineapple

comparatively low (4%) but this is a typical feature of the food-processing industry, at least where part of the revenue is generated from the production of goods considered commodities in the local market. She also works out key performance ratios.

The Return on Assets of MJI was 16.9% in 2010 and the Return on Equity was 19.5%. These are good ratios since a risk free investment in a savings account would have only generated an interest of not more than 2% after tax. However, since the company is quite small and has few clients the risk is fairly high and thus needs a high ROE to compensate the investors for the extra risk. Baso should therefore continue to strive for increased return on equity.

The debt to total assets ratio was 0.32 in 2010, a sign that the business was primarily financed from owners' equity and has some leverage to borrow capital from the financial markets.

The current ratio of MJI stood at 2 in 2010. The current ratio tells Baso whether MJ Industries faces a liquidity risk. The ratio of 2 indicates that MJI has no cash flow problems – in fact, the comparatively high ratio indicates that MJI's current assets could be managed more efficiently.



Strength and Weakness Analysis

Baso completed a strengths and weakness checklist for MJI, after adding some factors of critical importance to their specific industry. The results of the assessment are shown in table 8:

Table 8: Strengths and Weaknesses of Mega Juice Industries

Area	Score	Area	Score
Financial resources (access to capital)		Marketing program	
From operations	+	Product characteristics/differentiation	+
Ability to use debt and equity financing	+	Brand name recognition	-
Investors relations	-	Breadth of the product line	-
Production facilities		Customer orientation	+
Cost structure	+	Segmentation/focus	0
Flexible production operations	0	Distribution system	+
Equipment	-	Retailer relationship	-
Access to raw materials	+	Advertising/promotion skills	-
Production capacity	-	Sales force	+
Human resources		Customer service/product support	+
Quality of top management	+	Market information system	-
Quality of line managers	+	Company image	
Culture	-	Product quality reputation	+
Strategic approach to management	-	Company reputation	+
Entrepreneurial thrust	+	Location	
Systematic planning and operations	-	Convenient for suppliers (where applicable)	+
Technically skilled staff	-	Strategically close to customers	+
Workforce attitude and motivation	0	R&D	
		Product/production process innovation capability	0
Other			
Community relations	+		
Relations with local Government	0		

The strengths and weakness checklist shows that MJI has the following core competencies:

- Produces a good of acknowledged quality at comparatively low cost.
- Draws on local supply of raw materials and
- Maintains close customer relations with key accounts in the hotel segment

Baso Kuna also feels that she is a strong manager; both in her capacity as production supervisor and overall manager/sales person, and that she possesses entrepreneurial thrust, but lacks a strategic focus. MJI also has excellent relations with the neighbouring communities, an essential asset for companies producing in the local market. Finally, it seems that MJ Industries would be able to internally raise capital from operations to finance growth.

Baso Kuna is aware, though, that their orange juice, while respected for its quality, does not enjoy any brand recognition in the local market. She also knows that MJI is over-dependent on few clients and that notwithstanding their faith in their own innovation capacity; in practice they have done little to actually develop new offerings in the recent past. Likewise, Baso is concerned that their production technology is increasingly outdated and that their workforce, while doing their job properly, shows currently little enthusiasm for going the extra mile to successfully growing the business.



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Mega Juice Industries competitive advantage

Comparison of the results of MJI external market analysis with the results of their internal company analysis reveals that MJI has a number of potential competitive advantages that might be exploited for growth. These include its recognized quality product, its capacity to compete on price with international brands, its strong supplier network/ access channels to raw materials, and related to it, good relations with local communities in the district. Furthermore, MJI has intimate customer relationships with key accounts in the hotel segment and operates a customer-centred distribution system that allows the company to compete on focus with the national large-scale competitors.

The analysis also shows, though, that MJI is currently not in a position to match some of the other critical success factors in the industry, namely the need for a diversified customer base, production process innovation capability and the capability to build up a brand. Particularly the tight control of Lucky Star wholesalers over shelf space in local shops translates into a competitive disadvantage for MJI.

Baso uses the results of 14 and 15 to complete a business portfolio analysis, mapping MJI's respective competitiveness in the local market for orange juice and the local market for canned pineapple. The results of the portfolio analysis are illustrated in figure 16.

Baso Kuna concludes from the matrix that MJI should focus its business expansion effort on its orange juice product. Within the market for orange juice, MJI would focus on further penetrating the existing hotel segment and entering the new segment of school canteens might be the most promising intervention points for growing the business. MJI should also continue selling orange juice to the wholesaler since orders are secure until 2011 and provide Mr. and Mrs. Kuna with a profitable revenue stream. In turn, pushing for entry into the segment of tourist guesthouses or grocery stores seems largely unattractive.

By direct comparison, the market for canned pineapple looks much less attractive for MJI. Sales are flat, the current buyer agreements are about to expire and the current clients will likely push for lower prices while potential clients show limited demand for the product. Baso decides that MJI will divest from this market and redeploy the resources freed in the process to push for sales growth in the market for orange juice.

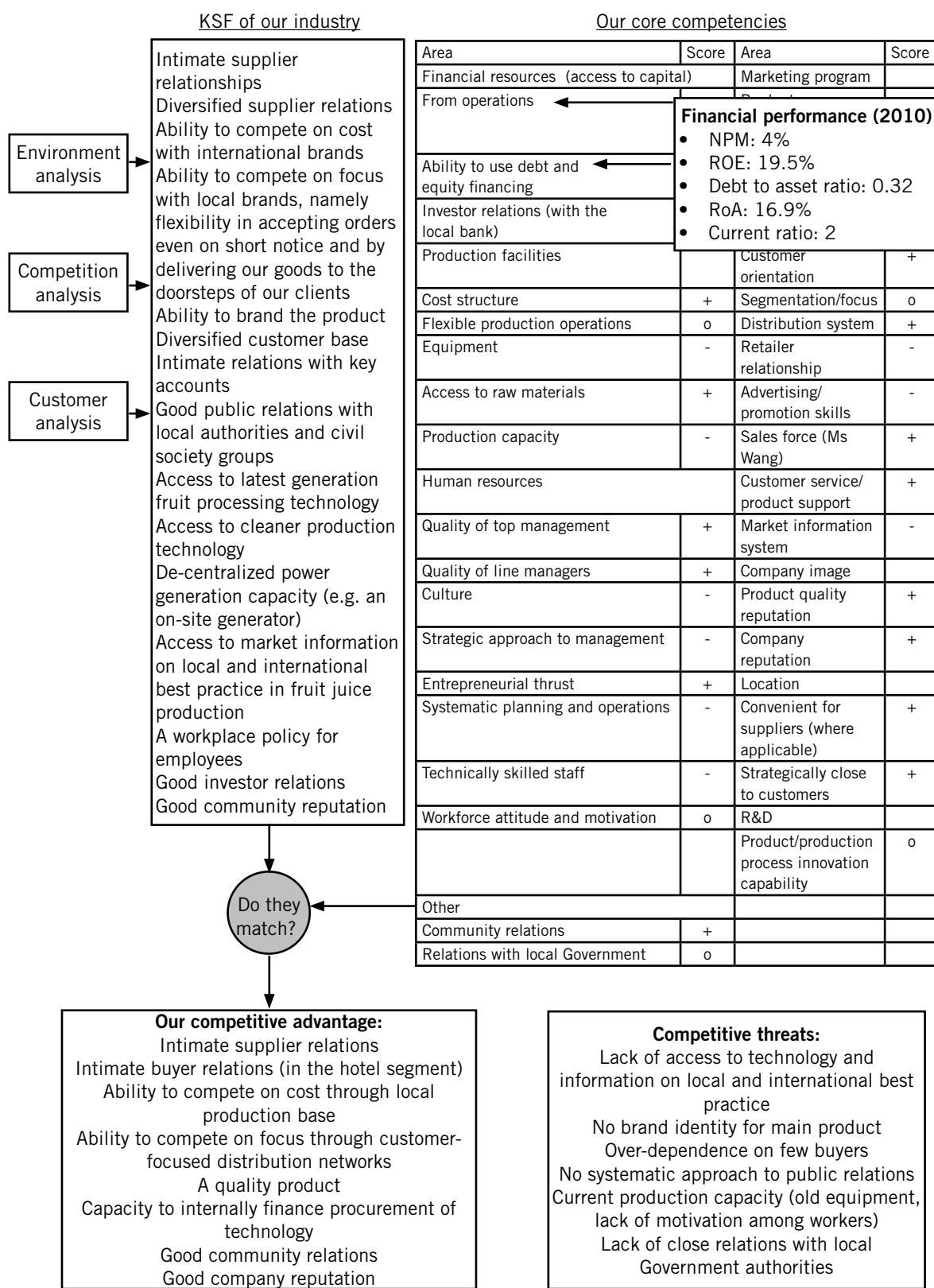


Figure 14: The competitive advantage of MJ in the orange juice market

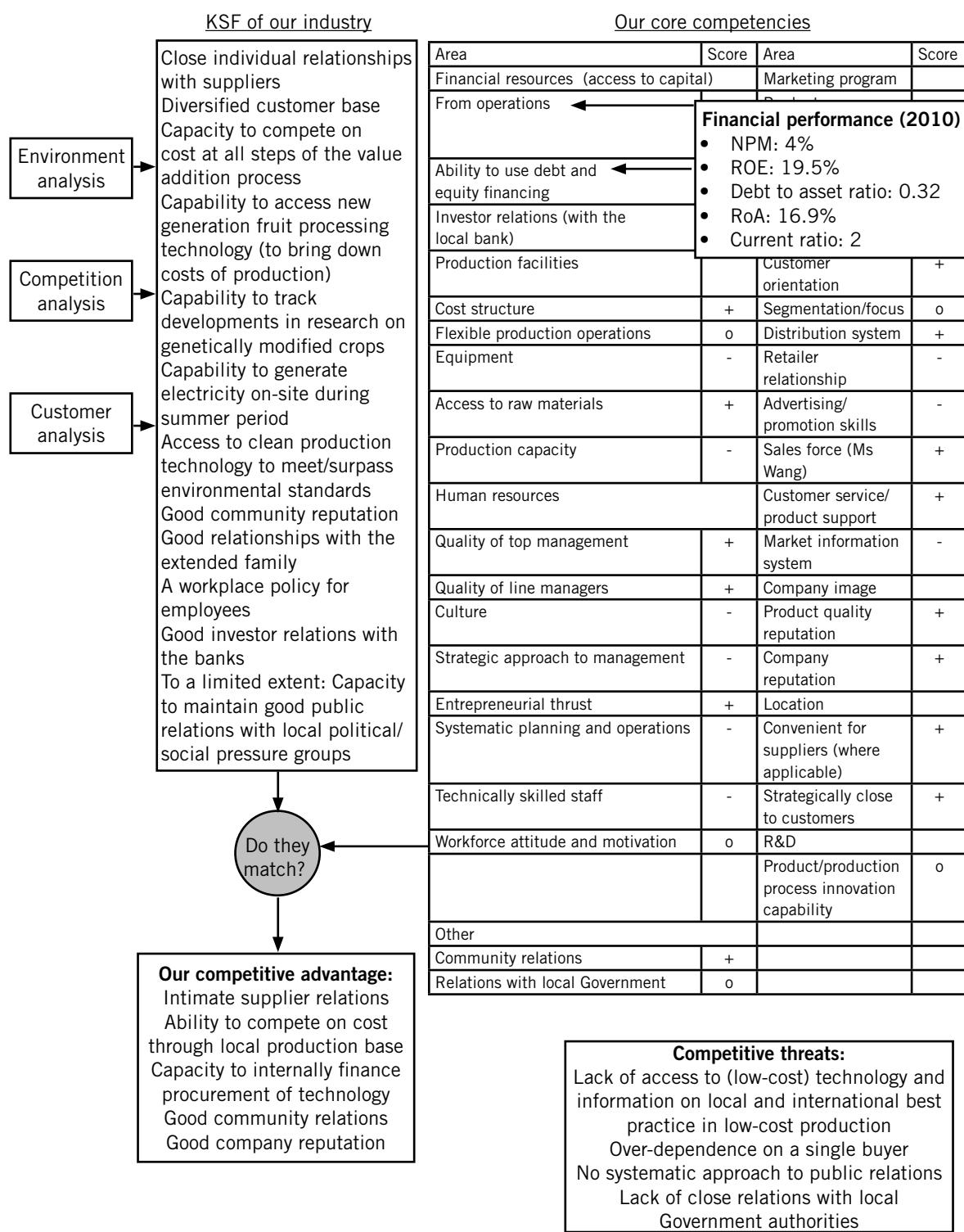


Figure 15: The competitive advantage of MJL in the market for canned pineapple

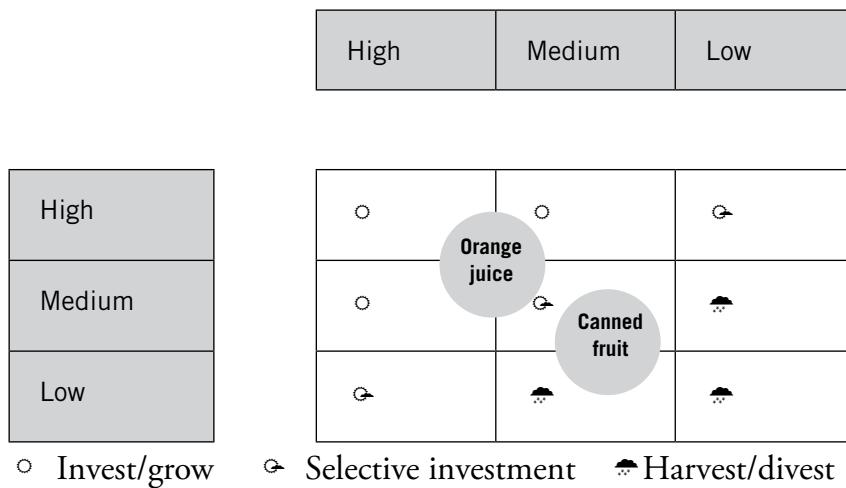


Figure 16: Comparative Analysis of MJI's Product Portfolio

After completing the three steps of the market analysis and identifying the main intervention point for her future growth drive, Baso Kuna revisits her draft business vision and goals in the light of her findings.

