Mastering Private Enterprise

ISBI Institute @ Strathmore Business School

GBSN Annual Conference  By Suncan Pavlovic  SBS, November 9, 2018
**Acc. to Kenya National Bureau of Statistics**

Micro Business

- Monthly Turnover in US$ 100 K
- No. of employees 10

Medium Enterprises

- Monthly Turnover in US$ 1 mln.
- No. of employees 50

Large Companies

- Monthly Turnover in US$
- No. of employees 100

Because:

1. SB owners proved the **talent and right attitude** by managing the leap into the real business world!

2. If we provide them with the right **management tools** & help them streamline their business

3. Their sustainable **growth** will inevitably create employment

**ONE-SHOP-OWNERS WITH A MONTHLY TURNOVER OF USD 5 TO 50 K**
After First Two Years We Were Very Proud

Impact Measurement: Three Months After Graduation

- 1/3 of graduates employed additional person/s
- 2/3 of graduates still kept records manually
- 90% graduates fully recovered program costs through increased profitability
- 10% drop out of the program (usually after first session)
- 10% graduates are not in the same business anymore
Impact Measurement: Six Months After Graduation

Only 1/2 of the Business Plans fulfilled expectations!

Most common reason: COMPLETELY WRONG ASSUMPTIONS

Revenue: Overestimated 2X – on average!
Profit: Overestimated 3X – on average!

Most common issues:
1. NO DIFFERENTIATION BETWEEN CASH AND PROFIT
2. UNKNOWN CONCEPT OF COST OF CAPITAL
3. DIVERTING (PART OF) EXPENSIVE CREDIT TO PERSONAL NEEDS
There is a challenge:

1. **Manual Record Keeping**
   
   It is inconvenient to collect all relevant information manually.
   
   Too much information to collect, too many calculations to do manually, and too many mistakes are possible.

2. **Collecting Data**
   
   It is hard to analyze collected information without software.
   
   It requires much longer training in order to internalize relevant accounting and quantitative methods.

3. **Processing Data**
   
   Without tangible gain, most lose patience earlier or later.
   
   Without clear insights entrepreneurs are not able to draw their own conclusions about crucial improvement potential.

4. **Analyzing Data**
   
   Constant mentoring and impact measurement is expensive.

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**We Need an IT-Solution**

To teach entrepreneurs how to make better business decisions.
1. App that combines:

SIMPLIFIED FINANCIAL ACCOUNTING  
(sacrifice 10% accuracy to win 10 x on simplicity)

BASIC COST MANAGEMENT TOOLS

and gadgets such as M-Pesa payment and bar-code reader integrated

REKA APP

- with very intuitive interface, and without information overload
- able to provide insight into financial & operational practices of SMEs
- with purpose of identifying critical improvement potential
- resulting in increased profit and entrepreneurs' motivation for continuous record keeping

2. Training:

EXTENSIVE CHANGE OF HABIT

Motivational factor through simplicity, time saving and immediate insight in critical parameters

3. Teaching:

FINANCIAL DECISION MAKING

Tangible gain by profit increase and better cash flow management based on app insights
## Surprising (Preliminary) Results

### AFTER SIX MONTHS AND TWO PILOT GROUPS

<table>
<thead>
<tr>
<th>Common Opinion</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>✗ Lack of cheap financing</td>
<td>➢ Inefficient use of available capital</td>
</tr>
<tr>
<td>✗ Diversification is good</td>
<td>➢ At least 1 out of 3 activities generates losses</td>
</tr>
<tr>
<td>✓ Mix business &amp; personal</td>
<td>➢ Much more money than perceived is taken out of business for personal use</td>
</tr>
</tbody>
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### Cost structure
- Interest costs: usually above 60% EAR, often above 100%
- Most common capital issue: inventory overstocking
- Most common loss: pilferage by employees
- Among biggest operating costs: mobile phone expenses
FOCUS ON TRAINING THE TRAINERS

Reka App is free of charge
Training is outsourced to NGOs through franchising model
ISBI provides methodology, materials and trains the trainers

Trainers should pass three training cycles to get certified
- App functionality
- Financial analysis
- Teaching methodology

Recommended operations model
- Entrepreneurs should pay something
  - E.g. direct teaching & mentoring costs
- Definitely, not less than tablet value, if provided by NGO