

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL FIVE

INTEGRATION OF KNOWLEDGE – PAPER 19

COMPREHENSIVE CASE STUDY

MORNING SESSION MATERIAL

THURSDAY, 13 DECEMBER 2007

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: 5 hours 30 minutes.
9.00 a.m – 11.00 a.m. (2 hours): Planning.
11.00 a.m. – 12.00 noon. (1 hour): Break.
12.00 noon – 3.30 p.m. (3 hours 30 minutes): Writing.
2. The following pages contain case study materials.
3. The case study questions are contained in a separate paper marked Afternoon Session Material.
4. The completed answers and any working papers, clearly labelled working papers must be handed in at the end of the afternoon session. Where working papers form part of your answer, ensure that they are appropriately cross referenced.
5. It is in your interest that you hand in all written materials prepared during the examination.
6. Tables are provided on page 22.
7. Please read further instructions on the answer book.

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SIMBA CHEMICALS GROUP

In the middle of 1973, Johnson Kitaka, the head of international product management for Cooper Systems' Diagnostics division, was considering how to move forward with his career as a salesman. The Asian exodus had created so much chaos in the commercial world and many networks that provided on-the-spot patient solutions for doctors and pharmacies had been disrupted abruptly. Within a year of the exodus, partly because of loss of valuable contacts in several supplier markets, the shortages had started to bite. At this point, Kitaka wondered how the 'Economic War' emancipation wrought by Idi Amin, had affected the Ugandan population and created such chronic shortages and queues.

LEARNING THE ROPES

Over the last decade, Johnson Kitaka had not been working at Cooper Systems without learning anything. After finishing his O'Levels at the Aga Khan Secondary School in 1962, JK as he was popularly known amongst his friends, had decided not to continue with school since his poor father was having problems raising school fees for his siblings. Rather, he had opted for a job as a salesclerk so that he could help his peasant father raise school fees for his brothers and sisters. With the help of his friend, Glen Kiddie, who was also going into employment, he had secured a job at Cooper Systems where Glen's father worked as Chief Accountant. Glen had told him that his father, who was a Certified Public Accountant (CPA), had worked his way to the top by attending evening school while working during the day to support himself and his ailing mother in UK. After becoming articled, he had shipped out to work with Cooper Systems and had never returned to the UK.

JK reasoned that this was a viable option that could also ease the burden on his family so he opted for Glen Kiddie's advice. Unfortunately for him, there was no job in the accounts department and he had to opt for a job in the sales department. Luckily, he was able to establish several contacts with the Indian fraternity whose town and upcountry retail chains he serviced. In the Sales Department, he also quickly learnt about the import/export trade from his friend Narubhai Patel. He learnt about opening letters of credit, shipping documents and customs procedures. He learnt about customs documentation including bills of lading, insurance, bonding and invoice discounting. Generally, JK was able in a short time to run the whole import process on his own. The job was so exciting that JK soon forgot about accounting since he was a suave operator. He earned far much more in commissions because he was able to convince many clients to buy from Cooper Systems. He also took a course in marketing and learnt about customer care and the 5P's as they were known then.

With the Indian exodus, Cooper Systems' business had almost come to a standstill. His boss Narubahi Patel had left the country and he suddenly found himself in the position of head of Sales and Marketing. Mr. Kiddie, the accountant had advised the board that JK should be made a director to protect the company's business from nationalization by the Amin Government and also have somebody responsible for running the company in case the Europeans also left.

How matters had come to such a pass, JK could not understand. He lamented that 'In such a short time, our future and hopes have been shattered by the madness of one man!'. While JK agreed to stay on at Cooper Systems, it was evident that the Parent company in the UK was intent on pulling out and as such was not injecting in any additional funding. All remittances that were being made abroad were not resulting into additional exports to Uganda. The company was indeed in dire straits.

REESTABLISHING SUPPLIER CHAINS

JK sat back and analysed the market. He realized that the Asian exodus had created a vacuum of skills to manage the import and export trade. Very few businesspeople had skills that were required to import and export. Neither did the new 'mafuta mingis' (wealthy businesspeople who emerged after the Asian exodus) have the requisite contacts abroad to import the goods that were required by consumers. But he had the skills. He was still employed as manager and director by Cooper Systems. Could he not see the opportunities that stared him in the face?

The market for human and animal medicine represented the largest segment of the overall chemicals industry. In East Africa alone, the chemicals industry was valued at \$230 million in 1973. With the vacuum created by the Asian exodus in Uganda, several hospitals, pharmacies and farms/plantations were experiencing debilitating shortages. Large central laboratories required huge backup supplies and the lead time involved in getting supplies from Europe to a landlocked country did not help matters.

Given the lack of willingness by Cooper Systems UK to extend credit or inject working capital in Copper Systems Uganda, JK got in contact with Mr. Kiddie who had moved back to the UK. 'Listen,' he said, 'the need for drugs here is tremendous. Let me start up a different company to do the import business. I will find my own resources if Cooper Systems accepts to fund me. That way, you run no risk and your product remains on the market. I and a few friends will source our financing and start the business instead of agonizing over what could have been. If we don't do this, somebody else will take this opportunity away'.

Thus, with the agreement of Cooper Systems UK, Simba Chemicals Uganda (SCU) was born.

