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leisure gardens: Expanding a tourism business in ghanA

Jenny Min, Gena Zheng, and Christine Ward wrote this case under the supervision of Professor Nicole Haggerty solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was May 2017, and Mac Anthony Ahiamadia, the owner of Leisure Gardens, had just finished his hike up Mount Afadjato in Ghana. As Ahiamadia took in the beautiful view from the top of the mountain, his mind turned to his restaurant and accommodation business, and he began to contemplate his strategy for Leisure Gardens. He wanted to expand his business and increase profitability but faced many issues that hindered his success. Of his customer base, 40 per cent paid on credit, and a majority of them did not pay on time. How could Ahiamadia overcome unstable cash flows to sustain his operations? He would need to act quickly to receive the appropriate financing if he wanted to expand Leisure Gardens.

**GHANA**

Ghana had a population of 27.6 million and a gross domestic product (GDP) of US$37.5 billion. The country’s GDP growth rate was 3.9 per cent and the inflation rate was 17.5 per cent, as of 2016.[[1]](#footnote-1) The Ghanaian economy was based on commodities such as coal and cocoa, and had a growing tourism industry. Although English was the official language of Ghana, the literacy rate was only 58 per cent because of the limited access to schools, teachers, and resources in rural communities.[[2]](#footnote-2)

Although Ghana was ranked 70th out of 175 countries on the 2016 corruption perception index, the country was considered stable when compared with the rest of West Africa.[[3]](#footnote-3) The business culture in Ghana was characterized by a more relaxed and flexible approach to time, and managers often prioritized relationship building over transactional interactions.[[4]](#footnote-4) Another major characteristic of business in the country was the great number of transactions that were paid on credit, which was essential in the business environment because many workers were paid in small amounts daily or in a lump sum at the end of the month.

**VOLTA REGION**

The earliest colonizers of Eastern Ghana were from Germany. The Germans claimed Togoland, the land area of the Volta Region and Togo, and declared it a protectorate. After World War I, the French and British Empires divided the land, resulting in feelings of animosity and an unsuccessful majority vote for the separation of the Volta Region from Ghana, with 42 per cent of the population voting to become independent.[[5]](#footnote-5) The Germans had brought the cultivation of cocoa, coffee, and cotton to the region, which set the foundation for Ghana’s agricultural industry. These resources made up the largest sector of the economy in mid-2017, with 80 per cent of the working population being self-employed. Moreover, Ghana hosted the largest concentration of community-based ecotourism sites, which positioned the Volta Region as a major tourist destination.[[6]](#footnote-6)

**WLI AGORVIEFE**

The town of Wli Agorviefe sat just west of the Togo border, east of Lake Volta, and north of the region’s capital, Ho. The small town was home to some of the most magnificent and highly visited waterfalls, Wli Falls. Within a few hours’ drive from Wli Agorviefe, one could find tourist attractions such as Ghana’s highest mountain peak, Afadjato; the kente-weaving village of Tafi Abuife; and the monkey sanctuary in Tafi Atome. As tourism grew throughout the Volta Region, Wli Agorviefe experienced a spike in tourist visits as a result of the many surrounding attractions.

Despite the increased tourism in the area, Wli Agorviefe still faced many small-town challenges such as lack of infrastructure and development. The town was about a 45-minute drive from the main city of Hohoe, yet Wli Agorviefe was still largely underdeveloped, with only dirt roads and one-storey buildings. Due to its lack of infrastructure, the town did not have access to reliable Wi-Fi or comparable Internet services.

**COMPETITORS**

Within the small town of Wli Agorviefe existed five official resorts, in addition to Leisure Gardens, which attracted either the “stay at your own risk” traveller or the luxury traveller. Leisure Gardens competed between these price levels, offering moderately priced meals and accommodations of excellent quality.

