

Growth Point.

Issue 2: September 2010

Welcome,

to GroFin's second client newsletter. Coinciding with the beginning of spring in the Southern Hemisphere, we bring you business advice and tips that will hopefully inspire the same growth we see around us in nature. I hope you enjoy the issue and, if you have any suggestions or submissions, please email me (amy@grofin.com).



Amy Heydenrych
PR & Comms Officer

Client news

Linya hits record sales

GroFin's Uganda office congratulates Linya, a family business engaged in the distribution of Unilever consumer products.

When the partnership began in 2006, the business was battling with falling sales and lacked the working capital to serve their allocated area.

Through consistent business support and guidance, GroFin assisted Linya in strategising means to drive their cash flow. The business progressed from operating at a loss to realising record sales of UGX 917M in December 2009. Linya is now recording sales of UGX 1BN per month, with the trend expected to continue. The client concludes: "I am so pleased with the way GroFin has contributed to my business's performance even during the hard times it has gone through"

Business expertise

Expanding to other countries

By Rita Odero and Rosemary Mulwa, Kenya

When your business has maintained a consistent growth path, it is natural to begin looking at ways to expand, either through your product/service offering or where you operate. If there is demand for your product/service in other countries, the prospect of taking the plunge and moving into new markets can seem potentially lucrative.

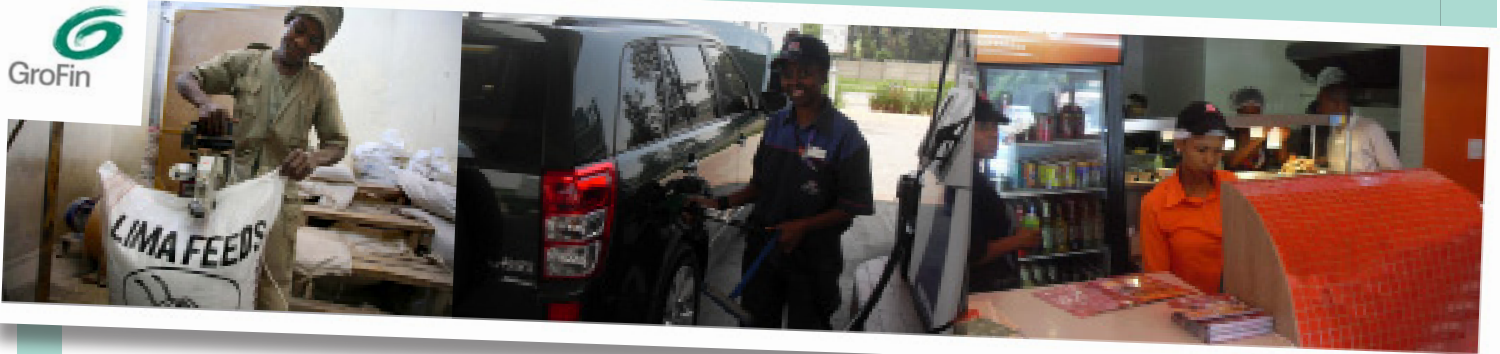
However, this is not a step to be taken lightly. If you are considering expanding your business to other countries, you are best advised to think long-term and investigate your options from various angles, reviewing all factors in the context of your business plan. Some of the key factors to be considered include (but are not limited to):

- The economic environment - what is the locals' purchasing power?
- Market - demand for your product/service.
- Competitor plans and positioning.
- Technology and product shifts.
- Customers and suppliers - these are critical in determining your location.
- Labour availability-you will need a adequate pool of both professional and unskilled employees.

- The regulatory environment-what legislation affects your business and what does the law say about taxes?
- Political climate - is it conducive to smooth business operations?
- Costs associated with labour, electricity, insurance etc.

If at all possible, you need to plan how to efficiently and effectively handle the unexpected by establishing a network of consultants that you can approach for legal and/or business advice.

With offices in South Africa, Uganda, Tanzania, Kenya, Ghana, Nigeria and Oman, GroFin is in the unique position to offer you collective expertise on doing business across the continent. Whether you wish to expand into another country/region or source suppliers in a country in which we operate, please contact your Portfolio Manager (Business Development Manager) for guidance and expertise. We will actively work alongside you to help you succeed.



Business expertise

The magic 1%

QUESTION: Can a 1% change in your sales and expenses make a 19% improvement in your profits?

ANSWER: Yes, let us show you how...

BEFORE	
• Sales	\$100 000
• Cost of sales	\$70 000
• Gross profit	<u>\$30 000</u>
• Expenses	\$20 000
• NET profit	<u>\$10 000</u>

AFTER	
• +1%	\$101 000
• -1%	\$69 300
• Gross profit	<u>\$31 700</u>
• -1%	\$19 800
• NET profit	<u>\$11 900</u>
• Extra profit	\$1 900
• Growth	19%

How can you reduce your expenses?

As you can see from the above example, a 1% decrease in expenses has the potential to positively affect your profits and translate into growth. But how do you reduce your expenses without making any radical changes?

