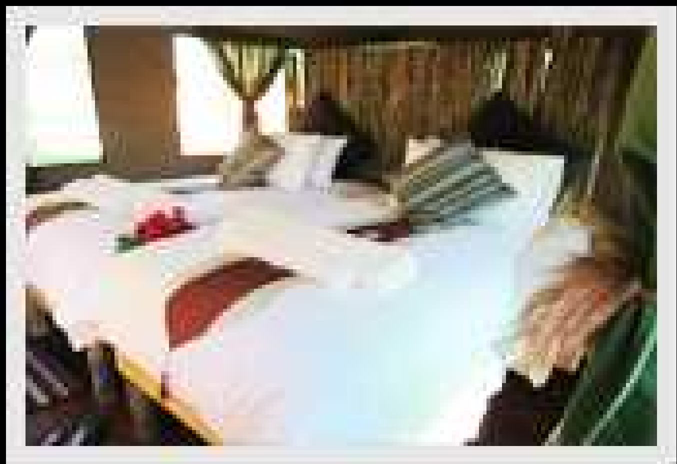
CENTRE POUR LE DEVELOPPEMENT DE L'ENTREPRISE
CENTRE FOR THE DEVELOPMENT OF ENTERPRISE

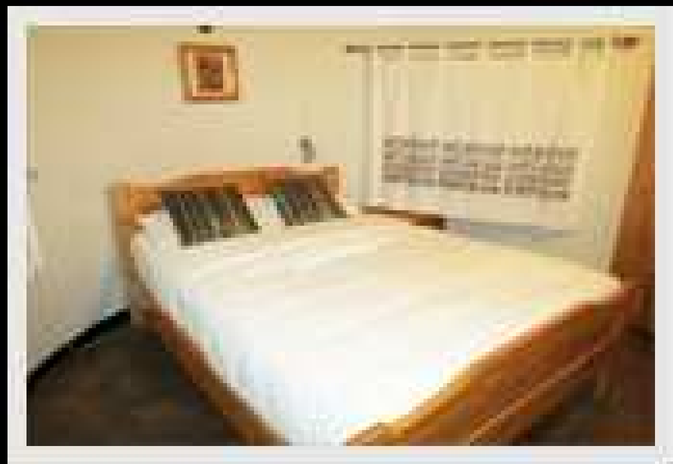
Centre for the Development of Enterprise

Integral Diagnostic Review

Preliminary Report

Motse Lodge (Pty) Ltd





May 14 - 16, 2014, Gaborone-Botswana

Summary

- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team Ms. Gorata Selelo
Mr. Temo Donald Ntapu
Mr Johnson Harry

The Company's Diagnostic Process

- Company's background review
- Interview with the management and staff to understand the different elements of the company (20 May 2014)
- Co-construction (management validation of preliminary findings)(21 May 2014)
- Final reporting (22 May 2014)

Background

- Motse Lodge Pty Ltd, located in Kanye village, was registered in 2000 and started operations in 2001. Initially there were two shareholders, but currently its owned 100% by Matshediso Hansen who is the MD.
- The company operates in the hospitality sector offering accommodation rooms, conferencing and wedding facilities, and cultural activities. The lodge has 11 accommodation rooms, 7 tents in the campsite, and one conference facility.
- The hotel does not have a star rating
- The owner vision is to attain a 4 star rating for the hotel, increase accommodation rooms to 40, expand conference room to sitting capacity of 120 people and improve the landscaping of the lodge. The company is also exploring possibility of bringing on board an investor to inject money into the business
- The hotel is the oldest and largest accommodation facility in Kanye and it's the only one offering cultural activities. The company's main customers are government (80%) and individuals (20%). Average occupancy rate of the hotel stands at 60%
- Initial funding for the business was obtained from Financial Assistance Policy. The other financial assistance was obtained from banks and CEDA
- The company employs 20 people
- The company's annual turnover was P2,394, 442 in 2012: an increase of 10.5% from 2011 turnover
- The company main challenges include high staff turnover, lack of skilled manpower, weak internal controls, and absence of inventory management system.