She decides to focus her business vision on the market for high quality fruit juice by erasing the reference to 'other processed fruit products' – in a reflection of her strategic decision to divest from the market for canned pineapple.

THE CONSOLIDATED DRAFT VISION OF MJ INDUSTRIES IS TO...

...become an internationally competitive company that meets the demand of consumers in the country for high quality fruit juice and other processed fruit products while ensuring attractive returns for our shareholders. We acknowledge our social responsibility to the welfare of our employees and our environmental responsibility to the communities with whom we are involved."

Baso Kuna then reviewed her business objectives and corresponding performance measures. She feels that at this stage most of her assumptions hold but she decides to slightly scale back her profit expectations for 2011 and 2012 because she now sees more clearly that she will likely have to initially invest in people and technology before sales and profits will pick up speed.

Baso Kuna also decides to raise the threshold for close supplier relationships because she sees from the market analysis that these relationships are a critical success factor in the local market.

Finally, she decides to add one objective related to the collection and processing of information on the local and international fruit processing and beverages industries because she knows from her market analysis that MJI is currently weak on tracking local and international developments in fruit processing and beverage production, and that this information is potentially critical to innovate her own products and to access latest technology.

The revised list of draft business objectives and corresponding performance measures for MJI is illustrated table 9.



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Table 9: Refined business objectives and performance thresholds for MJI

Objective	Measures	Target				
		2012	2013	2014	2015	2016
Attractive returns	Return on assets in % (annual profit after tax x100 divided by value of fixed assets)	15	15	20	25	25
High profits	Net Profit Margin in%	4	4	5	6	7
Low cost structures	Ratio of overheads to total costs (administrative expenses x 100 divided by total business expenses)	0.02	0.05	0.08	0.08	0.08
High customer satisfaction	Customer satisfaction rate in% (no of satisfied customer x 100 divided by total no of customers p.a.)	85	90	90	90	90
Close relationships with buyers	Average time spent with each business customer (no of days per year per business customer)	5	5	6	7	7
Good community reputation	No of community projects supported by MJI	1	2	2	2	3
High operational efficiency	Machine productivity (no of litres per machine p.a.)	60,000	60,000	60,000	60,000	60,000
	Lead time, production (time in days from receiving a product order to product delivery)	2	2	2	2	3
Emphasis on quality	Product reject rate (no of deliveries rejected by customers x 100 divided by total no of deliveries made p.a.)	5	5	5	3	2
Close relationships with suppliers	Supplier turnover (no of suppliers lost x 100 divided by total number of suppliers p.a.)	15	15	15	10	10
Systematic market information management	No of new document entries in the market information database of MJI	100	150	200	250	300
Cleaner production	Recycling rate, machine oil (litres of machine oil recycled x 100 over total litres of machine oil used in production p.a.)	0	25	50	75	100
	Wastage rate, raw materials (kilograms of orange wasted x 100 divided by total kilograms of oranges processed in production p.a.)	10	9	9	8	7



Qualified workers	No of days in training per machine operators per year	10	9	9	8	7
	Wastage rate, raw materials (kilograms of orange wasted x 100 divided by total kilograms of oranges processed in production per year)	10	85	85	85	85
Motivated workers	Worker satisfaction rate (no of workers satisfied with salary package x 100 divided by total no of workers per year)	60	75	75	80	85
High innovation capacity*	No of new products to market each year	1	1	2	2	2

HOW CAN I GROW MY BUSINESS?



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Mega Juice Industries Growth Strategy Matrix

Guided by the growth strategy matrix Baso brainstorms on the range of growth strategies for her business. She takes the competitive advantage of her own business in the market for orange juice as a starting point and comes up with strategy combinations for each box in the matrix. At this stage, even far-fetched ideas count.

Refer to table 10 and 11 for the results of the idea generation effort.

Table 10: MJI's Growth Strategy Matrix

	Market penetration	Market development	Product development	Product diversification
Cost	The strategic emphasis is on cost to penetrate markets. MJI might boost output to reduce the production costs per litre of orange juice, and pass the savings on in the form of lower prices to the wholesale customer.	The strategic emphasis is on exploiting a cost advantage to enter new markets. MJI might attract new clients in the guesthouse segment by exploiting its cost advantage as a local producer and by offering its quality fruit juice at initially lower prices or by granting quantity discounts	The strategic emphasis is on exploiting a cost advantage to develop new products. MJI might develop a new product formula that reduces the actual fruit content in the juice while retaining the taste of freshness.	The strategic emphasis is on diversification to exploit a cost advantage. MJI might buy into a neighboring citrus plantation and produce its own oranges to cut material costs and to compete on price
Differentiation	The strategic emphasis is on market penetration by means of product differentiation. MJI could build up a brand identity for its orange juice and market it as a premium product to other five star hotels in the hotel segment	The strategic emphasis is on new market development by means of product differentiation. MJI could build up a brand identity for its orange juice and market it as premium product to wholesalers.	The strategic emphasis is on the development of new and differentiated products. MJI might set up a cosmetic product line made of orange extracts and market the product via the spas of the five star hotels.	The strategic emphasis is on product diversification with thrust on differentiation. MJI might offer day-tours for foreign tourists to spend an afternoon on a local citrus plantation for a authentic experience of local rural life
Focus	The strategic emphasis is on focus to penetrate markets. MJI might increase its sales in the hotel segment by hiring out mobile orange juice bars complete with processing equipment and barkeeper for hotel functions where hotel guests can order freshly squeezed juice-to-go.	The strategic emphasis is on market development with an emphasis on focus. MJI could build up a brand identity for its orange juice, pack it in 0.25 tetra-packs customized for students and market the product via school kiosks to school children.	The strategic emphasis is on product development with thrust on focus. MJI might develop a chocolate toffee with orange jam filling and market the product via the school kiosks to school children.	The strategic emphasis is on product diversification with thrust on focus. MJI might enter the retail market for farming inputs and use its supplier relationships to sell fertilizer to local orange growers.



Baso then refers back to the results of her market analysis to find out which of the scenarios described in the growth strategy matrix would fit best with the competitive advantage of MJI. She also discusses which of these growth scenarios would potentially motivate her and her employees most, because she knows that dedication to the growth drive will be crucial for success. Eventually, she short-lists three growth scenarios for further analysis. The short-listed scenarios are highlighted in the growth matrix below.

Table 11: Shortlisted growth scenarios for further analysis

	Market penetration	Market development	Product development	Product diversification
Cost	The strategic emphasis is on cost to penetrate markets. MJI might boost output to reduce the production costs per litre of orange juice, and pass the savings on in the form of lower prices to the wholesale customer.	The strategic emphasis is on exploiting a cost advantage to enter new markets. MJI might....	The strategic emphasis is on exploiting a cost advantage to develop new products. MJI might ...	The strategic emphasis is on diversification to exploit a cost advantage. MJI might ...
Differentiation	The strategic emphasis is on market penetration with thrust on product differentiation. MJI could ...	The strategic emphasis is on new market development with thrust on product differentiation. MJI could ...	The strategic emphasis is on the development of new and differentiated products. MJI might ...	The strategic emphasis is on product diversification with thrust on differentiation. MJI might ...
Focus	The strategic emphasis is on focus to penetrate markets. MJI might increase its sales in the hotel segment by hiring out mobile orange juice bars complete with processing equipment and barkeeper for hotel functions where hotel guests can order freshly squeezed juice-to-go.	The strategic emphasis is on market development with an emphasis on focus. MJI could build up a brand identity for its orange juice, pack it in 0.25 tetra-packs customized for students and market the product via school kiosks to students....	The strategic emphasis is on product development with thrust on focus. MJI might ...	The strategic emphasis is on product diversification with thrust on focus. MJI might....

Mega Juice Industries Marketing initiatives in Support of Business Growth

After carefully studying the marketing initiatives that a business might launch in support of business growth, Baso used table 12 to outline the marketing initiatives and related activities that they would launch in support of each growth strategy shortlisted in the growth strategy matrix for MJI.

They also specify to which objective and which key performance indicator of the business these marketing initiatives would relate, who would be in charge and by when they would intend to complete a given activity. Finally, they come up with a rough estimation of budget required to complete the activity.

It quickly emerges that some marketing initiatives would need to take place in any growth scenario (e.g. systematic market information management) while other initiatives are scenario-specific (e.g. branding). Baso can already see that many of her marketing initiatives will also have implications for the operations and HRM function of MJI. She adds a few notes on these interrelationships in the table. Baso makes a note if she feels that an indicator is missing or if she needs to do further research before she can fill in a given budget figure.

Refer to table 12 for the marketing action plan for each growth strategy developed by Baso.

MJI Operations Department Initiatives in Support of Business Growth

After carefully studying the initiatives that might be launched by the operations department in support of business growth, and leaning back on the draft marketing plans developed earlier, Baso lists the operations initiatives and related activities that MJI would launch in support of growth for each short-listed growth strategy separately.

It quickly emerges that some initiatives – e.g. decommissioning the production line for canned pineapples - will need to be performed in any growth scenario, while other initiatives like setting up an additional mobile production line are scenario-specific.

Refer to table 13 for the operations action plans developed by Baso for each short-listed growth strategy.

MJI Human Resources Management Department Initiatives in Support of Growth Strategy

After carefully studying the HRM initiatives that might be launched by the HRM department in support of business growth, and leaning back on the draft marketing plans and operations plans developed earlier, Baso finally develops HRM action plans for each short-listed growth strategy for MJI.

It turns out that the initiatives to be performed by the HRM function in all three growth scenarios are largely similar but that the amount of investment needed in the process substantially differs from scenario to scenario.

Refer to table 14 for the HRM action plans developed by Baso for each short-listed growth scenario.



