

## Afghan Sun SWOT Analysis



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### IB BUSINESS MANAGEMENT – PRE-RELEASED CASE STUDY MAY 2018: SWOT ANALYSIS

The internal strengths and weaknesses, and the external opportunities and threats are analysed and used to evaluate the Utopia business model. A summary SWOT is provided in Table 1 below, and each point should then be comprehensively explained by the student.

#### Strengths (internal)

- Wealthy owner actively involved
- Social benefit objectives
- Motivated employees
- Strategic partner in Arif Koomar
- Microfinance to support product purchase
- Financing of the company
- Projected profitability
- Product ideally suited to needs of target market
- Very low price of product
- Strong CSR

#### Weaknesses (internal)

- Non-independent CEO
- Marketing plan
- Cash flow
- Inexperienced management and employees
- Low employee remuneration
- Distribution
- Inability to achieve economies of scale
- Single product
- No research and development team
- Large capital expenditure
- Limited market research

#### Opportunities (external)

- Expand microfinance business
- Marketing to other consumer segments
- Expand product range
- Technological improvements
- Few remote and rural villages have electricity
- Partnership with government organisations
- Partnership with NGOs

#### Threats (external)

- Changes in technology
- Security of product in distribution
- Security of supply chain
- Exchange rate volatility
- Endemic corruption
- Difficulty in doing business in Afghanistan
- Change in legislation (e.g., increased tariffs)
- Current and future competitors in the market

Figure 1: Afghan Sun summary SWOT analysis

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### STRENGTHS (INTERNAL):

- **Wealthy owner actively involved:** Su has the personal funds to be able to guarantee any bank loan the company may use to finance its expansion. Being actively involved in all aspects of the business (finance, operations, strategic planning, human resources, etc.), Su has good knowledge and experience in running a successful company. ★★★★★
- **Social benefit objectives:** One of AS's objectives is to improve the lives of poor, rural Afghans by providing them with affordable access to electricity. Because lives are being changed for the better, AS may benefit for the actions of other stakeholders. For example, AS may find it easier to source finance from a bank, get a better deal from its suppliers, or find it easier to work with and get advice from NGOs operating in the regions. Other stakeholders may be swayed by social benefits AS delivers rather than on relationships or the profit motivation alone. ★★★
- **Motivated employees:** The social good of bringing electricity to poor, rural Afghans to improve lives is highly motivating. This should lead to highly motivated and productive staff being recruited and low staff turnover in the future. ★★★
- **Strong CSR:** This is expressed as strong ethics and ecological and economic sustainability. The goodwill of other stakeholder groups, resulting from socially responsible behaviour, could lead to better relations with employees, suppliers, customers and the local community. ★★★
- **Strategic partner in Arif Koomar:** AS have a strategic partner, Arif Koomar, who runs AK Bank and is successful and experienced in this business model, albeit in Bangladesh. Arif will be key to how successful the project will be, especially as the business seeks to set up operations and then become an established seller of solar power systems and microfinance provider. ★★★★★
- **Microfinance to support product purchase:** This is one of the key aspects of PRICE in the marketing mix. Providing finance for their potential customers will enable very poor families to be able to purchase the solar power system that AS sells. Without microfinance, even the least expensive solar power system would be unaffordable and AS would not have a workable business model. ★★★★★
- **Financing of the company:** Most of the finance needed for AS to establish operations has been found. Su is providing the initial finance of \$250,000, with \$200,000 coming from her personal funds and a further \$50,000 coming as a loan from her company. If the cashflow forecast is correct, AS would only require a further \$20,000 to stave off insolvency in its initial stages of operations (although stakeholders would sleep easier at night with larger cash reserves!). ★★★
- **Projected profitability:** While profit is very different to cashflow, this cashflow forecast does give us information on AS's estimated profitability. This is because we have sales, cost of sales, and other costs (= overheads?).

If this is indeed the case, then AS is forecasted to profitable in 2019, its first full year of operation.