**Big Foot Safari Lodge**

The semi-detached cottages at this luxury resort were equipped with local decorations, large beds, air conditioning, satellite television, and hot showers. One of these indulgent cottages for two cost GH¢220[[7]](#footnote-7) per night. The lodge was equipped with a restaurant where meals could be purchased for approximately GH¢32 a plate. Catering to the upper-class traveller, this resort tended to see its guests remain on site for the duration of their visit, except when they went on excursions. The resort was prohibitive for community members because of the high cost of its services.

**Wli Water Heights Hotel and Waterfall Lodge**

These two separate resorts catered to a similar target market and offered almost identical pricing for their guests. Both were located in the town, within a 10-minute walk of one another, and offered restaurant services as well as accommodation. Double rooms at these establishments cost GH¢100 a night, and meals on their menus averaged GH¢30. These two resorts were very popular, usually filling up during the high season. Guests at these resorts ate most of their meals at the resorts and took advantage of the entertainment available, such as drumming, and the volleyball nets on site. Local community members did not frequent these resorts due to the expensive and exclusive nature of the facilities.

**Victory Guest House and Modostko Paradise**

Victory Guest House fell between Modostko Paradise and the lodges stated above in terms of services and price level. Victory Guesthouse was, however, very quaint, with little infrastructure and only four guest rooms. Victory Guest House had no restaurant and offered few services as a result of the limited on-site staff. Modostko Paradise was made up of a few huts that lacked full protection from bugs and failed to meet the cleanliness standards of the other lodges in the area. These two resorts, due to their lack of available meal options, were not visited by locals from the community.

These five competitors constituted the entire market of resorts and guest houses in the town of Wli Agorviefe; they also made up the majority of the restaurant market in the area.

**LEISURE GARDENS**

**Background**

Prior to entering the restaurant and accommodation industry, Ahiamadia had worked as an English and language teacher at a local public school. His wife, Joyce, was a cook at the neighbouring Waterfall Lodge. After working at Waterfall Lodge for several years, Joyce felt she was not paid enough to support her family. Therefore, on April 19, 2014, the duo decided to open their own restaurant and accommodation called Leisure Gardens.

**Internal Capabilities**

To finance the opening of their restaurant, Ahiamadia and Joyce used personal savings of GH¢600 and a bank loan of GH¢1,200. They used this money to invest in the renovation of a building and as working capital to start their operations.

From operations between December 2016 until May 2017, Leisure Gardens had made a profit of GH¢600, contributing to retained earnings of GH¢900 cash on hand. The restaurant’s accounts receivables were currently sitting at GH¢800, representing money that was owed by borrowers who had eaten at the restaurant within the past six months.

In addition to Joyce working full-time and Ahiamadia working part-time at the restaurant to balance his teaching obligation, the couple also hired a young mother to help with meal preparation, serving, and cleaning. This employee was compensated with food for her family as well as a payment of GH¢5 for every day of work. On average, she and her two children ate three meals each day, leading to additional food costs and utility fees for the restaurant. As the business grew, Ahiamadia found that this employee’s reliability decreased. On busy days, she would be absent from work without informing Ahiamadia or Joyce in advance, leaving the couple in the difficult position of serving all of their customers alone.

Outside of the community, Leisure Gardens had limited brand exposure. Despite the increase in the use of cellphones and Internet services, Leisure Gardens did not have a website or a Facebook page. Instead, tourists were often exposed to the restaurant through a mention in a Ghana travel guide that shared its location, phone number, and a review as one of the more “reliable restaurants in town.” Ahiamadia and Joyce were interested in exploring the addition of a website and social media presence, which would allow customers to see the menu, and order and pay for food in advance. This option was especially important in the community’s restaurant industry because of the perishable nature of food and the long journey to the nearest main town, Hohoe, to buy ingredients from the market.