Table 12: Marketing Action Plan for each selected growth strategy

Corresponding marketing initiatives	Related to the following objective/ indicator	Activities	By When	By whom	Budget
Set up a market information system	Systematic market information management No of new document entries in the market information database of MJI per year	Create a market research task force Procure one additional computer and upgrade internet access to broadband Procure a market information management software Recruit a local university graduate to collect market information and to set up and manage the database >HRM	2012 2012 2012	Baso Baso Baso	- 10,000 5,000
Set up a key accounts management system	Close relationships with buyers High customer satisfaction Customer satisfaction rate in % Average time spent with each business customer	Take membership in the local business association Subscribe to specialty magazines for fruit processing companies/link up with e-market information providers Visit national food processing technology fairs Create a profile for each key account in the marketing database and continuously update these profiles Assign each key account to a staff member Maintain liaison with the key accounts	2013 2012 Each year 2013	Baso Baso Baso Marketing assistant Baso	500 p.a. 1,000 p.a. 2,000 p.a. - - 10,000 p.a.
Systematize community relationships	Good community reputation No of community projects supported by company	Evaluate key account feedback in periodic intervals Carry out a community needs appraisal to identify priority needs/ projects Implement community projects Monitor, evaluate and document outcomes and impact Set up a public relations focal point in the business to maintain liaison with the community and to communicate the results of the projects	Every six months 2013 2013 2013 onwards 2013 onwards	Baso Marketing assistant Marketing assistant Marketing assistant Baso	1,000 p.a. 5,000 20,000 p.a. 1,000 p.a. 5,000 p.a.
Growth strategy 1: Market penetration by means of cost					

Table 12: Marketing Action Plan for each selected growth strategy (continued)

Corresponding marketing initiatives	Related to the following objective/indicator	Activities	By when	By whom	Budget
Set up a market information system	Systematic market information management No of new document entries in the market information database of MJI per year	Create a market research task force Procure one additional computer and upgrade internet access to broadband Procure a market information management software Recruit a local university graduate to collect market information and to set up and manage the database Take membership in the local business association Subscribe to specialty magazines for fruit processing companies/link up with e-market information providers Visit national food processing technology fairs	2012 2012 2012 2012 2012 2012	Baso Baso Baso Baso Baso Baso	- 10,000 5,000 refer to HRM plan 2000 p.a. 1,000 p.a. 2,000 p.a.
Set up a key accounts management system	Close relationships with buyers High customer satisfaction Customer satisfaction rate in % Average time spent with each business customer	Create a profile for each key account in the marketing database and continuously update these profiles Assign each key account to a staff member Maintain liaison with the key accounts Evaluate key account feedback in periodic intervals	2012 2012 2012 Every six months	Baso Baso Baso Baso	Marketing assistant - 10,000 p.a. 1,000 p.a.
Develop the enhancing service for the core product	Customer satisfaction High innovation capacity Customer satisfaction rate	Research actual demand of hotels for this service Study the range of technical solutions for the mobile fruit juice bar >OPERATIONS DEPARTMENT Procure the mobile juice processing machines Procure second vehicle to transport the equipment Recruit two part-time barkeepers, a driver and a helper Promote the new service to the hotel segment (e.g. with flyers, individual meetings with hotel managers)	2012 2012 2012 2012 2012 refer to HRM plan	Baso Baso Baso Baso Baso	10,000 2,000 50,000? 80,000 2000 p.a.
Growth strategy 2 Market Penetration with thrust on focus	Good community relations No of community projects supported by company	Carry out a community needs appraisal to identify priority needs/projects Implement community projects Monitor, evaluate and document outcomes and impact Set up a public relations focal point in the business to maintain liaison with the community and to communicate the results of the projects	2013 2013 2013 2013	Marketing assistant Marketing assistant Marketing assistant Marketing assistant onwards	5,000 20,000 p.a. 1,000 p.a. 5,000 p.a.



Table 12: Marketing Action Plan for each selected growth strategy (continued)

Corresponding marketing initiatives	Related to the following objective/indicator	Activities	By when	By whom	Budget
Set up a market information system	Systematic market information management No of new document entries in the market information database of MJII per year	Create a market research task force Procure one additional computer and upgrade internet access to broadband Procure a market information management software Recruit a local university graduate to collect market information and to set up and manage the database Take membership in the local business association Subscribe to specialty magazines for fruit processing companies/link up with e-market information providers Visit food processing technology fairs Develop a distinctive product name Define the distinctive product features (packaging in small containers!!) >OPERATIONS Develop a distinctive visual identity Develop a distinctive personality Decide a branding strategy Close relationships with buyers Average time spent with each business customer	2012 2012 2012 2012 2013 2012 2012 2012 2012 2012 2013 2013 2013	Baso Baso Baso Baso Baso Baso Baso Baso Baso Baso Baso Baso Baso	- 10,000 5,000 Refer to HRM plan 500 p.a. 1,000 p.a. 2,000 p.a. refer to HRM plan 32,000 5,000 80,000 refer to HRM plan 5,000 20,000 p.a. 1,000 p.a. 5,000 p.a.
Brand the fruit juice product	Emphasis on quality Product rejection rate				
Expand the sales force					
Expand the product distribution system	Operational efficiency Lead time, production				
Systematize community relationships	Good community relations No of community projects supported by company	Carry out a community needs appraisal to identify priority needs/projects Implement community projects Monitor, evaluate and document outcomes and impact Set up a public relations focal point to liaise with the community and to communicate the results of the projects	2013 2013 2013 onwards 2013 onwards	Marketing assistant Marketing assistant Marketing assistant Marketing assistant	5,000 20,000 p.a. 1,000 p.a. 5,000 p.a.

Growth strategy 3: New Market Development with thrust on focus

Table 13: Operations initiatives for each selected growth strategy



International
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Growth strategy 1: Market penetration by means of cost	Corresponding operations initiatives	Related to the following objective/indicator	Activities	By when	By whom	Budget
	Close down production line for canned pineapples	High profits Attractive returns Net Profit Margin Return on Assets	Decommission equipment Re-train workers to carry out fruit juice production	2012 refer to HRM plan	Baso Kuna	2,000
	Fully utilize existing production capacity for fruit juice	Emphasis on quality High operational efficiency Machine productivity Product reject rate	Participate in a Work Improvement in Small Enterprises seminar (WISE) to identify no-cost, low-cost productivity improvement measures Train staff in workplace improvement Upgrade workstations and reorganize workflows Develop a monitoring system to track output	2012 refer to HRM plan 2012 2012	Baso Kuna Baso Kuna, Consultant?	1,000 5,000 1,000
	Add new capacity to the existing production line	High profits	Forecast capacity needs Carry out market research on equipment Buy and install the equipment Retrain current staff or recruit new workers	2012 2013 2013 refer to HRM plan	Baso Kuna Marketing assistant? Baso Kuna	- 1,000 100,000



Table 13: Operations initiatives for each selected growth strategy (continued)

Growth strategy 2 Market penetration with thrust on focus	Corresponding operations initiatives	Related to the following objective/indicator	Activities	By when	By Whom	Budget
	Close down production line for canned pineapples	High profits Attractive returns Net Profit Margin Return on Assets	De-install and sell equipment Re-train workers to carry out fruit juice production	2012 refer to HRM plan	Baso Kuna	2,000
Set up an additional mobile production line	Emphasis on quality Attractive returns High profits Product reject rate Return on Assets	Forecast capacity needs	2012	Baso Kuna	-	
		Carry out market research on the mobile unit	2013	Marketing assistant?	1,000	
		Buy the mobile unit	2013	Baso Kuna	50,000	
		Retrain current staff or recruit new workers to operate the mobile unit	refer to HRM plan			
		Develop a quality manual for the use of the mobile unit	2013	Baso Kuna	2,000	
		Test-run the new equipment prior to market introduction	2013	Baso Kuna	2,000	

Table 13: Operations initiatives for each selected growth strategy (continued)



International Labour Organization

Corresponding operations initiatives	Related to the following objective/indicator	Activities	By when	By whom	Budget
Close down production line for canned pineapples	High profits Attractive returns Net Profit Margin Return on Assets	Decommission equipment Re-train workers to carry out fruit juice production	2012 refer to HRM plan	Baso	2,000
Fully utilize existing production capacity for fruit juice	High operational efficiency Attractive returns Machine productivity Return on Assets	Participate in a Work Improvement in Small Enterprises seminar (WISE) to identify no-cost, low-cost productivity improvement measures Train staff in workplace improvement	2012 refer to HRM plan	Baso, consultant?	1,000
		Upgrade workstations and reorganize workflows in coordination with quality improvement measures (refer below)	2012	Baso	5,000
		Upgrade existing machines to package products in line with branding strategy	2012	Baso, Consultant?	20,000
		Develop a monitoring system to track output	2012	Baso	1,000
Add new capacity to the existing production line	High profits Attractive returns Return on Assets	Forecast capacity needs Carry out market research on new production machinery Determine the best way of adding new production capacity (add new line or expand existing line?) Buy and install the equipment Retrain current staff or recruit new workers	2012 2013 2013 2013 refer to HRM plan	Baso Marketing assistant? Baso Baso	- 1,000 - 100,000
Set up a standards-based quality management system	Emphasis on quality Cleaner production Low cost structures Product rejection rate Recycling rate, machine oil Wastage, raw materials Ratio of annual administration costs over total costs	Seek professional advise on the establishment of a suitable standards-based quality management system for SME Develop a quality management manual together with the consultant Train staff Implement quality improvement measures Seek certification as standard compliant company (?)	2013 2013 2012-13 2013-14 2012	Baso Consultant Consultant Baso, consultant Consultant	

Table 14: Human Resources Management initiatives for each selected growth strategy

Corresponding HRM initiatives	Related to the following objective/indicator	Activities	By when	By whom	Budget
Create more dynamic organizational structures	Low cost structures? Ratio of administrative costs to total costs	Create a separate marketing function Consolidate finance/Admin tasks in a separate function Create a separate HRM function Create a middle management layer (also see below)	2012 2012 2012 2012	Baso Baso Baso Baso	- - - See below
Develop existing staff (incl. retraining of workers formerly assigned to production of canned pineapple and development of future line managers)	Qualified workers No of days in training per machine operator per year Training course pass rate	Assess staff needs Draw development plans for existing staff Scan the market for training suppliers Implement staff development plans	2012 2012 2012	Baso Baso together with staff Marketing assistant	2,000 5,000 30,000 p.a.
Recruit new staff (1 marketing assistant)	Qualified workers No of days in training per machine operator per year Training course pass rate	Monitor and evaluate outcome of the development effort Identify new staff Draw development plans for new staff Implement development plans for new staff	continuous 2012 2012 2013 2012	Baso Baso Mr Kuna Baso, local providers	2,000 p.a. 2,000 1,000 20,000 10,000
Delegate non-core management tasks	Motivated workers Worker satisfaction rate (no of workers satisfied with salary package \times 100 divided by total no of workers per year)	Monitor and evaluate outcome of the development effort Identify non-core management tasks Identify staff with capability/willingness to assume functional management tasks (or: recruit new staff) Train the future line managers	continuous 2012 2012 2013	Baso Baso Baso, local providers	3,000 p.a. - see above
Create effective work relationships	Motivated workers Worker satisfaction rate (no of workers satisfied with salary package \times 100 divided by total no of workers per year)	Monitor and counsel the line managers on the job Carry out a survey about staff satisfaction with compensation packages Issue regular labour contracts for all workers	continuous 2013 2013	- Baso Baso Kuna together with lawyer	- 1,000 5,000
		Set up written grievances procedures Upgrade salary packages, particularly for future line managers	2013 2012-14	Baso Kuna together with lawyer Baso Kuna	2,000 100,000 110,000 115,000

Growth strategy 1: Market penetration by means of cost

Table 14: Human Resources Management initiatives for each selected growth strategy (continued)

Corresponding HRM initiatives	Related to the following objective/ indicator	Activities	By When	By whom	Budget
Create more dynamic organizational structures	Low cost structures? Ratio of administrative costs to total costs	Create a separate marketing function Consolidate finance and admin tasks in a separate function	2012 2012	Baso Kuna Baso Kuna	- -
	Create a separate HRM function	Create a middle management layer	2012	Baso Kuna	-
Develop existing staff (incl. retraining of workers formerly assigned to production of canned pineapple and development of future line managers)	Qualified workers No of days in training per machine operator per year Training course pass rate	Assess staff needs Develop staff development plans Scan the market for training suppliers Implement staff development plans	2012 2012 2012	Baso Kuna Baso Kuna together with staff Marketing assistant	2,000 5,000 1,000
Recruit new staff (one marketing assistant, two part-time barkkeepers)	Qualified workers No of days in training per machine operator per year Training course pass rate	Monitor and evaluate outcome of the development effort Identify new staff Draw development plans for new staff Implement staff development plans	2012 2012 2012 2010/2013	Baso/ external providers continuous Baso Baso , local providers	20,000 p.a. 50,000 30,000 10,000 30,000 20,000
Delegate non-core management tasks	Motivated workers Worker satisfaction rate (no of workers satisfied with salary package x 100 divided by total no of workers per year)	Monitor and evaluate outcome of the development effort Identify non-core management tasks Identify staff with capability/willingness to assume functional management tasks Train the future line managers	2012 2013 2013	Baso Baso Baso , local providers	- 3,000 p.a. see above see above
Create effective work relationships	Motivated workers Worker satisfaction rate (no of workers satisfied with salary package x 100 divided by total no of workers per year)	Monitor and counsel the line managers on the job Carry out a survey about staff satisfaction with compensation packages Issue regular labour contracts for all workers	continuous 2012 2013	Baso Baso, together with lawyer	- 1,000 5,000
		Set up written grievances procedures Upgrade salary packages, particularly for future line managers	2012 2013	Baso, together with lawyer Baso	2,000 120,000 p.a.