Sales turnover = \$100,000

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less Costs of goods sold = \$55,000

Gross profit = \$45,000

less Overheads = \$20,000

**Net profit = \$25,000 ★★**

- **Product ideally suited to needs of target market:** Afghanistan is a high sunshine country which makes the use of solar voltaic electricity generation ideal. Electricity production for each household that purchases the product should be efficient and sufficient. ★★
- **Very low price of product:** This is important given the low disposable income of the average household in the target market and the social benefit objective of AS. Achieving the lowest price to its customers, will result in the greatest uptake of the product, and thus maximising the social good being achieved by the company. ★★

### WEAKNESSES (INTERNAL):

- **Non-independent CEO:** There are advantages to Afghan Sun of having an independent board of directors/trustees. Stakeholders in a business rarely act without bias. Even when driven by what they believe are the best interests of the organisation, their opinions are informed by personal agendas and value systems. An independent CEO member can take a fresh, objective look at business challenges and opportunities, and offer advice that synthesises the perspectives of all parties while enabling the organisation to pursue short- and long-term business objectives. ★
- **Marketing plan:** Remote, rural Afghanistan. Effective marketing in remote, rural Afghan villages seems almost impossible. First, distribution costs are going to be very high, and in a cost-plus pricing system, such high variable costs inflate the price of the product and appears incongruent with PRICE. Second, promotion of the product is something that needs to be carefully considered. Local agents and personal selling will be expensive, again conflicting with PRICE. However, it would seriously need to be considered as above the line promotion would be all but impossible in rural villages without electricity, and literacy rates are astonishingly low. ★★★★★
- **Cash flow:** According to the prepared cash-flow forecast AS will be insolvent within its first year of operation. Without sufficient cash flow or working capital AS will be illiquid – unable to pay its immediate or short-term debts. Either the AS raises finance quickly, such as a bank loan, or it may be forced into liquidation by its creditors, the firms it owes money to. This cash flow forecast does not provide us with much information as to the timings of inflows and outflows, nor a specific breakdown on the business's costs. It is unusual to see a biannual cashflow forecast and not a month-by-month account. however, AS is a start-up without any established pattern of expenditure and sales.★★★★★

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- **Inexperienced management and employees:** at its inception, AS has a senior management team that is relatively inexperienced in terms of the peculiar characteristics of its business model. This could cause significant problems until experience and knowledge is gained. For example, very few of the senior management team, has any experience in solar power systems, manufacturing, microfinance, Afghanistan, and with the particular market segment AS is targeting. ★★★★★
- **Low employee remuneration:** With just \$20,000 in other costs in the first year growing to \$50,000 in the second year we can tell that salaries at AS are going to be very low. In addition to these salaries, other significant overhead expenses must be accounted for in these figures. Expenses such as:
  - Accounting and legal expenses.
  - Administrative salaries.
  - Depreciation.
  - Insurance.
  - Licenses and government fees.
  - Property taxes.
  - Rent.
  - Utilities.

There are four senior managers to be employed as well as their subordinates and their salaries will need to be set at a very low rate to make sense of the forecasted figures. Pay is a hygiene factor in Herzberg's theory, and should be analysed as such. By decreasing job satisfaction, low remuneration may impact on one of AS's likely strengths – motivated employees. ★★★★★

- **Distribution:** The real difficulty here for AS is that they cannot ship large quantities of their product to the same place, and that transport of the product will take a long time and bribes will likely have to be paid to 'local security forces'; "protection payments for safe passage are a significant potential source of funding for the Taliban." How can AS have a sustainable business model where, in all probability, single power systems need to be transported securely, across long distances characterised by roading that is "in extreme states of disrepair", AND where the price of its product must be kept very low due to the peculiar characteristics of its target market? ★★★★★
- **Inability to achieve economies of scale:** In a world where the price of solar voltaic power continues to fall, and their efficiency continues to rise, how could a small startup with only \$200,000 to finance capital expenditure hope to manufacture the best produce at the best price for its customers? To achieve the lowest unit price for the solar systems economies of scale must be achieved. Solar systems are produced at the lowest cost by mass production methods, which is producing large quantities of a standardised product often using specialised, automated and capital-intensive production lines. There are

