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Marksign Media Promotions Ltd.: Financing for expansion when cash flow statements “Say No”

Evelyn Majibo, the CEO of Marksign Media Promotions Limited (MMP) believed that “nothing is impossible in business.” However, by January 2011 one thing had proved almost impossible to her -how to get credit from banks or even machine vendors with the current cash flows in her business. For two months four banks and three vendors had turned down her request for a credit line. “I had promised my co-directors Fredrick and Robert that we shall get credit to buy a second printing machine worth Kenya shillings 2.5 Million.” Evelyn reflected. Fredrick, the Chairperson of the board of directors, had called a meeting for all directors to be held on 30th January 2011. Evelyn had struggled with what to do to fulfil her promise after the banks and vendors had turned down her proposal. On 30th January, 2011, as Evelyn sat in her office chair getting ready for the board meeting, the reflection of what recommendation to give to the board was not only disturbing but frustrating. “What recommendation will I give to my co-directors” Evelyn wondered as she sipped some warm water. “Do I recommend that we make more efforts to solicit for a bank loan, or visit other vendors in the hope of obtaining credit line, or wait for the next one year to accumulate sufficient funds to buy the printer?” Evelyn wondered.

Corporate Background

Founded in Nairobi in 2000 by Evelyn Majibo, her brother Robert Mahaga, and her husband Fredrick Majimbo, Marksign Media Promotions Limited had long been identified as a family concern, both in size and operating philosophy. Speaking to a business meeting in 2010, the CEO, Evelyn, who was also, the managing director, had said, “My father believed in ethical business. This has always motivated me to want to lead our business with clear ethical standards. I want to offer quality products and services to the customers, as well as a good working climate for all employees within the company.” A deeply religious person, Evelyn believed that the Bible and the concept of family stewardship provided her with all the guidelines needed to lead the company. She believed in the importance of mankind, in the power of fair play and in the importance of individual and business integrity, as vital to her life and business. Today, “I believe practicing these traditions will make this company overcome all odds and grow exceedingly as we move into the next decade” Evelyn had stated.

Marksign was a graphics design organization with two major lines of business: designing communication messages and printing. Graphic Design is the art or profession of using design elements such as typography, colors and images to convey information and/or create an effect. On the other hand, printing involves putting the designed work on a variety of materials and of varying size. This ranges from items like business cards to large canvas materials for billboard display. Marksign offices were in Industrial Area, in the city of Nairobi, Kenya, and its mission statement was -“To provide customers with creative and practical design and visual communication services.” Before founding MMP in 2000, Evelyn had worked for five

Dr. Jimmy Macharia, Assistant Professor of Information Systems, prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. USIU acknowledges the financial support of The Goldman Sachs Charitable Fund.

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years as a university lecturer in radio production in a local university. By 2011, Marksign Media Promotions Ltd. comprised of a team of dedicated and experienced creative designers, marketers, communicators and copy writers to give the perfect interpretation to any concept and bring out the best of their clients (see Exhibit 1).

Products and Services

Marksign Media Promotions Ltd was a medium sized company that specialized in various areas of creative design, communications, design and set up of exhibition stands, and construction & renovation and hire of octernorm structures. The company had a huge wealth of experience in different design fields such as: creative concepts development, corporate communication, corporate brand design, exhibition display and events management, production of below the line promotional materials, digital production, Newsletter/Magazine design, company stationery, interior design and decoration. In the signage and graphics market, Marksign were able to compete effectively in the supply of creative products. The company's expansion initiative according to Evelyn was to enhance production by using the state-of-the-art Digital and Large Format printers capable of printing corporate communication material at very affordable rates thus giving the company a competitive edge within the industry.

Market Leadership

In the field of exhibition displays, Marksign had previously undertaken agricultural society of Kenya shows projects for various clients with impressive results. These clients included major parastatal, multinationals, and banks. Marksign had done work for Kenya Ports Authority (KPA), New Kenya Corporative Creameries (NKCC), British American Tobacco (BAT), Kenya Commercial Bank (KCB), National Bank of Kenya (NBK), National Social Security Fund (NSSF), Kenya Revenue Authority (KRA), Retirement Benefits Authority (RBA), Kengen, Nyayo Tea Zones Development Corporation, Capital Markets Authority, and Kenya Meat Commission amongst others. (See Exhibit 2 & 4).

