
INTERNATIONAL A-LEVEL **BUSINESS**

Unit 4: Business Decision Making

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This insert is for use with **Section B (Questions 4 to 8.3)**.

Case study: Saka plc

Saka plc is a luxury hotel chain. It was established with one hotel in 2005 and has now successfully grown to 32 hotels across South East Asia as a result of significant shareholder investment.

Saka plc focuses on providing an outstanding customer experience, offering excellent customer service, elegant décor and luxury restaurants and facilities to entertain its guests. It has a loyal American and Asian customer base. European tourists to Asia tend to favour Saka plc's main competitor for its slightly cheaper prices.

Following years of investment and little shareholder return, Saka plc now wants to reward its shareholders by increasing shareholder value over the next two years. Its majority shareholder is a risk-taker and wants to expand by building identical hotels throughout Europe (Foreign Direct Investment). She has summarised the following information to propose to the board of directors.

- Visitors to Europe spend on average 10% more on accommodation than visitors to Asia.
- The number of visitors to European cities are forecast to increase by 22% by 2027.
- The European Union (EU) is offering subsidies on the cost of land in key tourist cities.
- The estimated cost of Saka plc's investment into Europe is forecast to be \$162m. This money will need to be borrowed.

Table 1: Forecast financial data for Saka plc

	Without expansion	With expansion
Operating profit	\$24m	\$48m
Non current liabilities	\$30m	\$192m
Capital employed	\$160m	\$320m
Dividends paid	\$2m	\$7m
Number of shares	500 000	500 000
Average share price	\$32	\$35

If Saka plc does not expand, its gearing is estimated to be 18.75%. Many shareholders are concerned about the expansion as they feel it is too risky.

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