

# Day 1 Solutions

CIMA MAY 2020 – MANAGEMENT CASE STUDY

## ANSWERS TO EXERCISES

### 1. QUIZ

Question	Response
What does Alpaca do?	<i>“Alpaca Hotel Group (“Alpaca”) is a quoted company that owns and operates 50 luxury hotels” – (page 2)</i>
Where is Alpaca based?	<i>“...in the country of Maylandia. Maylandia is a developed country that has a high standard of living” – (page 2)</i>
What are the ranges and standards of hotels?	<i>“Basic hotels offer simple accommodation in small bedrooms, usually with ensuite bath or shower rooms;” mid-range hotels generally offer larger rooms that are furnished to a higher standard than those offered by more basic hotels; “luxury hotels offer still larger and better-furnished rooms, or possibly suites of rooms that enable a guest’s family or business associates to stay in a shared space” – (page 3)</i>
On what basis do hotels vary their prices?	<i>“Hotels vary their rates to take account of seasonal factors and local demand.” – (page 4)</i>
What are the roles in hotels that require skilled staff?	<i>“Reception, concierge, management and chefs” - (page 5/6)</i>
What are the categories that review sites use to provide a rating of hotels?	<ul style="list-style-type: none"> <li>• <i>cleanliness ♦♦♦♦♦</i></li> <li>• <i>quality of service ♦♦♦♦♦</i></li> <li>• <i>location ♦♦♦♦♦</i></li> <li>• <i>quality of facilities ♦♦♦♦♦</i></li> <li>• <i>value for money ♦♦♦♦♦ – (page 7)</i></li> </ul>
What is the MTB? What does it do?	<i>“Maylandian Tourist Board (MTB) - responsible for marketing Maylandia as a tourist destination. MTB runs advertising campaigns and advises the Maylandian Government on policies which impact the tourism industry. MTB awards ratings for hotels on a star system”. – (page 8)</i>
What do the Maylandian Health and Safety Administration have to check on their visits?	<i>“...Heating and ventilation systems; portable electrical equipment must be checked to ensure that it is correctly wired; fire safety equipment” – (page 8)</i>
How has the Alpaca Group grown?	<i>“...the company has grown steadily through the acquisition of hotels as going concerns and also through the construction of hotels” - (page 10)</i>
When was Alpaca listed on the Maylandian Stock Exchange?	<i>“...quoted on the Maylandia Stock Exchange in 2000” – (page 10)</i>

How is the Alpaca Group structured?	<i>"Alpaca has 50 hotels, which are organised into three divisions" – Central; South and North" – (page 10/11)</i>
What is the Alpaca Group mission statement?	<i>"At Alpaca, our mission is to provide authentic hospitality by making a difference to our guests and the environment in which we live" – (page 13)</i>
What are the values of the Alpaca Group?	<i>"<b>Integrity</b> – we promote honesty and respect towards our colleagues, guests, owners and the wider environment. <b>Attention to detail</b> – we believe that a hotel is only as good as the service it provides. <b>Excellence</b> – we train our employees to the highest standard in the hospitality trade. <b>Enthusiasm</b> – we serve our guests with a unique creativity. <b>Teamwork</b> – we work together to exceed expectations." – (page 13)</i>
What are the divisional directors responsible for?	<i>Operations; Finance and HR" – (page 14)</i>
What booking options are available to potential guests?	<i>"Website, Travel Agents; On-line comparison sites" – (page 15/16)</i>
What is APAS?	<i>"The IT system includes a software package called APAS, which uses an algorithm to set rates for each hotel in real time" – (page 16)</i>
How does the Alpaca Group define value?	<i>"Alpaca aims to meet the developing needs of guests for hospitality services associated with leisure and business travel"– (page 17)</i>
How does the Alpaca Group deliver value?	<i>"Alpaca delivers value by creating an identity that is familiar to guests, even if they are staying at particular hotel for the first time"– (page 17)</i>
What are management recharges?	<i>"Costs incurred by the holding company for support services are recharged to the subsidiaries on a monthly basis and described as 'management recharges' for reporting purpose" – (page 17)</i>

