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# Idris S.A.

SENOU, MALI

## CASE A

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### The Focus of This Case

This case requires students to assess the feasibility of entering the mango exporting business. Students must put together a cash budget using variables known only within a range, reflecting all that was actually known before exporting began. The spreadsheet exercise provides a useful framework for planning, but no complete assessment. Experience proved to be the only definitive answer. Case B shows the actual outcome of the first season.

The case describes the situation faced by an American MBA student who arrives in Mali to work with a large commodities import business seeking to enter the mango exporting business. Rachel Steiner has to plan out the business and then oversee its implementation.

In performing the spreadsheet analysis, the student should look for cost drivers. Clues to one of these lies in Rachel's letter to Mr. Attenberry, an official with the USAID office in Senou, to whom she wrote complaining about unexpected formal and informal taxes. Air freight was hiked from F.CFA 250 to F.CFA 265 per kilo, more or less suddenly. Other problems that surfaced did not much impact unit costs: the bribery that must be paid for an official signature on a required EUR1 document was a nuisance; and Air Afrique's monopoly over landing rights in Senou was a nearly impossible problem to overcome.

The other important cost driver in the situation is the unspecified cost of handling mangos in Europe. This

variable's potential impact is demonstrated in this note, and its actual impact described in Case B. Again, the student cannot possibly anticipate some of these costs (in particular, the handling costs and airport gifts), but this ambiguity reflects the uncertainty facing anyone who enters this business.

### Position in the Course

This would be a good case for a first or second semester finance course, when the student is feeling confident about building a spreadsheet. In a course covering cash budgeting aimed at people with a special interest in the movement of commodities, this is an usual and appropriate case. As shown in Case B, when dealing with a perishable commodity, the profit margins are terribly sensitive to elements such as prompt delivery, produce quality, and the availability of substitute products (Ivoirien mangos arriving by boat about mid-April).

### Assignment Questions

1. What is the unit cost for exporting mangos, and what would be the total profit given airfreight costs of F.CFA 250, and then F.CFA 265?
2. What are the important cost drivers? Handling in Europe? Airfreight? Labor? Quality of the mangos?

**3. What are some things exporters can do to address the problems at the airport?**

- With Handling at 15%, Commission at 8%, and Freight at 265/kilo:

484

10,962,000. F.CFA

**Cash Budget Spreadsheet**

(See Teaching Note Exhibit 1.)

The unit costs, including handling in Europe, are about 454 F.CFA/kilo, assuming freight is F.CFA 250/kilo, and the costs of handling are about 10% per landed kilo (that is, 10% of the airfreight). The author found, as will be shown in the Case B Teaching Note, that one of the big problems is anticipating the costs of handling, which can vary from 6% to 15%<sup>1</sup> of airfreight. All exporters, in the second year, will try to enter into contracts with European importers or they will not export at all. Idris S.A., as of September 1994, found some European importers who agreed to buy the mangos at agreed-upon prices, and with limits on the amount that could be deducted from the price for handling.

If the student inputs different variables into the spreadsheet, he should find the following regarding total profit margins:

- With Handling at 10% of airfreight, and Commission at 8% of airfreight:

Airfreight	Unit costs/kilo	Profit
250	454	14,532,000 F.CFA
265	470	12,552,000
358*	572	309,000

\*The USAID Mission in Bamako (Senou is used as the name of the capital city in the case for the students) estimates that the F.CFA is overvalued by 35%, so at the moment of devaluation, airfreight will jump to F.CFA 358 per kilo. If everything else remains the same, net profits will be F.CFA 309,000.

**Important Cost Drivers**

The important cost drivers are airfreight and handling in Europe (which in actuality went as high as 15% of airfreight for one of the shipments). However, as will be shown in Case B, no amount of anticipation and planning can make up for factors lying outside the scope of a spreadsheet.

**What Can Be Done About Problems at the Airport**

Not much can be done. This should be a problem for the government. There are developing nations that actively promote exports, but there are several clues that this is not the case in Mali. Export taxes were only dropped in 1991. Rachel's pleading letter to the USAID Mission may not seem appropriate, and it may not have been. But Malian businessmen routinely regard outside governmental agencies as friendlier than their own government, and this letter was written with approval by the export association and Mr. Idris.