CENTRE POUR LE DEVELOPPEMENT DE L'ENTREPRISE
CENTRE FOR THE DEVELOPMENT OF ENTERPRISE

WIBA
BOTSWANA
WOMEN IN BUSINESS ASSOCIATION

Preliminary Findings

Preliminary Findings

Subareas Needing Improvement (Refer to co-construction report for justification)	
Strategic Management • Strategic Objectives	**Organizational Structure** • Decision Making Power
Marketing and Sales • Client Relationship • Segmentation, Target Market, and Positioning • Sales Management • Communications	**Quality Management** • Quality Control • Procedures • Product quality
Production and Operations • Planning	**Human Resources** • Staff Performance • Personnel Policy
Finance • Cost Analysis	**Technological Innovation** • Information technologies

Results

The Company Strengths and Subareas of Intervention

Strengths	Subareas of Intervention
1. The business has been running for a long time	1. Strategic Management – Strategic Objectives
2. There is ample space for business expansion	2. Marketing and Sales – Sales Management
3. There company faces less competition in Kanye village	3. Marketing and Sales – Client Relationship
	4. Production and Operations – Planning
	5. Finance - Cost analysis
	6. Human Resources – Staff Performance
	7. Quality Management - Quality control

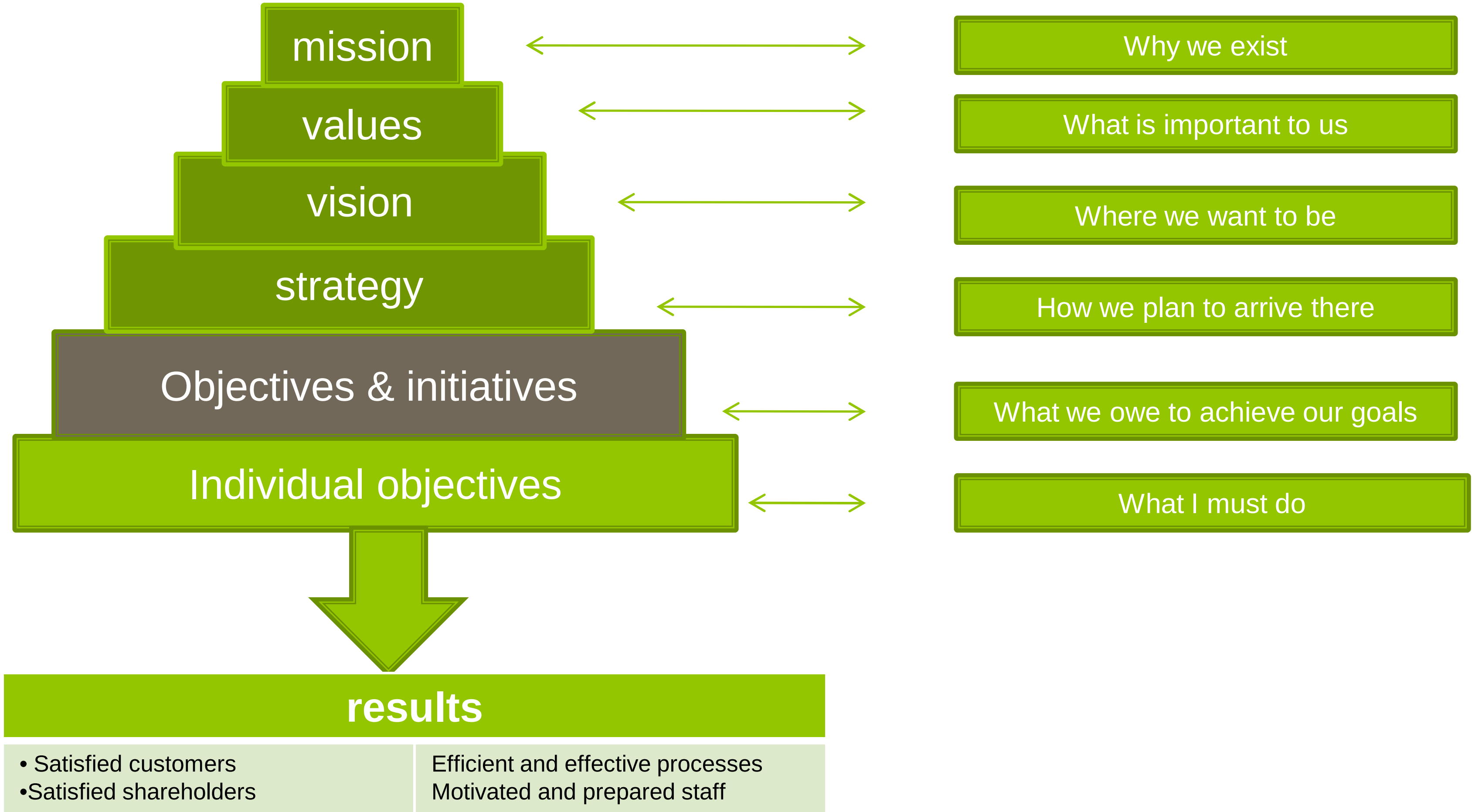
Best Practices

Strategic Management – Strategic Objectives

Having strategic objectives and specific projects and action plans will enable the company to:

- Have a clear roadmap
- Develop and prioritize functions and activities
- Better planning (short and long term)
- Better allocation of resources
- Track operational performance
- Improve decision making across the company

The Strategic Process of Value Creation



Best Practices

Marketing and Sales – Segmentation, Target Market & Positioning

Benefits of a proper segmentation is the ability to adapt to the different needs and requirements of the different segments based on specific criteria. This enables informed marketing and positioning. Ultimately this results in:

- Effective focus especially on targets with potential for growth
- Improved inputs into customization for each segment resulting from interaction – product development
- Effective marketing, promotional and distribution plans
- Improved brand awareness and customer loyalty