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global solar energy companies that produce for a mass global market and would achieve unit output costs significantly lower than AS could hope to achieve. ★★★★★

- **Single product:** Diversification reduces risk. Being reliant on a single product for 100 percent of sales revenue can be problematic. It could be argued that AS has two products: its solar power systems and microfinance. However, the current business model has microfinance tied to PRICE in the marketing mix – price of the solar systems. If demand for the product decreased, AS would have no other revenue streams to keep the company solvent, let alone profitable. Technological changes, quality issues, and competing products (wind, biomass) for example, could negatively impact demand.★★★
- **No research and development team:** At its core, AS has a sophisticated technological product that it has undertaken to manufacture itself. Solar power systems have been driven by technological developments that have increased their efficiency and driven down prices to consumers. If AS persists with a manufacturing model it must be able to innovate.★★
- **Large capital expenditure:** According to the cashflow forecast, AS quickly becomes insolvent. Its revenues are projected be greater than its sales costs and other costs combined, so capital expenditures in each half of each year is a significant drain on the company's finances. Additional finance is required to meet the capital expenditure planned by AS. Capital expenditure is too low to finance the development of production facilities in country A, and capital expenditure is too low to be able to produce solar power systems in sufficient quantities that economies of scale can be produced. Taken together, capital expenditure plans at AS are simultaneously too large in that they could quickly lead to insolvency, and too small to achieve economies of scale and be competitive on price.★★★★
- **Limited market research:** This issue raises a big red flag. It highlights a lack of general planning at AS at this stage in its evolution. We know that solar power systems would bring social benefits to its intended consumers, yet commercial marketing is being pushed by David, rather than social marketing which seems to be a better fit. Further, we have no indication of just how important a priority electricity is in the target market. Effective marketing in remote, rural Afghan villages seems almost impossible. First, distribution costs are going to be very high, and in a cost-plus pricing system, such high variable costs inflate the price of the product and appears incongruent with PRICE. Second, promotion of the product is something that needs to be carefully considered. Local agents and personal selling will be expensive, again conflicting with PRICE. However, it would seriously need to be considered as above the line promotion would be all but impossible in rural villages without electricity, and literacy rates are astonishingly low.★★★★

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### OPPORTUNITIES (EXTERNAL):

- **Expand microfinance business:** Currently, microfinancing at AS supports the purchase of AS's solar power systems. AS could support microfinance in line with the priorities of poor, rural Afghans. It is stated in the case study that the current target market may have other priorities for how to spend their very limited disposable incomes. If a rural villager believes it would be more beneficial to his or her family's finances to have a goat, fertiliser or a piece of farming equipment, then AS could consider microcredit here too. Although microfinancing usually charges a relatively high rate of interest, the principal that is lent is small. For microfinancing to be profitable for AS, it will only be so at scale. One way to achieve scale would be to expand the criteria it uses for its microfinancing. ★★
- **Marketing to other segments:** AS has chosen to focus on a very difficult target market. Its target customers have very low incomes and are geographically disperse and remote. To gain economies of scale from its manufacturing facilities AS could examine if there is potential demand for solar power systems from other consumer groups; e.g., urban households. Price discrimination could be used, and higher income urban households could be willing and able to pay for the same product. This is **market development**, where new market segments (urban households, businesses, other countries) may enable new customers to be found if effectively marketed to.