Growth strategy 2: Market penetration with thrust on focus

Table 14: Human Resources Management initiatives for each selected growth strategy (continued)

Corresponding HRM initiatives	Related to the following objective/indicator	Activities	By when	By whom	Budget
Create more dynamic organizational structures	Low cost structures? Ratio of administrative costs to total costs	Create a separate marketing function Consolidate finance and admin tasks in a separate function Create a separate HRM function Create a middle management layer Assess staff needs Develop staff development plans Scan the market for training suppliers Implement staff development plans Monitor and evaluate outcome of the development effort	2012 2012 2012 2012 2012 2012 2012 2012 continuous	Baso Baso Baso Baso Mr s Mabaso Baso , together with staff Marketing assistant Baso / external providers Baso	- - - See below 2,000 5,000 1,000 70,000 p.a. 2,000 p.a.
Develop existing staff (incl. retraining of workers formerly assigned to production of canned pineapple and development of future line managers)	Qualified workers No of days in training per machine operator per year Training course pass rate	Identify and select new staff Draw development plans for new staff Implement staff development plans Monitor and evaluate outcome of the development effort	2012 2012 2012 continuous	Baso Baso Baso, local providers Baso	2,000 - 60,000 p.a. 2,000 p.a.
Recruit new staff (One marketing assistant, two full-time sales persons, one driver, two helpers)	Qualified workers No of days in training per machine operator per year Training course pass rate	Identify non-core management tasks Identify staff with capability/willingness to assume functional management tasks (or: recruit new staff) Train the future line managers Monitor and counsel the line managers on the job	2012 2012 2012 continuous	Baso Baso Baso, local providers -	2,000 - 30,000 p.a. -
Create effective work relationships	Motivated workers Worker satisfaction rate (no of workers satisfied with salary package x 100 divided by total no of workers per year)	Carry out a survey about staff satisfaction with compensation packages Issue regular labour contracts for all workers Set up written grievances procedures Upgrade salary packages, particularly for future line managers	2012 2013 2013 2013	Baso Baso , together with lawyer Baso, with lawyer Baso	1,000 5,000 2,000 180,000 p.a.

Growth strategy 3: **New Market Development with thrust on focus**

Step 1: Merging the marketing, operations and human resources management action plans

Baso merges the draft marketing, operations and HRM plans for each short-listed growth strategy in a single action plan. First, she synchronizes the timing and budget for her various initiatives under each growth scenario. For example, she further increases the allocations for staff salaries made in the third growth scenario since she had forgotten to add the salary expenses for her two new sales persons.

Also she reviews the deadline for the completion of some of the activities in all three growth scenarios because workload seems unsustainable particularly in the first and second year – after all, MJI is supposed to continue operating and earning money while the business expands.

Baso also fills in the missing budget figures. For example, she contacts a local quality management consultant to get a quote for the introduction of a standards based quality management system. She also checks on the approximate costs of new equipment in each of the growth scenario. At this stage, none of the figures is final but sufficiently detailed to allow for a financial appraisal.

Finally, Baso double-checks to what extent the strategic initiatives listed for each growth strategy corresponds to the list of draft business objectives and performance measures for MJI. To her surprise, she finds out that none of her three growth plans reflects the non-financial business goal of 'close supplier relationships'. Therefore, she decides to add to each growth strategy one initiative dedicated to the objective of close supplier relationships.

Baso also decides to add two more HRM performance measures ('worker satisfaction rate with career development perspectives' and 'speed of management decision making') to better capture increased worker motivation and more dynamic organizational structures. She also adds one more operations indicator ('growth in annual production output') to better capture the financial performance of MJI in a given growth scenario. Furthermore, she replaces one performance indicator related to the objective of 'innovation' ('no of new products to market' by '% of key accounts describing MJI as highly innovative') to better grasp this non-financial business objective of Mega Juice Industries.

The MJI consolidated action plans for each short-listed growth strategy are presented in table 15 including the updated list of MJI business objectives and performance measures.



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Table 15: MJI Consolidated Action Plan

	Initiative	Related to the following objective/ indicator	Activities	By when	By whom	Budget
Growth strategy 1: Market penetration by means of product differentiation	Marketing initiatives					
	Set up a market information system	Systematic market information management No of new document entries in the market information database per year	Create a market research task force	2012	Baso	-
			Procure one computer	2012	Baso	10,000
			Procure a market information management software	2012	Baso	5,000
			Recruit a local university graduate to collect market information and to set up and manage the database	refer to HRM initiatives below		
			Take membership in the local business association	2012	Baso	500 p.a.
			Subscribe to specialty magazines for fruit processing companies/ link up with e-market information providers	2012	Baso	1,000 p.a.
	Set up a key accounts management system	Close relationships with buyers High customer satisfaction Customer satisfaction rate in % Average time spent with key accounts	Visit national food processing technology fairs	Each year	Baso	2,000 p.a.
			Create a profile for each key account in the marketing database and continuously update these profiles	2012	Marketing assistant	-
			Assign each key account to a staff member	2012	Baso	-
			Maintain liaison with the key accounts	2011	Baso	10,000 p.a.
	Systematize community relationships	Good community relations No of community projects supported by company	Evaluate key account feedback in periodic intervals	Annually	Baso	1,000 p.a.
			Carry out a community appraisal to identify needs	2012	Assistant	5,000
			Implement community projects	2012	Marketing assistant	20,000 p.a.
			Monitor, evaluate and document outcomes and impact	2012 Onwards	Marketing assistant	1,000 p.a.
			Set up a public relations focal point to maintain liaison with the community and suppliers	2012 onwards	Baso	5,000 p.a.

Operations initiatives		2012		2013	
Close down production line for canned pineapples	High profits Attractive returns Net Profit Margin, RoAs	De-install and sell equipment Retrain workers to carry out fruit juice production		Baso	2,000
Fully utilize existing production capacity for fruit juice	High operational efficiency Machine productivity	Mr Wang to participate in a Work Improvement in Small Enterprises seminar (WISE) to identify no-cost, low-cost productivity improvement measures		refer to HRM activities below	
Add new capacity to the existing production line	Growth in annual production output	Train staff in workplace improvement		refer to HRM activities below	
		Upgrade workstations and reorganize workflows	2013	Baso,	5,000
		Develop a monitoring system to track output	2013	Baso	1,000
		Forecast capacity needs	2013	Baso	-
		Carry out market research on equipment	2013	Assistant	1,000
		Buy and install the equipment	2013	Baso	100,000
		Retrain current staff or recruit new workers		refer to HRM activities below	
		Create a separate marketing function	2012	Baso	-
		Consolidate Finance/Amin tasks in a separate function	2012	Baso	-
		Create a separate HRM function	2012	Baso	-
		Create a middle management layer		refer below under training of line managers	
		Assess staff needs	2012	Mr Kuna	2,000
		Draw development plans for existing staff	2012	Baso, together with staff	5,000
		Scan the market for training suppliers	2012	Marketing assistant	1,000
		Implement development plans for existing staff	2012-14	Baso/ external providers	50,000
		Monitor and evaluate outcome of the development effort		Continuous	30,000 p.a.
		Identify and select new staff	2012	Baso	2,000
		Draw development plans for new staff	2012	Baso	-
		Implement new staff development plans	2012	Baso, local providers	20,000
			2012	Baso	10,000
		Monitor and evaluate outcome of the development effort		Continuous	3,000 p.a.
		Identify non-core management tasks	2012	Baso	-
		Identify staff with capability/willingness to assume functional management tasks (or: recruit new staff)		refer above	
		Train the future line managers	2013	Baso, local providers	refer above
		Monitor and counsel the line managers on the job			-
		Carry out a survey about staff satisfaction with compensation packages	2013	Baso	1,000
		Issue regular labour contracts for all workers	2013	Baso, together with lawyer	5,000
		Set up written grievances procedures	2013	Baso, together with lawyer	2,000
		Upgrade salary packages, particularly for future line managers	2013	Baso	100,000 p.a.
OTHER					
Strengthen supplier relationships	Close supplier relationships Supplier turnover	Carry out a supplier satisfaction/needs survey Set up a supplier liaison system Continuously monitor supplier satisfaction	2013	Baso	10,000
		Marketing assistant	2013	Marketing assistant	10,000 p.a.
		Marketing assistant	Continuous	Marketing assistant	2,000 p.a.

Growth strategy 1: Market penetration by means of product differentiation continued:



Table 15: MJI Consolidated Action Plan (continued)

Initiative	Related to the following objective/indicator	Activities	By when	By whom	Budget
Marketing initiatives					
Set up a market information system	Systematic market information management	Create a market research task force Procure one additional computer	2012 2012	Baso Baso	- 10,000
	No of new document entries in the market information database of MJI per year	Procure a market information management software Recruit a local university graduate to collect market information and to set up and manage the database	2012 Refer to HRM activities below	Baso Baso	5,000
		Take membership in the local business association Subscribe to specialty magazines for fruit processing companies/link up with e-market information providers	2013	Baso	500 p.a.
		Visit national food processing technology fairs	Each year	Baso	2,000 p.a.
		Create a profile for each key account in the marketing database and continuously update these profiles	2012	Marketing assistant	- 1,000 p.a.
		Assign each key account to a staff member	2012	Baso	-
		Maintain liaison with the key accounts	2012	Baso Marketing assistant	10,000 p.a.
		Evaluate key account feedback in periodic intervals	Every six months	Baso	1,000 p.a.
Set up a key accounts management system	Close relationships with buyers High customer satisfaction	Research actual demand of hotels for this service Study the range of technical solutions for the mobile fruit juice bar	2012	Baso	10,000
	Customer satisfaction rate in %	Procure the mobile juice processing machines Procure second vehicle to transport the equipment	Refer to Operations activities below	Refer to Operations activities below	
	Time spent with each key account	Recruit two part-time barkers Promote the new service to the hotel segment	Refer to Operations activities below Refer to HRM activities below	Refer to Operations activities below	
Develop the enhancing service for the core product	Customer satisfaction High innovation capacity	Carry out a community needs appraisal to identify priority needs/projects Implement community projects	2013	Baso	20,000
	Customer satisfaction rate % of business customers describing MJI as highly innovative'	Monitor, evaluate and document outcomes and impact	2014 onwards	Marketing assistant	1,000 p.a.
Systematize community relationships	Good community relations No of community projects supported by company	Set up a public relations focal point	2013 Onwards	Baso	5,000 p.a.

Growth strategy 2: Market penetration with thrust on focus



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Growth strategy 2: Market penetration with thrust on focus continued



Table 15: MJI Consolidated Action Plan (continued)

Marketing initiatives	Related to the following objective/indicator	Activities	By when	By whom	Budget
Set up a market information system	Systematic market information management No of new document entries in the market information database of MJI per year	Create a market research task force Procure one additional computer and upgrade internet access to broadband Procure a market information management software Recruit a local university graduate to collect market information and to set up and manage the database Take membership in the local business association Subscribe to specialty magazines for fruit processing companies/link up with e-market information providers Visit food processing technology fairs	2012 2012 2012 Refer to HRM activities below 2013 2012 Each year	Baso Kuna Baso Kuna Baso Kuna Refer to HRM activities below Baso Kuna Baso Kuna Baso Kuna	- 10,000 5,000 500 p.a. 1,000 p.a. 2,000 p.a.
Brand the fruit juice product	Emphasis on quality products Product rejection rate	Develop a distinctive product name Define the distinctive product features! Develop a distinctive visual identity Develop a distinctive personality Decide a branding strategy	2012 2012 2012 2012		50,000, including costs for producing collateral
Expand the sales force	Close relationships with buyers Average time spent with each business customer	Recruit two sales persons to promote the product to the school kiosks and to acquire new orders Procure two motorbikes for these sales persons Set up an automated system to process customer orders Procure a second delivery vehicle Recruit a second driver and two helpers	Refer to HRM activities below Refer to Operations initiatives 2013 Refer to Operations initiatives Refer to HRM activities below		
Expand the product distribution system	Operational efficiency Systematize community relationships	Lead time, production Good community relations No of community projects supported by company	2013 2013 2013 onwards	Marketing assistant Marketing assistant Marketing assistant	5,000 20,000 p.a. 1,000 p.a.
		Set up a public relations focal point	2013 onwards	Baso Kuna	5,000 p.a.

