



**Integral Diagnostic Review**  
**Final Report**  
**Bel Rea Guest House (Pty) Ltd**

May 18 - 19, 2014, Francistown - Botswana

- Background
- Diagnosis process
- Preliminary results
- Recommendations

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- Company's background review
- Interview with the management to understand the different elements of the company (18<sup>th</sup> May 2014)
- Co-construction: management validation of preliminary findings (19<sup>th</sup> May 2014)
- Preliminary reporting (19<sup>th</sup> May 2014)
- Final reporting (22<sup>nd</sup> May 2014)

# Background

- Bel Rea Guest House (Pty) Ltd, based in Francistown, was initiated in 2008 when the business owner converted her residential premises to a commercial facility. Initially, the license was rejected as they did not meet the minimum requirement of 8 parking bays for a 5 room establishment.
- The facility conversion and expansion was financed by a CEDA loan of P350,000. It was formally registered and operational in 2010.
- The business is in the hospitality and tourism sector, providing low rate, high value room and board. Bel Rea Guest House is a 2 star establishment in 2013.
- The owner's vision is to become a full fledged 5-star establishment including conference facility and a bar.
- The company's main target market is individuals, private companies, NGO's and government officials . Individuals are mainly travellers through Botswana from Zambia, Zimbabwe and South Africa.
- Staff comprises of 7 officers including the Managing Director.
- The average occupancy rate is at 60%. The company's annual turnover was around P268,567 in 2013, representing a 10.5 % decline from 2012 (P300,120).
- The greatest challenge faced which holds the business back seems to be the restriction on liquor licences to quest houses and the location which is a deterrent to clientele.



# Preliminary Findings

# Preliminary Findings

## Subareas Needing Improvement (see attachment for explanations)

### Strategic Management

- Mission and Vision
- Strategic Objectives

### Human Resources

- Personnel Policy
- Personnel Benefits and Incentives

### Marketing and Sales

- Segmentation, Target Market, and Positioning
- Price
- Sales Management

### Information Management

- Information

### Production and Operations

- Inventory Handling

### Quality Management

- Quality Control
- Procedures
- Product quality

### Finance

- Cost Analysis
- Financial Administration

### Technological Innovation

- Information Technologies



# Results

# The Company Strengths and Subareas for Intervention

Strengths	Areas for Intervention
1. The business owns its property and has acquired another plot in Nata for expansion	1. Strategic Management – Strategic Objectives
2. The owner’s personal alliances from previous employment have become part of the customer base	2. Marketing and Sales – Segmentation, Target Market and Positioning
3. Understanding of the hospitality and tourism sector	3. Marketing and Sales - Price
4. Corporate culture for innovation encouraged within the company	4. Production and Operations – Inventory Handling
5. The business is in compliance with all regulations governing its sector	5. Finance – Cost Analysis
6. It has optimized business alliances to ensure client satisfaction when at full occupancy and receiving clients from filled establishments	6. Quality Management– Quality Control
	7. Quality Management– Product Quality

## Strategic Management – Strategic Objectives

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

- Provide guidance and direction, facilitate planning, motivate and inspire employees, and help the company to evaluate and control performance.
- Help to channel employees throughout the company toward common goals, concentrate and conserve valuable resources in the company and to work collectively in a more timely manner
- Ultimately improve the company's efficiency and competitive advantage on the markets

# The Strategic Process of Value Creation



## Marketing and Sales – Segmentation, Target Market & Positioning

Regrouping customers in categories based on specific criteria and targeting the ones that have potential for growth and adapting the company offering to each target market will enable the company to:

- Effectively focus on profitable customers and services
- Develop effective marketing and promotional plans for desired segments
- Improve market penetration and increase revenue
- Enhance brand awareness and customer loyalty



## Marketing and Sales - Price

A good pricing strategy contributes to business success. Pricing is a key determinant in the decision making process customers use to purchase a product or service. It can:

- Act as an incentive for a company to deliver services that consumers want
- Encourage conservation of scarce resources
- Improves efficiency by keeping costs down and production/delivery of service high
- Establish how much your target market will pay for your product or service.
- Shows you how sensitive your customers are to changes in price.