**Transition from Case A to Case B**

Case B should be presented after Case A, after students have had a chance to study it and prepare their own cash budget. Case B is not a numbers case, but rather a decision case. After looking at all that happened during the first season, which spanned six weeks, should they go forward with this business? Given that the numbers look so promising, regardless of the troubles on the ground, the decision should be made to go forward. More on this will be explored in Case B.

Teaching Note Exhibit I

CASH BUDGET FOR EXPORTING MANGOS

<b>Given Costs</b>	<b>CFA</b>	
Labor	16,000	Per pallet plus overtime
Cartons	42	Cost per carton
Airfreight	265	Per kilo for the mangos
Mangos/Kilo	80	March
Mangos/Kilo	70	April
Mangos/Kilo	80	May-June
Transport to Plane	7,500	Cost of transporting mangos and personnel/per trip
Sale Price, March	600	Per kilo
Sale Price, Apr-Jun	500	Per kilo
Sale Price July	600	Per kilo
Handling in Europe	10.00%	
Importer's Commission	8.00%	
Gifts at Airport	10,000	Per pallet

**Volume Shipped**  
 # Kilos/Week 7,500 Pallets/Week = 3

Spreadsheet Analysis

	March Week 1	March Week 2	March Week 3	March Week 4	April Week 5	April Week 6	April Week 7	April Week 8	May Week 9	May Week 10	May Week 11	May Week 12	June Week 13	June Week 14	June Week 15	June Week 16	Totals
Mangos	600,000	600,000	600,000	600,000	600,000	525,000	525,000	525,000	525,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	9,300,000
Labor	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	768,000
Cartons	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	5,040,000
Transport to Plane	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	360,000
Air Cargo	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	1,987,500	31,800,000
Importer's Commission	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	5,220,000
Handling in Europe	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	198,750	3,180,000
Gifts at Airport	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	480,000
<b>Total Cumulative</b>	3,361,750	7,123,500	10,685,250	14,247,000	17,808,750	21,295,500	24,722,250	28,149,000	31,575,750	35,077,500	38,639,250	42,201,000	45,762,750	49,324,500	52,886,250	56,448,000	56,448,000
<b>Payment Cumulative</b>			4,500,000	9,000,000	13,500,000	18,000,000	22,500,000	26,250,000	30,000,000	33,750,000	37,500,000	41,250,000	45,000,000	48,750,000	52,500,000	56,250,000	60,000,000
<b>Net Income</b>	(3,361,750)	(7,123,500)	(6,185,250)	(5,247,000)	(4,308,750)	(3,295,500)	(2,222,250)	(1,899,000)	(1,575,750)	(1,327,500)	(1,139,250)	(901,000)	(737,250)	(597,500)	(463,750)	(335,000)	3,552,000
<b>Cumulative Net Campaign</b>	2,559,000																
<b>Average Cost Per Kilo</b>																	470

## CASE B

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### The Focus of This Case

This case explores some of the cultural complexities of doing business in this country. These complexities include logistical problems and labor tensions. The following two sections, General History and the Political and Business Climate, are simply provided as background for the interested reader.

### General History of Mali

"Africa is the only continent in the poor world where people ended the 1980s worse off than they were at the start."<sup>2</sup>

Mali, a land locked West African country, is large, underdeveloped, and complex. As of 1991, based on a report issued by the U.S. Department of Commerce in "Foreign Economic Trends and Their Implications (FETTI) for the United States," per capita income in Mali was \$301, and the government was spending 32% more than it took in.

This country does export. According to FETTI's 1991 report, Mali was exporting \$156 million in cotton, \$90 million in livestock, and \$44 million in gold. The gold is being mined principally by SIEMA, which is partially owned by the Malian government (with about 40% of the company), and two privately held Western companies out of the United States and Australia.

According to "Rapport Principal de la Filière Riz au Mali," prepared by the PRMC (Programme de Restructuration du Marché Céréalière), in 1993 there were 8,605,000 people in Mali with one million in Bamako. This constitutes a 64% growth in 20 years. At this rate, in another 20 years the population will be about 14.1 million.

