
Kwena Concrete Products

GABORONE, BOTSWANA

The case is centered around Victoria Damane, the marketing manager at Kwena Concrete, and the decisions she must make.

Synopsis of Case

Kwena Concrete Products had experienced poor management over the past three years. The company restructured its production facilities and changed its marketing mix from primarily railway sleepers (railway ties), a product which had no other suppliers, to stock bricks, a low value-added product with many suppliers. Over this period Kwena increased its overhead from 1.3 million pula (approximately \$520,000) to 5.5 million pula (\$2.2 million). In 1992, Kwena experienced a 6.7 million pula (\$2.68 million) loss, which is 63% of sales.

Kwena currently relies on stock bricks for approximately 40% of its non-sleeper revenue or 17% of its total revenue. Total sales revenue in 1992 was 10,522,840 pula (\$4.2 million). Kwena recently had new product costs derived using activity-based costing, and found that all products except railway sleepers were selling below cost. Although the company has a celebrated status in Botswana, liquidation is likely if the company continues to be unprofitable.

The price of a stock brick had been as low as .19 pula in October 1992. The new product cost for the brick exceeds .27 pula, a 42% difference. The general manager is recommending a price of .27 pula for large orders of bricks with price graduations up to .30 pula for small

orders. All of the company's competition is expected to price their bricks at .25 pula.

Kwena is recognized as having a superior quality brick. This, however, plays a very small role in the decision to buy stock brick. Price is the most important aspect. Therefore, Kwena probably would sell very few bricks at .27 pula, and they cannot afford to operate without stock brick sales.

Contractors are expecting a price increase at the beginning of the year, but only in the region of 10%. An increase to .25 pula would be a 30% increase. At .25 pula, Kwena would be covering all of its direct costs (.19 pula) for a brick.

Kwena has an order for 500,000 bricks at a price of .19 pula. There are conditions attached, calling for penalties if the bricks are not supplied and the customer clearly expects the order to be completed at this price. Kwena has shipped 10,044 bricks (2% of the total order) to the site, thereby recognizing the order. The same company also has other jobs, which need products worth over 700,000 pula. It, however, is not loyal to one supplier. Kwena will lose 30,000 pula of revenue if they supply the order at .19 instead of .25 pula.

Kwena also has sent out quotes at the old prices. Kwena's quotation forms state that prices are valid for 90 days.

There are specific market segments that Kwena can pursue. Small contractors and individual buyers do not have the resources that larger buyers do. Kwena cur-

rently charges all buyers one price. There are retail supply shops selling products similar to Kwena's at higher prices. Kwena has not actively marketed to this segment in the past, but it does have a well-known name.

Kwena has an option to work with a contractor to provide a complete supply and installation package for its paving bricks. It has been offered a job for 3,000 square meters at 28.33 pula per square meter.

Kwena has a quality advantage over the other suppliers in paving brick production. This is a consideration in the purchase of paving bricks. There is a problem with the expected increased prices. Kwena had previously been priced 10% higher than local suppliers; the price increase will push this higher. Kwena uses a high-priced pigment to color its bricks. The local suppliers use a cheap pigment that costs approximately P 0.02 a brick, significantly less than Kwena's P 0.15. With the new price increase, the gap between Kwena's colored pavers and the local suppliers will increase greatly. Kwena has tried the cheap pigment but was unhappy with the results.

The price increase will push Kwena closer to a South African competitor, Grinaker, in price for colored pavers. This is because of a coloring process Grinaker uses that colors only the top 10% of a paver. Limiting the use of color to the top 10% of pavers would represent a savings of .126 and .162 pula for the 60mm and 80mm paving bricks, respectively. This would be a savings to Kwena of 76,000 pula (using the budgeted sales figures). The equipment needed to manufacture in this manner costs 45,000 pula.

Kwena does not have branded product names or a brochure. South African companies have both, and they appear to be an effective way to lock in architects' specifications. The price of a brochure is 17,000 pula.

The Major Issue in the Case

This case shows a major problem confronting businesses in developing countries: the difficulty recruiting quality senior management.