A few years earlier, explosive growth in the demand for polio vaccines had been forecast to double, coinciding with the '**Kick Polio out of Africa Campaign**'. JK reckoned that if he could convince the Ministry of Health to give him the order for the supply of polio vaccines, his bankers would not decline opening a letter of credit in favour of Cooper Systems UK. He had been with Barclays Bank Uganda since 1962 and had an unblemished record.

Barclays Bank obliged since it was interested in promoting African Entrepreneurs and JK's Simba Chemicals was off the mark. Business was difficult, but JK had the sense to keep his relatives out and employ only professionals. He had learnt from Cooper Systems, where he was still a director that diligence and attention to detail was the only way to make money. Avoid unnecessary wastage and pay all obligations as they arise. This system had worked for Cooper Systems for the last forty years and he did not see how it would not work for him. Because of his association with Glen Kiddie's father, he always boasted to friends and competitors alike: 'I am British trained and my discipline and integrity speak for themselves'. Though security was a problem, due to the success of the business, JK convinced Glen Kiddie to come back to Uganda and play a role in the business.

"Listen Glen", he opined, "there is a lot of risk out here, but so is the money to be made; come back and stick with the business. Keep out of trouble and we shall make ourselves a packet"

Glen had listened and his return had sent the company to the commanding heights of the economy. Simba Chemicals Uganda and what was left of Cooper Systems became synonymous with reliability and quality services. All the company had to do was to play cautious so as to outlast the Amin regime and this it did quite successfully despite the looting and near collapse of infrastructure that followed the 'war of liberation' in 1979.

EMERGING TRENDS

Over the 1980's, as the country returned to normalcy, there was increasing pressure in many industrializing countries to reduce health costs through an emphasis on preventive medicine. This pressure was mainly driven by the World Bank's Structural Adjustment Programmes (SAPs). SAPs had two major requirements - restructuring of the public sector to reduce the public sector borrowing requirement (PSBR) and liberalization of the economy to increase private sector participation. Liberalization meant freeing up interest rates and having a freely convertible currency, unfettered by the Central Bank's

interference. All these changes were the result of what was widely becoming known as the 'Washington Consensus'. JK and Glen Kiddies felt that these moves from the World Bank would eventually create more space for private sector operators who were well positioned to take advantage of the changing economic landscape.

In Tanzania, the government had mandated significant cost reductions in the health care system. In Kenya, the Preventive Medicines Unit had established a centre for the distribution of vaccines as part of its health care programme. In their cost-saving efforts, one of the first measures had been to scrutinize cost trends through a cost tracking study which had established that expenditure on treating preventable diseases accounted for more than 38% of the Health Sector Budget. Several of the firms active in the human medicine sector had tended not to focus on the emerging trends, and JK, being the astute business man he was had seen this trend, hence the focus on being the number one supplier of preventive medicines. 'We have to go regional' he told Glen. 'The way the market is moving we shall have to segment the business so that we focus on animal drugs and human medicine separately. I think we should reactivate Cooper Systems for animal medicine and SCU should focus on drugs.' They agreed and proceeded to establish an East Africa-wide network known as the Simba Chemicals Group (SCG).

Another critical emerging trend in the health care regime was the focus of regional governments on primary health care. This was a high growth area and had huge potential for the industry. The distribution of preventive mosquito nets, and other combination therapies that had been advocated by the World Health Organization were also boosting SCU's business.

NEW IDEAS, NEW BEGINNINGS: MOVE ASIDE OLD TIMERS

SCG was one of the companies that now offered the entire range of human medicine and laboratory equipment by 1985. Also in that year Francis Kitaka, JK's son joined the business as financial controller. He had just qualified as a CPA in the US and was returning home to boost the business. Two other energetic managers, Edward Katumba and Joseph Byamugisha had just been recruited to boost the East African operation. Through a 1988 agreement, SCG imported, distributed, supplied, and maintained diagnostic kits supplied by CYBERMED of India, together with the reagents that were used in these diagnostic systems.

SCG had also been making several efforts to build up its in-house expertise on the manufacturing side, even if this was not a priority. But the time would come for this leading edge, because as the economy stabilized, other players and foreign firms would be returning to the region. An industry observer remarked:

"SCG is used to being the only company supplying the big consumers, and they have an excellent cost base to work from. However, developments in the region have a lot of potential for changing the face of the market. The HIV/ AIDS pandemic which is just starting also has a lot of potential to impact consumption patterns and demand for drugs as opportunistic infections take centre stage."

For instance, by exploiting CYBERMED's expertise in the diagnostics business, SCG had been able to deliver to the market a system for safe blood supply and transfusion, which was critical in emergency situations where patients were at risk of acquiring HIV/AIDS. The CYBERMED approach eliminated the traditional step where blood had to be manually tested for the Human Immuno Deficiency Virus. Moreover, less-skilled operators collecting blood in upcountry locations could also safely administer blood tests using the CYBERMED kits.

