



Developing a Bed & Breakfast Business Plan

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Introduction

Although Bed and Breakfasts have been firmly established in Europe for years, they were introduced in the United States in the late 1960s. There are now more than 20,000 B&Bs, up from about 2,000 in 1979. A sign of a maturing industry is the increasing average number of rooms per property, increasing occupancy rates, and increasing number of associations and support services; i.e., national, state, and regional associations setting standards (see Appendix B). There are now professional newsletters, travel publications, guidebooks, and vendors catering to small lodges.

The rewards of being a Bed and Breakfast host¹ include meeting people, adding income, gaining independence and an enjoyable way of life, and perhaps, restoring an old building. The business can give you great satisfaction as it grows into a valuable investment. As a host, your personality, distinctive and personalized hospitality, standards of excellence, and creative marketing can make a significant difference.

What Is a B&B?2

There is a wide variety of B&B accommodations available. In categorizing the different types of B&Bs, the American Bed and Breakfast Association looks primarily at the use of the entire building and its relation to the B&B activity that occurs there. The association believes this approach is consistent with the way insurance underwriters, legislators, code enforcers, and regulatory bodies are discussing and dealing with B&B issues. Differentiating between the different types of B&Bs remains one of the most important issues for the B&B industry as more legislation is being written to oversee its growth. The following definitions are used by the American Bed & Breakfast Association in its dealings with all public and private organizations and individuals:

B&B Homestay: A private, owner-occupied residence in which the frequency and volume of B&B visitors are incidental to the primary use of the building as a private residence. One to five guest rooms are made available to transient visitors and provide supplemental income for hosts. Breakfast is the only meal served and is included in the charge for the room. A review of current B&B zoning laws indicates that the majority of B&B Homestays continue to be unregulated or allowed primarily under zoning provisions for "Customary Home Occupations," subjecting them to outdoor sign restrictions; health, fire, and building code restrictions; and restrictions on the number of employees deemed necessary to protect residential neighborhoods from encroachment by business activities.

B&B Inn: A commercially licensed business operated in a building that primarily provides overnight accommodations to the public even though the owner may live on the premises. Guest rooms for a B&B Inn range from a minimum of four to a maximum of 20, although some believe the range is more like 5 to 25 rooms. Breakfast is the only meal served and is included in the room charge. The business is salable to a new owner, and is subject to all local, state, and federal regulations.

Country Inn: A commercially licensed establishment primarily known for its cuisine that is removed from planned, commercial areas and generally accessible for patronage only by automobile. Overnight accommodations are available and a full-service restaurant provides breakfast and dinner to overnight guests and/or the public. The number of guest rooms usually ranges from a minimum of four to a maximum of 20, although a number of Country Inns have more than 20 guest rooms. The business is salable to a new owner, and is subject to all local, state, and federal regulations.

Small or historic hotels are also recognized as a part of Bed and Breakfast accommodations. They are frequently thought of as establishments with twenty or more rooms that provide the service and privacy of a hotel in the setting of an inn with some individual attention from a host. The State of Michigan defines their historic hotels as "at least fifty years old and associated with events or persons of significance in contributing to the broad patterns of history. Many embody the distinctive characteristics of a type, period, or method of construction in architecture. Most are located in historic districts and all have twenty-one or more rentable rooms. If breakfast is not included in the room price, it cannot be a true Bed and Breakfast.

Although all prospective B&B hosts should find much of the information in this book useful, it is designed primarily for someone planning to operate a B&B inn as a full-time business for profit. Whether you generate a reasonable profit will depend on many variables. The primary variable will be your monthly overhead and debt payments and annual number of room nights sold. Other variables will include number of rooms, occupancy rate, seasonality of your location, start-up and improvement costs, advertising expenses, owner/host wage level, and your own profit goals. A five-room B&B inn completely free of debt with no hourly wage taken out by the owner, may generate a profit with 20 percent occupancy, while an eight-room operation with high monthly debt payments may not turn a profit at 65 percent occupancy. A 1988 study by *The Professional Association of International Innkeepers* indicated that most B&B inns needed at least five to six rooms to reach the break-even point before debt service and at least six to seven guest rooms to reach the break-even point after debt service. The study also revealed that average B&B owners devoted more than 74 hours a week to the daily running of a five- to ten-room inn.