Growth strategy 3: New Market Development with thrust on differentiation



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Operations initiatives				2012	Baso	2,000
Close down production line for canned pineapples				Decommission equipment	Refer to HRM activities below	
Attractive returns Net Profit Margin Return on Assets				Re-train workers to carry out fruit juice production	Refer to HRM activities below	
Fully utilize existing production capacity for fruit juice				Mr Wang to participate in a Work Improvement in Small Enterprises seminar (WISE) to identify no-cost, low-cost productivity improvement measures	Refer to HRM activities below	
High operational efficiency Attractive returns Machine productivity Return on Assets				Train staff in workplace improvement >HRM	Refer to HRM activities below	
Annual growth in production output				Upgrade workstations and reorganize workflows in coordination with quality standards management measures (refer below)	2012	Baso 5,000
				Upgrade existing machines to repackage products in line with branding strategy	2012	Baso, Consultant? 20,000
				Develop a monitoring system to track output	2012	Baso 1,000
Add new capacity to the existing production line				Forecast capacity needs	2012	Baso -
Attractive returns Return on Assets				Carry out market research on new production machinery	2013	Marketing assistant? 1,000
Annual growth in production output				Determine the best way of adding new production capacity (add new line or expand existing line?)	2012	Baso -
				Buy and install the machinery	2014	Baso 100,000
				Procure two motorbikes for the sales persons	2012	Baso 32,000
				Procure a second delivery vehicle	2013	Baso 80,000
				Retrain existing staff and/or train new staff how to use the machinery and equipment	Refer to HRM activities below	
Set up a standards-based quality management system				Seek professional advise on the establishment of a suitable standards-based quality management system for SME	2013	Baso 100,000
Emphasis on quality Cleaner production Low cost structures				Develop a quality management manual together with the consultant	2013	Consultant
Product rejection rate				Train staff >HRM	2013-14	Consultant
Recycling rate, machine oil Wastage, raw materials				Implement quality improvement measures	2013-14	Baso, consultant 100,000
Ratio of annual administration costs over total costs				Seek certification as standard compliant company (?)	2013	Consultant 50,000

Growth strategy 3: **New Market Development with thrust on differentiation continued**



Table 15: MJI Consolidated Action Plan (continued)

HRM initiatives		Create a separate marketing function		2012	Baso Kuna	-
Create more dynamic organizational structures		Low cost structures? Ratio of administrative costs to total costs		2012	Baso Kuna	-
Operational efficiency		Create a separate HRM function		2012	Baso Kuna	-
Speed of decision making		Create a middle management layer		See below		
Develop existing staff (incl. retraining of workers formerly assigned to production of canned pineapple and development of future line managers		Assess staff needs No of days in training per machine operator per year Training course pass rate		2012	Baso Kuna	2,000
Recruit new staff (One marketing assistant, two full-time sales persons, one driver, two helpers)		Qualified workers No of days in training per machine operator per year Training course pass rate		2012	Baso together with staff	5,000
Delegate non-core management tasks		Motivated workers Worker satisfaction rate with career development opportunities		2012	Marketing assistant Baso/ external providers	1,000 70,000 30,000 p.a.
Create effective work relationships		Motivated workers Worker satisfaction rate with salary packages		2012	Marketing assistant Baso Kuna	2,000 p.a.
Growth strategy 3: New Market Development with trust on differentiation continued		Identify and select new staff Draft development plans for new staff Implement staff development plans		2012	Baso Kuna	2,000
		Monitor and evaluate outcome of the development effort Identify non-core management tasks Identify staff with capability/willingness to assume functional management tasks (or: recruit new staff)		2012	Baso Kuna, local providers	50,000 10,000 p.a.
		Train the future line managers Monitor and counsel the line managers on the job		2012	Baso Kuna	-
		Carry out a survey about staff satisfaction with compensation packages Issue regular labour contracts for all workers		2013	Baso Kuna	1,000
		Set up written grievances procedures Upgrade salary packages, particularly for future line managers		2013	Baso together with lawyer	5,000 2,000
OTHER		Strengthen supplier relationships Close supplier relationships Supplier turnover		2013-14	Baso Kuna	100,000 110,000 115,000
		Carry out a supplier satisfaction/needs survey Set up a supplier liaison system Continuously monitor supplier satisfaction		2012	Baso Kuna Marketing assistant continuous	10,000 10,000 p.a. 2,000 p.a.

Table 16: MJI updated list of draft business objectives and performance thresholds



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Objective	Measures	Target				
		2012	2013	2014	2015	2016
Attractive returns	Return on assets in % (annual profit after tax in ZARx100 divided by value of fixed assets in ZAR)	15	15	20	25	25
	Growth in production output in%	15	15	15	15	15
High profits	Net Profit Margin in%	4	4	5	6	7
Low cost structures	Ratio of overheads to total costs (administrative expenses x 100 divided by total business expenses)	0.02	0.02	0.02	0.02	0.02
High customer satisfaction	Customer satisfaction rate in% (no of satisfied customer x 100 divided by total no of customers p.a.)	85	90	90	90	90
Close relationships with buyers	Average time spent with each business customer (no of days per year per business customer)	5	5	6	7	7
Good community reputation	No of community projects supported by MJI	1	2	2	2	3
High operational efficiency	Speed of management decision making (average time in days for management to decide on proposals made by line managers)	10	10	7	7	7
	Machine productivity (no of litres per machine p.a.)	60,000	60,000	60,000	60,000	60,000
	Lead time, production (time in days from receiving a product order to product delivery)	2	2	2	2	2
Emphasis on quality	Product reject rate (no of deliveries rejected by customers x 100 divided by total no of deliveries made p.a.)	5	5	5	3	2
Close relationships with suppliers	Supplier turnover (no of suppliers lost x 100 divided by total number of suppliers p.a.)	15	15	15	10	10
Systematic market information management	No of new document entries in the market information database of MJI	100	150	200	250	300
Cleaner production	Recycling rate, machine oil (litres of machine oil recycled x 100 over total litres of machine oil used in production p.a.)	0	25	50	75	100
	Wastage rate, raw materials (kilograms of orange wasted x 100 divided by total kilograms of oranges processed in production p.a.)	10	10	10	8	7
Qualified workers	No of days in training per machine operators	5	5	7	10	10
	Training course pass rate (no of machine operators successfully graduating from training x 100 divided by total no of operators in training p.a.)	75	85	85	85	85
Motivated workers	Worker satisfaction rate with salary packages (no of workers satisfied with salary package x 100 divided by total no of workers p.a.)	60	75	75	80	85
	Worker satisfaction rate with career development opportunities (no of workers satisfied with career development x 100 divided by total no of workers p.a.)	60	75	75	80	85
High innovation capacity*	% of customers describing Isthelo as an innovative company	50	75	75	75	75



Step 2: Analysing Strategic fit and risk exposure of selected growth strategy options

Baso refers back to the vision statement of her business and reflects to what extent the short-listed growth strategies have strategic fit with her ultimate business goals. Then they score each strategy option on a scale from 'poor fit (1)' to 'very strong fit (5)'.

Strategic fit strategy 1				
1	2	3	4	5

Strategic fit strategy 2				
1	2	3	4	5

Strategic fit strategy 3				
1	2	3	4	5

The comparative analysis of the three growth strategies indicates that all of them have good strategic fit with the ultimate business goals of MJI. Baso has scored the third growth strategy with the highest mark because it emphasizes 'innovation' by branding the product and because it emphasizes quality and operational efficiency by introducing a standards-based quality management system.

Baso brainstorms on possible risks that her business might meet in future, and to what extent these risks might affect MJI in a given growth scenario. The results of the market environment analysis carried out earlier for the local market for orange juice provide Baso Kuna with some indication how these threats could affect the business. For example, a severe climate change as a result of global warming might threaten the local supply of oranges. Beyond these forces in the market environment, Baso also considers and lists private life related misfortunes that could affect her business.

Eventually, Baso Kuna comes up with the following list of possible risks for MJI:

- Political instability
- Economic depression
- Fuel/electricity shortages
- Collapse of tourism as a result of a terrorist attack
- Raw material supply increasingly short of demand because of global climate change
- Interruption of raw material supply because of environmental disaster (e.g. factory accident that pollutes ground water)
- Death of either Mr. Kuna or Mrs. Kuna

Baso Kuna next assesses to what extent these events would expose MJI to unsustainable risk in any of the three growth strategies. Some of these events – like the death of either Mr. or Mrs. Kuna – would threaten the success of the growth effort in any scenario while other events like the collapse of tourism would affect MJI more if it solely relies on supplying up-market hotels catering for foreign visitors. MJI risk exposure matrix for each short listed growth strategy is illustrated in figures 17, 18 and 19.

Impact Probability	Low	Medium	High
Low			Death of Mr. or Mrs. Kuna Raw material shortages because of global climate change Political instability
Medium		Fuel/electricity shortages	Interruption of raw material supply because of sudden environmental disaster DANGER ZONE
High			Collapse of tourism



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Figure 17: MJI's risk exposure matrix for growth strategy 1

Impact Probability	Low	Medium	High
Low			Death of Mr. or Mrs. Kuna Raw material shortages because of global climate change Political instability
Medium		Fuel/electricity shortages	Interruption of raw material supply because of sudden environmental disaster DANGER ZONE
High			Collapse of tourism

Figure 18: MJI risk exposure matrix for growth strategy 2

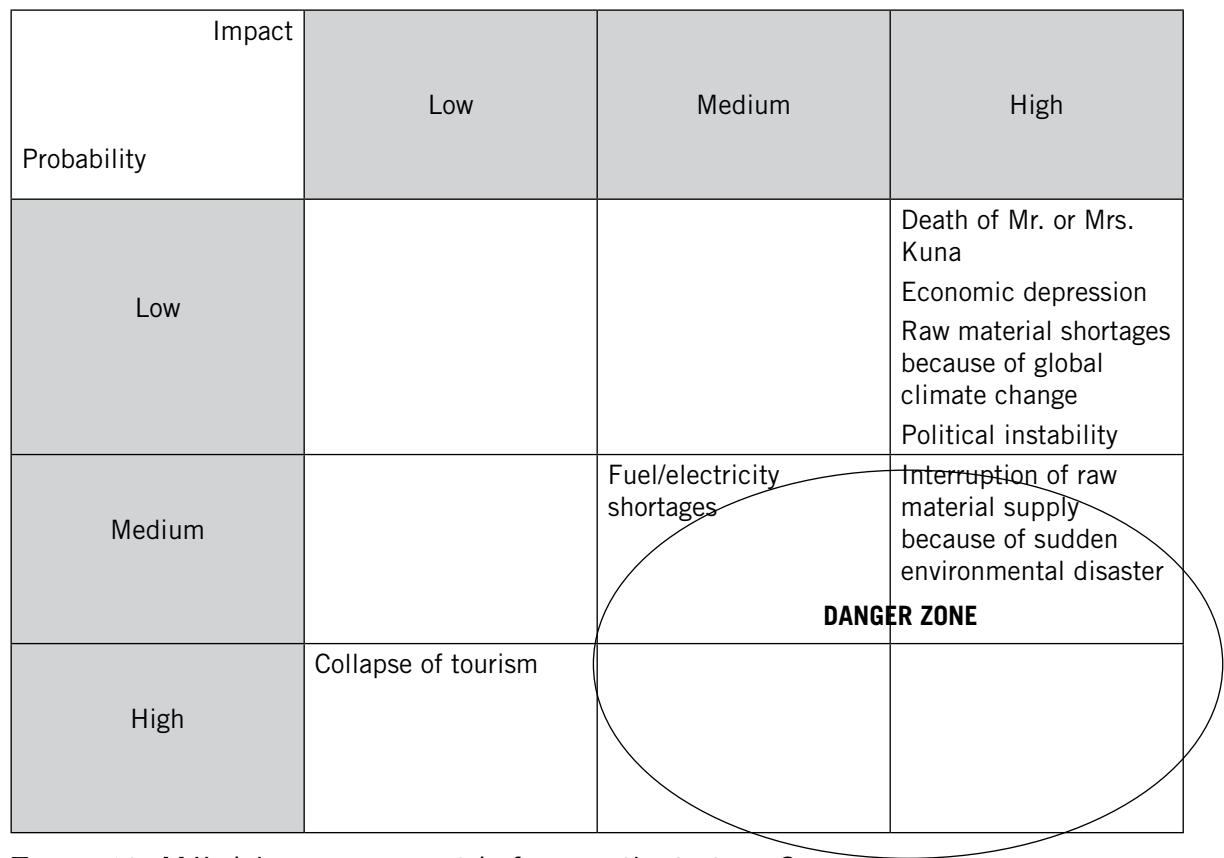


Figure 19: MJI risk exposure matrix for growth strategy 3

Based on her risk analysis, Baso concludes that all three growth strategies increase the risk exposure for MJI since its growth drive will largely depend on the uninterrupted supply with raw materials. She also concludes that the third growth strategy carries comparatively less risk for her business since the sudden collapse of the school kiosk segment is much less likely than the sudden collapse of the tourism segment. Eventually, they score the first and second growth strategy as 2.5 (between medium risk and elevated risk) and the third growth strategy as 3.5 (low to medium risk).