## Production and Operations – Inventory Handling

Having a systematic inventory handling process will:

- Enable easier forecasting, controlling & managing of inventory; especially consumables used in guest rooms that need tracking.
- Reduce costs through reduction of wastage and over-purchasing, resulting in greater profitability
- Help in meeting customer demand (purchasing the correct inventory in the right amounts), while eliminating obsolete inventory, leading to higher profits and better cash flow
- Enables better budgeting for the business and reduces chances of making costly mistakes



## Finance – Cost Analysis

Accurate tracking and analysis of all product costs (variable and fixed):

- Allows the company to determine the true cost of providing a product or service
- Enables the company to appropriately price its products and services to secure the profit margin
- Cost analyses may reveal unexpected or hidden costs to the company
- Encourages good procurement practices
- Makes it easier to estimate the company's break even point (level of sales where all fixed costs are covered by revenue)
- Enables costs reduction and benchmarking against others in the industry
- Assists in monitoring finances and allows maximization of returns from available resources.



## 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 and delivery
- Improved customer loyalty
- Increase in sales

## Quality Management – Product Quality

Having a set criteria for product quality checks and a product guarantee will help:

- Ensure consistency in quality service packages.
- Enhance level of compliance with hospitality standards.
- Enhance possibility of establishment rating.
- Highlight the company's confidence in its own quality assurance process and as such appeal to more customers.



## Financial Analysis - Disclaimer

### Disclaimer

- *The strategic financial indicators are based on financial statements provided by the company. There are a number of apparent discrepancies leading to some extreme ratios and variations which are the subject of outstanding queries. 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.*
- *It is also important to note that the Director's loan of P407,333 (2013), reflected as part of capital and reserves in Bel Rea's Annual Financial Statements has been re-classified as a long term liability. This amount represents the value of the owner's house that was converted into the guest house and is therefore a capital cost to the business that is payable to the owner.*



## Bel Rea Guest House (Pty) Ltd : Balance Sheet 2012–2013

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	742	20,400
Accounts receivable (debtors)	3,860	0
Inventory		
Prepaid expenses		
Other Current Assets		
<b>TOTAL CURRENT ASSETS</b>	<b>4,602</b>	<b>20,400</b>
Physical fixed assets	518,846	548,792
Financial Fixed Assets		
Intangible assets		
Other Assets		
<b>TOTAL FIXED ASSETS</b>	<b>518,846</b>	<b>548,792</b>
<b>TOTAL ASSETS</b>	<b>523,448</b>	<b>569,192</b>
<b>LIABILITIES</b>	<b>2013</b>	<b>2012</b>
Account payable	15,380	0
Short term portion of loans payables	74,436	74,436
Taxes liabilities	3,571	3,504
Short term provisions		
Other Current Liabilities		
<b>TOTAL CURRENT LIABILITIES</b>	<b>93,387</b>	<b>77,940</b>
Long term debt to banks and fin. Inst.	28,601	173,583
Long term Provisions		
Other Long term debt (Directors Loan)	407,333	336,201
<b>TOTAL LONG TERM LIABILITIES</b>	<b>435,934</b>	<b>509,784</b>
<b>TOTAL PAYABLE LIABILITIES</b>	<b>529,321</b>	<b>587,724</b>
Paid in Capital	1,500	1,500
Reserves (Retained Earnings, other reserve)	-20,032	-15,010
Current year net profit	12,659	-5,022
Other		
<b>EQUITY</b>	<b>-5,873</b>	<b>-18,532</b>
<b>TOTAL LIABILITIES</b>	<b>523,448</b>	<b>569,192</b>



## Bel Rea Guest House (Pty) Ltd: 2012 - 2013

<b>PROFIT/LOSS STATEMENT</b>	<b>2013</b>	<b>2012</b>
Sales revenues	268,567	300,120
Cost of goods sold		
<i>Materials</i>	24,715	90,039
<b>GROSS PROFIT</b>	<b>243,852</b>	<b>210,081</b>
<i>Wages &amp; salaries</i>	82,800	82,942
<i>Other costs</i>	0	0
<b>NET VALUE ADDED</b>	<b>161,052</b>	<b>127,139</b>
Depreciation	29,946	17,446
Operating Expenses (G&A, selling, R&D)	107,891	103,161
<b>OPERATING INCOME</b>	<b>23,215</b>	<b>6,532</b>
Financial income		
Financial expenses	6,985	8,050
Other non-operating income		
Other non-operating expenses		
<b>INCOME BEFORE INCOME TAX</b>	<b>16,230</b>	<b>-1,518</b>
Income Tax Provision	3,571	3,504
<b>NET INCOME</b>	<b>12,659</b>	<b>-5,022</b>