According to Evelyn, the year 2010, was a very successful one for the company since they had many achievements. Marksign had assisted Kenya Ports Authority to win several awards in various agricultural shows in Kenya. According to Evelyn, Kenya ports authority won awards for 1st Best Large Trade stand in the Nakuru show, 1st –Most Striking Display – in Kisumu Shows, and 1st Best Stand that interpreted the Show theme, and 1st Best non-Agricultural Statutory Board stand in the Mombasa show that took place in the last week of August 2010. Additionally, Marksign products had made Postbank to win awards in Mombasa and Nairobi agricultural shows. In the Mombasa show, they won the 2nd Best Medium Trade stand, and the 2nd Best bank. Moreover, the 3rd Best Stand that interpreted the Show theme was worn by Postbank in the Nairobi International show.

Business Insight Triggered

It was November 10th, 2010, when Evelyn had just finished a class on business growth at USIU, and was going for Lunch in the Cafeteria with her two friends Mary Mwangi and Susan Jepkemoi. The atmosphere was filled with lunch hour campus hurry and noise on the footpaths. “Stop”, Evelyn called out in a shrill but soft voice as she touched both the shoulders of Mary and Susan. “You Know what, that class discussion on business cash flow statements analysis has transformed my thinking, I have been thinking small; we have been

told to “think big” Evelyn told her two friends. In her business, Evelyn had been operating with one printer, and had always desired to get a second larger and more automated printer. From the analysis of her cash flow statement, she had realised that the cost of outsourced printing services in Marksign was high enough to pay on monthly basis the cost for a second printer if obtained by credit. Evelyn had decided to buy the second printing machine by April 30th 2011, but she kept wondering where to source credit from. Inevitably her thoughts reflected on her business cash flow statement that had just been discussed in class. During the class discussion, for the first time her eyes had opened to the possibility of acquiring the second machine. She had realised that the cost of outsourced printing services over a year could buy the second and bigger printing machine.

Sourcing for Financing

Evelyn’s dream of expanding the Marksign business, meet payroll, have bigger office space, buy more materials & printing equipment to enable the company serve its clients better and to attract even larger clients was unstoppable. First, she prepared her one year cash flow projection (see exhibit 3) and other documents required by lenders and approached two local banks; National Bank of Kenya and Diamond Trust Bank Limited. “Tomorrow I’m submitting a loan application for a credit advance to the tune of Ksh 2.5 Million to the National Bank of Kenya” She informed Majimbo. “Well, it is good to try but will our business cash flow be able to repay that credit or shall we end up being auctioned by the bank?” Majimbo asked.. Evelyn was thinking big as she had learned in the entrepreneurship program at USIU. She was convinced that Marksign business will be a different ball game in the year 2011. Evelyn emphatically stated. “My worry is not on our capability to repay the loan but on whether the bank will agree to my proposal.” In her discussion with the bank manager, Evelyn stated “ Do not evaluate our business credit repayment capability based on the current 2010 cash flow statement, believe in the projected 2011 cash flow based on how the business will operate when we buy the second printing equipment”. She had high hopes that the manager would consider the application more favorably. However, the manager was skeptical. In his remarks he stated that “I cannot promise anything now until the application is processed by the credit unit.” After a week Evelyn got a letter from the bank, which in part read as follows”

In our continuing quest to provide you with excellent service and in our on-going efforts to protect your credit & good standing within our business community, and because you have been such an outstanding customer of our bank I must inform you that.....your loan request has been denied. Although rejecting your loan application was necessary, our bank will nonetheless continue to value your patronage and is looking forward to serving your needs once again in the future because your customer loyalty is appreciated.

Evelyn sighed as she took in a deep breath. The word “persistent” immediately came to her mind. She had a determined spirit to keep on trying requesting banks to advance her credit to acquire a second and more advanced printing machine. She hoped that at least another bank might finally yield. Consequently, Evelyn approached the bank manager, Vivek Shah of Diamond Trust bank Limited. After two weeks, Vivek telephoned Evelyn and discussed the outcome of her application. “After the banks evaluation of your application and cash flow, the bank is only able to advance a credit of KSh 200,000 to your business. I’m therefore calling you to

find out if this amount may be useful to you so that you can come and sign for the documentation”. Vivek explained. Evelyn application was for KSh 2.5 million to buy the second printing machine, and thus the bank offer was not of any help. However, she requested to be given one week to enable her discuss the matter with the other directors and revert. In her mind she was just being polite in saying “No”. So in a weeks’ time she had written an appeal letter to the bank requesting them to reconsider their decision.