The B&B Business Plan

The Business Plan is a comprehensive analysis of the details surrounding the creation or expansion of a Bed and Breakfast business. It transforms ideas and concepts into a working operation. It requires you to decide what to do, how to do it, when to do it, the resources needed to do it and how to obtain them, how and when financial requirements will be met, and what to expect. By completing a business plan, you can take an objective look at your proposed B&B to identify areas of strength, weakness, and opportunity early; pinpoint needs and problems you might otherwise overlook; and plan how best to achieve your business goals.

The Business Plan will help you determine your goals and organize a strategy to meet them. The plan will help you evaluate and decide whether or not to open a Bed and Breakfast. The plan will:

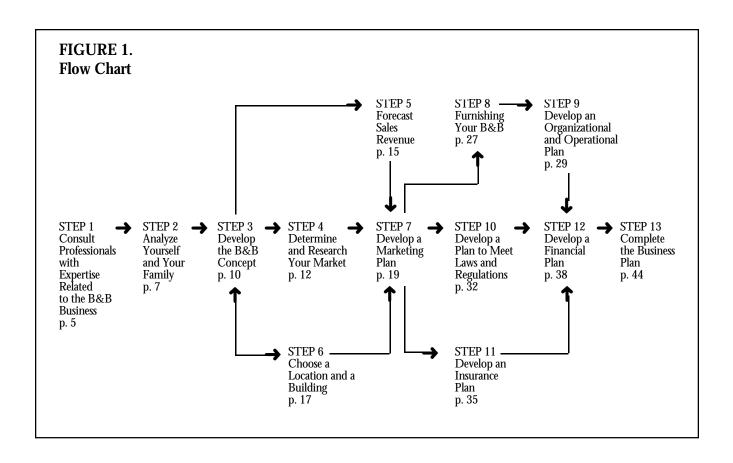
- ◆ Determine if the B&B is worth your time and money.
- ◆ Improve the probability of success by avoiding a business venture doomed to fail.
- ◆ Provide carefully thought-out steps to achieve goals for opening the business. (People who succeed are the ones who know the most about what they are doing.)
- ◆ Help you consider alternatives and reduce or eliminate difficulties and mistakes before they occur.

- ◆ Provide an efficient, effective tool to use in communicating with your attorney, accountant, insurance agent, banker, zoning board, partner, and others.
- Serve as a management tool for continuous evaluation and monthly and yearly refinement.

The planning process presented in this book is in a series of 13 steps that enable you to carefully analyze the prospects for success on paper before investing time and money in a B&B. The suggested outline is flexible so you can tailor it to your own needs. Use the flow chart (Figure 1.) to help guide you through the development of the Business Plan. As you can see, some steps should be carried out simultaneously.

The Business Plan is a fluid, working document and an evolving process. Information gathered during later steps may alter the thinking and conclusions developed during the early planning stages. A change in one step or segment because of new data, information, contacts, resources, valued opinions, etc., may interrelate with several other steps and must be integrated into these segments.

When developing a business plan, it is important to keep complete notes with each step, documenting all facts, backing all assumptions, and giving authority for all opinions.



Goals

At the conclusion of each step, you need to determine which goals are short range (12 months or less), and which require long-range planning (more than one year). Some examples of long-range goals are: to provide an unforgettable guest visit, to meet strong competition, to be market minded, to have an enjoyable livelihood, to provide a needed service in the community, and to earn the status of a desirable community member. Some examples of short-range goals are: to develop an award-winning brochure by a particular date, to establish a list of approved suppliers by a specific date, and to obtain a 25 percent occupancy by the end of the first year.

