**MEMORANDUM**

|  |  |
| --- | --- |
| **Date :** 17/01/1441H (16/09/2019)  **From :** Mohammed Al-Zunaytan / Sultan AL-Shammari  **To : Faisal Al-Khalaf**  **Ref :** 2433-Sameer Awad Al-Oufi Factory  **Subject:** Marketing Capabilities Assessment (Working Capital) | **cc:** A. Al-Beqawi  A. Al-Akel  A. Al-Ghebewi  B. AlDhwayan  M. Al-Shehri  A. Shreaf  MRD  TCD |

**The Case**

The client has requested a working capital loan of 6,772M. He is suffering from losses due to his inabilities to fulfill customers’ orders. The client claim that he cannot fulfil the customer order due to his lack of raw material availability which is mainly due to lack of liquidity. It is worth to mention that such an industry (Straightening Rebar, Wire Mesh, Barbed Wire and Chain Link Fencing) rely mostly on raw materials. The client has stated during the meeting with MSD that he needs working capital financing only for Straightening Rebar (Cold drawing) and Wire Mesh since both products raw material require advanced payment (Cash) and credit is not possible. The client started trailer production back in 2016.

**Client Assessment**

* **Historical Sales performance**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Historical Sales SR (000)** | | | | | | | | |
|  | **2016** | | **2017** | | **2018** | | **2019** | |
|  | **Appraisal** | **Actual** | **Appraisal** | **Actual** | **Appraisal** | **Actual** | **Appraisal** | **Actual (8 months)** |
| **Sales** | 20,300 | 1732 | 23790 | 13172 | 26368 | 7595 | 30610 | 5872 |
| **Net Profit** | -1,770 | -1684 | -1086 | -2383 | -573 | -1274 | 231 | N/A |

\*2019 total sales is divided into Straightening Rebar (50%), Chain Link Fencing (12%), Wire Mesh (10%) and Barbed Wire (3%)

The client started commercial production during 2017 where he registered the highest sales performance. As can be seen from the table above the sales have declined by 42% During 2018 Due to the slowdown in the market in general. Also, the liquidity problems that sponsor started to face has made 2017 the hardest for such a newly started factory. However, the client’s sales performance is expecting to increase by 16% (8,800M annualized) by the end of 2019.

* **Products**

|  |  |  |  |
| --- | --- | --- | --- |
| **Product** | **SIDF Financed** | **Installed Capacity (TPA)** | **SIDF Policy** |
| Barbed wire of iron or steel; twisted wire | No | \*1,000 |  |
| Wire mesh | Yes | 12,000 |  |
| Straightening Rebar | No | \*15,000 |  |
| Chain link fencing | Yes | 4638 |  |

\*As per industrial license

* **Sales and Marketing team**

The Client currently has only one sales representative who using relationship to reach local distributors. Al-safi Abdulsadiq who’s responsible for the sales is from Sudan and has a Bachelor degree in **Accounting** from Kassala University. Al-safi has worked in construction company and a Block Factory as an accountant. Also, the owner son Tariq is working with sales representative helping in contacting customers and making deals with them.

* **Sales forecast (2019-2020-2021)**

The following table shows the expected sales forecast based on client’s current capabilities:

|  |  |  |  |
| --- | --- | --- | --- |
| **Sales Forecast (SAR)** | | | |
| **Products** | **2019** | **2020** | **2021** |
| **Straightening** **Rebar (Cold Drawing)** | 4,368,695 | 5,155,060 | 6,186,071 |
| **Wire Mesh** | 873,332 | 1,030,531 | 1,236,637 |
| **Fence Mesh** | 1,024,884 | 1,209,363 | 1,451,236 |
| **Barbed Wire** | 270,468 | 319,152 | 382,983 |
| **Total** | **6,537,378** | **7,714,106** | **9,256,927** |

The following table shows the sales forecast of the client with the SIDF working capital financing:

|  |  |  |  |
| --- | --- | --- | --- |
| **Sales Forecast (SAR)** | | | |
| **Products** | **2019** | **2020** | **2021** |
| **Straightening** **Rebar (Cold Drawing)** | 4,936,625 | 7,651,768 | 13,390,595 |
| **Wire Mesh** | 986,865 | 1,529,640 | 2,676,870 |
| **Fence Mesh** | 1,158,119 | 1,795,084 | 3,141,398 |
| **Barbed Wire** | 305,629 | 473,725 | 829,018 |
| **Total** | **7,387,237** | **11,450,218** | **20,037,881** |

MSD sales forecast are based on the following assumptions:

* The historical sales performance of the subject products. (2019 estimated growth rate of16% (8,800M annualized)).
* Market situation in terms of demand fluctuation.
* Sponsor’s experience in this filed.
* Expected sales of coming projects and growth within the market (4-8%)
* Estimated sales with/without SIDF working capital loan.
* Offering customized Straightening Rebar sizes of 6.5 mm.
* The only factory in Al-Madina enjoying lower transportation for that region comparing to Central and Western Region which has higher transportation cost.
* Possibility of targeting Major steel distributors in Al-Madinah and other cities in the Western region.
* Estimated growth rate of 4-8% as per MSD field survey.
* **Agreements (Contracts/Orders, etc.)**

The fluctuation of raw material prices of this industry has made singing contracts not viable for both parties. Also, the liquidity problems the client currently encountering have made even more challenging to acquiring contract since most contract required specific commitment in delivering the work which the client cannot guarantee. He did not provide any orders, requests or contracts. As per the client provided distributors demand sample, the overall estimated demand of Al-Mdinah for the year 2019 is estimated to be around (SAR) 42,000M for Wire Mesh and Straightening Rebar.