As she waited for the reply which was not forthcoming, an opportunity to present business plans in a panel of academicians, entrepreneurs, and financiers arose at USIU. Evelyn presented an exemplary and convincing business proposal. “Surely this plan will certainly yield money for my business expansion” she thought. Among the financial institutions present there were Fina Bank Limited and Standard Chartered Bank of Kenya. In his appreciation of Evelyn presentation, Daniel a sales representative of Standard Chartered Bank, thanked her for a good presentation and commented that the business plan was worthy funding. He fixed a meeting with Evelyn at Marksign offices to discuss the matter further. Separately the Fina Bank Marketing manager was impressed by Evelyn’s business plan and also booked an appointment to visit her the following week in Marksign offices. At that time Marksign offices were in a single room of 16 square meters that served as the CEO office and designers work station. Despite, the positive impression created to the two bank representatives by both the presentation and business plan, after visiting Marksign offices, both Fina bank and Standard Chartered bank were not convinced that Evelyn had a viable business capable of repaying the credit of Ksh 2.5 million. None of them returned or followed Evelyn after their separate visit to Marksign office. Evelyn was disappointed but not discouraged. “Is there no bank which can see sense in our business proposal for 2011?” Evelyn wondered.

Approaching Machine Vendors

After the banks proved difficult in funding Marksign expansion plan, Evelyn decided to turn to machine vendors to request them to supply the machine under extended credit arrangement. However, she thought this will be a tall order since she was new to these vendors. Consequently, she organized her defense “tools” to optimize her chance of success when negotiating with the vendors. She had five tools, namely: First, she convinced herself that the gender dimension in which research had shown that women pay their debts was one of her strong arguments. The second fact that Evelyn wanted to use is that of Integrity. She believed that she was a woman of integrity and honesty, which was her key value in business. Thirdly, Marksign had a saving of Ksh 500,000 which could be used to make down payment for the machine. Fourthly, Marksign operated under strict financial discipline and planning, and last but not least she was to insure the machine against fire and theft. Since these are neither collateral of formal instruments, Evelyn knew she had a challenging task ahead of her. “What substantive evidence do I have for all these arguments” Evelyn mused. She decided to carry the business magazine with the research article to support her gender dimension line of defense. For the rest of the arguments, she decided to carry Marksign bank statements for the whole of 2010 as evidence of how marksign honours their financial commitments. These were meant to show potential vendors that Marksign have been paying their debts without fail, and that it had enough savings for both the deposit and for fire and theft insurance.

Evelyn first appointment with a vendor was on Monday January 11, 2011, at 8.30 am when she visited one of the vendors with the machine she wanted, Kenstar Limited in Industrial area Nairobi. "Welcome Evelyn, and have a seat" Patel Shah welcomed Evelyn as they exchanged business cards. It was a cold Monday morning, and she was consequently offered a cup of tea or coffee Depending on her choice. Evelyn stated as she smiled with a smile of hope. After one and half hours of serious negotiations and discussions, Patel lost the smile on his face and said "Evelyn, I'M sorry, we sell our machines on cash terms, never on credit" Evelyn sighed. "Well, I agree with your company policy but I would like you to treat my request as special option based on the facts I have tabled and discussed with you" Evelyn requested. After leaving the meeting, while driving back to Marksign office, her thoughts kept on asking "What a Monday". She made similar efforts to two other vendors and the results were not different. "Surely, are they doubting me just because I'm a woman, or truly my presentation does not make sense?" Evelyn wondered. She believed she was an excellent negotiator and communicator, and she was determined not to give up despite these discouragement encountered so far

Savings

After the banks and vendors turndown, Evelyn started to relook at her cash flow again to find how long Marksign would wait to save enough cash for purchasing the printing machine. With a saving of Ksh 200,000 every month, it will take Marksign one year to raise the second machine capital of KSh 2.5 million. In her meeting with Fredrick, Evelyn stated that "This is not practical, our competitors will have gotten mileage, we must get the machine at the end of April 2011. She had a strong believe that with the company's savings, coupled with her strong negotiation and communication skills, she would strike a deal for credit.