**Consumers**

Given the limited options available to budget tourists for dining in the community, Ahiamadia realized there was a market opportunity for Leisure Gardens to seize. With Joyce’s previous catering experience at Waterfall Lodge, the duo was able to offer a menu (see Exhibit 1) that was similar to that at Waterfall Lodge, but at prices that were 30–40 per cent lower. These prices allowed Leisure Gardens to appeal to a greater range of tourists, who often used travel guides and social media sites such as Facebook to find restaurants. Without exposure in channels such as these, awareness of the restaurants was limited—often gained solely through word of mouth—and the restaurants could service only their immediate community. In addition to attracting budget tourists, Leisure Gardens’ diverse menu also appealed to local community members. As Ahiamadia explained, “If you only rely on tourists, there will be no reliable flow of cash since they come and go depending on seasonality. That is why we also prepare local dishes such as fufu and banku to sell to the community who will always be here.”

**Credit Problem**

Leisure Gardens had continually experienced a problem with creditors since it opened. On average, 40 per cent of customers who ordered a meal would informally ask to pay on credit, with no specified terms or collateral. Of this group, only 10 per cent would actually pay their debt by the end of the month. Any creditors who exceeded the one-month timeline rarely paid and thus were considered as bad debt expenses. These customers’ debts continued to accumulate, and Leisure Gardens did not charge interest; therefore, losses were incurred due to the time value of money. Other times, customers would simply not pay for their meal and never returned to the restaurant.

This problem was intensified as the number of creditors increased and the creditors ordered in groups. Ahiamadia recalled, “One time there were 10 girls and eight boys who came to drink and listen to music. At the end of the night, they ordered over GH¢100 worth of drinks. They didn’t have money and wanted to pay with mobile money, however that is not a payment option we provide.”

Creditors put a significant financial strain on the business, making it difficult for Ahiamadia and Joyce to predict revenues and obtain a steady stream of cash. As a result, growth was limited and the couple relied on loans and personal savings to cover shortages in their working capital.

In an effort to diversify their revenues to mitigate this problem, Ahiamadia and Joyce partnered with non-governmental organizations (NGOs) to house volunteers from abroad to help run the business. Recently, Leisure Gardens had hosted a volunteer from the Netherlands for two months, providing her with accommodation, utility services, and two meals a day. In return, they received GH¢400 each month from the NGO, which had been one of the company’s only reliable sources of cash. However, as the cost of living increased over time, the costs of maintaining both this service and the partnership with the NGOs also increased. Housing the volunteer had also led to unforeseen situations that pulled the couple’s focus away from the restaurant. For example, as Ahiamadia explained, “The current volunteer is sensitive to a lot of food. She was allergic to a lot of things and once had to be taken to the hospital in Hohoe, taking up time and money.” Ahiamadia estimated that it now cost GH¢1,000 to house the volunteer each month. Although this partnership was resulting in the loss of company money, Ahiamadia and Joyce continued to participate in the program as it provided a consistent cash flow and liquidity to help meet their financial obligations.

**EMPLOYEE CONTRACT**

One solution Ahiamadia considered for solving the issues with the employee was implementing policies to lower costs. His employee caused more harm than good, as the cost of her meals and her absenteeism were negatively affecting Leisure Gardens. Ahiamadia believed it would be effective to create an employee contract outlining expectations about absenteeism, the payment structure, and any deductions from a worker’s wage to account for meals. For example, he thought it would be reasonable for employees to abide by three days of excused absences a month; otherwise, they would be fired, as the role could easily be filled. He also considered performing a background check on employees to ensure they would be committed to the job. Ahiamadia considered what other terms could be added to a comprehensive employee contract and how it could be effectively enforced.

**CHANGING PAYMENT OPTIONS**

Ahiamadia also considered changing the way his customers paid him in order to decrease the number of bad creditors. He considered the possibility of limiting the percentage of the bill that customers were allowed to pay on credit. If effective, this approach would reduce the risk of credit building up. Ahiamadia recalled that many of the customers who had asked to pay on credit had had no money at all with them and therefore could not pay any portion of the bill with cash, a potential hurdle for this solution.

Ahiamadia wanted to develop a way to not only solve the future credit problem but also decrease the current amount in outstanding accounts. One solution was to offer customers with a large outstanding balance an instalment program for paying Leisure Gardens what they owed. This program could be different for each customer, catering to the needs of the individual account.