Goals and the best way to obtain them need to be established for each of the thirteen steps. For each step you should:

- ◆ List the goals of that section in descending order of importance.
- ◆ List the objectives to be accomplished to achieve the goals.
- ◆ Layout in precise detail the steps (best ways) to accomplish each goal and objective. Fix the time and responsibility.
- ◆ Separate the goals into short-term and long-term lists.

Several creative minds reviewed the original printing of this bulletin and sent comments, suggestions, and materials that helped shape this final product. We would like to thank the following people for their contributions: Charles Hillestad, real estate law and small business specialist at the law firm of Scheid & Horlbech in Denver, Colorado, and owner of the award-winning Queen Anne Inn located in Clements Historic District of downtown Denver; Pat Hardy Co-director, Professional Association of Innkeepers International; and Rollin Cooper, Director, Recreation Resources Center, University of Wisconsin at Madison.

^{&#}x27;The host, or the person who has contact with the guests, is usually the owner of the Bed and Breakfast business. However, the host may also be someone hired by the owner to operate the B&B. In this publication, the term "host" is used generally to signify the owner as well.

²Appendix C, "A Guide: When a B&B is not a B&B" by Charles Hillestad, provides definitions of several related categories.

³"Bed & Breakfast/Country Inn Industry Survey and Analysis," 1988 *The Professional Association of International Innkeepers*, Santa Barbara, California.

Step One

Consult Professionals with Expertise Related to the Bed & Breakfast Business

epending on your personal situation the following may be some of the advantages to owning and operating a B&B: being your own boss, integrating family and work responsibility, starting a business in your own home with relatively low expenses (otherwise the openings can run very high-between \$50 and \$150 per square foot), reducing personal living costs, eliminating transportation costs and time to get to work, possibly having tax advantages, enjoying a variety of daily tasks and a casual way of life, and having leisure time during scheduled closed times.

Some of the disadvantages may include: working hours (14- to 16-hour days, often doing menial tasks); little opportunity to delegate; concern about privacy and quality family time; competition with chain hotels and motels; growing competition from other B&Bs; possible local resentment toward tourists; and uncontrollable factors such as weather, road repairs, gasoline availability and price, taxes, changing laws and regulations, inflation, interest rates, and increasing government intervention.

You can gain insight into the advantages and disadvantages of entering the B&B business, and obtain valuable information by talking with nearby B&B hosts, or even helping to operate their B&Bs for a few days. Attending apprentice programs, one day overview workshops, and two- and three-day seminars may help you decide whether to enter the B&B business.¹

To help with several major segments of your business plan and with your decision about whether or not to open a B&B, consult a specialist—an accountant, a lawyer, a banker, an insurance agent or broker, or a hospitality consultant. The fees of such professionals are high, perhaps more than \$100 per hour, or a fixed fee from \$100 to \$15,000 depending on your requirements. However, their knowledge may spare you considerable hardship. Their judgement is by no means flawless, yet they reduce the odds of making the wrong choice.

You can reduce the gaps in your knowledge and experience and increase your chance of success by relying on other people's experience. The following resources will cost you no more than time and a phone call or travel expenses for a personal appointment:

- County Extension and Sea Grant Offices, B&B Organizations, and hotel/restaurant or small business specialists.
- National, State, regional, or local B&B associations.
- Chamber of Commerce, Regional Planning Commissions and Councils, and other tourist organizations.
- Small Business Administration: Counselors, Workshops, SCORE (Service Corp of Retired Executives), and ACE (Active Corp of Executives).
- ◆ Small Business Development/New Venture Centers (Federal & State).

Seek out consultants held in high esteem in the community by small business owners and the hospitality industry. The best sources of names are usually other small business entrepreneurs who are both experienced and successful. As such, they are in the best position to offer honest opinions about the skills, interests, and availability of consultants. Examine their work,

interview some of their clients, and discuss their fees and the scope of their work. The experts' knowledge needs to be accompanied by a reasonable match in personal chemistry.