Ultimately, improve market penetration and increase revenue

Best Practices

Marketing and Sales – Sales Management

Sales Management systems (sales plans per category, sales targets, sales incentives) in place will assist in:

- Defining targets and levels of production
- Effective focus on targets with potential for growth
- Improved inputs into customization for each segment resulting from interaction – product development
- Implementing appropriate procurement and inventory procedures.
- Maximizing stock turnover
- Cost structuring and management.

Best Practices

Production and Operations – Inventory Handling

Having a systematic inventory handling process will:

- Enable easier forecasting, controlling & managing of inventory
- Reduce costs arising from pilferage
- Help in meeting customer demand (purchasing the correct inventory in the right amounts), while eliminating slow-moving, obsolete inventory, leading to higher profits and better cash flow
- Reduce chances of making costly mistakes

Best practices- Cont’d

Finance – Cost Analysis

Accurate costing of products:

- Ensures positive cash flows and non tying up of capital on products that are not profitable.
- Makes it easier to estimate the company’s break even point (level of sales where all fixed costs are covered by revenue)
- Encourages good procurement methods
- Enables the company to appropriately price its products to secure the profit margin

Therefore contributes to reduce costs and improve profit margin

Best practices- Cont'd

Human Resources – Staff Performance

Documenting staff performance:

- Eliminates misunderstanding about company goals and objectives
- Makes it easy for the company to track employee performance
- Allows for employee growth
- Assists in operationalizing company strategies

This leads to improved company performance and ultimately contributes to profitability

Best practices- Cont'd

Quality Management – Quality Control

There is need for the company to have set documented quality control measures, with specific criteria used in maintaining quality. This will ensure:

- Systematic checks that will allow timely application of corrective measures.
- A clearly defined procedure for handling complaints.
- Consistency in service quality.
- Improved customer loyalty.
- More sales.