Another option Ahiamadia considered for decreasing the current outstanding accounts and reducing the risk of building up future bad credit accounts was a trade for services. Considering the current socio-economic conditions of Wli Agorviefe, Ahiamadia believed this approach could provide creditors with a way of paying off their accounts without using their limited cash funds. Ahiamadia had tried this in the past when his children, Christopher and Emanuella, had needed haircuts. The local hairdresser came to Ahiamadia’s home to perform the service, and in return Ahiamadia gave the hairdresser a meal for each haircut. One limitation of this option was that the borrower needed to have a skill set that would be needed regularly by Ahiamadia and his family.

**HOSTEL EXPANSION**

The third option Ahiamadia considered for solving his cash flow problems was generating more revenue through renovations and the addition of a hostel. Given the level of tourism in the area, Ahiamadia had an opportunity to improve the restaurant and add an extension. If he were to pursue this alternative, Ahiamadia wondered how he could take advantage of the increased use of the Internet to market and create exposure for this new hostel service.

To complete the expansion, Ahiamadia estimated he would need a total of 15 plastic chairs, six plastic tables, two canopies for the rooms, and one fridge (see Exhibit 2).

The construction for the expansion would take one year to complete. With two additional rooms and better amenities in the restaurant area, Ahiamadia hoped to charge GH¢60 a night for each room. He estimated that his profit margin for the hostel would range between 50 and 70 per cent of revenues.

Although tourism was picking up in the area, there was still uncertainty regarding the demand for another hostel. Seasonality in the travel industry made it especially difficult for Ahiamadia to predict whether revenues from an expansion would truly be enough to improve solvency. He wondered what the return would be if he were to pursue this alternative.

**CONCLUSION**

Ahiamadia knew he needed to make a decision quickly regarding the best course of action for the future of Leisure Gardens. He wondered how he should achieve his long-term goal of expanding into a restaurant and accommodation business for tourists, while both reducing the number of borrowers and ensuring profitability. As the sun set, he knew it was time to head back to Leisure Gardens to discuss the timeline and action plan with his wife.