Gross domestic product was \$2.5 billion in 1990 and had grown 2.2% over the previous year. Growth had been as high as 11.9% in 1989, but was only 1% in 1988. If growth held steady at 2.2% starting in 1990, GDP would reach about \$4.124 billion by the year 2013. Given the country's explosive population growth, GDP per capita would *fall* to \$292.

### Political and Business Climate

The military officer who took power in 1968 is a man named Moussa Traore who is now under house arrest after he was deposed in late March of 1991. He was convicted of murder for his army's role in the death of about 260 students during their looting and rioting.

During the 1991 coup, many businesses sustained losses, and a few of these ran in the millions. Some of the greatest losses were felt by Lebanese and Arab families. Unrest continues. In early April 1993, the home of the mother of the current president (Alpha Oumar Konare) was razed, cars were burned, and the National Assembly was raided. Several people died. Many people believe that another military coup is unlikely, and that any attempted coup incited by the student population would not be backed by the general population, as was the case during the 1991 coup.

Some businessmen are investing in Mali by building hotels. Hotel Naarhwah, Hotel de la Cite du Niger, and the Bed and Breakfast, a popular place for USAID personnel, have opened or expanded in 1992. Mr. Mamadou Nimaga is building office space in the heart of the city and the new Banque Centrale de l'Afrique de l'Ouest (BCAO) is in completion. This activity is primarily being carried out by native Malians, while the next most important foreign community of businessmen, the Lebanese, are moving forward cautiously.

Several Lebanese businessmen own their own restaurants and grocery stores along the Route de Koulikoro. A well-known Lebanese family continues to run the only flour mill in Mali and produce candy, soap, and detergents. But the common wisdom is that it is much harder for a non-Malian to do well in Mali than it is for the native Bambara-speaking Malian.

As of 1993 the illiteracy rate was about 83%. Because of continued unrest in Mali, mostly incited by high school students, schools—where the children organize—were closed during most of the 1992/93 academic school year.

### Position in the Course

This course may be presented after the student has worked out a spreadsheet for Case A. The inclusion

of Exhibits 2 and 3 in the text of Case B do not give away the essential problem for Case A: identifying the cost drivers of this business and calculating some probable net profit figures. Case B presents the student with some reasons why there are such frequent cost overruns with new projects. A telling quote from a highly regarded Case Western Reserve University business school professor applies well: "financial planning is the process of replacing chaos with error."

### Assignment Questions

1. What happens to return on sales, unit costs, and net profits when there is a 35% devaluation of the currency?
2. What are some reasons to continue exporting the following season?
3. How should the problem of supervision and quality be solved?

### What Will Happen to the General Economy With Devaluation

The following shows that Mali has a booming import business and would be rocked by a devaluation of 35% (the percentage the currency is overvalued, according to estimates from the USAID Mission in Bamako). These figures are based on intentions to import, gathered and keyed into computers by the Swiss company Société Générale de Surveillance S.A. (SGS S.A.). The Malian government hired SGS S.A. to collect the data from the Customs Office, where declarations of imported goods are filed, and from the Economic Affairs Office, where intentions to import are filed.

#### Intentions To Import

1992	Values F.CFA in Cost and Freight
Wheat Flour	123,220,000
Sugar	6,870,661,000
Rice	2,776,042,000
Powdered Milk	6,626,330,000
Chinese Tea	5,772,834,000
Other Tea	468,871,000

1991	Values F.CFA in Cost and Freight
Wheat Flour	169,676,000
Sugar	4,716,688,000
Rice	2,870,511,000
Powdered Milk	5,124,576,000
Chinese Tea	1,246,778,000
Other Tea	263,320,000

The total value of products intended to be imported for 1992 was 22,637,958,000 F.CFA, or about US\$90.55 million. During the previous year, 1991, intended imports were valued at 14,391,726 F.CFA or US\$57.57 million, only two thirds that amount. The cost of imported goods would jump substantially in the event of devaluation.

Approximate currency exchange rates for 1992:

$$1 \text{ Dollar} = 270 \text{ F.CFA}$$

$$1 \text{ French Franc} = 50 \text{ F.CFA}$$

### What Happens to Margins for Mango Exports by Idris S.A.

The following is based on the approximate costs that should occur when all goes well, and what will happen before and after devaluation. The author devalues all variables by 35%.