Final score of the risk associated with each growth strategy

Strategic fit strategy 1					Strategic fit strategy 2					Strategic fit strategy 3				
1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

Step 3: Determining capital requirements and financial analysis of the growth strategies

Baso Kuna calculates their total capital requirements for each growth scenario, based on the marketing plan, the operations plan and the HRM plan developed earlier.

Table 17: Capital Requirements for growth strategy 1



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Capital required	2012	2013	2014	2015	2016
1. Once-off investments					
Operations					
to upgrade workstations	5,000				
to buy new machines and equipment		100,000			
to develop an output tracking system	1,000				
Marketing					
to procure a market information software	5,000				
to procure a computer for the marketing department	10,000				
to implement community projects		5,000	26,000	26,000	26,000
to carry out market research on new machines		1,000			
Human resources					
to assess staff needs	2,000				
to draw development plans for existing staff	5,000				
to search for HRM consultants	1,000				
to develop existing staff (incl. owner managers)	50,000	30,000	30,000	30,000	30,000
to recruit and develop new staff	22,000	10,000	10,000	10,000	10,000
to carry out a staff satisfaction survey	1,000				
to draft and issue labour contracts		5,000			
to set up grievances procedures		2,000			
Other investments					
to decommission the canned pineapple production machines	2,000				
1. Total investment requirements per year	104,000	153,000	66,000	66,000	66,000
2. Working capital requirements					
Operations					
Increased maintenance costs	5,000	7,000	7,000	9,000	9,000
Increased costs of raw material inputs	48,900	172,320	308,082	1,004,994	1,224,026
Other factor inputs except labour	10,000	20,000	30,000	40,000	50,000
Marketing					
to maintain liaison with key accounts	10,000	10,000	10,000	10,000	10,000
to periodically evaluate key account feedback	1,000	1,000	1,000	1,000	1,000
to carry out a supplier survey		10,000			
for public relations work with suppliers and the community		12,000	12,000	12,000	12,000
Human resources					
to monitor development of existing and new staff	5,000	5,000	5,000	5,000	5,000
Additional salary costs for new staff	15,600	15,600	16,600	16,600	17,600
Additional salary costs for existing staff	60,000	60,000	70,000	70,000	80,000
Other costs					
Membership fees in business association	500	500	500	500	500
Subscription fees for magazines	1,000	1,000	1,000	1,000	1,000
Visits to technology fairs	2,000	2,000	2,000	2,000	2,000
Total working capital requirements per year	159,000	316,420	463,182	1,172,094	1,412,126
Total capital requirements by year	263,000	469,420	529,182	1,238,094	1,478,126
3. TOTAL CAPITAL REQUIREMENTS		→	3,977,822	←	



*** Assuming**

- 15% average annual growth in fruit juice output from a baseline of 170,000 litres, in 2010 up to 273,787 litres in 2013
- that it takes on average 2.2 kilograms of oranges to produce one litre of orange juice (incl. 10% raw material wastage in production)
- raw material costs of 3 units per kilogram of oranges from 2011-12, and 4 units per kilogram from 2013 onwards
- that MJI will save 63,360 thousand per year (52,800 kg of pineapples X 1.2 per kg) for raw materials from 2012 onwards since it will stop producing canned pineapple

Table 18: Capital requirements for growth strategy 2

Type of capital required	2012	2013	2014	2015	2016
1. Investment requirements					
Operations					
to prepare a feasibility study for the mobile orange juice production line	2,000				
to procure the mobile orange juice production machine		80,000			
to develop a quality manual for the use of the mobile unit			2,000		
to test-run the new equipment prior to market introduction			2,000		
Marketing					
to procure a market information software	5,000				
to procure a computer for the marketing department	10,000				
to develop and produce promotional materials to advertise the mobile fruit juice production service		20,000			
Human resources					
to assess staff needs	2,000				
to draw development plans for existing staff	5,000				
to implement development plans for existing staff	20,000	50,000	30,000	30,000	30,000
to recruit and train new staff	32,000	10,000	10,000	10,000	10,000
Other investments					
to decommission the canned pineapple production machines	2,000				
1. Total investment requirements	78,000	160,000	44,000	40,000	40,000
2. Working capital requirements					
Operations					
Increased maintenance costs	-	1,000	2,000	3,000	4,000
Increased costs of raw material inputs*	-7,200	60,700	113,508	633,090	724,020
Other factor inputs except labour	5,000	10,000	15,000	20,000	25,000
Marketing					
Liaison with key accounts	10,000	10,000	10,000	10,000	10,000
Evaluation of key account feedback	2,000	2,000	2,000	2,000	2,000
Community projects		5,000	26,000	26,000	26,000
to carry out market research on hotel demand	10,000				
to carry out market research on equipment		1,000			
Human resources					

to assess staff needs	2,000				
to draw development plans for existing staff	5,000				
to monitor development of existing and new staff	5,000	5,000	5,000	5,000	5,000
Additional salary costs for new staff	15,600	15,600	16,600	16,600	17,600
Additional salary costs for existing staff	60,000	60,000	70,000	70,000	80,000
To carry out a staff satisfaction survey	1,000				
To draft and issue labour contracts		5,000			
To set up grievances procedures		2,000			
To participate in a WISE workshop	1,000				
to train staff in workplace improvement	1,000				
To train staff in use of new machinery		20,000			
Other costs					
Membership in business association	500	500	500	500	500
Subscription to magazines	1,000	1,000	1,000	1,000	1,000
Visits to technology fairs	2,000	2,000	2,000	2,000	2,000
To carry out supplier feedback survey		10,000			
Set up and run a liaison system		12,000	12,000	12,000	12,000
Total working capital requirements	113,900	222,800	275,608	801,190	909,120
Total capital requirements by year	191,900	382,800	319,608	841,190	949,120
3. TOTAL CAPITAL REQUIREMENTS		2,684,618			

*** Assuming**

- 5% average annual growth in fruit juice output from a baseline of 170,000 litres, in 2012 up to 216,968 litres in 2013
- that it takes on average 2.2 kilograms of oranges (incl. wastage) to produce one litre of orange juice
- raw material costs of three units per kilogram of oranges from 2013-14, and 4 units per kilogram from 2015 onwards
- that MJI will save 63,360 thousand per year (52,800 kg of pineapples X 1.2 per kg) for raw materials from 2012 onwards since it will stop producing canned pineapple.



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Table 19: Capital requirements for growth strategy 3

Capital required	2012	2013	2014	2015	2016
1. Once-off investments					
Operations					
to upgrade existing labeling/packaging machinery	20,000				
to upgrade workstations	5,000				
to buy new machines and equipment	32,000	180,000			
to develop an output tracking system	1,000				
to establish a standards-based quality management system			100,000	100,000	50,000
Marketing					
to procure a market information software	5,000				
to procure a computer for the marketing department	10,000				
to develop a brand	50,000				
to implement community projects		5,000	26,000	26,000	26,000
to carry out market research on new machines		1,000			
Human resources					
to assess staff needs	2,000				
to draw development plans for existing staff	5,000				
to search for HRM consultants	1,000				
to develop existing staff (incl. owner managers)	70,000	30,000	30,000	30,000	30,000
to recruit and develop new staff	50,000	10,000	10,000	10,000	10,000
to carry out a staff satisfaction survey	1,000				
to draft and issue labour contracts		5,000			
to set up grievances procedures		2,000			
Other investments					
to decommission the canned pineapple production machines	2,000				
1. Total investment requirements	254,000	233,000	166,000	166,000	116,000
2. Working capital requirements					
Operations					
Increased maintenance costs	7,000	10,000	9,000	9,000	9,000
Increased costs of raw material inputs*	217,200	567,825	1,006,105	2,135,012	2,965,092
Other factor inputs except labour	12,500	25,000	40,000	50,000	60,000
Marketing					
to maintain liaison with key accounts	10,000	10,000	10,000	10,000	10,000
to periodically evaluate key account feedback	1,000	1,000	1,000	1,000	1,000
to carry out a supplier survey		10,000			
for public relations work with suppliers and the community		12,000	12,000	12,000	12,000
Human resources					
to monitor development of existing and new staff	5,000	5,000	5,000	5,000	5,000
Additional salary costs for new staff	78,000	78,000	83,000	83,000	88,000
Additional salary costs for existing staff	60,000	60,000	70,000	70,000	80,000
Other costs					
Membership fees in business association	500	500	500	500	500
Subscription fees for magazines	1,000	1,000	1,000	1,000	1,000
Visits to technology fairs	2,000	2,000	2,000	2,000	2,000
Total working capital requirements	394,200	792,325	1,239,605	2,378,512	3,233,592
Total capital requirements by year	648,200	1,025,325	1,405,605	2,544,512	3,449,592
3. TOTAL CAPITAL REQUIREMENTS			→	9,073,234	←

* Assuming

- 25% average annual growth in fruit juice output from a baseline of 170,000 litres, in 2011 up to 518,799 litres in 2012
- that it takes on average 2.2 kilograms of oranges to produce one litre of orange juice in 2011-2012, and 2 kilograms of oranges to produce one liter of orange juice in 2011-12 (after the introduction of the quality standards management system)
- raw material costs of three units per kilogram of oranges from 2011-12, and 4 units per kilogram from 2012 onwards
- that MJI will save 63,360 thousand per year (52,800 kg of pineapples X 1.2 rand per kg) for raw materials from 2012 onwards since it will stop producing canned pineapple.

Baso Kuna forecasts her business finances based on her past financial performance, her growth strategy and her investment plan.

Table 20: MJI Profit and Loss Forecast growth strategy 1

Item	2012	2013	2014	2015	2016
1. Gross sales from main business	4034450	5938275	7073925	8227950	9555000
Less: Cost of goods sold					
Raw materials	2275152	2616504	3008984	346034	3979536
Other input costs	69900	199320	345082	1053994	1283026
2. Gross Profit from main business	1689398	3122451	3719859	6827922	4292438
Less: Expenses					
Sales and marketing expenses	58890	70980	83070	98460	196920
Administration expenses	83660	91720	100880	110040	120300
Financial expenses:					
Interest Paid	15000	0	0	0	0
Motor Vehicle Expenses	24000	24000	24000	24000	24000
Provision for Welfarism	63364	74648	87472	100296	111602
Professional Association fees	3500	3500	3500	3500	3500
Decommissioning Expenses	2000	0	0	0	0
Recruitment and development	81000	47000	40000	40000	40000
Provision for Depreciation:					
Fixed Assets	36000	36000	36000	36000	36000
Land rights	4500	4500	4500	4500	4500
Personal Computer	950	950	950	950	950
Production Equipment	9500	9500	9500	9500	9500
Net Profit Before Taxes	1,307,034.00	2,759,653.00	3,329,987.00	6,400,676.00	3,745,166.00
Income Tax	392110.2	827895.9	998996.1	1920202.8	1123549.8
Net Profit After Taxes	914,923.80	1,931,757.10	2,330,990.90	4,480,473.20	2,621,616.20
Less Reserves	137238.57	289763.565	349648.635	672070.98	393242.43
Net Profit After Reserves	777,685.23	1,641,993.54	1,981,342.27	3,808,402.22	2,228,373.77



Assumptions:

A growth rate of 15% is assumed from 2012 to 2016.

The cost per one litre of juice is 3 units for the period 2012 to 2016. And 4 units from 2014 to 2016.

1. The selling price shall also rise by 30% both for wholesale distribution and Luxury Hotel lines.
2. Kilogrammes required per litre of juice shall be 2.2kg
3. Welfarism and Reserves will use 15% as required in the national policy.
4. Other labour overheads are apportioned as follows 75% Direct Labour, 10% Administration, 15% Sales and marketing.
5. The pineapple line is decommissioned at 2000 and has no salvage value. The pineapple line is decommissioned at 2000 and has no salvage value.
6. Depreciation is calculated on a straight-line basis, the salvage values will be 5% for all assets. They are depreciated for 10 years (all equipment) and 20 years (land and buildings).