Goals of Step One:

- 1. Determine the major reasons you want to own/operate a B&B.
- 2. Determine exactly what you want to learn (what you need to know).
- Identify the sources of information you need to gain insight about the B&B business operation. List in descending order of importance.
- 4. List what you want to find out from each resource.
- 5. Lay out, in precise detail, the steps (best ways) to accumulate essential information from each resource.



Some of the most significant advantages to owning a B&B business are being able to work in your own home and being your own boss.

¹ Information about apprentice programs may be obtained by writing to: Margaret Lobenstine, Wild Wood Inn, 121 Church Street, Ware, Massachusetts 01082; Carl Glassman, the Inn School, Wedgewood Inn, 111 West Bridge, Hope, Pennsylvania 18938, Charles Hillestad, 2151 Tremont Place, Denver, Colorado 80205, and Pat Hardy, Bed and Breakfast Innkeepers Guild, P.O. Box 96710, Santa Barbara, California 93190. Also check the classified advertisements of Inn Times, Inn Review, Country Inns and Innsider, B&B newsletters such as Innkeeping and Inn Business Review; and the paperback books about starting a B&B. For more information about workshops and seminars, contact your County Cooperative Extension Service, American Bed and Breakfast Association, and Professional Association of Innkeepers International.





E valuating yourself as a B&B host is an important task. You need to (1) analyze your strengths and weaknesses, (2) prioritize your short-term and long-term personal and business goals, and (3) carefully examine whether you have the necessary technical and business skills.

Begin by assessing your strengths and weaknesses. Think about how these characteristics pertain to the B&B business and be honest with yourself—most people find it hard to recognize their own shortcomings.

Be sure to base the pros and cons of entering the B&B business on your own, personal goals and philosophy. Take the time to explore your specific goals and determine whether owning and operating a Bed and Breakfast business would accomplish what you desire. You should also set personal goals for two, five, and ten years from now. Then decide whether operating a B&B will help you meet those objectives. Consult Appendix D, "Determining Personal Goals," when you do this exercise

To help determine whether you would enjoy the B&B profession,

carefully complete the following questionnaire:

Would you be able to:

- Provide old-fashioned hospitality and courtesy?
- Combine business sense and business experience with common sense?
- Wear many hats, and change them often and quickly?
- Repeat answers enthusiastically to the same questions hundreds of times a year?
- ◆ Go the extra mile to provide an unforgettable guest visit?
- ◆ Enjoy a variety of people?
- Provide all types of people with a wonderful and unique experience?
- Find a way to talk to someone with whom you have a conflict without alienating that person?
- Plan menus; purchase, prepare, and serve food; and follow health department standards?
- Be your own boss, do what is necessary to accomplish the job and enjoy a challenge, and work well under pressure?

- Work long hours in varied and demanding situations with frequent interruptions?
- Organize your time for work, finances, and family?
- Plan, make many decisions, learn from experience, and change your behavior accordingly?
- Obtain and follow the advice of experts?
- Become proficient in bookkeeping and accounting?
- Develop and monitor a budget, and understand financial statements and tax benefits?
- Develop brochures, advertisements, promotional materials, and media relations?
- ◆ Talk on the phone, take and record reservations, check customers in, show guests to rooms, and receive payments for your service?
- Clean bedrooms and bathrooms, do laundry, make beds, provide amenities, decorate, landscape, and do building maintenance?

If you answered yes to a majority of these questions, you would be well-suited for the B&B profession.

Next, evaluate your inventory of skills and interests. Sort out your own skills and the skills of your partner(s). Determine how you and your partner(s) will overcome any deficiencies you may have in skills that are necessary to operate a B&B. Decide how important these factors are to the success of the business. Keep in mind that an abundance of skills in one category will not necessarily make up for a deficiency in another. Success is most probable when you (and/or your partner) rate high in each of the categories.