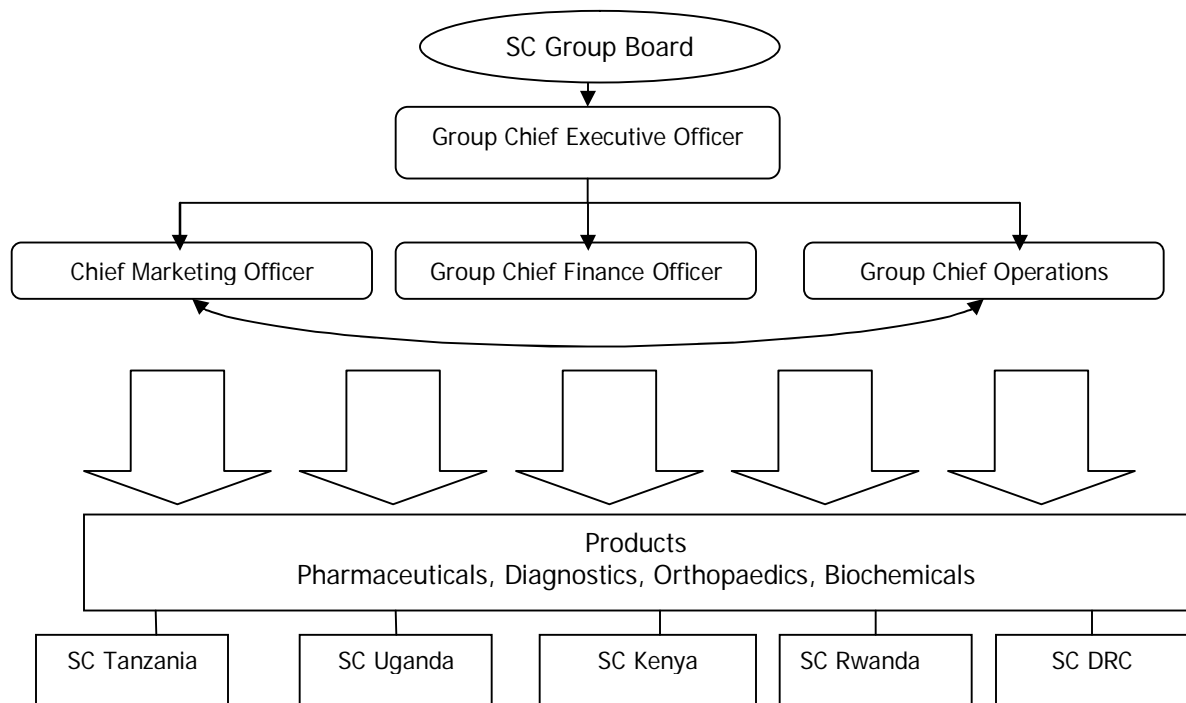
By 2001, SCG was positioned to make strong inroads in the African market where there was more pressure for cost containment in health care, and it was easier to influence policy. However, the feeling of the Group Board was that using political influence to obtain business in which they were already the best was not a good strategy. African governments were fickle, corrupt and generally each government's policies transient. With military coups taking place anytime SCG should not be seen to be in cahoots with the dictators. JK told his young breed of managers:

"... the reason we actually ever got into business is that there was a vacuum created by the instability in Uganda. The reason we remained in business was staying out of politics. There is just too much political risk associating with African governments. Let's just stick to the business side of things. If a politician needs 'convincing' about our business, we have the means but let's not be overtly associated with any regime."

The 'Young Turks' understood JK to be saying that SCG could be accommodative, but stay clear of the political fray. This was fine by them.

THE SC GROUP 1989

The SC Group of companies was privately held by the Kitaka family and managed by an executive committee under the direction of Johnson Kitaka. SCU expertise spanned the range of diagnostics, pharmaceuticals, orthopaedics, and bio-chemicals. Set up in a matrix style, the organization was divided by strategic function, geographical area, and product line (see Exhibit I). The role of Johnson Kitaka was to provide cohesive long-term stable management for the group. Individual subsidiaries had a great deal of independence in formulating their own strategies and managing their own operations and marketing. Kenya now represented the largest market for the SCU Group of activities, followed by Uganda, Tanzania and Rwanda and DR Congo.

Exhibit I: Organizational Chart for the SC Group

Investment in Research and Development (R&D) was seen as key to remaining competitive locally and internationally. Given Uganda's success in combating the spread of HIV/AIDS, SCU had become one of the largest importers of retroviral drugs. But to JK and his dynamic team, this was not enough. They wanted a larger share of the cake and manufacturing appeared to be the only way to go. Given the huge sums of cash being poured into the country through the Global Fund and the Bill and Melinda Gates Foundation, would it not be easy to start manufacturing some of the products locally so that value addition becomes a more meaningful proposition other than supply chain management? With a bit of forward planning, and using the contacts that they had built up, could this idea not become a reality?

THE ANTIRETROVIRAL DRUGS PROJECT

The SCG board agreed to set up a project committee headed by Edward Katumba and Francis Kitaka. SCG had become a leading supplier of HIV test kits and antiretroviral drugs in the region. Earlier on, the company had established a number of strategic health care objectives for its diagnostics business, which included supply of low cost analyses for the clinical laboratories, screenings for the general public, rapid result tests, and practical self-monitoring instruments

for patients. In general, the SCG Board worked on the principle 'There is gold at the bottom of the pot.', Glen always argued,

"... this is a numbers game. The only thing that matters for SCG is numbers. So for us there are three things we are going to focus on. The first is numbers, the second is numbers and the third is numbers!"

In terms of the antiretroviral drugs project, the numbers appeared to be a problem for Glen Kiddie and this had split the board half way between those who wanted to go for the project and those who did not. JK and Glen did not see the numbers. Edward and Francis on the other hand felt that this was the project that would make them entrepreneurs in their own right. They produced the projections in Exhibit II below to show the prognosis of the Aids pandemic. Edward argued;

"... the way this AIDS thing is going, there is no way one can talk about lack of numbers. We have to be in on this act and Governments in the region are going to support us. What we need is CYBERMED to accept to supply us with the technology. We can't do this alone and times have changed. We must read the government's mood and also make a strategy that positions us to get pole position in this business."