* **Target Market and Regions**

Around 80% of the products are sold in Al-Madinah region and the other to different nearby regions. However, they are welling to enter different regions around the Kingdom when they have the ability.

* **Distribution Capabilities**

The client is relying on a third party for his production transportation. The main reason he is not investing in distribution fleet infrastructure is that the demand is fluctuating and can be high in quarter and not for the other. Having fixed transportation cost will incur him The norm in this industry for the size of the client, they rely on third party transportation where the end customer pays for it.

* **Raw Material Availability**

The client liquidity issue has led to raw materials shortage which in return led to its inability to fulfilled customer requirement and orders. It is worth mentioning that the client product relies heavily on raw materials and most of raw material suppliers sell in advanced. This has made it very difficult for the client to move with a positive growth taking into consideration the missing potential sales.

* **Payment Terms**

The client payment term had led to missing a large portion of the potential sales. The client liquidity issue has forced him to offer his product in cash and not credit. Offering the products in cash has only enabled him to acquire small customers who have small quantity and pay in cash. However, bigger customers will not accept this payment term as the norm is to have the sales in credit with payment period of 1 to 2 months.

**Market Overview**

MCD has visited four distributors in almadinah Al-Rashed, Al-Fozan and other small ones. The market in general has registered decline the past three years according to local distributors. The main reasons were the slowdown in the construction sector and the number of the governmental projects that were put on hold or canceled. However, during MSD meetings with distributors in AlMdinah, they expect that the market will register a growth of 4-8% this year comparing to 2018 if the market continues with the same performance due to new projects within the region such as housing projects (3,000 units) and the city of Almadiah Municipality development projects for the coming 3 to 4 years estimated to be SR 6 Billion. In addition, SR 1.7 Billion for roads projects, SR 1.8 Billion for drainage and (Source: WAS 15/01/1440).

The following tables show the supply/demand balance for the subject products:

|  |  |  |  |
| --- | --- | --- | --- |
| **Barbed Wire\*** | | | |
| **Year** | **2019** | **2020** | **2021** |
| Supply\*\* | 8,330 | 8,330 | 8,330 |
| Demand | 5,696 | 5,867 | 6,043 |
| Expected Growth | 3% | | |
| **Balance** | 2,634 | 2,463 | 2,287 |
| **Wire Mesh** | | | |
| **Year** | **2019** | **2020** | **2021** |
| Supply\*\* | 600,828 | 600,828 | 600,828 |
| Demand | 280,282 | 288,691 | 297,352 |
| Expected Growth | 3% | | |
| **Balance** | 320,546 | 312,137 | 303,476 |
| **Straightening Rebar\*** | | | |
| **Year** | **2019** | **2020** | **2021** |
| Supply\*\* | 436,950 | 436,950 | 436,950 |
| Demand | 225,725 | 232,496 | 239,471 |
| Expected Growth | 3% | | |
| **Balance** | 211,226 | 204,454 | 197,479 |
| **Chain Link Fencing\*** | | | |
| **Year** | **2019** | **2020** | **2021** |
| Supply\*\* | 34,600 | 34,600 | 34,600 |
| Demand | 30,417 | 31,329 | 32,269 |
| Expected Growth | 3% | | |
| **Balance** | 4,183 | 3,271 | 2,331 |

\*Source: MRD \*\* Based on (1 shift/ 8 Hours)

As it can be seen from the above tables, the market is expected to be oversupplied for the next three years. This is due to the large capacities in this industry along with the decline in the demand on the subject products. This huge oversupply can be absorbed by the good number of coming government and private projects.

**Prices**

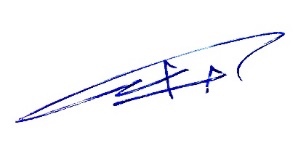
Prices of the above products are the key factors affecting the competition and it is mainly based on cost of raw material (wire rods). In addition, order size, delivery time, and quality besides transportation cost to the customer’s sites are also factors affecting the selling prices. The prices calculation were based on the average market prices taking in consideration the high competition in the market. The client mentioned that they charge from SR 300 to SR 450 per ton for Wire Mesh and SR 160 to SR 180 for Straightening Rebar (Cold Drawing) as a service fee in additional to the raw material price. (For more details see Appendix)

**MSD Recommendation**

MSD believes the client is suffering from a liquidity issue that created a barrier for positive growth. Liquidity alone will not solve the client’s issue. However, the following recommendation will increase the probability of overcoming the issues.

* Hiring Sales Manager who has related experience in this industry
* Increasing the number of sales representatives to expand to nearby regions.
* The client needs to build relationship with large steel distributors such as Al-Rashed and Al-Fozan.
* The client should implement a marketing strategy with the new sales team to ensure the optimal market offerings.
* Currently the client strategy is to serve small distributors however, with the additional working capital, he needs to expand to cover large wholesalers.
* The client needs to offer competitive prices and flexibly payment terms especially for credible large wholesalers.

** Prepared by:**

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**Appendix**

The following shows the client’s product prices comparing with the market range in addition to MSD recommended prices:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Product** | **Current Client Prices** | **Client Historical Price** | | | **Market Range** |
| **2016** | **2017** | **2018** |
| Barbed wire | 3600 | N/A | N/A | N/A | 3600- 3900 |
| Wire mesh | 2600 | 2270 | 2550 | 2600 | 2150- 2250 |
| Straightening Rebar | 2300 | 1900 | 1950 | 2100 | 2000- 2050 |
| Chain link fencing | 3600 | N/A | N/A | N/A | 3300- 3400 |

\* Ex-Factory prices.