Strategic Indicators	2013	2012
Local sales per employee	53,713	60,024
Exports as a percent of total sales	0.0%	0.0%
Variation of local sales	-10%	-
Net value added, NVA	243,852	210,081
Productivity	48,770	42,016
Net profit margin	4.71%	-1.67%
Net worth	-5,873	-18,532
Fixed Assets Turnover	0.52	0.55
Number of managers to employees	0.25	0.25

Financial Indicators	2013	2012
Current Ratio	0.05	0.26
Acid test (Quick ratio)	0.05	0.26
Average collection period (days)	5.25	-
Average payment period (days)	52.21	-
Debt to equity ratio	-89.1	-31.7
Times Interest Earned	3.32	0.81
% Over (Under) Break-even point	16.84%	5.42%



## Financial Analysis

### ➤ Sales and profitability

- Sales declined by 10.5% in 2013 from 2012 which attracted revenues of P268,567.
- Gross margin increased from 70% to 91% in 2013.
- Net income jumped about 3 times (255%). This is due to the improvement gross margin as the operating expenses remained the same during the same period.
- Though Bel Rea Guest House experienced a decline in sales and slight rise in operation expenses, the overall effect was an increase in gross profit margin.
- In 2013, the company is operating 16.84% over break even with a profit of P12,659.
- The assets turnover ratio is steady at an average of 0.5 times in 2012 and 2013, indicating a stable utilization of assets.
- The company's net worth stands at -P5,873 in 2013 and -18,532 at 2012.

## Financial Analysis

### ➤ **Working capital and liquidity**

- Average debt collection is from 5 days in 2013. This short period reflects typical payment patterns of individuals who's transactions are cash sales.
- The company is also taking a relatively longer time to pay suppliers (52 days) reflecting the fact that a significant amount of business is from The Botswana Police Service and the Department of Justice which on average takes 3 months to pay after a service.

## Financial Analysis

### ➤ Solvency

- The current and acid ratio is at 0.049 (2013), slightly dropping from the previous year at 0.26. This indicates that the company is still unable to meet its short term financial obligations.
- There is a drastic cash position decline from P20,400 to P742 in 2013 with receivables at P3,860, which are not sufficient to cover its immediate payable account of P15,380.
- Debt to equity ratio is at -90 in 2013 and -30 in 2012, indicating the continued indebtedness of the company.
- The past accumulated losses had depleted the company's equity base to -P18,532 in 2012. The positive net year profit of P12,659 has slightly improved the equity position to -P5,873 in 2013.

## Financial Analysis

- **Gearing/long term debt to equity**
  - The abnormal debt to equity ratio is -89.1 in 2013, and -31.7 in 2012. The company equity position is negative. Moreover, it is in debt as reflected by the high loan received from the owner in the form of the value of the house structure that was converted into the guest house. Owner may consider converting the loan in equity. There are specific requirements to observe to that effect.
- **Time Interest Earned Ratio**
  - Bel Rea in 2013 has an improved time earned ratio of 3.32 times from 0.81 times in 2012.
  - This normally would indicate that the company is able to pay its interest on borrowing nearly 3 times over by its net operating income

## Conclusion

- Bel Rea Guest House financials seem to reflect a slight improvement in financial health although not having reached optimal level.
- The company is in an early growth stage and needs to stabilize and consolidate its current business operations before it can venture into expansion projects.
- The company is venturing into expanding its operations to include a new premises, however with the lack of necessary business operations and financial systems in place, this move could adversely affect the business

# Conclusions of the Diagnosis



## Conclusion

- Bel Rea Guest House started operations in 2010 in the tourism and hospitality sector.
- Bel Rea “Nice Place” range products offering is accommodation.
- The occupancy rate is 40-50% but go up to 100% during the peak seasons (June-October), when there is an increase of travellers from Zambia, Zimbabwe and South Africa.
- The business is in the development and growth stage.
- She acquired a plot in Nata and is in possession of approved building plans, which include 8 rooms, a conference centre and swimming pool and has launched a funding application with her bankers.
- However, this will be a challenge in the absence of a strong equity base, established and lack of capital finance

## Conclusion

- The diagnostic exercise revealed 5 broad sections that require attention. These are in Strategic Management, Marketing & Sales, Production and Operations, Finance and Quality Management.
- The specific areas that require critical intervention are: the refinement of Strategic Objectives, developing strategies for improved market Segmentation, Target Market and Positioning, Price offering, establishment of inventory handling system, Cost Analysis, quality control and improvement of product quality.
- Bel Rea Guest House needs to close the gap in above indicated subareas to unleash performance and gain competitive advantages on target markets.