Exhibit II: Projected HIV/AIDS infections in the Great Lakes Region: 2005 – 2010

Country	Population Estimate (million)	Projected HIV/AIDS Infections (million)					
		2005	2006	2007	2008	2009	2010
DRC	49	3.68	3.87	4.07	4.28	4.50	4.73
Kenya	33	3.30	3.47	3.65	3.84	4.04	4.25
Rwanda	8	1.24	1.31	1.38	1.45	1.53	1.61
Tanzania	31	2.17	2.28	2.40	2.52	2.65	2.79
Uganda	24	2.65	2.79	2.93	3.08	3.24	3.41

Source: UNDP 2004

These numbers became fixed in everyone's brain; these were the levels the company was aiming for. Our targets were based on existing patient numbers and national treatment schemes, and information gathered from talking to customers showed that more people would have been on antiretrovirals (ARVs) if the prices were affordable. 'At the time, we did see some obstacles in penetrating the centralized markets like Rwanda and Tanzania but we thought we would overcome this on the basis of having an easy-to-use high-quality/ low cost product, and by showing opinion leaders a favourable cost/benefit analysis.'

For the young turks, this was a revolution - not having to import all the drugs that they sold and also having the ability to create more jobs. What the

promoters of it saw was that this project was a way to deliver cheaper medicine, and to establish SCG as an industrial force. In a way, the project was 10 years ahead of its time.

Edward and Francis convinced JK and Glen Kiddie to give them the project. A project team was set up consisting of Edward, Francis and Joseph and a pre-operational budget of Ugx 200 million was set up for lobbying and consultancy. The three arranged and paid for a Government of Uganda delegation to visit India, including top government officials whose backing they believed would be crucial in the project. They also commissioned Samson Semakula, a CPA to carry out a feasibility study of the project. (See Exhibit V for the financial extracts from the feasibility study.)

Later, when talking about the project, Francis Kitaka would say:

"... At the time, we were all just novices who did not know what we were getting into. Not until we saw the numbers and the kind of debt we were going to generate. We were all enthusiastic about the project, about the scientific and technological challenges and possibilities. We'd done some market research in Germany, Switzerland, and the United States, and we extrapolated our findings to other countries. But our Indian connection was critical and the final customer target was generally understood although not quantitatively stated in specific detail. Based on our in-house expertise and experience, and the feedback coming in from the sales force, we felt that we had sufficient knowledge about market conditions and customers. The general opinion was that the market was there, and few voices were raised against us. We had complete conviction in the power of CYBERMED's technology, and we still do. If we had to do it over again, we would proceed faster and invest even more in the early years of the development process. We should have been on the market in 2002."

The original intention was to introduce a one product parameter system at Luzira Park, SCG's major manufacturing site. There was a lot of discussion about whether we should design supplementary product lines or stick to antiretrovirals. But the jury was out. The emergence of various combination therapies in HIV/AIDS, and malaria all pointed to the fact that we could not afford not to build in capacity for other products. There was a factory producing Artemisia extracts in Kabale. CYBERMED was interested in this product which was emerging as the preferred treatment mode for malaria. Decisions were being forced on us and the project kept on growing. In the beginning, we thought about just having the essential parameters in the factory, but the reality was a bit different.

With all these changes and adjustments, the factory launch had already been delayed for two years while some fundamental problems relating to the instrument's ability to handle different product lines was being sorted out. This capability, it was felt would be the source of Luzira Park's competitive advantage.

The construction process ended up being quite complex technically because all expertise had to be imported and CYBERMED could not accept being associated with substandard production systems. Contamination was a key problem and the company spent a lot of resources sorting this out given the environmental conditions of the country.

During this time, some of the company's other suppliers felt threatened by the developments in the supply chain. There were major crises in the supply of inputs and because some business partners felt that they would lose a portion of their business to SCG, they were cutting off SCG's other supplies in the drug marketing business which was their lifeline. But globalization also has its advantages, because they soon realized that SCG now had the expertise and ability to source new suppliers without moving out of its offices. This is the internet age and the Brazilians, Russians, Indians and Chinese (BRICS) were all fighting for markets. This is the age of mass production, especially for generic drugs; SCG was safe.

Despite the technological and planning setbacks, it was felt strongly that there was an opportunity for the type of manufacturing SCG was introducing at Luzira Park and they stuck with the idea. It was believed that even if it cost more money, even if it required SCG to make a larger investment for the machinery, they would still emerge winners because of the potential to bring these life saving capabilities nearer home.

When Samson Semakula came in with his projections, they were revised downwards. The numbers for patients were just not realistic and the sponsors had assumed that there would be no alternative efforts to curtail the AIDS pandemic. It was simply assumed that the rates of increase would just keep on going without due consideration being given to natural selection processes.

In late 2005, SCG launched Luzira Park amidst high acclaim from potential customers and its own sales organizations. Representatives of SCG in all countries, as well as politicians and economists, publicly expressed their approval. SCG subsequently received the 'Investor of the Year' award in 2005 for its efforts and innovativeness. Positioned as a low end market producer, the SCG manufacturing facility was conveniently located to serve the low income populations of the Great Lakes Region.