1. Price of the cartons goes up by 35% because of the use of imported cardboard paper and gasoline to run the machinery: from 215/carton to 290.25/carton or 54.76/kilo.
2. Freight goes up by 35%: 337.50/kilo.
3. Gasoline for the 10-ton truck, used for transport to the airport, goes from F.CFA 7,500 to F.CFA 10,125, and adds a few centimes per kilo.
4. Labor goes up because of inflation, which necessarily follows devaluation, but not as much as 35%, say 15%.
5. Price of mangos goes up because of the cost of gasoline, from 80 F.CFA per kilo to 108 per kilo.

Assume one pallet weighs 2,500 kilos.

	Per Kilo	Per Kilo/ Before
Mangos	108.00	80.00
Freight	357.75	265.00
Labor (1,600 F.CFA/Pallet)	7.36	6.40
Gas and Incidentals (7,500 F.CFA/Pallet)	9.45	7.00
(Incidentals will include bribery at the airport)		
Cartons	54.77	40.57
Handling and Paper Work in Europe	50.00	50.00
Total Cost/Kilo	<u>587.33</u>	<u>448.97</u>
Sale Price at 12 FF/Kilo + 35%	810.00	600.00
Minus 8% Commission on 12 FF before conversion to F.CFA	(48.00)	(48.00)
Margin	<u>174.67</u>	<u>103.03</u>

### Reasons To Export Despite Losses

The return on sales appears to go from 17% to 22%. This is one reason to continue exporting mangos, though the first year the company sustained a loss. The other reason has to do with the political climate in this West African country. Given the current instability, it makes sense to invest in a product that requires no additional capital investment. Start-up costs for this project were the buying of stickers for the boxes, the sending of initial samples to the clients, the hiring of the forwarding agent and the paying of dues to AMELEF.

### Supervision and Quality

The biggest problem discussed in this country is the labor problem. Civil engineers find themselves supervising workers who cannot add and subtract, and therefore who cannot make straight walls. The workers on this mango project never fully understood the importance of quality and calibration. Mr. Idris complained often of the lack of initiative. Problem solving and going beyond the bounds of the agreed-upon job are unusual traits in this country, so say many businessmen. In an article in the *Financial Times* of 27 September 1993,

"Theorizing on an Eastern Promise," Michael Prowse summarizes the IMF's and World Bank's new understanding of what it takes for a developing economy to be successful. The fundamentals are a stable macro-economy, high human capital, and an export push, among many others. Mali has none of these right now.

Mr. Idris could ask Mr. Male to continue into the next season but he faces the problem that Mr. Male may not be committed to the project. Rachel knew only one other person, Mr. Tele, she thought could be trusted to take over the project. Mr. Idris was lukewarm about the idea. It was not clear to the author why he was reluctant, but there were several possibilities: Mr. Idris may not trust Rachel's (the author's) instincts when it comes to people (she had been wrong before in this foreign setting). He may not want to add another person to the payroll. Alternatively, he may not want a stranger in the company. All three of these are possibilities. As of the time of this writing, Mr. Idris still had not decided what he wanted to do. Rachel continued to encourage him to hire Mr. Tele, believing this man offered the best chance for a successful 1994 season.

The labor supervision strategy, whereby the best worker was appointed to head up a self-supervising work group (while being paid a little bit more), did not work initially. Despite its failure, however, there is reason to believe that it could work in the longer run. One season only six weeks long is too short to decide what will or will not work.

### Notes

<sup>1</sup>One of the reasons the cost of handling in Europe vary so much is that what constitutes "handling" also varies. For example, if the mangos are picked up at Paris airport and sold in Paris, the cost per kilo may average about F.CFA 30 for the trucking and storage that may take place. However, if the mangos are landed in Paris and then transported by truck to Amsterdam (because there was no direct flight to Amsterdam on the day the mangos had to be shipped), then the costs of trucking will be higher. These costs are generally just deducted from the price at which the mangos are sold.

<sup>2</sup>From "Aid for Africa, Nothing to Lose but Your Chains," *The Economist*, May 1, 1993.