

4TH DEBT MANAGEMENT SEMINAR

Presentation by:

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Theme



Sustainability In Debt Management

DEBT AND FINANCIAL DISTRESS: A LOOK AT THE KENYA RETAIL INDUSTRY

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Introduction



Definitions

- Retailing involves selling of goods and services to final users for the purpose of consumption.
- Retailers act as the final link in the supply chain.

Introduction



What is Financial distress?

Financial Distress



- It is a condition whereby a debtor or a borrower is unable to meet obligations when they fall due
- Promises To Pay (**PTP**) are not honored
- Many times it leads to receivership & Bankruptcy

Understanding Financial Distress



In a healthy economy there will always be rise and demise of businesses.

- Changing consumer preferences, emerging technologies and resource flow from inefficient firms to firms that are efficient contributes to demise of businesses.
- Internal factors like liquidity and leveraging are key contributors to financial distress

Understanding Financial Distress



- Financial distress can also be caused by external factors which are beyond their control like;
 - High interest rates
 - Competition
 - Industry saturations
 - High rate of entry and
 - Over- leveraging of firms

Stages of Financial Distress



STAGES OF FINANCIAL DISTRESS



Source: CAIA

Understanding Financial Distress



- **Financial Restructuring:** This involves reorganizing a firm's equity and debt capital.
 - Private workouts- negotiate with suppliers
 - Legal- Reorganize and merge with others.
 - bankruptcy- Liquidation
- **Non-financial Restructuring:** involves improvement on operations, risk, management information system, staff, stock management etc.

Overview of Retail Industry In Kenya



- Apparel and Footwear
- Direct Selling by Multinationals
- Health and Beauty specialist
- Internet retailing- Jumia, Masoko
- Mobile Internet retailing
- Modern grocery retailers

Overview of Retail Industry In Kenya



- Retail sector has continued to grow and with sprouting up of shopping malls, more retail stores have been opening targeting mid-level and high level income consumers.
- A report by Kenya Bureau of Statistics 2018, shows the sector employs more than 300,000 people both directly and indirectly.
- The retail industry is ranked 5th in contribution to the GDP

Retail Industry



Retail Industry



- Success of the retail sector has been driven by a robust supply chain, tapping from a vibrant manufacturing sector locally and imports.
- The success is now under threat due to delayed payments to suppliers.
- A report by state department for trade indicate that delays in payment range between 180-240 days and an estimated credit overdue of KES40bn. (suppliers & Financial institutions)

Retail Stores overview in Kenya



Table 5: Lead Retailers in Late Payment, status as at 31st December 2016

Supermarket	Amount Owing	% share
1. Nakumatt Holdings LTD	552,309,168	34%
2. Tuskys Limited	497,535,571	31%
3. Naivas	220,388,144	14%
4. Uchumi Supermarket Ltd	196,359,153	12%
5. Chandarana Supermarkets Limited	28,570,192	2%
Sub-total	1,495,162,229	93%
Other supermarkets	111,666,927	7%
Total	1,606,829,156	100%

Source: KAM Secretariat

Retail Stores overview in Kenya



Table 2: Lead Retailers in Later Payment, status as at 31st December 2016

Retailers name	Debt Owed 60 days and above	% share in total outstanding debt of 60 days and above
Nakumatt Holdings Limited	136,450,025	41%
Uchumi Super Markets Limited	106,758,588	32%
Tuskys Ltd	30,263,208	9%
Naivas Supermarket	25,273,596	8%
Chandarana Supermarket Ltd	10,407,401	3%
Sub-total	309,152,818	92%
Others	26,313,826	8%
Total	335,466,644	100%

Source: Association of Suppliers of Kenya

Root Causes of Financial Distress in Retail Sector



- **Borrowing Costs;** making it difficult for the stores to achieving profitability
- **Poor governance & oversight;**
- **over-expansion;** use of cash meant to pay suppliers to open new businesses
- **Theft by employees** which negatively affect the cash flow.
- **Diversion of cash;** the retailers by holding too much cash end up investing elsewhere,

Root Causes of Financial Distress



- Renting out premises at very expensive rates to beat competition.
- Paying Leases and Investment in real estate; before buildings are habitable. Working capital is tied up.
- Meager margins and high costs of operation.
- Blotted work force that is very expensive for the business (union staff)
- Poor stock management system leading to overstocking and dead stock

Root Causes of Financial Distress



- **Competition;** limited traffic growth due to competition.
- **Paying Leases and Investment in real estate;** before buildings are habitable. Working capital is tied up.
- **Meager margins** and high costs of operation.
- **Blotted work force** that is very expensive for the business (union staff)
- **Poor stock management** system leading to overstocking and dead stock

Ripple Effect of Financial Distress



***When a pebble is thrown into water,
what happens????***

Ripple Effect of Financial Distress



Effects of Financial Distress on Suppliers



- Delayed projects due to cash flow crisis
- Delayed Salaries hence low morale
- Deteriorating suppliers goodwill
- High finance costs from borrowing
- Low sales
- Low credit rating
- Penalties on non-compliance to statutory obligations
- Customer dissatisfaction

Ways of Dealing With Distress In Our Businesses



- Keep records right and up-to-date on financial position
- Pay all statutory obligations (PAYE, VAT)
- Have a clear record of all your creditors
- Liquidate unnecessary assets
- Restructure the business
- Priorities your creditors. Who should be paid when.
- Seek help from professionals before it is too late.

Question Time





CREDIT & DEBT MANAGEMENT SERVICES LTD

Our Services in Credit Management

- Training Consultancy
- Debt Collection
- Hr Outsourcing & Recruitment S
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