The successful entrepreneur is often an overachiever—healthy, energetic, confident, open to reasonable risk, industrious, goal-oriented, accountable, innovative, and technically competent. Being your own boss means meeting customer demands, working long hours, providing necessary government reports, and coping with uncontrollable economic conditions.

Discussions between groups of small business owners revealed 10 common challenges they faced.¹

- 1. Knowing your business
- 2. Knowing the basics of business management
- 3. Having the proper attitude
- 4. Having adequate capital
- 5. Managing finances effectively
- 6. Managing time efficiently
- 7. Managing people
- 8. Satisfying customers by providing high quality
- 9. Knowing how to compete
- 10. Coping with regulations and paperwork

In the hospitality industry you must show your desire to accommodate. Your primary job will be to satisfy your guests' needs. Simply providing a clean room and a good breakfast will not be enough to make your guest feel that your B&B is special. Only through a genuine interest in customers and a commitment to making their lodging experience unique, can you create the

atmosphere that your B&B will need to develop a regular clientele and to secure bookings from favorable referrals. To help you decide whether to enter the B&B business, you may want to consult the U.S. Small Business Administration's *Checklist for Going Into Business*, (see Appendix A).

Essentials for survival in small businesses include (1) capitalizing on strengths and compensating for weaknesses, (2) recognizing problems and limitations, and (3) building on natural strengths.

The proper frame of mind, realistic expectations, and strong personal commitment to your B&B are at least as important to success as industry knowledge (accounting and bookkeeping, food preparation and sanitation, financial management, marketing, hosting, housekeeping, etc.) Finding something that you love, that has the potential of being successful, something that you passionately enjoy doing, will contribute much to your success. The love of doing it is necessary to withstand the long hours and pressures of starting and managing your B&B. Long hours and a variety of tasks require good time management skills. Referring back to the business plan will help you set priorities and ensure that you spend time most efficiently. The ability to adjust to many variables is paramount to increase revenue, reduce costs, and effectively serve guests.

Research by Dun and Bradstreet clearly indicates that business failures result primarily from incompetence. Following are the reasons for business failure (in decreasing order) that apply to B&Bs:

- 1. Inadequate sales
- 2. Competitive weakness
- 3. Heavy operating expenses
- 4. Poor location
- 5. Excessive fixed costs and debt
- 6. Other problems indicating poor judgment

Hillestad (see Appendix C) adds these factors:

- ◆ Excessive optimism
- ◆ Inadequate planning
- ◆ Misuse of time
- **♦** Poor marketing
- Confusion of business and personal relationship
- ♦ Burn out
- Downplaying the need for experience

Determine How the B&B Will Affect Your Family

Another important consideration is how the B&B will fit into your family life. You should carefully consider the feelings and attitudes as well as ages and work styles of each family member and try to anticipate family tension and personal impact that the business may cause. You and your family should discuss how your time will be divided between the business. the family, community functions, and leisure activities. It will be important to establish areas of the house for family only, and to define rules for using the kitchen and the telephone, both of which will be important to the business.

Also, if family members plan to help with the business, you will need to assign responsibilities (see "Housing and Family Responsibilities Associated with Owning a Bed and Breakfast Business," Appendix E), decide how much each member will interact with guests, and determine how definite the distinction will be between family and business relationships. By addressing these types of concerns before you open, you will be able to avoid tensions, resentment, and misunderstandings among family members later. Also, assess the effect of support or disenchantment of friends and neighbors on yourself, spouse, and children (loss of playmates, etc.). Remember that friends and neighbors can cause conflict.