Credit line Dilemma

Evelyn could not imagine failure in having to acquire the second printing machine. While she had a strong hope, she had faced several disappointments with banks turndown and vendors credit decline. On the other hand, waiting for Marksign to accumulate enough funds to buy the machine could not ring bells in her mind. She felt that "this was the time not only to think big but to make Marksign become big". Fredrick had called a directors meeting for January 30, 2011, with the agenda to discuss the way forward for acquiring credit for expansion With anticipation that the other two directors will take the safer and easier route of accumulating funds, she knew she had a tough task to propose otherwise. As Evelyn sat in her office that morning, she was anxious and found her thoughts wondering on the best way forward.. "What direction will I recommend to my co- directors to continue pursuing other banks for a loan, or visit other vendors in hope of obtaining credit line, or wait for the next one year to accumulate sufficient funds?" Evelyn wondered as the office receptionist informed her that Fredrick had already arrived and was waiting in the boardroom for the meeting to commence.

EXHIBITS

Exhibit 1: Directors Brief Profiles

Fredrick Majimbo- Creative Ditect was or *** narrative in past tense**

Fredrick Majimbo was the Creative Director and was a holder of Bachelor of Arts in Design from the University of Nairobi, and a certificate in Computer graphics and Video Animation from Sender Preis Berlin. Locally he trained in Broadcast journalism from Kenya Institute of Mass Communication (KIMC). He had vast experience in the media industry for having worked at KIMC as Set and Costume Design as well lecturer in TV production . Additionally he had worked for Kenya Cooperative Creameries (KCC) as Creative Designer, and Kenya Power and lighting company as Senior Designer.

Robert Mahaga- Business Development

Robert Mahaga was the director in charge of Business Development. He is a holder of Bachelor of Commerce (BCom) and Masters of Business Administration (MBA) from the University of Nairobi, as well as Certificate of International Marketing (CIM (UK)). He was an an entrepreneurship and academician, serving as a lecturer in the Department of Commerce University of Nairobi, and a practicing businessman serving as Managing director in two separate companies namely Lucknow Trading Company and Lucknow Insurance Brokers Ltd. Further he was a director in Expert Security Services, and Affiliate Professional (CIM).

Evelyn Mukolwe-CEO

Evelyn Mukolwe was the CEO and Managing Director, in charge of marketing. Her education included a Diploma in Radio production from Kenya Institute of Mass communication. She had been trained in Broadcast Engineering at Tokyo International Centre. She was a holder of Bachelor of Arts in Communications from the University of Nairobi, and a graduate of the 10,000 women entrepreneurship program, at United States International University, sponsored by . She was also a practicing academician, serving as Lecturer in Mass Communication, at Day Star University, Kenya.

Exhibit 2: Main Customers in Kenya

Company/Organization	Marksign products/services provided
1. Kenya Ports Authority	Displays, Brochures, Calendars, Magazines, Newsletters, & Advertising
2. British American Tobacco -Kenya	Displays
3. Kenya Power and Lighting Co. Ltd	Banners, Displays, Posters, Magazines, Polo if Shirts and Promotional materials
4. Asea Brown Boveri (ABB)	Product launch panels
5. National Bank of Kenya	Displays_ and promotional Materials
6. Tesha (K) Ltd	Posters, Book Covers, Packages
7. Centre for African Family Studies(CAFS)	Posters, Signs & Company stationery

