

Starting From Scratch

June 2007

Starting From Scratch

After 48 years of public sector management, confectioner Bisco Misr (bt100 number 80) revamps its organization, infrastructure and recipes to be a bit more in tune with today's tastes

By Fatima El Saadani

It wasn't exactly an Omar Effendi like saga, but the public didn't swallow the privatization sale of Bisco Misr as easily as it does the venerable confectioner's butter cookies. After all, over the course of nearly half a century, Bisco Misr (bt100 number 80) had baked itself into the national fabric. The company's goodies had been part of everything from school lunch programs to army rations since they first hit supermarket shelves in 1957.

It was exactly this history and brand value that Concord International Investments banked on when it snapped up a 56% stake of the company, priced at LE 156 million, in January 2005.

Since new management took over at Bisco Misr in early 2006, the company has embarked on an ambitious campaign to revamp everything from its production technology to its brand image, distribution network and, most importantly, its staff. This spring, Bisco Misr made top management available for a series of interviews with *bt*, making it clear that the new team will settle for nothing short of an Al Ahram Beverages style privatization success story. It's still early, but the smart money is betting on Bisco Misr.

Anatomy of a Deal

In 1999, the government floated 60% of Bisco Misr on the stock exchange and retained a 40% stake, changing the company's status from public to public business enterprise. Almost six years later, in 2005, a private equity management company owned by Concord International Investments which has led consortiums investing in Al Borg Labs and, more recently, the high profile acquisition of Amoun Pharmaceuticals acquired a 56% stake in the company.

In total, Concord's New York managed Egyptian Direct Investment Fund, along with the American University Endowment Fund (Karnak), Commercial International Bank (bt100 number 15) and other private sector partners, acquired 61% of the company January 2005, taking effective control of Bisco Misr four months later.

Bisco Misr was a good company to acquire because it was profitable a very old company with a very good trade name, but like all government owned companies, it was going through a hard time, says Concord Chairman Mohamed Younes.

Veteran pharmaceutical industry leader Samir Sabet is now the Cookie King. Sabet grew with Swiss Pharma until it was sold to Novartis, then moved to the top job at Arab Company for Drug Industries and Medical Appliances, taking on the task of restructuring its five subsidiaries. His ability to run the business like clockwork while remaining close to his employees encouraged Concord to tap him to take the reins of Bisco Misr as chairman and CEO. It's a job he found interesting enough that he agreed to postpone retirement.

As [we] took over, we found that the existing production facilities, production lines and buildings, all needed extra attention from our side to improve product quality, Sabet says.

In July 2005, he embarked on a full fledged restructuring program that began with the renovation of the buildings, factories and machines, the improvement of the product and the development of human resources.

Concord has already poured investments worth LE 80 million into Bisco Misr, and Sabet is positive that something sweet is in the offing.

Breaking Down the Numbers

Unlike the majority of state owned companies that had been put up for sale, Bisco Misr was a profitable company, but CFO Sherif Shaheen says the finance department still faced four massive obstacles: the financial position, the systems, the finance division's staff and, finally, its policies and procedures were all in need of an overhaul.

The financial position was very strong; we had zero unsecured debt, but there was debt that was secured by deposits. Operating results were almost half of total revenues which meant that half the profits were coming from the operations, he says. The rest of the profits came from Bisco Misr's

investments, such as the stakes it holds in United Milling Company and Delta Sugar (bt100 number 33).

The system was very slow and did not break down the expenses to identify the potholes. The costing system was non-existent, basically Shaheen says.

Consistency was at least as big a problem, with the Cairo factory doing things one way while those in Alexandria (Seyouf and Arabisco) did them another.

The procedures that were followed were varied between the company's departments and factories. The accounting infrastructure was not the same, so basically we were adding apples to oranges and tomatoes to come up with a consolidated financial statement, he explains.

The overhaul of the financial system started with the discontinuation of what Shaheen calls irrational activities. We stopped taking loans secured by our bank deposits to cover our expenditure, because it was a financial burden, he says. The net result of that on [treasury] operations, I think, added more than LE 1.5 million in excess revenues compared to the previous year.