Increased customer numbers lead to **economies of scale:** If new customers can be attracted and the manufacturing output expanded, then the average cost of providing a solar power system for each student falls. This will increase the profitability of AS which can then be reinvested into other projects (e.g., the development of storage batteries to enable electricity to be consumed at night).★★★
- **Few remote and rural villages have electricity:** If AS can deliver electricity then this would serve as a unique selling point as other social enterprises in Afghanistan do not provide a competing product. Afghanistan has a large rural population – 76 percent out of a total population of 33 million – and if AS can develop an effective distribution network and means of promotion then its potential customer base is large.★★
- **Expand product range:** AS could research the feasibility of producing additional products and what the likely demand for these is. Additional products suited to its current business model could include:

  - Battery storage to access electricity at night
  - Low energy lighting (e.g., LEDs)
  - Larger scale installations for businesses
  - Portable systems

Having additional revenue streams is important for diversification and risk reduction, as well as cash flow and profitability. Many of these products would be complementary, such as sales of battery storage products are closely correlated with sales of solar power systems.★★★
- **Technological improvements:** Gains in the efficiency of solar voltaic cells and improvements in production technologies serve to drive down the price and increase the amount of electricity to be had for each Afghani spent (unit of currency in Afghanistan). Both factors would increase demand for the product and thus revenues, if AS can innovate and keep abreast of technological changes.★★

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- **Partnership with government organisations:** Afghani government organisations are likely could become external stakeholders in AS. There may be government organisations interested in assisting and/or overseeing AS where their objectives were aligned. For example:
  - Better national electricity supply
  - Improving the lives of rural Afghanis
  - The provision of microfinance★★
- **Partnership with NGOs:** There would be numerous NGOs at work in Afghanistan, at least in areas where it is safe for them to operate. These organisations would provide valuable local knowledge and be an important source of advice for AS as they roll out their business plan. Public surveys reveal that NGOs often enjoy a high degree of public trust, which can make them a useful – but not always sufficient – proxy for the concerns of society and stakeholders; i.e., an NGO may have established a degree of trust in certain villagers which AS, newly arrived, would not necessarily have.★★

### THREATS (EXTERNAL):

- **Changes in technology:** AS is a small company aiming to manufacture a technologically sophisticated product. They have limited capital expenditure and no plans for research and development. This is at odds for solar power systems where both product and production technology are fast evolving. It is easy to see that their product could quickly become relatively outdated and/or comparatively expensive.★★
- **Security of product in distribution:** Probably an essential and expensive part of AS's distribution channel. In 2018, the BBC estimates that the Taliban is active in 70 per cent of Afghanistan. In remote, rural villages this number would be even higher. Security would be a key issue, and therefore it would be essential to use local agents. The real difficulty here for AS is that they cannot ship large quantities of their product to the same place, and that transport of the product will take a long time and bribes will likely have to be paid to 'local security forces'; "protection payments for safe passage are a significant potential source of funding for the Taliban."★★★★
- **Security of supply chain:** Afghanistan is a developing economy with limited infrastructure, ineffective institutions and theft and corruption run rife. It is easy to envisage that by building production facilities in such a country, supplies will get held up in customs until the right person has been paid off or the raw materials and components needed are 'lost'. If local suppliers are used to source raw materials and components, then the lack of general security and efficient policing in Afghanistan increases the likelihood of shipments being stolen.★★
- **Exchange rate volatility:** Given the low capital expenditure associated with the new venture (cf. cashflow forecasts) it is likely that AS has chosen to manufacture in the developing country (most likely Afghanistan itself). The developed country is associated with a falling exchange rate. When an exchange rate depreciates, it costs importers more (in local currency) to purchase the quantity of goods and services previously bought at a higher exchange rate. Given that AS will likely be heavily reliant on imported raw materials

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and components in its manufacturing, costs will rise as the exchange rate falls. Average unit costs will increase. When average costs are increasing AS will be faced with a choice between two 'evils'. First, it can keep its price as is and current levels of demand will be maintained but profitability will fall. Second, it can increase its prices to maintain profit margins, however this will depress demand and sales will fall (as too will the social benefits). If the decrease in demand is proportionally larger than the increase in price, sales revenues will still fall.★★★