Goals of Step Two:

- 1. Determine your strengths (what you like to do passionately) and how you will capitalize on these items.
- 2. Determine your weaknesses, limitations, what you absolutely do not like to do, and how you will overcome these factors.
- 3. Determine how to gain an indepth knowledge of the B&B industry.
- 4. Determine how to learn the basics of managing a B&B, such as the principles of accounting, hosting, financial management, marketing, housekeeping, food preparation, and planning for the future.
- 5. Examine your frame of mind, expectations, and personal commitment.
- 6. Determine your short-term and long-term goals (see Appendices D and E)
 - · personal goals
 - · family goals
 - family B&B responsibilities
 - goals for friends and neighbors
- 7. Determine how you will set time priorities.



Establishing areas of the house and grounds for family only and those available for guest use is an important consideration when contemplating opening a B&B.

¹ 1989 Dun & Bradstreet.

Step Three

Develop the B&B Concept

his step should be completed in two phases. The first phase is to define, describe, and evaluate the concept that best fits your strengths, interests, customer needs, and your home. The concept should also be closely related to the community tourism thrust and location of your potential customers but differentiated from the competition. The second phase is to redefine your concept after completing all the steps in the business plan.

The B&B concept is a combination of ideas that form the foundation of a unique, customer-satisfying experience. First, state in a few sentences the major features or attractions of each concept component. This will help you visualize your business in relation to your market segment and your competition. The reader should be able to "experience" the B&B and feel as if he or she were actually there. The description should appeal to the emotions as well as the senses. Explain the unique touches that will distinguish your B&B from others. Describe intangible appeals, like charm, ambience, quaintness, and atmosphere. Give

reasons why customers will spread favorable comments.

The concept should describe six components to provide a composite picture of your B&B. Describe each component by moving from a general idea to a more detailed description of your proposed B&B:

- Explain exactly what you are selling, such as a special travel experience, host personality, personal touch, romance, privacy, luxury, or history. Explain exactly what business you are in and why it will be profitable and continue to grow. Describe what your business will be like in five years. Explain your standards, appraisal methods of reaching those standards, and commitment to quality in hospitality, service, food preparation and sanitation, housekeeping, safety, maintenance, and groundskeeping.
- ◆ Formulate a preliminary guest profile including such demographic information as age, education, and geographic location of guests. (See Appendix J.)

♦ Facilities:

- Define exterior, physical features: architecture, renovation (anticipated or completed), theme, decor, colors, predominant features, outdoor furnishings such as picnic tables and grills, view, lawn, landscaping, recreation areas, garden, trails, pond/stream, woodland, etc.
- Define interior features: public space, furniture, style, size; distinctive features of the bedrooms: bathroom features such as number of baths that are private and whether they have special shower heads, thick towels, etc.; breakfast areas, menu, method of service, and time of service; other features such as porches or patios, fireplaces, and meeting rooms; favorable equipment features such as individual temperature controls, refrigerator space, and noise reduction features; and overall comfort, safety, cleanliness, and housekeeping of the interior.

♦ Assistance and hospitality:

- Explain how thinking begins and ends with the customer—how staff attitudes, manner of serving guests, and personalization of service will make guests feel like welcome VIPs. Explain how the staff and service will sell and promote the B&B. Describe the staff dress and grooming and how it relates to the theme and image of the B&B. Describe how the telephone will be used as a goodwill ambassador.
- Tell what amenities or physical items or articles will be given to guests such as special soaps, food trays or baskets, flowers, departing gifts, etc.
- List the unique services or objects that the host and staff will provide for the benefit of the guest such as a tour of the house and grounds, afternoon tea, use of the telephone, tour arrangements, bed turn-down service, laundry service, credit card acceptance, and 24-hour message-taking service. Also describe the assistance provided to the guest on local activities, menus, maps, etc.
- Describe activities that will be offered, including inside entertainment such as games, TV, books, and hosts' hobbies; activities on the grounds such as outdoor cooking, horseshoes, or badminton; and nearby attractions such as restaurants, shops, and recreation and entertainment centers.
- ◆ Consider the unique support features of your location and neighborhood like nearby tourist attractions and demand generators.