Shaheen also introduced a new accounting infrastructure that accounted for every expense and why it was being made. To give you an example of the change in the infrastructure: We now have 450 cost centers that describe which category of expense the money falls in to, so we can better analyze where the money is being spent. This means better control and better calculation of expenses, Shaheen explains.

Pre privatization Bisco Misr's approach to budgeting, by contrast, was to simply multiply last year's expenditures by a factor of 5-10%. By failing to reflect management's plans for the year, the financial types opened a gap between projected and actual budget that could have been disastrous.

We have created a budgetary division that was not there before we hired new employees to improve the quality of the labor. We motivated the old team and enhanced their performance, Shaheen says. We explained to the older staff that finance decisions were not just to produce a financial statement. It's to monitor expenses, to budget things according to the plans of the management, providing enough information to the management and giving them support for decision making.

That decision making, Shaheen says, has led to the discontinuation of loss-making products such as the chewing gum line. The company simply didn't know before how much it was losing cranking out gum.

Creating a Presence

Sales and Distribution Director Nabil Kamel worked with Sabet for nearly 20 years as sales and distribution director at Novartis Pharmaceuticals, from which Sabet retired as CEO in 1996.

Sabet and Kamel view pharmaceuticals and fast-moving consumer goods as very similar. It's pretty much the same because it all comes down to management; it doesn't really matter what you're selling. Of course there's a different technique for different industries but not to the extent that you need to be specialized, Kamel says. Sales is about how you manage the sales process and the technicalities fall into place step by step.

Kamel assumed a portfolio that was in shambles: Bisco Misr sales reps sold stock to a handful of wholesalers that would then distribute it to the smaller supermarkets. Today, an incentive system is in place and a whole new team of sales reps is taking Bisco Misr's products where they had never been before.

We started a program whereby the sales representative has to bring in two new clients every day, so we can expand and so that demand on our products can increase, Sabet says. The sales rep's salary [was] increased since the privatization, [as has] the bonus, so at the end of the day, he's making more and he works harder. Most of them had a second job and we made them choose. We promised to improve their salaries and asked that they dedicate their time and effort to us. At the same time, if they don't meet their target, they don't get their bonus.

At the outset, Kamel was faced with years of company operations for which information was not available. The biggest problem was that the company only had two or three computers and of course there wasn't a database, which meant that there was no record of our clients, he says.

The company's sales operations were controlled by five large wholesale clients across the country. These distributors effectively controlled the market and Bisco Misr, which did virtually nothing to address retailers directly. Without a database of customers, clients, sales and other data, Kamel was looking for a complete overhaul. We started by introducing computers; my laptop was one of the first ones to be bought in the company, he says.

IT infrastructure aside, Kamel also made steep investments in his transportation fleet. Instead of only four trucks in Cairo and another four in Alexandria, we now have no less than 32 vehicles for direct sales and distribution nationwide.

One of the company's weaknesses was its narrow focus, concentrated mostly on the big cities, leaving untapped huge potential markets in areas such as the Delta and Upper Egypt.

In the plain cookie market in Cairo and Alexandria, we were the leaders, but we're not leaders in the Delta, because there hadn't been any attention being paid to tap that market, Kamel says. That's why we increased the number of cars servicing the area to 25 and opened up new retail outlets in Mansoura, Tanta, Shebin El Kom and Zagazig. Growth in sales from the Delta for the first quarter of this year was almost 100% [year on year]. The Delta market is rich they have money.

Rich, that is, compared to Upper Egypt still untapped territory for Bisco Misr. Logistics are one reason Bisco Misr dragged its feet. Even today, Bisco Misr faces sharp competition in the Delta and El Saeed from other players who scooped up market share.

We are trying to take a share of the Delta market while maintaining the level of quality that we offer in Cairo and Alexandria, Kamel explains. Our share of the Cairo market is 47%, and we want to maintain that as we grow in the Delta market. Even if our share of the Cairo market drops to 44.45%, that's still OK.