Table 21: Profit and Loss Forecast growth strategy 2

Item	2012	2013	2014	2015	2016
1. Gross sales from main business	2789938	2953930	4023810	4262280	4505860
Less: Cost of goods sold					
Raw materials	1237005	1298854	1818397	1909318	2004781
Other input costs	323650	380450	448208	1042490	1078995
2. Gross Profit from main business	1229283	1274626	1757205	1310472	1422084
Less: Expenses					
Sales and marketing expenses	60390	70980	83070	98460	196920
Administration expenses	165660	189720	198880	208040	218300
Financial expenses:					
Interest Paid	15000	0	0	0	0
Motor Vehicle Expenses	24000	24000	24000	24000	24000
Provision for Welfarism	55417.5	110835	167490	224145	282041.25
Professional Association fees	3500	25500	15500	15500	15500
Decommissioning Expenses	2000	0	0	0	0
Recruitment and development	74000	107600	61600	61600	61600
Provision for Depreciation:					
Fixed Assets	36000	36000	36000	36000	36000
Land rights	4500	4500	4500	4500	4500
Personal Computer	950	950	950	950	950
Production Equipment	7600	7600	7600	7600	7600
Net Profit Before Taxes	787,865.50	704,541.00	1,165,215.00	637,277.00	582,272.75
Income Tax	236359.65	211362.3	349564.5	191183.1	174681.825
Net Profit After Taxes	551,505.85	493,178.70	815,650.50	446,093.90	407,590.93
Less Reserves	82725.88	73976.81	122347.58	66914.09	61138.64
Net Profit After Reserves	468,779.97	419,201.90	693,302.93	379,179.82	346,452.29



International
Labour
Organization

Assumptions

1. A growth rate of 5% is assumed from 2012 to 2016.
2. The cost per one litre of juice raw material is 3 units for the period 2012 to 2016. And 4 units from 2014 to 2016.
3. The selling price shall also rise by 30% both for wholesale distribution and Luxury Hotel lines.
4. Kilogrammes required per litre of juice shall be 2.2kg
5. Welfarism and Reserves will use 15% as required in the national policy.
6. Other labour overheads are apportioned as follows 75% Direct Labour, 10% Administration, 15% Sales and marketing
7. The pineapple line is decommissioned at 2000 and has no salvage value.
8. Depreciation is calculated on a straight-line basis, the salvage values will be 5% for all assets. They are depreciated for 10 years (all equipment) and 20 years (land and buildings).

Table 22: Profit and Loss Forecast growth strategy 3

Item	2012	2013	2014	2015	2016
1. Gross sales from main business	5563500	6652375	7755925	9096119	10730741
Less: Cost of goods sold					
Raw materials	2241000	3449000	4012528	4699968	4981704
Other input costs	572150	912275	1372805	2194012	3300067
2. Gross Profit from main business	2750350	2291100	2370592	2202139	2448970
Less: Expenses					
Sales and marketing expenses	76000	39000	49000	49000	49000
Administration expenses	60000	60000	60000	60000	60000
Financial expenses:					
Interest Paid	15000	0	0	0	0
Motor Vehicle Expenses	24000	24000	24000	24000	24000
Provision for Welfarism	76117.5	76117.5	69367.5	69367.5	74186.25
Professional Association fees	3500	3500	3500	3500	3500
Decommissioning Expenses	2000	0	0	0	0
Recruitment and development	134000	52000	45000	45000	45000
Provision for Depreciation:					
Fixed Assets	36000	36000	36000	36000	36000
Land rights	4500	4500	4500	4500	4500
Personal Computer	950	950	950	950	950
Production Equipment	3040	20140	20140	20140	20140
Net Profit Before Taxes	2,318,282.50	1,995,032.50	2,078,274.50	1,909,821.50	2,151,833.75
Income Tax	695484.75	598509.75	623482.35	572946.45	645550.125
Net Profit After Taxes	1,622,797.75	1,396,522.75	1,454,792.15	1,336,875.05	1,506,283.63
Less Reserves	243419.6625	209478.4125	218218.8225	200531.2575	225942.5438
Net Profit After Reserves	1,379,378.09	1,187,044.34	1,236,573.33	1,136,343.79	1,280,341.08

Assumptions

1. A growth rate of 25% for kiosk is assumed from 2012 to 2016.
2. The cost per one litre of juice is R3.00 for the period 2012 to 2016. And R4.00 from 2014 to 2016.



3. The selling price shall also rise by 30% both for wholesale distribution and Luxury Hotel lines.
4. Kilogrammes required per litre of juice shall be 2.2kg
5. Welfarism and Reserves will use 15% as required in the national policy.
6. Other labour overheads are apportioned as follows 75% Direct Labour, 10% Administration, 15% Sales and marketing.

Table 23: Balance Sheet Forecast strategy 1

	2012	2013	2014	2015	2016
	0.00	0.00	0.00	0.00	0.00
Assets	2012	2013	2014	2015	2016
Current assets					
Cash	791,291.30	2,848,646.40	5,318,059.30	9,949,778.50	12,733,946.70
Short-term Investment	0	0	0	0	0
Notes Receivable	0	0	0	0	0
Arrear Receivables	0	0	0	0	0
Stocks	0	0	0	0	0
Subtotal current assets	791291.3	2848646.4	5318059.3	9949778.5	12733946.7
Total Current Assets	791291.3	2848646.4	5318059.3	9949778.5	12733946.7
Fixed Assets					
Original value of fixed assets	800000	800000	800000	800000	800000
Accumulated depreciation	288000	324000	360000	396000	432000
Net value of fixed assets	512000	476000	440000	404000	368000
Liquidation of fixed assets:	0	0	0	0	0
Invisible assets					
Land use rights(Original Value)	90000	90000	90000	90000	90000
Accumulated depreciation	22500	27000	31500	36000	40500
Net Invisible Assets	67500	63000	58500	54000	49500
Other Equipments					
Personal Computer(Original Value)	10000	10000	10000	10000	10000
Accumulated Depreciation	950	1900	2850	3800	4750
Net Personal Computers	9050	8100	7150	6200	5250
Production Equipment	100000	100000	100000	100000	100000
Accumulated Depreciation	9500	19000	28500	38000	47500
Net Production Equipment	90500	81000	71500	62000	52500
Total Assets	1470341.3	3476746.4	5895209.3	10475978.5	13209196.7
Equity and Liabilities					
Current Liabilities:					
Provision for Welfarism	55417.5	130065.5	217537.5	317833.5	429435.5
Long term Loan					
Total Liabilities	55417.5	130065.5	217537.5	317833.5	429435.5
Equity:					
Capital Investment	500000	500000	500000	500000	500000
Surplus Reserves	137238.57	427002.14	776650.77	1448721.75	1841964.18
Retained Profit	777,685.23	2,419,678.77	4,401,021.03	8,209,423.25	10,437,797.02
Total equity	1,414,923.80	3,346,680.90	5,677,671.80	10,158,145.00	12,779,761.20
Total liabilities and equity	1,470,341.30	3,476,746.40	5,895,209.30	10,475,978.50	13,209,196.70

Table 24: Balance Sheet Forecast strategy 2



International
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	2012	2013	2014	2015	2016
Assets					
Current assets					
Cash in bank	445,973.35	1,099,037.05	2,131,227.55	2,850,516.45	3,589,198.63
Short-term Investment	0	0	0	0	0
Notes Receivable	0	0	0	0	0
Arrear Receivables	0	0	0	0	0
Stocks	0	0	0	0	0
Total Current Assets	445,973.35	1,099,037.05	2,131,227.55	2,850,516.45	3,589,198.63
Fixed Assets					
Original value of fixed assets	800000	800000	800000	800000	800000
Accumulated depreciation	288000	324000	360000	396000	432000
Net value of fixed assets	512000	476000	440000	404000	368000
Liquidation of fixed assets:	0	0	0	0	0
Invisible assets					
Land use rights(Original Value)	90000	90000	90000	90000	90000
Accumulated depreciation	22500	27000	31500	36000	40500
Net Invisible Assets	67500	63000	58500	54000	49500
Other Equipments					
Personal Computer(Original Value)	10000	10000	10000	10000	10000
Accumulated Depreciation	950	1900	2850	3800	4750
Net Personal Computers	9050	8100	7150	6200	5250
Production Equipment	80000	80000	80000	80000	80000
Accumulated Depreciation	7600	15200	22800	30400	38000
Net Production Equipment	72400	64800	57200	49600	42000
Total Fixed Assets	1,106,923.35	1,710,937.05	2,694,077.55	3,364,316.45	4,053,948.63
Equity and Liabilities					
Liabilities					
Current Liabilities:					
Provision for Welfarism	55417.5	166252.5	333742.5	557887.5	839928.75
Long term Loan					
Total Liabilities	55417.5	166252.5	333742.5	557887.5	839928.75
Equity:					
Capital Investment	500000	500000	500000	500000	500000
Surplus Reserves	82725.88	156702.68	279050.26	345964.34	407102.98
Retained Profit	468,779.97	887,981.87	1,581,284.79	1,960,464.61	2,306,916.89
Total equity	1,051,505.85	1,544,684.55	2,360,335.05	2,806,428.95	3,214,019.88
Total liabilities and equity	1,106,923.35	1,710,937.05	2,694,077.55	3,364,316.45	4,053,948.63



Table 25: Balance Sheet Forecast Strategy 3

	2012	2013	2014	2015	2016
Assets					
Current assets					
Cash	1,581,405.25	2,935,635.50	4,521,385.15	5,989,217.70	7,631,277.58
Short-term Investment	0	0	0	0	0
Notes Receivable	0	0	0	0	0
Arrear Receivables	0	0	0	0	0
Stocks	0	0	0	0	0
Total Current Assets	1,581,405.25	2,935,635.50	4,521,385.15	5,989,217.70	7,631,277.58
Fixed Assets					
Original value of fixed assets	800000	800000	800000	800000	800000
Accumulated depreciation	288000	324000	360000	396000	432000
Net value of fixed assets	512000	476000	440000	404000	368000
Liquidation of fixed assets:	0	0	0	0	0
Invisible assets					
Land use rights(Original Value)	90000	90000	90000	90000	90000
Accumulated depreciation	22500	27000	31500	36000	40500
Net Invisible Assets	67500	63000	58500	54000	49500
Other Equipments					
Personal Computer(Original Value)	10000	10000	10000	10000	10000
Accumulated Depreciation	950	1900	2850	3800	4750
Net Personal Computers	9050	8100	7150	6200	5250
Production Equipment	32000	212000	212000	212000	212000
Accumulated Depreciation	3040	23180	43320	63460	83600
Net Production Equipment	28960	188820	168680	148540	128400
Total Assets	2,198,915.25	3,671,555.50	5,195,715.15	6,601,957.70	8,182,427.58
Equity and Liabilities					
Liabilities					
Current Liabilities:					
Provision for Welfarism	76117.5	152235	221602.5	290970	365156.25
Long term Loan					
Total Liabilities	76117.5	152235	221602.5	290970	365156.25
Equity:					
Capital Investment	500000	500000	500000	500000	500000
Surplus Reserves	243419.6625	452898.075	671116.8975	871648.155	1097590.699
Retained Profit	1,379,378.09	2,566,422.43	3,802,995.75	4,939,339.55	6,219,680.63
Total equity	2,122,797.75	3,519,320.50	4,974,112.65	6,310,987.70	7,817,271.33
Total liabilities and equity	2,198,915.25	3,671,555.50	5,195,715.15	6,601,957.70	8,182,427.58

Key Financial Indicators Growth Strategy

KEY FINANCIAL RATIOS					
	2012	2013	2014	2015	2016
Liquidity					
Current Ratio	14.28	21.90	24.45	31.31	29.65
Net cash flow	919237,8	2057355,1	2469412,9	4631719,2	2784168,2
Profitability					
Gross Profit Margin	0.42	0.53	0.53	0.83	0.45
Return on equity	1.83	3.86	4.66	8.96	5.24
Return on assets	0.62	0.56	0.40	0.43	0.20
Capital structure					
Debt to Assets ratio					
Need for external finance					



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Pay back Period Growth Strategy 1

Original Investment/Net Annual Cash Inflows	500,000 2,572,378.64	2 months
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Key Financial Indicators Growth Strategy 2

KEY FINANCIAL RATIOS					
	2012	2013	2014	2015	2016
Liquidity					
Current Ratio	8.05	6.61	6.39	5.11	4.27
Net cash flow	647423,35	653063,70	1032190,50	719288,90	738682,18
Profitability					
Gross Profit Margin	0.44	0.43	0.44	0.31	0.32
Return on equity	1.10	0.99	1.63	0.89	0.82
Return on assets	0.50	0.29	0.30	0.13	0.10
Capital structure					
Debt to Assets ratio					
Need for external finance					

Pay back Period Growth Strategy 2

Original Investment/Net Annual Cash Inflows	500,000 758,129.73	8 months
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Net Present Value Growth Strategy 3

KEY FINANCIAL RATIOS					
	2012	2013	2014	2015	2016
Liquidity					
Current Ratio	20.78	19.28	20.40	20.58	20.90
Net cash inflows	1701405,25	1354230,25	1585749,65	1467832,55	1642059,88
Profitability					
Gross Profit Margin	0.49	0.34	0.31	0.24	0.23
Return on equity	3.25	2.79	2.91	2.67	3.01
Return on assets	0.74	0.38	0.28	0.20	0.18
Capital structure					
Debt to Assets ratio					
Need for external finance					

Payback period Growth Strategy 3

Original investment/Net cash inflows	500,000 1,550,255.52	4months
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Baso Kuna uses the growth strategy assessment grid to carry out a comparative analysis of her three short-listed growth strategies. She concludes that the third growth strategy is the most attractive option for her business because it has good strategic fit, promises attractive returns and at the same time exposes their business to limited risk. She also decides to keep the second growth strategy in mind and to refer back to it at one point in the near future, because it seems financially attractive and has good strategic fit, and because they like the highly innovative aspect of the mobile orange juice production unit. She decides against the first growth strategy because she feels that even though it is financially attractive it does at the same time have a comparatively weaker strategic fit with her business objectives and unduly increases the risk exposure of her business.