Best practices- Cont’d

Financial Analysis - Disclaimer

- **Disclaimer**

The strategic financial indicators are based on financial statements provided by the company. The inclusion by the CDE consulting team of these figures and ratios in no way implies verification of the figures and ratios by the CDE consulting team.

Company’s assets were revaluated and recorded as additional equity. The team could not ascertain if the valuation complies with existing rules and regulations as well as accounting principles.

The Company’s financial year is from 1st August to 31st July of the following year.

Best practices- Cont'd

Balance sheet 2010/2011 to 2011/2012

	ASSETS	2011/2 012	2010/2 011	2 010	Variation (%)
1	Cash and cash equivalents	110 282			100%
2	Accounts receivable (debtors)	311 250	53 759		479%
3	Inventory		21 059		100%
5	Other Current Assets				
6	**TOTAL CURRENT ASSETS**	**421 532**	**74 818**	**0**	463%
7	Physical fixed assets	3 212 462	1 974 675		63%
8	Financial Fixed Assets				
11	**TOTAL FIXED ASSETS**	**3 212 462**	**1 974 675**	**0**	-39%
12	**TOTAL ASSETS**	**3 633 994**	**2 049 493**	**0**	77%
	LIABILITIES	**2 012**	**2 011**	**2 010**	
20	Account payable	514 942	524 233		-2%
21	Short term portion of loans payables				
22	Taxes liabilities				
23	Short term provisions				
	Current liabilities (current portion loans CEDA)	82 318	200 400		-59%
24	Other Current Liabilities (overdraft FNB)	16 409	97 155		-83%
25	**TOTAL CURRENT LIABILITIES**	**613 669**	**821 788**	**0**	-25%
26	Long term debt to banks and fin. Inst.	1 529 330	1 487 636		3%
27	Long term Provisions (deferred tax)	375 631	375 631		0
28	Other Long term debt (shareholders loan)	336 989	286 495		18%
29	**TOTAL LONG TERM LIABILITIES**	**2 241 950**	**2 149 762**	**0**	4%
30	**TOTAL PAYABLE LIABILITIES**	**2 855 619**	**2 971 550**	**0**	-4%
31	Paid in Capital	2	2		0
	Property valuation increase	1 385 692			100%
32	Reserves (Retained Earnings, other reserves)	-922 057	-697 023		-32%
33	Current year net profit	314 739	-225 036		240%
34	Other	-1			
35	**EQUITY**	**778 375**	**-922 057**	**0**	184%
36	**TOTAL LIABILITIES**	**3 633 994**	**2 049 493**	**0**	**77%**

Best practices- Cont’d

Profit & Loss Statement 2010/2011 to 2011/2012

PROFIT/LOSS STATEMENT	2011-2012	2010-2011		Variation (%)
Sales revenues	2 394 442	2 166 536		11%
Cost of goods sold				
Materials	776 171	1 047 456	776 170	-26%
GROSS PROFIT	**1 618 271**	**1 119 080**	1 618 270	45%
Wages & salaries	520 940	564 986	520 939	-8%
Other costs				
NET VALUE ADDED	**1 097 331**	**554 094**	1 097 330	98%
Depreciation	31 144	93 022	31 143	-67%
Operating Expenses (G&A, selling, R&D)	540 742	518 275		4%
OPERATING INCOME	**525 445**	**-57 203**		**1019%**
other non operating income				
Financial expenses	210 706	167 833		26%
INCOME BEFORE INCOME TAX	**314 739**	**-225 036**		**240%**
Income Tax Provision		0		
NET INCOME	**314 739**	**-225 036**		240%

Strategic & Financial Indicators

Strategic Indicators	2011-2012	2010-2011	
Local sales per employee (Pula)	119,722	108,326	
Exports as a percent of total sales	N/A	N/A	
Variation of local sales (%)	11%		
Gross profit margin (%)	67%	52%	
Net value added, NVA	1,097,331	554,094	
Productivity (Pula)	54,867	27,705	
Net profit margin (%)	13%	-10%	
Net worth (Pula)	778 ,374	-922,057	
Number of managers to employees	0.66	0.66	