Sales in the Delta grew 126% for 1Q2007 over the same period last year, with sales revenue there rising to LE 2 million. Of that figure, LE 1 million was in Mansoura alone. Sales in Upper Egypt, by comparison, dropped almost 2%.

We started to focus on Upper Egypt this year, with the launch of a new branch in Sohag, but our sales people were not residents of Upper Egypt and they would have to make the trip from here, Kamel recounts. We've now hired local sales reps and started to increase the number of trucks serving the area where, by the way, competition was very high because of the cost of transportation.

Kamel says it was natural for the management team to debate whether to nurture the nearer markets or focus on future growth, too.

Another problem with Upper Egypt is that it is poorer [than Cairo or the Delta] and requires the cheaper products, which are not economically feasible for us to produce and transport. Those who have carved a niche for themselves there are the ones who do not have the responsibilities and overheads that we have, he says. Should demand for Bisco Misr products catch on in Upper Egypt, economies of scale could help counterbalance the cost of transportation.

I imagine that within the next five years, our sales reps will have hand held devices on which they can log the order immediately and at the end of the day connect to the company's mainframe to upload it, Kamel muses.

In the meantime, Kamel plans to push his sales target of LE 175 million to LE 200 million by the end of 2007, with LE 20 million in exports alone. If he's successful, Kamel could propel the company into the 70s on next year's bt100.

Africa's Cookie Provider

Export Manager Hussein Amer is a rarity at Bisco Misr: a top manager who holds the same position he had before the company was privatized.

Under the umbrella of the public sector, things were very different. As export manager, my work needs to be executed quickly. A client asks for a price list and I have to respond the same day, Amer explains. As a public sector employee, I would have to report the request to the chain of command to be able to fax a price list to our client. We didn't have email back then, nor did we have a direct line to call outside Cairo, let alone make an international phone call.

Despite the red tape, Bisco Misr was selling LE 6 million in product each year to a handful of African and Arab. Today, the company's products are shipped to 15 countries in Africa and seven Arab countries, bringing in a total LE 20 million yearly. Amer says that given the inexpensive nature of the commodity, there's ample room to grow.

As Arab markets such as the UAE and Saudi Arabia have opened to products from all over the world, and as instability in some Arab states makes their markets volatile, Bisco Misr's focus has shifted slightly toward African markets, especially with the signing of the COMESA, which gave Egypt preferential trade status with its African partners.

There's competition in Africa from Egyptian companies, but Amer says Bisco Misr has an advantage: Its products and improved packaging give its products an 18 month shelf life, an expiry date he says other Egyptian companies cannot compete with. Competition from Turkey and Syria, according to Amer, is stronger. The largest African markets are Niger, Kenya and Madagascar, which made up about 46% of total exports in 2006.

While cookies are Bisco Misr's signature staple, the company's more than 150 products have been streamlined to just 80, several of which are more popular outside Egypt. Toffee candies and caramels don't have much of a market in Egypt; it's not that they are not sold here, but the competition [in the local market] is very strong. Our strongest sales here are for the biscuits and wafers, but the rest of the candy production is exported well, Amer explains.

Bisco Misr's signature Eid cookies are the company's best seller when they're in season. It's the product that takes Bisco Misr to North America, Australia and Europe, where there are considerable Arab communities that create a market for the kahk.

During kahk season, our sales will reach LE 8.9 million [across all markets], half of which are realized during the last week of Ramadan, Kamel says, while Amer estimates that even though kahk is one of the company's best exports, it only comes to about 3% of annual export sales.

While Bisco Misr's products face heavy competition in European markets, Amer says there's a small niche where his goods are welcomed among the Muslim communities that require halal products.

Today's export procedures have come a long way. No longer are 11 signatures required to send out a shipment, and Bisco Misr has been added to the list of companies that no longer require sample testing for every single shipment. Transportation remains the only hurdle in the export process it can take 35 days from Egypt to Cyprus, where the product is reloaded and directed to destinations across Africa.

The Road to Automation

In a company where financial records were being kept manually, an international phone line was a luxury, and products were being branded according to the factory they were produced in, there's no surprise when Bisco Misr's MIS Manager Karim Deghedy says computers and IT systems were non-existent.

