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**"I think it's critical to  
our industry to  
explain what we do  
and why we do it."**

**MICHAEL PAYN**

**Note:** This case study is fictional and was developed as part of a job we were applying for. As a result it contains more details than our other case studies that are based on real clients, who are sensitive about using their information.

## INTRODUCTION

A&B Foods is an agro-processing company that processes raw cassava into cassava flour. They are located in Ogun state, Nigeria. The company was established in 2015 by a group of young entrepreneurs. The company currently processes 5 tons of cassava starch per week using a semi-automated process, consisting of locally fabricated equipment and manual labour.

A&B has a small farm which supplies less than 5% of its inputs and so relies on farmers from around the environs and as far as Oyo and Ekiti states for the supply of raw tubers. The product is sold to a variety of customers which includes a contractor who supplies to some food manufacturers, and a number of smaller companies who use it in their production. Initially the quality of the starch was inconsistent, resulting in rejections by some customers.

However, due to a steady improvement in their production systems, the incidence of rejection has reduced and after 3 years of persistent marketing A&B has secured a supply mandate from an international food processing company. The company requires up to 300 tons of cassava starch every month and is willing to off-take any available quantity A&B is able to supply so long as it meets its quality requirements. A&B would like to increase its production capacity from 5 tons a week to 15 tons a week in the short term and up to 25 tons a week in the long term.

In order to meet this plan, the company is seeking to install a fully automated cassava starch processing plant which will increase its production capacity and improve the quality of their produce and has approached our clients' for funding of their expansion.

Our clients have in turn, approached SENCE Agric Limited to provide 'Technical & Commercial Due Diligence of the company and its plans.

## METHODOLOGY

SENCE Agric will take a closer look at the readiness and suitability of A&B to access the funding required for its expansion by identifying all existing and potential areas of concern. This stage is a fact-finding mission to collect relevant information about A&B Foods and to decipher its ability to repay any funds given to it. It will include visits to A&B's office and factory and assessment of the business strategy, plan and all other relevant documents, i and also conversations with its founders to and suppliers.

## SCOPE OF WORK

To ensure that we provide our clients with enough information to make a decision with regards to A&B's request, the following are the tasks we will be performing.

- **An assessment of the Location and its environs.**

This is necessary because the location of a business and the infrastructure surrounding it can affect the profitability, especially in a sector like agriculture. In assessing the environment, we will be looking at;

- a. The availability of the necessary infrastructure needed to successfully run a factory of this type, which includes electricity, good access roads, and security.
- b. The absence of any potential hazards that can affect the quality of the product.
- c. Its conformity with Good Manufacturing Practices (GMP).
- d. Its ability to accommodate the expansion.

Incessant reliance on a generator or the cost and time it takes to transport raw tubers can increase the cost of production making it more expensive than the average.

- **Review of the availability and sources of raw materials**

SENCE Agric's review of the sources and availability of inputs will highlight any dangers imminent in the production process. Raw cassava tuber is the major input needed in the production of cassava starch and the success of the factory depends on the availability and timely supply of cassava tubers. We know that to produce a ton of cassava starch requires between 4 and 5 tons of raw cassava, meaning that for A&B to meet its new production target of 15 tons a week it will require at least 75 tons of raw cassava every week.

Our report will show if this is achievable given the relationship with its farmers and how many farmer groups it works with. We will also look at the variety of cassava it uses in its production, to ensure that it gets the maximum starch content possible and finally our report will show if the location of the factory and the distance the cassava has to travel to get there can constitute a problem. This is because the starch content in cassava starts deteriorating immediately after harvest and is almost depleted 48 hours later.

- **Review of the Production Process**

The production process can constitute a source of risk that will affect the growth of the business. A well-thought-out production process increases the efficiency of the system and reduces the cost of production by as much as 15%. It is therefore important that we assess the efficiency of the systems put in place by A&B. For this we will be examining the;

- a. Layout of the factory as interruptions in the flow of raw material (tubers) and intermediate products during processing can increase production time unnecessarily.
- b. Size and the type of equipment they are looking to purchase for adequacy and completeness.
- c. Material used in the construction of the equipment whether it is food grade and capable of withstanding the production process without corroding.
- d. Health and safety measures embedded in the process.

- **Assessment of the Quality Control Procedures**

The latest A&B customer is an international manufacturing company, meaning that where other customers may have settled for fluctuations in quality, this new company will not. Therefore, the emphasis on quality and compliance with its standards will be high and a possible deal breaker. SENCE Agric will review the quality management procedures, looking at the production methods, and the procedure for application of Hazard Analysis and Critical Control Point (HACCP), Quality Analysis Critical Control Point (QACCP), and other Good Manufacturing Practices (GMP) for Cassava starch production.

- **Audit of the Operations**

Agribusiness just like any other business requires that there are clear systems, processes and procedures, properly documented, shaping and guiding the way decisions are made to ensure maximum productivity and profits. These systems help the organisation plan its production and manage the operations. It involves policies on how staff are managed, financial transactions handled, production and logistics activities planned, including maintenance schedules. The report will also include the corporate governance principles and skills and experience of the employees and how these impacts on its ability to maintain a healthy and sustainable business.

- **Review of the Access to Markets Situation**

In reviewing the access to markets situation the focus is on the external impact of the location on the business. We cannot make our recommendations without taking note of the impact of the wider environment on the business and A&B's ability to gain access to the relevant markets. In expanding its business, A&B cannot rely solely on the 'international' customer nor should our clients' be satisfied with such a limited customer base. The more access to customers the better as a failsafe. Areas to be covered include, the location of the bulk of A&B customers, especially the new and potentially significant addition to their business, the potential for getting more customers should the need arise, the transportation methods employed in the distribution of the goods, etc. We would also examine the policy for handling delays and breakdowns during transportation and how the current insecurity in the country may affect the delivery of the products to the customers? We will be looking out for and assessing insurance policies.

- **Environmental Impact**

Although no hazardous chemical is used during cassava starch production, the peels of fresh cassava and effluent from washing and pressing operations; noise and soot from cassava graters, chippers, electricity generators, mechanical dryers, mills and sifters constitute a nuisance to the processing environment. In addition, some types of sifters, screeners and milling machines, particularly those without or with ineffective cyclone separators, cause air pollution due to escaping of cassava dust during processing. How does A&B ensure that this is handled in a responsible and environmentally friendly manner? Has the cost of the relevant filters for instance, been taken into consideration in the cost of the expansion? As a responsible organisation InfraCredit and the investors it works with cannot afford to be associated with an organisation responsible for damaging the environment.

- **Examine the Regulatory Compliance Status**

Our second to the last task would be to ensure that A&B's compliance with government agency policies and guidelines such as the Ministry of Agriculture (State and Federal), Ministry of Environment (State and Federal), Ministry of Water Resources (Federal), Standard Organisation of Nigeria (SON), and National Agency for Food and Drug Administration and Control (NAFDAC) is up to date.

## RECOMMENDATIONS

Our final task will be to collate all the information gathered into a comprehensive report complete with recommendations. It will highlight areas for improvement, risk areas and areas where the company has excelled and our recommendation to our clients to either go ahead with the project or to abandon it.