Strategic & Financial Indicators

Financial Indicators	2011-2012	2010-2011	
Current Ratio	0.69	0.09	
Acid test (Quick ratio)	0.69	0.07	
Average collection period (days)	47	9	
Average payment period (days)	145	119	
Inventory conversion period (days)	-	5	
Debt to equity ratio	3.67	-3.22	
Times interest earned	2,49	-0.34	
% Over (Under) Break-even point	92%	-9%	

Best practices- Cont'd

Financial Analysis

Financial figures inconsistency

•Gross profit moved from P1,119,080 in 2010/2011 to P1,618,271 in 2011/2012, representing a jump of 45%

•Fixed assets increased by 63% as a result of assets reevaluation in 2011/2012 while depreciation decreased by 67%

•The equity moved to P778,372 at end of fiscal year 2012/2011 from a negative position of 922,059 at end of fiscal year 2010/2011 indicating that the business has earned a profit of P1,700,431 in year 2011/2012. The profit and loss accounts show a profit of only P314,739.This difference is equivalent to the property revaluation

• There is no provision for income tax in the 2011/2012 financial year.

Best practices- Cont'd

Financial Analysis

Sales and profitability

- Sales increased by 11% from P2,166,536 to P2,394, 442 in 2010/2011 and 2011/2012.
- Gross profit margin percentage increased from 52% to 67% during the period. This points to deficiencies in company's procurement or inventory handling system.
- Net profit margin increased from -10% to 13%, as direct result of the significant jump in gross profit margin considering that operating expenses have only increased by a slight margin over the period (4%).
- Percentage operating expenses to sales revenue had increased from 24% to 32% over the period .The company has maintained costs under control.
- The company has improved from operating at 9% below break even point to operating 92% above break-even point. The jump in gross profit and the inconsistency highlighted in recording the depreciations for 2011/2012 explain.

Best practices- Cont'd

Financial Analysis

Solvency

- The current ratio improved from 0.09 in 2010/2011 to 0.69 in 2011/2012. The desired figure is 1 to 2, indicating that although there has been some improvement, the company is still not able to meet its current obligations
- The acid test ratio had improved from 0.67 in 2010/2011 to 0.69 in 2011/2012. 1 is a healthy level. The company liquidity has improved but is still below the required standard.
- The company's debt/equity ratio improved from -3.22 to 3.67 during the period. This improvement derived from the serge n gross profit (and subsequently in net operating income) combined with the assets revaluation.
- Times Interest earned ratios improved from -0.34 to 2,49. The improvement indicates the company's ability to meet its interest obligations.

Best practices- Cont'd

Financial Analysis - Conclusion

During the 2010/11 and 2011/2012 financial years the following can be concluded.

- The company's finances are not sound for the short term as can be seen from the acid tests and current ratios.
- The company's long term solvency could not be ascertained either because of the inconsistencies observed.
- The company recorded in 2011/2012 a net profit margin of 13% (P314,739), recovering from a loss of –P225,036 in 2010/2011, this as a result of a significant jump in gross profit which may be questionable.
- The equity base was depleted as a result of accumulated losses over the past year. In 2011/2012, the equity was hedged again an assets revaluation of P1,385,692 enabling the company to show a positive position.

  Overall, the company's financial situation is very fragile. Company needs to consolidate its internal systems, particularly the accounting records, the procurement and inventory handling as well as the financial management.