The problem of recruitment is evident through the ineptness of the former managing director, Mr. MacPherson, and the financial manager, Mr. Lewis, as well

as the communication gap that exists between marketing and production. This communication gap is largely the result of Mr. MacPherson's autocratic management style, which spawned distrust between the Batswana senior management and the expatriates. This problem will have to be addressed before Kwena attempts to shift its marketing emphasis.

Individual Issues

STOCK BRICK PRICE

Kwena's costs are based on manufacturing 50,000 stock bricks a day per machine. If the production cycle time of 15 seconds (noted in Exhibit 4 of the case) is divided into eight hours and multiplied by 48 (the number of bricks per cycle), it yields a total maximum production of 90,000 bricks per day. This means Kwena should be able to increase its production rate and cut down on its costs per brick.

The activity-based costs in this case use the average invoice size for a product as a cost driver. Given that cash sales are smaller than account sales, they cost the company more to transact. This fact can be used to explain to Mr. Seboni why the company charges cash customers a higher price than wholesale customers. Mr. Seboni's view is that small buyers have less money than large companies and therefore should be charged less for their bricks. This is a prevalent view of how companies should function in Botswana and can lead to difficulties in instituting market segmenting pricing policies.

Kwena, however, is in a dire situation. It must raise the average price of a stock brick sale. Segmenting the market into retail (Cash) and wholesale customers (largely Credit) is a good way to proceed. The following pricing strategy was adopted by Kwena at the time of the case.

Proposed Price List for Stock Brick

	CONTRACTOR			RETAIL	
Quantity	0-10,044	10,044-500,000	500,00+	0-10,044	10,044+
Price (in thebes)	27	26	25	32	28

PAVING BRICK PARTNERSHIP

The case states that a quantity of 42 bricks per square meter should be used in estimating paving installation. The cost of a grey 60mm Paver brick (from Exhibit 9, fourteenth item down from the top) is .382 pula. This gives a cost of 16.04 pula/sq meter. Adding sand (1.5 pula/sq meter) and labor (8.33 pula/sq meter) gives a total cost of 25.87 pula/ sq meter. The contract can be won at a price of 28.33 for a profit of 8.7%. This appears to be low, but it may be a sensible way to start a new business. Also, activity-based costing may not reflect a true cost for large orders or new marketing mixes. This is due to the cost drivers used in the analysis.

The considerations in making the decision include:

- Production of paving bricks will hurt stock brick production for which there are orders.
- The scheduling of materials (i.e., bricks and sand) will be the company's responsibility.
- Who will do it?
- The calculations reflect a theoretical price. The company will bear the brunt of any material loss (theft and breakage).
- The contractor can walk away. Is he reliable?

Paving bricks are a higher value-added product than stock bricks. It is clear that the company must rid itself of overhead or change its product mix. The case shows that Kwena's competitor in South Africa has lower costs and that its local competitors have lower overheads. Given that Kwena is a premier company in Botswana, a country looking for foreign capital, a solution that does not lead to downsizing is preferable. Therefore, a switch to a paving focus appears to be a good alternative and the partnership should be attempted.

This leads Kwena back to the problems that divide marketing and production. The problem is primarily an interpersonal issue of expatriates vs. local employees. This is a very hard problem to solve but it needs to be addressed, both for this project and for the company's long-term success. It may be the most important factor in any effort to institute changes. Possible solutions are:

- A structured approach to production planning, thus forcing interaction.
- The use of a cultural intermediary.
- Looking for new employees.

There is no clear solution, but the use of an intermediary would probably create an adversarial environment, and in developing countries employee searches are quite costly. Therefore, a structured approach towards production planning may be the best alternative.

OUTSTANDING ORDERS AND QUOTATIONS

This problem of pricing for outstanding orders and quotes has no right or wrong answer. The management at Kwena was divided on the issue, but they eventually decided to raise prices on all orders to .25 pula. There were no lawsuits and Kwena retained most of its orders. The GIEC order was not lost but Kwena had received none of the company's additional orders at the time the case was written.

CASE UPDATE

The company's difficulties persisted. Its major investor, the Botswana Development Corporation (BDC), realized that the situation was difficult to manage and that they would be better off selling the company to another concrete brick manufacturer. Within a year, Kwena Concrete was sold to Grinaker (PTY) Ltd. of South Africa.