

#### Centre for the Development of Enterprise





16th May 2014, Gaborone, Botswana





- Background
- Diagnosis process
- Preliminary results
- Recommendations

Consultant Team Mr. Harry E. Johnson Mr. Norman Moleele



- Company's background review
- Interview with the management and staff to understand the different elements of the company – 14<sup>th</sup> May 2014
- Co-construction (management validation of preliminary findings) 16<sup>th</sup> April 2014
- Preliminary Report 20<sup>th</sup> May 2014
- Final reporting –22nd May 2014



## Background



• Kgatleng Tourist Lodge T/A Rasesa Lodge is a 100% citizen owned company involved in providing accommodation and conference facilities and catering. It was established in 2000 with the intention for catering for tourists passing through to Kasane, Maun, etc. for holiday. It started with 3 rooms but now has 12. The restaurant was destroyed by fire in 2012; it has to date not been rebuilt due to insufficient funds.

• The company currently operates from its own 1.8ha premises Plot 60, Matsieng Area, Rasesa Village in the Kgatleng District. It has acquired additional property adjacent to the existing one for expansion .

• The manager has a vision to eventually expand the business to 60 rooms.

• The company's main clients are Government and Parastatals. The private sector contributes the least to its clientele.

• The company initially obtained a grant from Financial Assistance Policy (FAP) and later loans from CEDA, Bank ABC and Barclays bank.

• Since its inception in 2000 to date, it has failed to obtain any grading.

• The business currently comprises of a total of 13 employees, including the M.D. Approximately 10 staff have been made dismissed due to business downturn.

• Financial statements for 2012/2013 financial year were not available. The gross revenue for 2011/2012 financial year was P2 978 768 and 200/2011 financial year was P1,851,908.

• Some of the challenges faced in the past are water shortage, power cuts, lack of qualified personnel, and cash flow and low market penetration.







# Preliminary Findings



### **Preliminary Findings**



Subareas Needing Improvement	(refer to co-construction report)
<ul> <li>Strategic Management</li> <li>Mission and Vision</li> <li>Strategic Objectives</li> </ul>	<ul><li>Production and Operations</li><li>Inventory handling</li><li>Planning</li></ul>
<ul><li>Human Resources</li><li>Staff performance</li><li>Personnel benefits and incentives</li></ul>	<ul><li>Finance</li><li>Financial Administration</li><li>Cost Analysis</li></ul>
<ul> <li>Marketing and Sales</li> <li>Segmentation, Target Market, and Positioning</li> <li>Price</li> <li>Sales management</li> <li>Communication</li> </ul>	<ul> <li>Quality Management</li> <li>Procedures</li> <li>Quality Control</li> </ul> Information Management <ul> <li>Information</li> </ul>











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### The Company's Strengths and Subareas for Intervention



	Strengths	Subareas for Intervention
1.	Management is passionate about the business	1. Strategic management-Strategic Objective
2.	The Company M.D. is fully knowledgeable about the history of the company	2. Marketing and sales-Target Market and Positioning
3.	The Company has strategic relationship with development institution to support the company(e.g. WIBA, LEA)	3. Marketing and sales-Communication
4	The company owns the property where it operates.	4. Finance – Cost Analysis
		5. Human resources- Personal benefits and incentives
•		6. Quality Management-Procedures
		7. Information Management-information



## **Best Practices**



### **Strategic Management – Strategic Objectives**

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

- Have clarity regarding future goals and consistency between the company's action, structure and proposed strategic objectives
- Set and formalize objectives for the different subareas of the company
- Develop and prioritize functions and activities
- Better planning (short and long term) and allocation of resources
- Track operational performance
- Improve decision making across the company .

## The Strategic Process of Value Creation





Why we exist
What is important to us
Where we want to be
How we plan to arrive there
What we owe to achieve our goals
What I must do



### **Best Practices -Cont'd**



### 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:

- Effectively focus on profitable customers and products 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
- Improve market penetration and increase revenue



### **Best Practices -Cont'd**



### **Marketing and Sales – Communications**

Having a formal communication plan in place will assist

- Having a clear policy for product promotion, with defined clients, motives, message rationale, duration, and evaluation of results.
- Having a communications plan, that clearly indicates what to communicate, how to communicate, who communicates, and when to communicate.
- Determining the effectiveness of its promotional activities
- Coherence between the different promotional elements and it is related to the sales rationale and what they wish to communicate.
- Having a appropriate communications budget for materials and other promotional elements .
- Enhance product positioning and customer loyalty

Ultimately results in increase market penetration & revenue

# Best practices- Cont'd

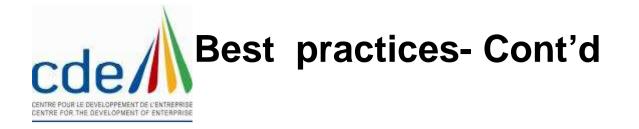


### **Finance - Cost Analysis**

Accurate costing analyses:

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- Ensures positive cash flows and non tying up of capital on products that are not profitable.
- Makes available a historical cost data that allows the company to forecast and identify important and relevant costs.
- Enables the company to have a cost control that permits cost/benefit analysis and the programming of cost reduction activities.
- Encourages good procurement methods
- Enables the company to appropriately price its products to secure the profit margin taking into account break even points.
- Assist in monitoring finance costs and returns and allows maximization of returns from available resources.