SALES GROWTH AND SUPPLY PROBLEMS

Just over a year after the Luzira Park opened, sales began increasing as governments in the region recognized the importance of buying their ARV provisions from a supplier in the region. Prices were lower and orders could be made in smaller quantities. The problem for SCG was managing the high

expectations for ARV users in terms of offering fundamentally lower prices. There was also a difficulty associated with managing raw material supply bottlenecks and stockouts of finished products, which weakened SCGs position as a reliable partner for the sales organizations. There were quality crashes on both sides stemming from the complicated technology, which also caused a huge overrun on the production budget. There were different quality feedbacks and several customer complaints, yet the measures for homogeneous material inputs were standard. The hygiene regime for the chemists was also too difficult for routine production given the work cultures of local staff.

The management of Luzira Park worried about customer loyalty due to erratic supplies and the instability of power supply which was causing cost overruns. If these teething problems were not overcome, sales which were rising would dip, and debt service would become a problem. At inception, an Indian expatriate manager had been placed in overall charge of the plant but it appeared that he was poor on soft skills which are critical to people management. He was always fire fighting and seemed not to relate well to managers and workers. There had been a threat of industrial action after only three months but this had been averted by the ebullient Edward Katumba. It also appeared that management was top heavy compared to the SCG group structures where decisions were made quickly and without a fuss. In spite of the large geographical span, there had been very few hitches in the running of the affairs of the company. However, the Chief Finance Officer of Luzira Park, who had been recruited after an intensive interview process, did not appear to know his key result areas. He had failed to differentiate between producing management accounts and financial statements for different stakeholders. There were so many meetings and less work. Joseph Baguma, who was in charge of marketing remarked quietly that he felt that 'given the fact that the old men have given us a free hand to run this show, we shall have to take some strategic and critical decisions. We need to rethink our strategy and reengineer this thing before we get into problems'. We need a consultant to review our original strategy and advise us on where we are going wrong (see exhibit III)'.

Exhibit III: Original Strategy for Luzira Park

	Corporate Objectives	Specific Strategies
1.	Select, develop and maintain an efficient, effective, and a vibrant staff team committed to the growth of the company.	a) Select people having the right technical skills, core competencies, technical know-how, and competitive capabilities in key positions. b) Select people with pronounced managerial talent especially in strategy formulation, development and execution. c) Undertake staff training in the following areas: <ul style="list-style-type: none"> • Production and technical processes, • Finance and • Marketing. d) Conduct regular refresher training for all staff for the purpose of: <ul style="list-style-type: none"> • Updating and evaluating of performance. • Setting new strategies and targets. • Sharpening skills.
2.	Maintain a strong corporate image.	a) Proper branding practices b) Good governance and corporate social responsibility
	Production Technology Objectives	Specific Strategies
1.	Install and maintain state-of-the-art manufacturing technology with adequate contingency for expansion.	a) Produce excellent quality products. b) Package products in tamper proof packaging. c) Initially produce for the domestic market in Uganda. d) Expand production for the export market in the Great Lakes region.
2.	Maintain high product quality supported by attainment of Good Manufacturing Practice (GMP) status and WHO pre-qualifications.	a) Acquisition of ISO/UNBS certification b) Maintaining international laboratory standards and affiliations.

	Financial Objectives	Specific Strategies
1.	Ensure precise costing of all activities.	a) Identifying key cost drivers and establishing relevant ratios of specific items clearly categorising them as follows: <ul style="list-style-type: none"> • Product costs. • Procurement costs. • Operational costs. • Financing costs.
2.	Maintain a diversified product portfolio.	a) Strategic product planning b) Market research and development. c) Technical innovation
3.	Maintain a market sensitive pricing policy.	a) Apply economies of scale to continuously reduce the product and operational costs to a minimum. b) Keep regular monitoring of indicative market prices. c) Maintain a profit margin that will keep the products at competitive prices. d) Support the following price points/values: <ul style="list-style-type: none"> • Promotions. • Quantity/Price discounts. • Rebates. • After-sales services.
4.	Timely debt payment.	a) Search for low interest finance to uplift current operations. b) Keep discipline of paying debt finance on time. c) Keep strict cashflow discipline.
	Marketing Objectives	Specific Strategies
1.	Become a market leader.	a) Produce and maintain the products under CYBERMED Licence. b) Produce a variety of package sizes to cater for difference income groups. c) Offer warranties and guarantees to cover the following. <ul style="list-style-type: none"> • Manufacturing defects. • Substandard quality products

2.	Develop a variety of products.	a) R & D. b) Horizontal and Vertical growth
3.	Develop and maintain a vibrant sales team committed to profitable growth and customer retention.	a) Undertake sales staff training in the following areas: <ul style="list-style-type: none"> • Enjoying the work. • Basic sales skills. • Communication. b) Deploy sales staff to: <ul style="list-style-type: none"> • Reach out to pharmacies, clinics, hospitals, and other health outlets. • Create awareness and demand of the products by detailing their benefits and attributes. • Provide samples and seeding trials.
4.	Maintain superior customer relations.	a) Developing a customer database. b) Communicate offers available to customers on a monthly basis. c) Doing unto customers what would be best for them to ensure satisfaction.
5.	Consolidate customer base.	a) Undertake regular indoor promotions such as: <ul style="list-style-type: none"> • Produce simple, well designed handouts to brief customers. This may include brochures, hand bills, etc.
6.	Target specific customers.	a) Undertake direct marketing to target consumer groups by employing the following. <ul style="list-style-type: none"> • Design focused product offerings. • Direct mailing. • Company hotline. • Computer networking.
7.	Continually attract new customers.	a) Reach out to the general community by: <ul style="list-style-type: none"> • Sponsoring Radio programmes that address HIV/AIDS and malaria problems. • Television. • Newspaper.