- **Endemic corruption:** Corruption in Afghanistan is a widespread and growing problem in Afghan society. Transparency International's 2016 Corruption Perception Index ranks the country 169th place out of 176 countries. In Afghanistan today, corruption most often takes the form of demanding and offering bribes, both in the private and public sectors and on large and small scales. There are also many other major forms of corruption, including nepotism, graft, and illegal land transfers. The US Special Inspector General for Afghan Reconstruction (SIGAR) has estimated that over half of the nation's annual customs revenue is lost to graft. Has AS adequately costed for corruption and the lost productivity it inevitably causes?★★★★★
- **Difficulty in doing business in Afghanistan:** Afghanistan ranks an extremely poor 183 out of 190 countries in the global 'ease of doing business' rankings. It is exceptionally difficult to start and operate a successful business there. It must be even more difficult to business when your supply chains are so long and your customers so diffuse and remote.★★★★★
- **Change in legislation (e.g., increased tariffs):** Sixteen years after the start of the international intervention in Afghanistan, the country remains beset by a debilitating array of conflicts, undermined political stability, an economic and security decline since the withdrawal of most international forces, and a divided government since the 2014 elections. Policy, laws and regulations are written and enforced to cater for political elites and their need to cater to influential supporters and interest groups. This creates much uncertainty when operating in Afghanistan and increase the risk of doing business there.
- **Current and future competitors in the market:** While AS probably has the market cornered in supply solar power systems to remote and poor Afghan households, and will have for some time, it does face other competition. This competition comes from other microfinance providers. AS's provision of microcredit is contingent on the purchase of one of its solar power systems. In a target market where the company is uncertain of the preferences of its potential customers, there are other microfinance providers making loans better matched to consumer preferences. It is unlikely that other microfinance providers specify the product to be financed, and microcredit could be obtained to purchase anything from a cell phone, to a pump, to farming equipment or fertiliser.★★★

### SUMMARY CONCLUSIONS

AS has strengths that it brings to the table, especially having a successful and inspirational CEO and its key microfinance support partner Arif Koomar. There are also further opportunities that could be pursued, especially diversifying its revenue streams and expanding its microfinance services. The positives do not outweigh the negatives for the company and its current business model.

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In purely financial terms, the investment that is required to establish and maintain operations at AS carries much risk. It is highly unlikely that the venture would be pursued on commercial terms alone. Large scale manufacturing is a difficult proposition, the target market has low disposable income, and the vagaries of doing business in Afghanistan would require a highly experienced team on the ground. Afghanistan ranks an extremely poor 183 out of 190 countries in the global 'ease of doing business' rankings. Given this environment one of the biggest concerns AS should have is its inexperienced personnel. There is little to no experience in solar power systems, manufacturing, microfinance, Afghanistan, and with the market segment AS is targeting. The marketing plan is ill-conceived.

We know that solar power systems would bring social benefits to its intended consumers, yet commercial marketing is being pushed by David, rather than social marketing which seems to be a better fit. Further, we have no indication of just how important a priority electricity is in the target market.

A very low price seems to be inconsistent with AS's plans for manufacturing the product themselves. The lowest price would be achieved by purchasing the systems off a large, low cost global manufacturer that had economies of scale. This would result in the lowest unit cost to AS, the lowest price to its customers, a greater uptake of the product, and the greatest social good being achieved.

Effective marketing in remote, rural Afghan villages seems almost impossible. First, distribution costs are going to be very high, and in a cost-plus pricing system, such high variable costs inflate the price of the product and appears incongruent with PRICE. Second, promotion of the product is something that needs to be carefully considered. Local agents and personal selling will be expensive, again conflicting with PRICE. However, it would seriously need to be considered as above the line promotion would be all but impossible in rural villages without electricity, and literacy rates are astonishingly low.

Therefore, the social good that the business aims to achieve must be credited – a qualitative factor in the investment decision. There must be more effective ways for Su to satisfy her desire to "give back to society" than to invest \$250,000 in such a risky and incoherent business venture.

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