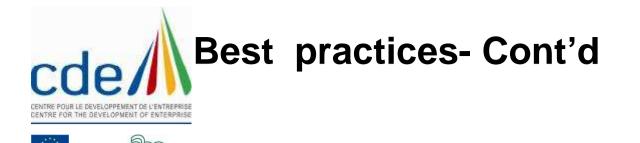


### Human Resources – Personal Benefits and Incentives

Having a documented personnel performance evaluation systems in place will ensure that.

- There is an incentive and penalty system known and agreed to by all the employees
- There are formal mechanisms for motivating personnel and ways to measure them.
- There are personnel performance evaluation systems known by all employees and evaluation schedules are in place and known by employees.
- There are criteria and a structured system for the calculation of compensation
- The awarding of benefits and the relationship between position, performance and compensation are clearly defined.

Ultimately, contribute to enhance productivity.





### **Quality Management – Procedures**

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

- Systematic checks are maintained
- A clearly defined procedure for handling complaints
- Less rejection of products
- Consistency in products quality
- Improved customer loyalty
- More sales

# Best practices- Cont'd

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### **Information Management - Information**

A proper information management system will help the company to:

- Have a clear definition of the requirements and an identification of the relevant information sources.
- Have a formal and regular processing of information that is documented in periodic reports according to company needs.
- Have information reports which are used for decision making at the different levels of the company.
- Improve communication internally and externally and become market intelligent
- Capture and monitor key performance indicators





### **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.

The Company's financial year is from 1<sup>st</sup> November to 31<sup>st</sup> October of the following year.

# cde Best practices- Cont'd



ASSETS	2012-2013	2011-2012	2010-2011	Variation (%)
Cash and cash equivalents	Sheet 20'	1 <b>-</b> 2012 0	51 449	-100%
Accounts receivable (debtors)		20 147	55 239	-63%
other current assets		37 876	0	100%
TOTAL CURRENT ASSETS	0	58 023	106 688	-46%
Physical fixed assets		2 221 340	2 189 026	1%
TOTAL FIXED ASSETS	0	2 221 340	2 189 026	1%
TOTAL ASSETS	0	2 279 363	2 295 714	1%
LIABILITIES	2012-2013	2011-2012	2010-2011	Variation (%)
Account pay able		15 000	11 032	36%
current liability liabilities(overdraft)		69 656	46 492	50%
Tax liabilities		41 849	41 849	0%
other current liabilities		47 735	0	100%
TOTAL CURRENT LIABILITIES	0	174 240	99 373	75%
Long term debt .		1 554 486	1 888 966	-18%
TOTAL LONG TERM LIABILITIES	0	1 554 486	1 888 966	-18%
TOTAL PAYABLE LIABILITIES	0	1 728 726	1 988 339	-13%
Paid in Capital		100	100	0%
Reserves (Retained Earnings, other reserves)		550 537	307 275	79%
EQUITY	0	550 637	307 375	79%
TOTAL LIABILITIES	0	2 279 363	2 295 714	-1%

# Best practices- Cont'd



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### Kgatleng Tourist Lodge (Pty)Ltd T/A Rasesa Lodge Profit & Loss Statement 2011-2012

				0%
PROFIT/LOSS STATEMENT	2013-2014	2011-2012	2010-2011	Variation (%)
Sales revenues		2 978 768	1 851 908	61%
Cost of goods sold		2		
Materials		930 759	584 598	59%
GROSS PROFIT	0	2 048 009	1 267 310	62%
Wages & salaries		759 172	441 663	72%
Other costs				0%
NET VALUE ADDED	0	1 288 837	825 647	56%
	#DIV/0!	0,43	0,45	
Depreciation		157 608	129 733	21%
Operating Expenses (G&A, selling, R&D)		707 316	487 738	45%
OPERATING INCOME	0	423 913	208 176	57%
other non operating income		457		100%
Financial expenses		181 108	53 642	237%
INCOME BEFORE INCOME TAX	0	243 262	154 534	57%
Income Tax Provision		0	0	0%
NET INCOME	0	243 262	154 534	57%
				0%