Your business's expenses fall into three categories. These are cost of goods sold, fixed costs and variable costs. Each category allows for opportunities to save, translating into increased profits and growth.

Cost of goods sold

There are a number of ways to decrease the expenses incurred through the cost of goods sold. If you purchase for resale (if you are not a manufacturer), you can do the following:

- Negotiate a better price from your supplier.
- Negotiate better discounts from your supplier, which could be a trade discount (which is based on the type of customer you are or the volume that you purchase), or a settlement discount (which is based on payment within a certain period of time).
- Negotiate better credit terms with your supplier.

If you are a manufacturer, you need to examine ways of enhancing your manufacturing efficiency, and productivity output, and perhaps a more efficient means of manufacturing, inclusive of the reduced production of wastage (more of this in the next issue of Growth Point).

General expenses: fixed costs

Fixed costs refer to costs that are incurred irrespective of whether you sell anything or not. Examples of these would be rent, internet hosting charges, administrative wages.

Techniques to reduce fixed costs:

- Negotiate cheaper rent/look for alternative premises.
- Look for alternative internet service providers.
- Rationalise administrative staff.

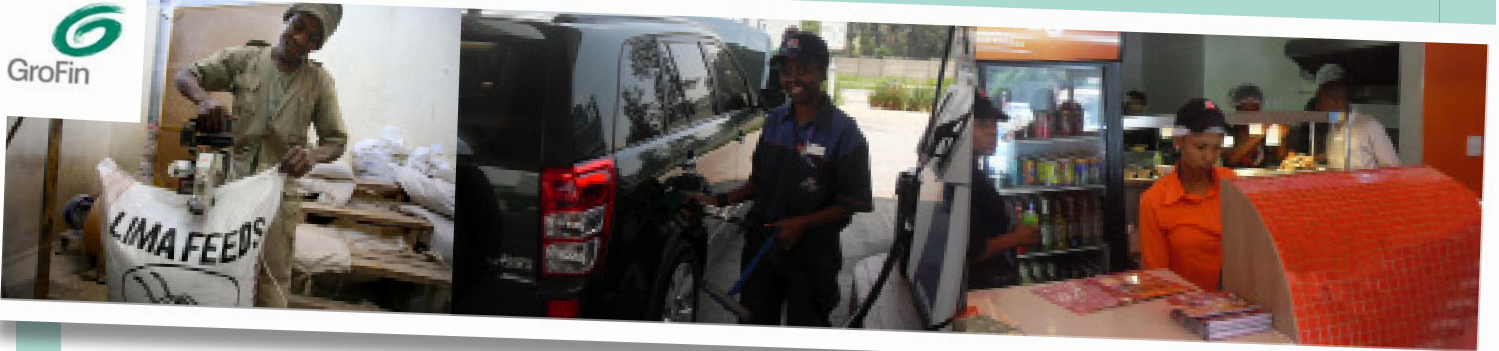
General expenses: variable costs

Variable costs are expenses related to the volume that a business sells and are incurred when something is sold and not incurred when something is not sold. Examples of variable costs include sales commissions, transport expenses, and electricity if used in the process of manufacturing.

Techniques to reduce variable expenses:

- Change the basis of sales commission
- Look at alternative means of transport and distribution.
- Examine alternative means of manufacturing that provide an alternative to, or consume less electricity.

Want to discover more ways of reducing your expenses or driving sales specific to your business? Your Portfolio Manager will gladly offer you expertise tailored to your unique situation.



Business expertise

Currency fluctuation: protecting your business

By Gary Simmonds, South Africa

It stands to reason than any company involved in the import or export of any item will be exposed to foreign exchange risk.

Whilst the importing of once-off equipment can be classed as ad hoc exposure, those importing stock for resale on an ongoing basis are involved in a far more serious and ongoing exposure. Exporters are also exposed to the peaks and troughs of the foreign exchange market. However, should they quote or price in their local currency the risk is then passed on to their buyer. One may argue that quoting in a foreign currency allows one to profit should any currency fluctuations benefit the exporter, but the risk of losing should it go the other way is very real.

“Pricing in your local currency passes any foreign exchange risk on to the buyer.”

As a golden rule, I advise pricing in your local currency if you are costing fixed and variable costs in local currency. This passes any foreign exchange risk onto the buyer.

Forward Exchange Contracts (FEC) - agreements between two

parties to exchange one currency for another at a future date exist specifically to mitigate the risk of foreign currency fluctuations. Although they come at a cost, they allow one to secure a guaranteed rate for a particular amount or transaction for a particular date.

In transactions involving a Letter of Credit (LC-a letter issued by a bank authorising the bearer to draw a stated amount of money from the issuing bank) where a specific time period is stipulated in terms of performance of the LC, the FEC becomes an integral part of securing a fixed cost in the local currency and therefore the pricing and gross profit margin can be accurately calculated.

When businesses operate on open account with foreign



Gary Simmonds, a new member of SA's Kwazulu Natal team

suppliers with the amount payable in a foreign currency, an even more significant foreign exchange risk occurs. This risk was of particular significance in the South African context during the 2008/2009 fiscal year. A company operating on open account with a foreign supplier at the end of August 2008 and owing their supplier US\$1 million owed an amount equivalent to R7.6 million. If this account was conducted on 60 day terms, the equivalent Rand amount payable at the end of October 2008 would have been R11.5 million, a 51% increase in cost.