[Computers were introduced to] Bisco Misr in 1999 as the company became a public business sector enterprise, Deghedy describes. A computer room was created, which had a small server and three or four PCs connected to a hub with a platform running a customized application atop the Windows operating system.

Just as the company's financial records were maintained independently of each other, so were the computer rooms in the Cairo and Alexandria plants. Computers were used in a rotational manner whereby each employee would use the computer for their specific task and leave.

Deghedy assessed the situation with a fresh pair of eyes, rolled up his sleeves and started setting up an IT backbone. [There was] no data and no system, so we didn't have any infrastructure to build on. There was no communication between the plants.

We had to set up a system, because if there is no system, there's no structure [on which] the equipment can run. The IT department exists essentially to facilitate communications between all the departments, and today the most important thing in production is the supply chain, ending with the consumer we have to keep track of our supply chain.

For that, Deghedy introduced an enterprise resource planning system (ERP), brought in the hardware and built the infrastructure on which it would all run. With a budget of LE 9 million, Deghedy reveals that he has spent LE 5.5 million so far on building an infrastructure that is sufficient to transmit data as well as voice.

Any company today builds their infrastructure with a forward looking strategy. I don't want to invest and reinvest, I want to get equipment that might cost me LE 12 instead of LE 10, but if I make that extra investment I will only have to renew it in 10 years instead of in five years, Deghedy says.

Bisco Misr is in the process of implementing Microsoft Dynamics AX, an ERP system with modules for the supply chain, sales, inventory, production, financial and logistics functions. Deghedy estimates will be up and running by the end of 2007. When it is, Bisco Misr will among the first companies in the country to an ERP on this scale (for more on how to implement an ERP system as well as Six Sigma quality management systems, see the In The Black section of the July issue of bt).

Bisco Misr is now running 139 PCs in all three factories and Cisco phones that allow voice over internet protocol (VoIP) which replaced the old system where phone calls were transferred through a switchboard managing 21 phone lines without any control or monitoring.

I [used] the same crib I made to transfer data to be able to transfer voice as well [thereby reducing] the cost, he says, describing how he used phone managers (servers that manage voice communication) and the specialized VoIP handsets (known as soft phones) to transfer voice and data. Management, using the soft phones on their laptops, can connect using a DSL internet connection to Bisco Misr headquarters, and are able to remotely log on to email and the file sharing system as if they are inside the office.

Deghedey already has plans for the future. For the sales team, he hopes to have PDAs available in every delivery truck. Footage of the factory floors in Bisco Misr's three locations will stream over the internet to the administrative buildings for monitoring over a wireless virtual private network.

The Makeover

With so much change taking place in the kitchen, consumers are starting to get the sense that something is different at Bisco Misr. Concord's Younes says the plan has been to make a noticeable change, no matter how small, before making the quantum leap to top notch quality.

Bisco Misr Marketing Manager Miranda Osman heads the team that has brought about the obvious difference that customers are now noticing, apparent in the packaging and branding makeover of some of the company's favorites.

The perception was that we did not develop ourselves and we didn't have ad campaigns or promotions even our packaging looked outdated. The only good thing was that Bisco Misr had a heritage, she says. Even when we did produce something of higher quality, [consumers could not] relate it to us; they could be buying our products but they don't know who we are. Our identity was not very clear.

Prior to the packaging revamp, many products were identified with the factory in which they were produced. The plain butter cookies, Marie, were branded as Marie El Seyouf in reference to Alexandria's Seyouf factory where they were made. Osman worked hard to consolidate the company's products by associating them all with the company: BiscoMarie, for example.

Taking over a portfolio of more than 200 products that included corn flakes, plain biscuits, filled cookies, coated cookies, toffees and more, Osman says management decided to focus on just 80 products. The goal: Take them to the top with new packaging and an improvement in quality. Like Younes, Osman believes that making a change even a small one and helping the company improve its reputation could allow it to become on par with other big names in the market.