# Strategic & Financial Indicators



Strategic Indicators	2011-2012	2010-2011	
Local sales per employee (Pula)	229 136	142 454	
Exports as a percent of total sales	N/A	N/A	
Variation of local sales (%)	61%		
Net value added, NVA	1 288 837	825 647	
Productivity (Pula)	99141	63 511	
Net profit margin(%)	8%	8%	
Net worth (Pula)	550 637	307 375	
Number of managers to employees	0.08	0.08	





Financial Indicators	2011-2012	2010-2011	
Current Ratio	0.33	1.07	
Acid test (Quick ratio)	0.33	1.07	
Average collection period (days)	2	11	
Average payment period (days)	3	4	
Debt to equity ratio	3.14	6.49	
Times interest earned	2.43	3.88	
% Over (Under) Break-even point	49%	37%	

# Best practices- Cont'd

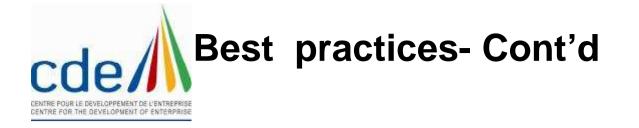


### **Financial Analysis**

#### Sales and profitability

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- Sales increased by 61% between 2013 and 2014 from P1 851 908 to P2 978 768 .
- Gross profit margin percentage remained constant throughout the period at 68%
- Net operating income increased by 57% during the period.
- Actual operating expenses have increased over the period from P487 738 to P707 316.Percentage operating expenses to sales revenue had remained almost constant over the period from 26% to 24% due to the fact that the Company has maintained cost under control.
- Likewise the net profit margin remained constant at 8% as company is operating above break-even point (49% in 2011/2012 from 37% in 2010/2011).





### **Financial Analysis**

#### Working capital

- Average debt collection period was reduced from 11 to 2 days, implying improvement in debt collection.
- The average supplier payment period had improved from 4 days to 3 days. This had a positive effect on the credit worthiness and goodwill of the company.
- The working capital became negative (-P116 217) in 2011/2012 financial year from P7 315 in 2010/2011 financial year, indicating that the firm did not have sufficient funds to satisfy both maturing short term debt and upcoming operational expenses.
- There was no inventory recorded at the close of both financial years.

# Best practices- Cont'd



### **Financial Analysis**

#### Solvency

• The current ratio dropped from 1.07 in 2010/2011 to 0.33 in 2011/2012. The desired figure is 2, indicating that the company could not easily meet its current obligations.

• The acid test ratio had worsened from 1.07 in 2010/2011 to 0.33 in 2011/2012. This indicates that the company's state of solvency was worsening. 1 is a healthy level. The company liquidity was worsening.

• Company's debt/equity ratio declined from 6.49 to 3.14 during the period. This decline points negatively to the reduction in the company's ability to source external finance; bank loans etc

• The Net profit margin remained constant at 8% this is low and indicates a low margin of safety. A decline in sales will erase profit and result in a net loss.

• Time Interest Earned ratios declined from 3.88 to 2,43. The decline indicates a reduction in the company's ability to meet its interest obligations.





### **Financial Analysis**

**Conclusion**:

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

- The company during the period was declining in its financial stability as can be seen from the decline in the acid tests and current ratios as well as the break-even point from 49% to 37%.
- The company was not able to easily meet its current obligations. It had a weak short term financial strength
- The is need to improve management of working capital which involves managing inventories, accounts receivable and payable, and cash.
- The low net profit margin of 8% is an indication of the company's pricing strategies and inability to control costs.
- The equity had improved over the period







## Conclusions of the Diagnosis







### Conclusion

- Kgatleng Tourist Lodge(Pty) Ltd. T/A Rasesa Lodge is a 100% citizen owned company involved in providing accommodation and conference facilities and catering facilities. It was established in 2000 with the intention for catering for tourists. It started with 3 rooms but now has 12.
- The manager wishes to eventually expand the business to 60 rooms
- The company's main clients are Government and Parastatals. The private sector contributes the least to its clientele
- After some years of growth the company is experiencing a sharp decline in business. At the time of our visit, only one of the twelve rooms were occupied.
- Low market penetration has resulted in low occupancy and limited demand for catering services .
- Between 2012 an 2014 there has been a decline in financial stability and liquidity of the company
- The manager is currently seeking additional financing to enable her to construct another 3 rooms. However no financial analysis was done to support such investment.