Conclusions of the Diagnosis

Conclusion

Conclusion

- Motse Lodge Pty Ltd, located in Kanye village, was registered in 2000 and started operations in 2001. Initially there were two shareholders, but currently its owned 100% by Matshediso Hansen who is the MD
- The company's annual turnover was P2,394, 442 in 2012, an increase of 10.5% from 2011 turnover
- Company is in growth phase as it has experienced continuing growth in sales revenues. However the company falls short in demonstrating its financial viability. Losses accumulated over past years have completely depleted its equity base forcing management to consider a revaluation of assets which does not provide the cash flow that the company needs most to finance its growing needs for working capital and the renovation of the facility.
- The company has potential to grow bigger but is hampered by weak internal management systems and competencies: critical personnel (e.g. sales staff, operations manager), centralized decision making and lack of planning and anticipation.

Conclusion

Conclusion

- Our assessment have revealed that the subareas that require interventions are: strategic objectives, segmentation, target market and positioning, sales management, production planning, quality control, cost analysis, and staff performance
- Motse Lodge Pty Ltd needs to close the gaps in above indicated subareas to improve its performance and regain competitiveness on target markets.
- The next slides provide specific recommendations for intervention in each of these subareas to unleash performance.

Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	**WITH SUPPORT OF EXTERNAL RESOURCES**
STRATEGIC MANAGEMENT - STRATEGIC OBJECTIVES	➢ Develop and document company goals and objectives ➢ Develop action plans to implement company goals and objectives ➢ Align company structure to the set objectives and goals	➢ Assistance with the formulation and development of strategic objectives and plan
MARKETING & SALES – SALES MANAGEMENT	➢ Develop marketing and sales strategy ➢ Appoint dedicated sales personnel to drive sales ➢ Set sales targets ➢ Analyze sales regularly to track performance	➢ Assistance with developing marketing and sales strategy

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	**WITH SUPPORT OF EXTERNAL RESOURCES**
MARKETING AND SALES – SEGMENTATION, TARGET MARKET, AND POSITIONING	➢ Diversify client base to reduce dependence on government ➢ Develop segmentation criteria for customers ➢ Exploit brand popularity to generate more business ➢ Analyze customer feedback and develop action plans based on the results	➢ Assistance with undertaking market research
PRODUTION & OPERATIONS – INVENTORY HANDLING	➢ Develop and implement an inventory handling system to track movement of supplies into and out of the storeroom	➢ Training on inventory management processes.

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	**WITH SUPPORT OF EXTERNAL RESOURCES**
FINANCE COST ANALYSIS	➢ Consistently analyze costs and use the results to inform decision making ➢ Explore possible cost saving areas that could lower operational costs	➢ None
HUMAN RESOURCES – STAFF PERFORMANCE	➢ Proper structure to run the business ➢ Employ staff with relevent technical skills ➢ Consider engaging a full time Operations Manager ➢ Develop employee retention strategy to reduce high staff turnover ➢ Reduce the number of temporary staff	➢ Assistance with aligning company structure with company strategy ➢ Assistance with recruitment of experienced Operations Manager ➢ Enlist assistance to develop and implement PMS system

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
QUALITY MANAGEMENT – QUALITY CONTROL	➢ Attain star rating for the hotel ➢ Design and implement quality control policy ➢ Appoint dedicated quality control personnel	➢ Assistance with acquiring star rating for the hotel

Priority Intervention

To get the company back on its feet and restore its financial viability, Motse Lodge Pty Ltd needs to develop and implement a turnaround plan. This implies the following:

- **Improve staff performance**
  - Align company structure with company strategy
  - Engage services of experienced operation manager
  - Recruit and retain staff with relevant skills for the business
  - Set performance targets and monitor performance and put in place a transparent incentive system
- **Sales management**
  - Develop and implement sales and marketing strategy
  - Appoint staff dedicated to marketing and sales
  - Set sales targets for staff, provide training and monitor performance
- **Improve on quality management**
  - Attain star rating for the hotel
  - Develop quality standards and controls for the hotel operations
- **Implement a sound financial administration**
  - Develop cost structures for main products and do the pricing in a way to secure adequate margin
  - Establish budgets and monthly financial statements and reports
  - Use the analysis to support decision-making for short term and future development of the company.

Thank You