# Recommendations For Improvement

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
STRATEGIC OBJECTIVES	<ul style="list-style-type: none"> <li>➤ Develop clear strategic goals in line with its mission and vision and define quarterly milestones and monthly targets .</li> <li>➤ Cascade these goals to the operational levels of the company (Operations, Sales and Marketing...) and identify activities to support these goals</li> </ul>	<ul style="list-style-type: none"> <li>➤ Structure the strategic objectives per: Year, Market</li> <li>➤ Develop Strategic Plan</li> </ul>
SEGMENTATION, TARGET MARKET & POSITIONING	<ul style="list-style-type: none"> <li>➤ Develop criteria for and categorise customers based on their specific purchasing habits and requirements.</li> <li>➤ Clearly identify and present in a document the key benefits Bel Rea can offer to each customer category.</li> <li>➤ Consider the resulting customers segment (or categories) and target those with growth potentials and for which the company has competitive advantages</li> </ul>	<ul style="list-style-type: none"> <li>➤ Develop a marketing plan encompassing market segmentation and target marketing for each identified segment (inclusive of pre-and post-sale service and promotions).</li> </ul>

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
PRICE	<ul style="list-style-type: none"> <li>➤ Revise current price to at least cover costs</li> <li>➤ Continue to scan market pricing levels</li> <li>➤ Create a pricing scale to target the different market segments</li> </ul>	<ul style="list-style-type: none"> <li>➤ Assistance in pricing and costing ; analysis and restructuring</li> </ul>
INVENTORY HANDLING	<ul style="list-style-type: none"> <li>➤ Develop and implement an inventory handling system to track consumables.</li> <li>➤ Maintain an inventory register</li> </ul>	<ul style="list-style-type: none"> <li>➤ Training on inventory management processes.</li> <li>➤ Development of an inventory planning system</li> </ul>

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
<b>COST ANALYSIS</b>	<ul style="list-style-type: none"> <li>➤ Clearly identify all fixed and variable costs</li> <li>➤ Constantly reconcile the costing with financial records</li> <li>➤ Maintain and analyse purchasing records for consumables used in operations activities e.g soaps, linen, food items</li> </ul>	<ul style="list-style-type: none"> <li>➤ Enlist the help of a cost accountant to develop and implement a costing system and train staff on using it</li> <li>➤ The manager needs to receive training in accounts and financing for non-financial managers.</li> </ul>
<b>QUALITY CONTROL</b>	<ul style="list-style-type: none"> <li>➤ Develop and document quality control policies which comply to existing standards</li> <li>➤ Establish documented measurement criterias</li> <li>➤ Define and document responsibilities</li> <li>➤ Develop procedures and documentation to monitor services provided</li> </ul>	<ul style="list-style-type: none"> <li>➤ Engage the help of experts to put in place documented quality check policies and product quality checks check points.</li> <li>➤ Develop service procedures and documentation</li> <li>➤ Engage the help of an expert train relevant customer service staff.</li> </ul>

SUB-AREAS	RECOMMENDATIONS	
	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES
<b>PRODUCT QUALITY</b>	<ul style="list-style-type: none"> <li>➤ Standardise the services offered</li> <li>➤ Document all existing product specifications currently in use</li> <li>➤ Document all requirements for room and amenity representation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Formalize Quality Management System in hospitality with the engagement of standards authority</li> <li>➤ Training in the development and implementation of a QMS</li> </ul>

## Priority Intervention

**Bel Rea Guest House needs to consolidate its current business operations before it can successfully launch its expansion phase. This implies that the company should:**

**1. Boost sales and increase market penetration:**

- Improve sales and marketing efforts to increase revenues
- Consider injecting funds into the business to support operations
- Increase market penetration by better segmentation and targeting of the market.
- Develop an appropriate offering price tailored to meet needs of each targeted segment. This pricing structure should correspond to costing and market segment to achieve optimal profits
- The company should have a sales management plan, with sales targets.

**2. Improve on financial management:**

- Proper cost structure for each segment to secure adequate margins
- Track costs for room unit type and offered amenities, with assistance from the outsourced serving accountant; who could also set up costing structure
- Establish an inventory control system in order to control costs



## Centre for the Development of Enterprise