## Conclusion



### **Conclusion Cont'd**

- Although the staff may have experience, they have inadequate academic qualifications and are not accredited by any institution such as Botswana Qualification Authority(BQF)
- Rasesa Lodge may need to consolidate its operations and systems before engaging any expansion which could adversely affect the business
- The diagnostic exercise revealed 6 broad areas that require interventions. These are Strategic Management; Marketing & Sales; Finance and Quality Management, Information Management, Human Resources.
- Specific areas that need improvement are: mission and vision, segmentation, target market and positioning, cost analysis, quality management, personal benefits and incentives, and information management.
- Rasesa Lodge needs to close the gaps in above indicated subareas to unleash performance and gain competitive advantages on target markets.







# Recommendations For Improvement

	RECOMMENDATIONS		
SUB-AREAS	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES	
STRATEGIC MANAGEMENT- OBJECTIVES	Define strategic objectives & set key indicators and targets for the short, medium, and long term	<ul> <li>Assistance with developing strategic objectives</li> <li>Evaluate strategic options</li> <li>Establish stabilization &amp; transition measures</li> <li>Facilitate business and investment plan to help in mobilizing needed resources</li> </ul>	
MARKETING AND SALES- SEGMENTATION, TARGET MARKET & POSITIONING	<ul> <li>Identify basis for segmentation</li> <li>Establish essential characteristics of each market segment</li> <li>Establish the potential and feasibility of each segment</li> <li>Select target segment/s to focus on</li> <li>Develop detailed product positioning for the selected segments</li> </ul>	<ul> <li>Assistance with carrying out a market survey/research</li> <li>Assistance with developing a marketing model</li> <li>Develop a marketing strategy per segment (Clients, price, communication, promotion and package</li> </ul>	

	RECOMMENDATIONS		
SUB-AREAS	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES	
MARKETING AND SALES- COMMUNICATION	<ul> <li>Determine the product promotion policy, which client profile is the promotion directed, what kind of distributors is the promotion geared and what is the main rationale behind sales?</li> <li>Determine how the company communications its work plan and what is the reasoning behind sales.</li> <li>Determine a budget for promotional elements.</li> </ul>	Assistance with developing a communications plan	
FINANCE-COST ANALYSIS	<ul> <li>Clearly identify all fixed and variable costs</li> <li>Update the existing pricing to ensure all costs are captured</li> <li>Establish job-cards to capture effective variable costs</li> <li>Constantly reconcile the costing with</li> </ul>	Enlist the help of a cost accountant to implement a costing system and train staff on using it	

	RECOMMENDATIONS		
SUB-AREAS	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES	
HUMAN RESOURCES- PERSONAL BENEFITS AND INCENTIVES	<ul> <li>Identify systems of incentives.</li> <li>Identify work to be rewarded</li> <li>Document with employees awareness penalties to be applied</li> <li>Document and implement a system which can measure the motivation level of personnel.</li> <li>Determine levels to evaluate employee performance .</li> <li>Determine relationship between position, performance and compensation ensure that the compensation and incentive system is known to all employees. Determine benefits for personnel .</li> </ul>	Assistance from a Human Resources expert to develop a Personal benefit and incentive plan	

	RECOMMENDATIONS		
SUB-AREAS	INTERNALLY	WITH SUPPORT OF EXTERNAL RESOURCES	
QUALITY MANAGEMENT- PROCEDURES	<ul> <li>Establish clientele preference</li> <li>Implement and document recognized standards such as BTO and BOBS.</li> <li>Establish documented measurement criteria's</li> <li>Identify and document critical control points which should be adhered to</li> <li>Implement quality checks procedures</li> </ul>	Enlist the assistance of experts in this field of business	
INFORMATION MANAGEMENT- INFORMATION	<ul> <li>Identify important information needs at all levels and that of partners</li> <li>Systematically collect data including market and report in a timely manner on key indicators for staff to make informed decisions</li> <li>Share management and operational information with staff on a regular basis</li> </ul>	Develop an appropriate management information system (i.e. a system with an inventory control / costing module).	





### **Priority Interventions**

In order to enhance its performance and attract financials, the company should develop and implement a turnaround plan aimed at recovering from the 2013 downturn, improving its sales revenues and profitability. This implies:

- 1. Develop market segmentation and targeting. Further detailed survey of the market to determine where the company has competitive advantage. Implement appropriate marketing and sales plan for each target.
- 2. For each segment, develop competitive and profitable product pricing and appropriate communication strategy.
- 3. Set up a proper working capital management system e.g. weekly forecast .The Managing Director may be required to inject additional money into the business.
- 4. Upgrade the accounting system incorporating costs accounting and monthly management reporting to monitor expenditures and income..
- 5. Developing a business plan together with an investment plan for the company to mobilize adequate resources to stabilize current operations and to fund future growth.





#### **Centre for the Development of Enterprise**