While this example is an extreme case, it illustrates very well the dangers of fluctuations in foreign currency.

Where possible, traders should secure themselves in terms of the currency they trade in with the use of FECs as usually the foreign exchange market is outside of their general area of expertise. This allows them to fix their cost and mitigate inherent foreign exchange risks.

GroFin news

GroFin in the press

GroFin has enjoyed press coverage in all its countries of operation. Below we share a few of the highlights with you.

Abuja launch

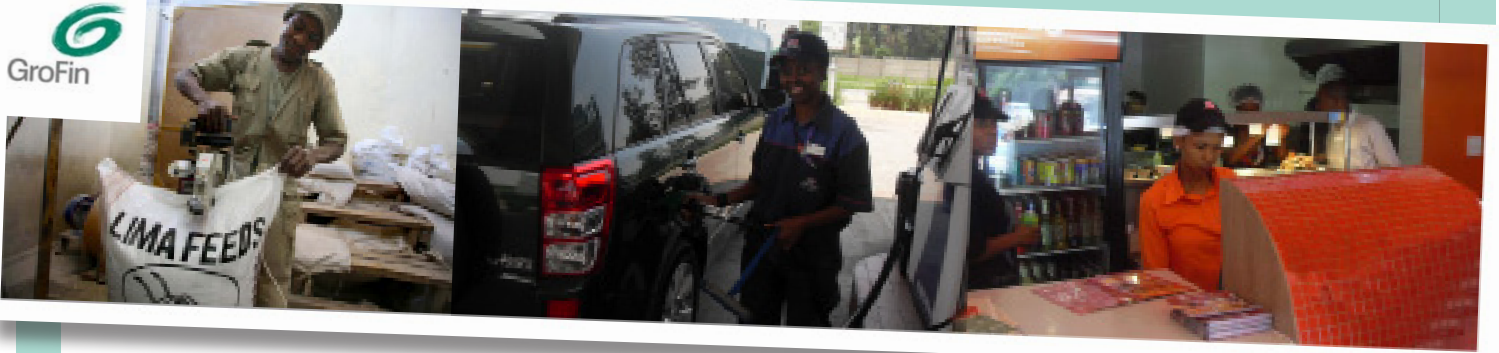
In June, GroFin launched its presence in Abuja, receiving attention from the local press. You can read one of the articles written on the launch [here](#).

East African column

Over the past few months, GroFin's office in Uganda has written a regular column for the East African, one of the region's most prominent business publications.

Ghana launch

Our Ghana office officially made their presence felt in the country with a media launch. Read more [here](#).



Client news

Recent additions to GroFin

It gives GroFin great pleasure to welcome the following clients to its portfolio. We look forward to partnering with you to assist your business in reaching success.

Vaal Quarry (South Africa)

The business specialises in mining andesite, a volcanic rock that is sought after in construction, particularly road building.

Mickmakin (Nigeria)

This food processing company currently owns two Chicken Republic franchise outlets and wishes to open a third.

Alika Cleaning Systems (Kenya)

The company constructs, rehabilitates and maintains public toilet facilities in Nairobi and various towns in the country.

Kisco Suppliers Ltd (Rwanda)

Their core activity is the purchase of foodstuffs (maize and beans) and the production of maize flour, which is sold to local bulk consumers such as prisons, schools, universities/colleges, military camps and NGOs.

Bbumba Abbey Merchandise (Uganda)

The business sells branded television sets, as well as solar panels, fridges, radios and other household electronics.

CIAR Management Institute (Kenya)

The business focuses on providing creative corporate training to people in all areas of operation.

Interested in making contact with any of these businesses? Contact your Portfolio Manager who will gladly put you in touch .

Parting shot

Inspirational client image

This image was taken at Citizen Medical Centre, a Nigerian client. It was taken by Newstar Photography, another of our clients.



Client news

Sogem featured in CDC video

One of our Rwandan clients, Sogem, was recently featured in a video commissioned by one of our investors: CDC. The clip was screened at the presentation of their Annual Report, which featured Bob Geldhof as a keynote speaker. Sogem, a paper bag manufacturer who has successfully filled the gap in the market left by Rwanda's 2006 plastic bag ban, also manufactured branded paper bags for the event. You can watch the video [here](#).

A member of Sogem's staff folding a paper bag by hand.



GroFin news

GroFin branches out in Kenya

On 2 September, GroFin pledged its support to entrepreneurs operating in Kisumu, Kenya. The office now offers hands-on business support to SMEs in three Kenyan cities: Nairobi, Mombasa and Kisumu.

New website

Keep clicking on www.grofin.com, as in October you will see a new-look GroFin website. The site will host a number of features tailored to your needs as a GroFin client, as well as exclusive business tips and expertise.

We appreciate your feedback

If there is anything you would like to share with us, [click here](#) to send us a mail.