Business aspects:

- Describe your experience or related experience in the hospitality industry.
- Decide on your B&B's opening date, degree of seasonality, hours



As part of your B&B concept, you should decide on what type of dining atmosphere you would like to present.

- of check-in and check-out, breakfast hours, etc.
- Describe what you learned from other B&B operators that you will put into practice.
- Define policies that affect the B&B image and customer preference, such as smoking, alcohol, children, and pets.
- Describe the price structure and how it relates to the competi tion, perceived price to value ratio, and to the image of the B&B.
- Relate the name of the B&B to the logo, theme, image of the business, and the community or area.
- Tell what amenities might be provided in the future and how they will contribute to the success of the B&B.

Hillestad (Appendix C) thinks of the concept as a four-legged stool with one leg being the architecture, decor, and amenities, another being service and hospitality, the third being food, and the fourth being location. His point is that if one leg is weak, the other three better be very strong. The stool cannot stand if two or more of the legs are weak.

Determine whether the component parts fit together and complement each other. Is each part compatible with the overall concept? Is the concept

compatible with the market segment you are trying to attract? At this point, you should evaluate how your concept fits your strengths and customer interest in staying at your B&B. Be sure your concept answers these questions about your proposed B&B: Why will customers want to stay in my B&B rather than the competition's? What is unique or different about my B&B? What will my B&B provide for my customers? How will I generate satisfied customers? Why will customers feel they obtained more than expected? Why will my concept succeed?

Goals of Step Three:

- 1. Tell who your customers are, what your B&B's major features and attractions are, where your business will be located, how you will operate the business, and why you are in this business.
- 2. State exactly what you are selling.
- 3. Describe the strong points of your B&B.
- 4. Describe anticipated customer expectations and how to meet them.

Step Four

Determine and Research Your Market

The key to marketing in the B&B industry today is understanding that there is *no one consumer*. Comprehending this concept, understanding the needs of the consumers, knowing the segmentation of your market, and selecting the best ways to reach your consumer are what marketing research is all about.

A given group of consumers can be divided into market segments, or specific (limited) groups of people with similar needs and wants, such as travelers for (1) pleasure, (2) business, (3) special occasions or events, (4) visits to friends or family, (5) specialty market (such as school teachers, foreign travelers), and (6) weekend or weekday market segments.

Market research involves learning who your competition is, establishing your market segment, developing the strength of your B&B so that your market will notice and want it, pricing it right, and telling your market that it is available. Marketing research serves two functions: It develops new knowledge about your B&B, especially about how customers will see it compared to other

accommodation alternatives, and it provides information for decision making. Researching the market usually involves systematically gathering information, analyzing the data to find out what it means, and developing implications. Ask yourself, "What does it tell me to do, or not to do?"

Marketing research is customer and prospective customer oriented and should answer the following questions:

- Why will/do customers come to my B&B?
- ◆ Why won't/don't they come?
- ◆ Why don't they come more often?
- ◆ Where do they come from?
- Who is my average customer (age, sex, education, income, occupation, purpose of travel, etc.)?
- How does my B&B differ from the competition?

A study of your market will help you examine your B&B's location in relation to the economic environment, proximity to events and attractions that could generate business, and the current and future demand for rooms. The study will help you determine whether a proposed B&B has market potential and estimate the occupancy rate for your B&B.¹

To obtain the information necessary to analyze your market, you may need to consult lodging operators, community business people, the personnel and purchasing departments of local companies, merchant associations, the county's Cooperative Extension director, Sea Grant Marine Extension personnel, city planning commissioners, real estate developers, bankers, and city government officials. You should also contact such state and local agencies as the Chamber of Commerce, economic development commissions, planning agencies, and convention, visitors, and tourist development bureaus. Many areas have economic development offices where you can find current, statistical data regarding the economy, building activity, sales trends, and community services of a specific area. Other resources to tap include local B&B hosts, regional, state, and national B&B associations, and regional reservation service organizations (RSOs).