		b) Undertake sales promotions by doing some or a combination of the following: <ul style="list-style-type: none"> • Posters. • Billboards. • Public Seminars. • Exhibitions.
8.	Maintain awareness of the products.	a) Undertake public relations activities such as: <ul style="list-style-type: none"> • Press releases. • Doctors meetings. • Luncheons. • Donations. • Sponsorships.
9.	Develop appropriate segments for effective coverage of the market.	a) Segment the region by country. <ul style="list-style-type: none"> • Technical representatives will be appointed to service the different countries. b) Segment each country into smaller units.
10.	Develop effective distribution channels.	a) Identify strategic people and develop business partnerships with localised business people <ul style="list-style-type: none"> • Become main distributors. • Become sales agents.
11.	Specialised treatment of key customers.	a) Identify the 20% customers that give 80% of income and give them special treatment and special terms. b) Focus the promotion budget on the 20% customers above in order to gain good coverage very quickly.

REENGINNERING SCG: A STRATEGIC PLAN TO BREAK EVEN

The 'young turks' agreed to employ a consultant to carry out the reengineering process. The consultant held a workshop with staff of SCG who agreed on the following strategic objectives (Box 1) as a basis for repositioning the company's manufacturing facility and focusing its efforts on meeting the market potential that had been forecast.

Box 1: Strategic Objectives from the Consultative Workshop

- To build an organisation capable of satisfying a rapidly growing ARVs and ACTs market.
- To steer enough resources into those value chains critical to the strategic success.
- To establish clear corporate policies and guidelines for implementers.
- To motivate staff in ways that will induce them to pursue our corporate objectives.
- Creating a company culture and work climate conducive to successful strategy implementation
- To institute best practices and programmes needed for quick attainment of GMP and other accreditations.
- To create “fits” between the way we operate our existing companies, that is, CYBERMED and SCG and the new company.
- To train all staff to ensure continuous improvement.
- To invest in growth of the business to take advantage of opportunities of foreign markets.

The consultant also carried out an assessment of the strategic objectives under each function and produced a SWOT analysis of the business as a basis for making recommendations on the way forward. He compared the results of the SWOT analysis and the strategic objectives and made recommendations for restructuring the activities of Luzira Park and other SCG businesses. These goals were to be achieved through close cooperation between central marketing and the company departments. Continuity in product planning and the implementation of tough project management were seen as key to improving efficiency. It was anticipated that manufacturing costs would be considerably reduced by the introduction of a new, redesigned work flow process that was more robust and convenient and with better quality control capabilities.