Exhibit 3: Marksign 2010 and 2011 Revenue and Cost Projections

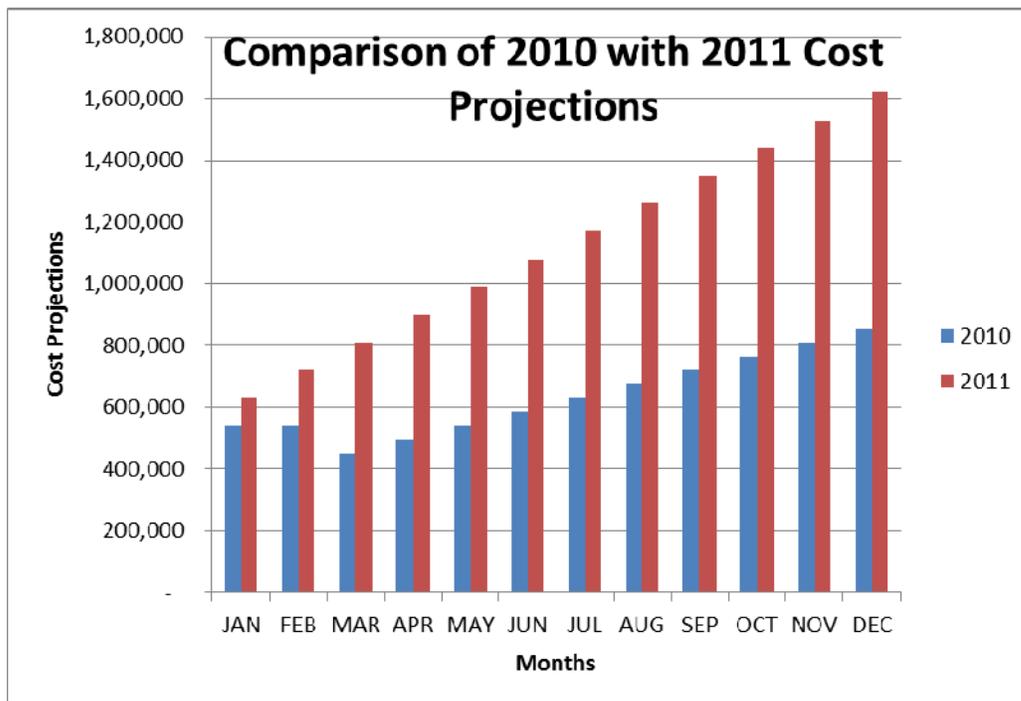
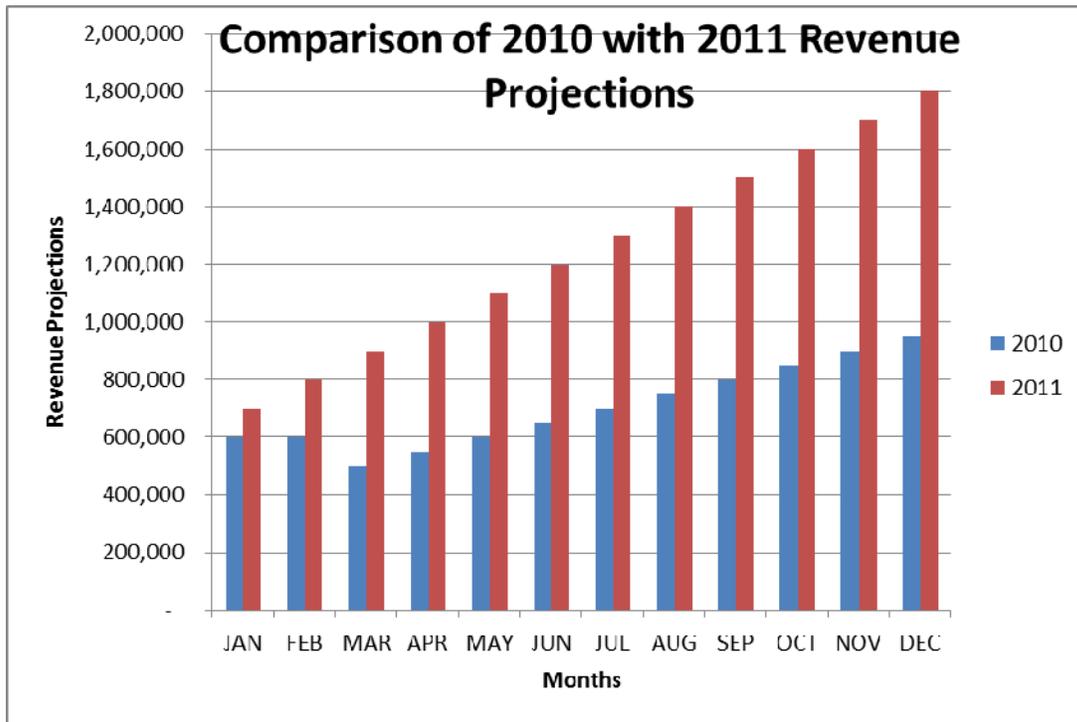


Exhibit 4: Marksign Sample Products



Pavement Signs

Electronic Motion Display Systems

Floor Graphics

X-Banner

Roll up Banner