## 2. FINANCIAL ANALYSIS

### Alpaca Hotel Group

<i>Ratio</i>	<i>2019</i>	<i>2018</i>
Growth in revenue	-1.0%	
Growth in gross profit	-2.5%	
Growth in operating profit	-28.2%	
Operating profit margin	11.2%	15.5%
Current ratio	1.08:1	0.65:1
Quick ratio	1.06:1	0.64:1
Inventory days	3.62 days	2.42 days
Receivables days	34.37 days	28.24 days
Payables days	133.00 days	125.70 days
Length of operating cycle	-95 days	-96 days
Financial gearing using book values of D/(D+E)	20.55%	20.90%

<i>Question</i>	<i>Response</i>
Did Alpaca perform well in 2019?	All of Alpaca's profitability measures deteriorated from 2018 to 2019. There was a 1% fall in revenue, with a significant decline in operating profit, which was down by over 28% from 2018.
What has been the effect on Alpaca's profits?	The gross profit margin fell from 40.1% in 2018 to 39.5% in the following year, with operating profit margin down to 11.2% from 15.5% over the same time period.
Why did revenue decrease in 2019?	There is no specific information within the pre-seen case of any significant changes made by Alpaca during the year, or that specific significant factors external to the company had an effect upon its financial performance and position.
Comment on the increase in costs between 2018 and 2019	It would appear that, despite the drop in revenue, Alpaca found it difficult to reduce costs to any significant extent to maintain the same level of profit ability.
Had the working capital position worsened or improved? Explain.	Both the current and acid test ratio improved from 2018 to 2019. In the case of the current ratio, the movement was from 0.65: 1 to 1.08: 1 and for the acid test ratio, it improved from 0.64: 1 to 1.06: 1. However, the improvement in both ratios must be treated with caution as, for both years, there was a bank overdraft which considerably reduced the net cash and equivalent balances available to Alpaca.
Comment on Alpaca's financial gearing.	The gearing ratio fell slightly to 20.6% in 2019 from 20.9% in the previous year. The level of long-term loans was virtually constant throughout 2018 and 2019, meaning that the fall in the gearing ratio was due to a small increase in equity, specifically retained earnings and revaluation surplus.
Comment on Alpaca's cash flows from financing activities.	A very small loan repayment of \$M3m was made during the year. Alpaca will need to consider how it may best repay its overdraft and also repay its loan liabilities. Alpaca may need to consider renegotiating its loan facility as redemption date approaches, or find alternative finance, such as an issue of equity shares.

### 3. SWOT ANALYSIS

#### SUGGESTED DETAILED SWOT ALPACA HOTEL GROUP

##### STRENGTHS

- Established business – 90 years
- Listed company – ability to raise finance
- Good customer base in home country
- Well-developed economy in home country
- Luxury service provision
- Stated mission and objectives
- Divisional structure – local knowledge
- Clear business model
- Reputation for quality
- Strong brand and reputation
- Strong marketing capability
- Profitable business
- Positive cash position

##### WEAKNESSES

- Reliance on external suppliers
- No clear environmental policy
- No clear policy on how to achieve objectives – e.g. largest luxury hotel operator
- No clear ethics policy
- No clear pricing strategy
- No obvious non-financial performance indicators
- Reliance on technology – e.g. booking system
- No obvious governance structure
- No obvious change management function
- No obvious risk management function
- Potential communication/distribution issues with divisions
- Potential communication issue with suppliers
- Cost control system – e.g. accuracy of budgets
- Falling revenues
- Falling profitability
- Potential working capital management issues

**OPPORTUNITIES**

- New service development – e.g. branded leisure facilities
- Increasing levels of disposable income – e.g. current economic stability
- Year of culture - 2021
- Expansion of luxury market share
- Expansion of existing services – e.g. wedding/conferences
- New customer segments – e.g. hotel acquisition
- Developments in new hotel/hospitality technology
- Expansion options – geographic expansion/acquisition
- Improvements in performance measurement
- Improvements in risk management
- Improvements in governance
- Improvements in change management
- Improvements in decision making techniques
- Improvements in cost control

**THREATS**

- Reliance on economic stability for revenue
- Seasonal fluctuations in demand
- Rapid technological change in industry
- Changes in customer preferences – e.g. Visitadvisor review site feedback
- Failure of quality processes – e.g. reputational threat
- Loss of key staff to competitors
- Economic risk – e.g. foreign exchange
- Legal risk - legal claims; service failure; contractual breaches; health and safety
- Investment required for expansion – access to external funding
- Cultural threat associated with expansion plans for destinations
- Slow recovery of world economy
- Environmental objections to hotel/service design

**Notes:**