Exhibit IV: SCG Luzira Park Organization Structure

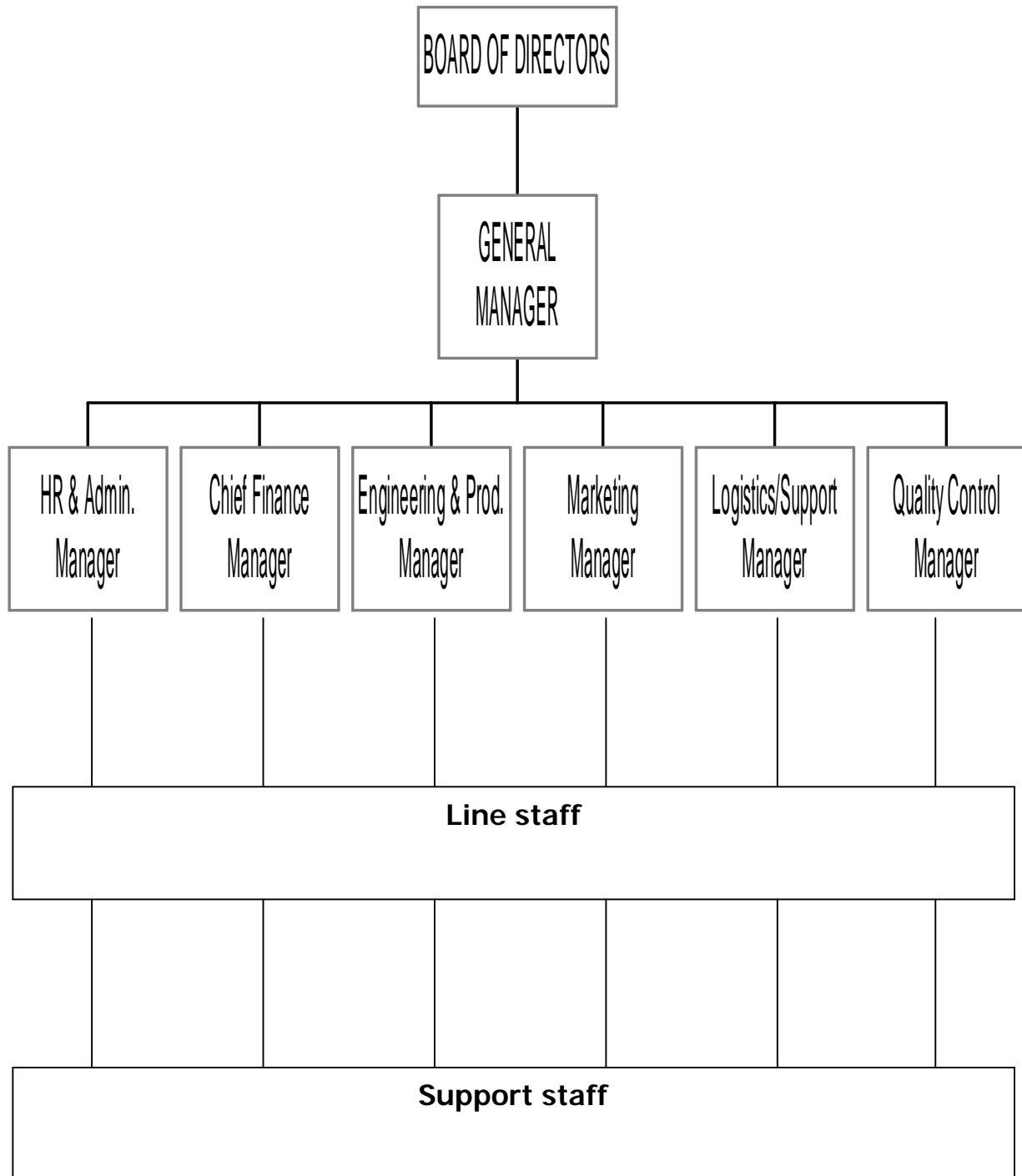


Exhibit V: Financial Projections for SCG's Luzira Park Project

PROJECTED CASHFLOW ANALYSIS

Financial Year End	VALUE (US Dollars)							
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
CASH IN:								
Equity	2,353,234	-	-	-	-	-	-	-
Overdraft		536,342	516,836	534,063	537,010	537,233	537,467	-
Loan	13,334,994	-	-	-	-	-	-	-
Sales		33,242,139	37,397,406	39,890,567	43,630,307	46,538,994	46,538,994	46,538,994
Total Cash In	15,688,228	33,778,481	37,914,243	40,424,630	44,167,317	47,076,228	47,076,462	46,538,994
CASH OUT:								
Pre-operational expenses	106,567							
Capital Expenditure	10,342,396							
Working Capital	5,239,265							
Direct Production costs		27,363,075	27,754,539	26,373,994	27,079,686	27,000,337	27,000,337	27,000,337
Indirect Production costs		3,320,427	3,050,539	3,060,892	3,104,981	3,141,174	3,167,027	3,194,361
Debt servicing		1,089,569	1,392,758	3,276,203	3,180,939	3,069,894	2,955,842	2,841,800
Tax payments		519,309	1,494,202	2,680,033	3,632,655	4,570,834	4,613,006	4,652,475
Dividends paid		121,172	348,647	625,341	847,619	1,066,528	1,076,368	1,085,578
Total Cash Out	15,688,228	32,413,552	34,040,685	36,016,463	37,845,880	38,848,767	38,812,579	38,774,551
NET CASH FLOW	0	1,364,929	3,873,557	4,408,167	6,321,437	8,227,461	8,263,883	7,764,443
ACCUMULATED CASH BALANCE		1,364,929	5,238,486	9,646,653	15,968,090	24,195,551	32,459,433	40,223,877

PROJECTED LOAN SERVICE SCHEDULE

Financial Year End	31st Dec.	VALUE (US Dollars)							
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Long term Loan		13,334,994							
Interest rate on Term Loan	6%								
Grace Period (years)	2								
Repayment Period (years)	5								
Loan opening balance		13,334,994	13,334,994	13,334,994	11,429,995	9,524,996	7,619,996	5,714,997	
Loan Repayment		-	-	1,904,999	1,904,999	1,904,999	1,904,999	1,904,999	1,904,999
Closing Balance		13,334,994	13,334,994	11,429,995	9,524,996	7,619,996	5,714,997	3,809,998	
Interest payments on Term Loan		800,100	800,100	800,100	685,800	571,500	457,200	342,900	
Total Term Loan Debt Service (a)			800,100	800,100	2,705,099	2,590,799	2,476,499	2,362,199	2,247,899
Overdraft facility Required			261,963	536,342	516,836	534,063	537,010	725,699	725,933
Interest rate on Overdraft	21%								
Overdraft opening balance			261,963	536,342	516,836	534,063	537,010	725,699	725,933
Overdraft Repayment			261,963	536,342	516,836	534,063	537,010	725,699	725,933
Overdraft Closing Balance			-	-	-	-	-	-	-
Interest payments on Overdraft			27,506	56,316	54,268	56,077	56,386	76,198	76,223
Total Overdraft Service (b)			289,469	592,658	571,104	590,140	593,396	801,898	802,156
Total Debt Service (a+b)			1,089,569	1,392,758	3,276,203	3,180,939	3,069,894	3,164,097	3,050,055