Today, we are building a marketing department from scratch, we're trying to improve our recipes, the packaging and the product but you can't tackle all of this at the same time, Osman says, adding that there are things that take priority we can't offer very high quality cookies for LE 0.25, which is the price range for 70% of our products.

All our product recipes were upgraded, and minimum requirements in terms of the ingredients were set. We have quality labs that have been upgraded and quality controllers monitoring the production lines. Even the packaging is inspected and if it doesn't meet the minimum requirements it will be rejected, she adds.

Just as sales and distribution team leader Kamel has extended Bisco Misr's reach, Osman tells of a merchandising team of three that focus on giving product presentations at hypermarkets, with five more employees expected to be added soon.

The result of these efforts so far has been a stronger sense of brand identity people see the Bisco Misr name on trucks, television and radio advertisements, in print advertisements and identify the products on the supermarket shelves with the producer. The days when prospective employees, media and consumers wrinkled their noses at the idea of Bisco Misr are clearly coming to an end.

The Longest Road

Personnel has been Bisco Misr's biggest challenge. Not only was the company suffering under the weight of an excess of unproductive staff, but attracting dedicated, capable caliber of employee to the previously government owned confectioner has been even harder.

Sabet says it cost almost LE 11 million to offer 600 of the original 2,700 staff early retirement. Every single one of the 600 was replaced with a new, better trained team member.

To hire a qualified engineer, you have to interview 50 to find a good accountant, you go through almost 200, Sabet grouses. Those who stayed on with the company after the new management took over earned raises and better working conditions.

Employees conditions were improved, their wages were increased and we took care of them medically. This has been achieved and is very obvious when you compare the [company under] public and private sector management, says Hosny Issa, a board member and the company s chief technical officer.

When it comes to the IT and finance departments, Deghedy and Shaheen face the double pronged problem of recruitment. The structure of the IT organization is much bigger than the team that we have today, Deghedy says. Today we are all overloaded because there is a lack of qualified people. The market is empty.

Shaheen has gone through piles of resumes to find one or two qualified candidates, but even then they still require training.

The future of Egypt s labor force doesn t seem to lie hidden between the pages of thick textbooks. An obstacle to business leaders of all forms Egyptian and foreign investors alike is that while Egypt s labor is cheap, there s a growing shortage of trained, experienced staff. The Ministry of Trade and Industry has acknowledged the deficit, vowing to commit to vocational education in line with the needs of industry. Business is playing a role here, too: Just as El Maghrabi Eye Hospital has started a nursing institute to train staff for its industry, Bisco Misr may benefit from the Egyptian Chefs Association s quest to establish a culinary school.

What hasn t changed, though, is perception: The public needs to understand that a university degree isn t the only route to a job.

With an eye toward on the future, Shaheen says Bisco Misr has already introduced summer internships and training programs for university students.

We currently have four trainees, and we re adding summer training programs to build some sort of relationship between the training the students get in university and the practices that they will actually implement in industry. [The lack of this link] is one of the key setbacks of our education system, he explains. If we enhance the relationship between industry and educational institutions, then definitely we ll have better quality graduates.

Is the next Cookie King among them?Â bt

About the Author

From www.businesstodayegypt.com:

Weight Loss Success Stories from Prevention magazine that will inspire you to exercise, eat healthy, and drop the extra pounds.

Weight loss success stories from regular people who have lost weight.

Jenny Craig has helped thousands of men and women lose weight and keep it off successfully. Find Jenny Craig success stories that will motivate. Success Story. Weight loss, diets, dieting, exercise, and nutrition advice, articles, plans, and programs.

Weight Loss Success Stories Inspirational Running Stories. Do You Have A Weight Loss or Running Story That You Would Like To Share.

Read real life weight loss success stories from actual Jenny Craig clients who have lost the weight and kept it off using the Jenny Craig program.

Here is a tiny selection of success stories sent to me by people who are members of my weight loss program. For comments about the wonderful.

Chick peas, also known as garbanzo beans, are together with the whole legume family, one of the best foods you can eat for weight.

Source: <http://www.productsherbal.com>