Growth strategy assessment grid

	Option 1	Option 2	Option 3
Technical appraisal			
Strategic fit (1=poor fit - 5 = good fit)	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
Risk associated with this option (1=high risk - 5= low risk)	1 2 3 4 5	1 2 3 4 5	1 2 3 4 5
Financial appraisal			
Total required investment	3,977,822	2,684,618	9,073,234
NPV			
Payback period	2 months	8 months	4 months
Key financial ratios	Y1 Y2 Y3 Y4 Y5	Y1 Y2 Y3 Y4 Y5	Y1 Y2 Y3 Y4 Y5
Current Ratio	14.3 21.9	24.5 31.3	29.7 31.3
Net cash flow	920,000 2,057 m	2.5 5 mill	647,000 mill
Gross Profit Margin	0.42 0.53	0.53 0.53	0.45 0.44
Return on equity	1.83 3.86	4.66 8.96	5.24 1.10
Return on assets	0.62 0.56	0.40 0.43	0.20 0.50
Debt to Assets ratio			
Need for external finance			
Long-term			
Short-term			



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Finally, Baso Kuna fine-tunes her business objectives and measures in line with her chosen growth strategy see table 24.

Table 26: MJI refined list of business objectives and performance thresholds

Objective	Measures	Target				
		2012	2013	2014	2015	2016
Attractive returns	Return on assets in % (annual profit after tax x100 divided by value of fixed assets)	15	15	20	25	25
	Growth in production output in%	15	15	15	15	15
High profits	Net Profit Margin in%	4	4	5	6	7
Low cost structures	Ratio of overheads to total costs (administrative expenses x 100 divided by total business expenses)	0.02	0.05	0.08	0.08	0.08
High customer satisfaction	Customer satisfaction rate in% (no of satisfied customer x 100 divided by total no of customers p.a.)	85	90	90	90	90
Close relationships with buyers	Average time spent with each business customer (no of days per year per business customer)	5	5	6	7	7
Good community reputation	No of community projects supported by MJI	1	2	2	2	3
High operational efficiency	Speed of management decision making (average time in days for management to decide on proposals made by line managers)	10	10	7	7	7
	Machine productivity (no of litres per machine p.a.)	60,000	65,000	70,000	77,000	85,000
	Lead time, production (time in days from receiving a product order to product delivery)	2	2	2	2	2
Emphasis on quality	Product reject rate (no of deliveries rejected by customers x 100 divided by total no of deliveries made p.a.)	5	5	5	3	2
Close relationships with suppliers	Supplier turnover (no of suppliers lost x 100 divided by total number of suppliers p.a.)	15	15	15	10	10
Systematic market information management	No of new document entries in the market information database of MJI	100	150	200	250	300



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Cleaner production	Recycling rate, machine oil (litres of machine oil recycled x 100 over total litres of machine oil used in production p.a.)	0	25	50	75	100
	Wastage rate, raw materials (kilograms of orange wasted x 100 divided by total kilograms of oranges processed in production p.a.)	10	10	10	8	7
Qualified workers	No of days in training per machine operators	5	5	7	10	10
	Training course pass rate (no of machine operators successfully graduating from training x 100 divided by total no of operators in training p.a.)	75	85	85	85	85
Motivated workers	Worker satisfaction rate with salary packages (no of workers satisfied with salary package x 100 divided by total no of workers p.a.)	60	75	75	80	85
	Worker satisfaction rate with career development opportunities (no of workers satisfied with salary package x 100 divided by total no of workers p.a.)	60	75	75	80	85
High innovation capacity*	% of customers describing MJI as an innovative company	50	75	75	75	75

*Mr. and Mrs. Kuna decide to stick to innovation capacity as a business objective, even though their chosen growth strategy does not strongly emphasize this aspect. They still feel that innovation is an important element of their business vision and they plan to at least continuously innovate their services enhancing the core product



HOW TO MAKE THE MJI GROWTH STRATEGY ACTIONABLE?

Mega Juice Industries Strategy Map

Baso Kuna draws a strategy map highlighting the cause and effect relationship between her business objectives. The strategy map visualizes the interdependency between these objectives and how the achievement of one objective can contribute to the achievement of another objective.

For example, by investing in the qualification of its workers, MJI creates an enabling environment for an emphasis on quality in the production process. In turn, an emphasis on quality in all operations processes contributes to closer customer relationships and ultimately more satisfied customers. Satisfied customers are more likely to buy MJI's product and will thus increase its chances to generate high profits and attractive returns for its owners. Finally, these returns might be partly re-invested into strategic initiatives aiming among additional training of MJI employees.

The strategy map of MJI also shows, though, that each business objective will require separate attention by Baso. For example, motivated workers are more likely to proactively seek increasing the operational efficiency of the business, but further investment in machines and workplace improvement measures will be required to achieve this goal – an observation clearly reflected in the strategic initiatives listed in the consolidated growth plan for MJI.

The strategy map for MJI is illustrated on figure 20.

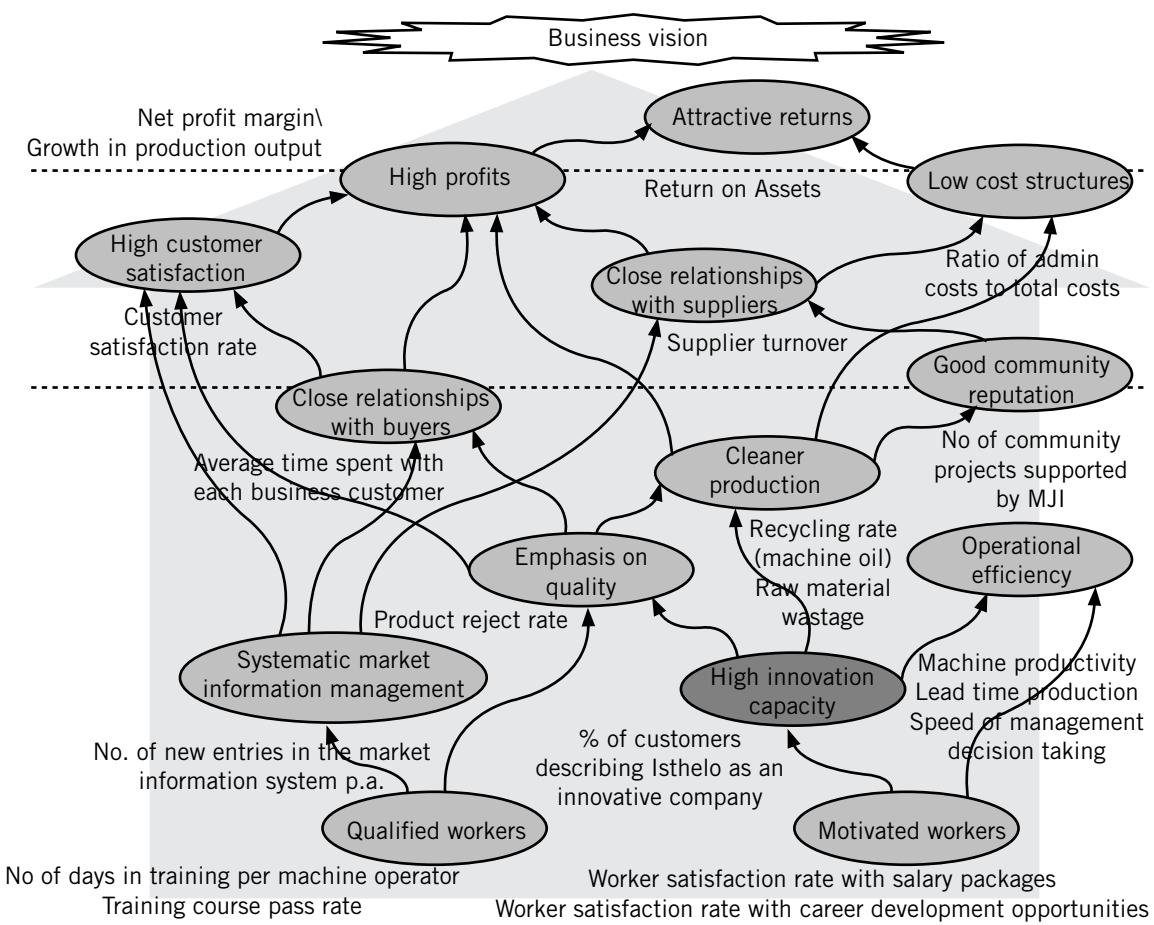


Figure 20: Mega Juice Industries Strategy map

Next, Baso Kuna finalizes her performance measures in the light of the cause and effect relationships depicted in her strategy map and carry out some adjustments. For example, she re-schedules the planned increase in production output because she can see now that she will have to invest in people, processes and technology first.

Table 27: MJI final list of business objectives and performance measures

Objective	Measures	Target				
		2012	2013	2014	2015	2016
Attractive returns	Return on assets in % (annual profit after tax x100 divided by value of fixed assets)					
High profits	Net Profit Margin					
	Growth in production output					
Low cost structures	Ratio of overheads to total costs (administrative expenses x 100 divided by total business expenses)					
High customer satisfaction	Customer satisfaction rate in% (no of satisfied customer x 100 divided by total no of customers p.a.)	85	85	85	90	90
Close relationships with buyers	Average time spent with each business customer (no of days per year per business customer)	5	5	6	7	7
Good community reputation	No of community projects supported by MJI	1	2	2	2	3



High operational efficiency	Speed of management decision making (average time in days for management to decide on proposals made by line managers)	10	10	7	7	7
	Machine productivity (no of litres per machine p.a.)					
	Lead time, production (time in days from receiving a product order to product delivery)	2	2	1	1	1
Emphasis on quality	Product rejection rate (no of deliveries rejected by customers x 100 divided by total no of deliveries made p.a.)	5	5	5	3	2
Close relationships with suppliers	Supplier turnover (no of suppliers lost x 100 divided by total number of suppliers p.a.)	15	15	15	10	10
Systematic market information management	No of new document entries in the market information database of MJI per year	100	150	200	250	300
Cleaner production	Recycling rate, machine oil (litres of machine oil recycled x 100 over total litres of machine oil used in production p.a.)	0	25	50	75	100
	Wastage rate, raw materials (kilograms of orange wasted x 100 divided by total kilograms of oranges processed in production p.a.)	10	10	10	8	7
Qualified workers	No of days in training per machine operators	5	5	7	10	10
	Training course pass rate (no of machine operators successfully graduating from training x 100 divided by total no of operators in training p.a.)	75	85	85	85	85
Motivated workers	Worker satisfaction rate with salary packages (no of workers satisfied with salary package x 100 divided by total no of workers p.a.)	60	75	75	80	85
	Worker satisfaction rate with career development opportunities (no of workers satisfied with salary package x 100 divided by total no of workers p.a.)	60	75	75	80	85
High innovation capacity*	% of customers describing MJI as an innovative company	50	75	75	75	75

Mega Juice Industries Strategy Control System

Baso Kuna decided to set up an IT-supported strategy control system. She uses the BSC-digital software to create the digital enterprise dashboard below and draw up monitoring forms along the guidelines of the EYB manual to collect the information needed to fill the data container linked to each measurement instrument.

The digital dashboard of MJI is illustrated in figure 21; all instruments are set on zero.



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Figure 21: Digital dashboard of Mega Juice Industries



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