PROJECTED OPERATING RESULTS**(a): Profit & Loss Analysis**

Financial Year End	31st Dec.	VALUE (US Dollars)						
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Sales Revenue		33,242,139	37,397,406	39,890,567	43,630,307	46,538,994	46,538,994	46,538,994
Less:								
Total Direct Costs		27,363,075	27,754,539	26,373,994	27,079,686	27,000,337	27,000,337	27,000,337
Pre-operational cost amortisation		-	10,657	9,591	8,632	7,769	6,992	6,293
Gross Margin		5,879,064	9,632,210	13,506,982	16,541,990	19,530,889	19,531,666	19,532,365
Less Indirect Costs		3,320,427	3,050,539	3,060,892	3,104,981	3,141,174	3,167,027	3,194,361
Depreciation		-	744,583	658,279	586,283	525,717	474,344	430,419
Operating Profit (Before Interest & Tax)		2,558,637	5,837,088	9,787,810	12,850,725	15,863,998	15,890,294	15,907,585
Interest payments		827,606	856,416	854,367	741,876	627,886	513,609	399,334
Profit (Loss) Before Tax		1,731,031	4,980,673	8,933,442	12,108,849	15,236,112	15,376,685	15,508,251
Accumulated Profit (Loss) Before Tax		1,731,031	6,711,704	15,645,147	27,753,995	42,990,107	58,366,793	73,875,044
Corporation Tax	30%	519,309	1,494,202	2,680,033	3,632,655	4,570,834	4,613,006	4,652,475
NET PROFIT AFTER TAX		1,211,722	3,486,471	6,253,410	8,476,194	10,665,278	10,763,680	10,855,776
Less: Dividends	10%	121,172	348,647	625,341	847,619	1,066,528	1,076,368	1,085,578
RETAINED EARNINGS		1,090,550	3,137,824	5,628,069	7,628,575	9,598,750	9,687,312	9,770,198
ACCUMULATED EARNINGS		1,090,550	4,228,374	9,856,442	17,485,017	27,083,768	36,771,079	46,541,278

(b) Balance Sheet

Financial Year End	VALUE (US Dollars)						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
ASSETS:							
<u>Non Current Assets:</u>							
Non Current Assets (Book Value)	10,342,396	9,597,813	8,939,534	8,353,251	7,827,534	7,353,190	6,922,771
Pre-Operational Costs (Amortising)	106,567	95,910	86,319	77,687	69,918	62,927	56,634
Total non Current Assets:	10,448,963	9,693,723	9,025,853	8,430,938	7,897,453	7,416,117	6,979,405
<u>Current Assets:</u>							
Cash	1,364,929	3,873,557	4,408,167	6,321,437	8,227,461	8,263,883	7,764,443
Working Capital	5,239,265	5,363,424	5,168,365	5,340,634	5,370,095	5,372,334	5,374,672
Debtors	-	-	1,135,711	693,216	294,572		
Total Current Assets	6,604,194	9,236,982	10,712,243	12,355,286	13,892,128	13,636,216	13,139,115
TOTAL ASSETS:	17,053,157	18,930,705	19,738,096	20,786,225	21,789,581	21,052,333	20,118,520
EQUITY AND LIABILITIES:							
<u>CAPITAL AND RESERVES:</u>							
Equity/Capital	-	-	-	-	-	-	-
Retained Earnings	1,090,550	3,137,824	5,628,069	7,628,575	9,598,750	9,687,312	9,770,198
Reserves	-	-	-	-	-	-	-
	1,090,550	3,137,824	5,628,069	7,628,575	9,598,750	9,687,312	9,770,198
<u>NON-CURRENT LIABILITIES:</u>							
Long term debt	13,334,994	13,334,994	11,429,995	9,524,996	7,619,996	5,714,997	3,809,998
	13,334,994	13,334,994	11,429,995	9,524,996	7,619,996	5,714,997	3,809,998
<u>CURRENT LIABILITIES:</u>							
Overdraft	-	-	-	-	-	-	-
Corporation Tax Provision	519,309	1,494,202	2,680,033	3,632,655	4,570,834	4,613,006	4,652,475
Creditors	2,108,304	963,686	-	-	-	1,037,018	1,885,849
	2,627,613	2,457,888	2,680,033	3,632,655	4,570,834	5,650,024	6,538,324
TOTAL EQUITY and LIABILITIES:	17,053,157	18,930,705	19,738,096	20,786,225	21,789,580	21,052,333	20,118,521

Table 1: PVIF- Present Value of Shs 1 Due at the End of n Periods

Period	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.847	0.833
2	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.718	0.694
3	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.609	0.579
4	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.516	0.482
5	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.437	0.402
6	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.370	0.335
7	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.314	0.279
8	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.266	0.233
9	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.225	0.194
10	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.191	0.162
11	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.162	0.135
12	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.137	0.112
13	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.116	0.093
14	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.099	0.078
15	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.084	0.065

TABLE 2: PVAF - Present Value of an Annuity of Shs 1 per Period for n Periods

Period	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.847	0.833
2	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626	1.605	1.566	1.528
3	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283	2.246	2.174	2.106
4	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855	2.798	2.690	2.589
5	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	3.127	2.991
6	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784	3.685	3.498	3.326
7	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160	4.039	3.812	3.605
8	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487	4.344	4.078	3.837
9	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772	4.607	4.303	4.031
10	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019	4.833	4.494	4.192
11	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687	5.453	5.234	5.029	4.656	4.327
12	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660	5.421	5.197	4.793	4.439
13	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122	5.842	5.583	5.342	4.910	4.533
14	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002	5.724	5.468	5.008	4.611
15	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142	5.847	5.575	5.092	4.675