**EXHIBIT 1: leisure gardens’ menu and pricing (in GH¢)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Soup** |  |  |  | **Price** |  |
|  | Noodle soup with chicken and bread | | | | 7.00 |  |
|  | Tomato soup | | | | 5.00 |  |
|  | Vegetable soup blendet | | | | 8.00 |  |
|  |  |  |  |  |  |  |
|  | **Continental** | |  |  |  |  |
|  | Meatball with mashed potatoes | | | | 20.00 |  |
|  | Chicken with pineapple and rice | | | | 15.00 |  |
|  | Spaghetti Bolognese | | | | 15.00 |  |
|  | Goulash with pasta | | | | 20.00 |  |
|  |  |  |  |  |  |  |
|  | **Vegetarian Food** | | | |  |  |
|  | Kotobre stew with boiled potatoes and egg | | | | 15.00 |  |
|  | Spaghetti minestrone | | | | 15.00 |  |
|  | Vegetable rice with hot pepper | | | | 15.00 |  |
|  | Couscous with vegetable stew | | | | 15.00 |  |
|  |  |  |  |  |  |  |
|  | **African Food** | | | |  |  |
|  | Jollof rice with chicken or beef | | | | 15.00 |  |
|  | Fried rice with chicken and salad | | | | 15.00 |  |
|  | Palaver sauce with yam and chicken | | | | 15.00 |  |
|  | Banku with okra stew and beef or chicken | | | | 15.00 |  |
|  |  |  |  |  |  |  |
|  | **Dessert** |  |  |  |  |  |
|  | Ice cream |  |  |  | 5.00 |  |
|  | Pancake |  |  |  | 5.00 |  |
|  | Fruit salad | |  |  | 5.00 |  |
|  |  |  |  |  |  |  |
|  | **Breakfast** |  |  |  |  |  |
|  | Simple Breakfast | |  |  |  |  |
|  | *Tea or coffee and toasted bread with butter and jam* | | | | 8.50 |  |
|  | Big Breakfast  *Tea or coffee, 3 slices of toasted bread with* | | | |  |  |
|  | *butter, jam, honey, egg and cheese* | | | | 10.00 |  |
|  | 2 fried eggs with bread and tea or coffee | | | | 8.00 |  |
|  | Cornflakes with milk or oats with milk | | | | 6.00 |  |
|  |  |  |  |  |  |  |
|  | **Snacks** |  |  |  |  |  |
|  | Sandwich with beef, cheese, and egg | | | | 9.00 |  |
|  | Sandwich with fish and egg | | |  | 9.00 |  |
|  | Sandwich with cheese and egg | | |  | 11.00 |  |
|  | Club sandwich with chicken and egg | | | | 10.00 |  |
|  | Curry sausage with potato chips | | | | 15.00 |  |
|  | Vegetable omelette with 2 slices of bread | | | | 9.00 |  |
|  | Beef Kebab | | 1 stick |  | 4.00 |  |
|  | Chicken Kebab | | 1 stick |  | 7.00 |  |
|  | Grilled chicken | |  |  | 8.00 |  |
|  | Potato chips | |  |  | 8.00 |  |
|  | Yam chips | |  |  | 5.00 |  |
|  |  |  |  |  |  |  |
|  | **Salad** |  |  |  |  |  |
|  | Tomato salad | |  |  | 5.00 |  |
|  | Cucumber salad | |  |  | 5.00 |  |
|  | Mixed salad with vinaigrette | | |  | 10.00 |  |
|  | Mixed salad with mayo, fish, and egg | | | | 15.00 |  |
|  | Mixed salad with shredded beef | | | | 15.00 |  |

Note: GH¢ = GHS = Ghanaian cedi; US$1 = GH¢4.2246on May 1, 2017.

Source: Created by the authors from Leisure Gardens’ original menu.

**EXHIBIT 2: price list for Leisure gardens’ expansion (in GH¢)**

|  |  |
| --- | --- |
| **Item** | **Unit Price** |
| Plastic Chair | 55.00 |
| Plastic Table | 100.00 |
| Canopy | 600.00 |
| Fridge | 1,200.00 |

Note: GH¢ = GHS = Ghanaian cedi; US$1 = GH¢4.2246 on May 1, 2017.

Source: Created by the authors.

1. The World Bank, “The World Bank in Ghana,” accessed May 17, 2017, www.worldbank.org/en/country/ghana. [↑](#footnote-ref-1)
2. Government of Ghana, “Volta,” accessed May 17, 2017, www.ghana.gov.gh/index.php/about-ghana/regions/volta. [↑](#footnote-ref-2)
3. BBC News, “Ghana Country Profile,” February 7, 2017, accessed May 17, 2017, www.bbc.com/news/world-africa-13433790; “Ghana Corruption Rank,” Trading Economics, accessed May 17, 2017, www.tradingeconomics.com/ghana/corruption-rank. [↑](#footnote-ref-3)
4. Communicaid, “Country: Ghana,” accessed May 17, 2017, www.communicaid.com/country/ghana/. [↑](#footnote-ref-4)
5. Kofi Amenyo, “Trans Volta Togoland and the Refuseniks of the Union with Ghana,” May 9, 2008, accessed May 17, 2017, Ghana Web, www.ghanaweb.com/GhanaHomePage/features/Trans-Volta-Togoland-and-the-refuseniks-of-the-union-with-Ghana-143373. [↑](#footnote-ref-5)
6. Touring Ghana, “Ecotourism in Ghana,” accessed May 17, 2017, http://touringghana.com/ecotourism/. [↑](#footnote-ref-6)
7. GH¢ = GHS = Ghanaian cedi; GH¢4.2246 = US$1 on May 1, 2017. [↑](#footnote-ref-7)