Many state tourism and development offices have considerable information about travelers, such as their income, age, location, education level, etc. Some states have departments, bureaus, or university divisions that collect and chart demographic data by the state and county. The Small Business Administration (SBA) consulting arm called "SCORE" (consisting of retired executives) might also be able to help in your market research project.

The Department of Commerce oversees the research and distribution of economic information. Their *Survey of Current Business* and census bureau reports population statistics and other changes in the nation's economy. Don't overlook the Superintendent of Documents, U.S. Printing Office, Washington D.C. 20402, which offers books, reports, and government documents on a variety of subjects.

The marketing worksheet in Appendix H will help you identify and research your market. Fill in the worksheet as you analyze aspects of your B&B. The result of your analysis, recorded on the worksheet, will form the basis of the marketing plan that you will develop in Step Seven. Consider the following points as you complete the marketing worksheet:

- ◆ Determine what you are selling, taking into account the type of B&B and area. For example, decide whether you are marketing a unique experience, a personal service, a friendly atmosphere, a good location, an opportunity to meet new people, or an area of scenic beauty.
- Evaluate your community. Assess the quality and availability of resources (facilities, services, staff, and image). Consider how the tourist attractions in the area might affect your market potential and how your B&B might better attract overnight guests. Take into



When considering your bedroom decor, it is helpful to have a profile of your prospective customers in mind.

account the following types of attractions:

- Natural features such as lakes, beaches, streams, forests, wildflowers, foliage, scenic valleys, rugged terrain areas, caves, nature preserves, and state parks.
- Historic sites such as historic homes, old mills, round barns, Indian burial grounds, monuments, memorials, birthplaces of famous people, and exhibitions of old-fashioned lifestyles.
- Annual or seasonal events such as flea markets, craft fairs, festivals, pageants, outdoor art shows, community theater productions, and sporting events.
- Recreational areas such as zoos, parks, amusement parks, museums, and botanical gardens.
- Recreational facilities such as health spas, racquetball courts, golf courses, tennis courts, swimming pools, bicycling and

- hiking trails, and skiing areas.
- Restaurants and shopping areas.
- Nighttime entertainment such as theaters, comedy houses, nightclubs, and concert halls.
- Evaluate the advantages and disadvantages of your B&B. Take into account the following aspects of your B&B and determine whether they would be considered advantages or disadvantages by your target market:
 - Determine the uniqueness of your B&B. Consider unusual features such as a collection of paintings, antiques, a library, or an exceptional view. Also consider services and amenities such as brushing snow off cars, providing coffee and a newspaper with personal wake-up calls, placing flowers in the room or chocolates on the bed pillows, and 24-hour answering and fax service. (For a more complete listing of amenities see Appendix I.)

- Make an honest appraisal of your B&B. Consider the location and road network, the home and its condition, your abilities as a host, quality of service, pricing, design, facilities, and overall image of your B&B.
 Determine which aspects would be considered advantages and which would be considered drawbacks.
- Evaluate your operating policies.
 Consider your policies on smoking, pets, children, and alcohol, and whether your target market would perceive these policies as advantages or disadvantages.
- Evaluate the potential of a specialty market such as foreign travelers, school teachers, retired farmers, singles, handicapped individuals, etc.
- Evaluate the competition.
 Consider your competition's location, facilities, promotional themes and messages, type of customers attracted, and prices.
 Note anything unusual about their policies, services, and community status. Find out the visitor statistics and occupancy rates in the area.
- Determine business factors that attract people to the community. Consider the area's manufacturing or agricultural business activity, conferences and conventions, hotels and motels, hospitals, nursing homes, colleges and universities, and retail stores.

An analysis of the elements listed in this section will provide a listing of the strengths and weaknesses of your proposed B&B, which you will use in Step Seven, "Develop a Marketing Plan," to improve the attractiveness of your B&B and take advantage of your situation.

Appendix J compares the results of a Michigan and Minnesota B&B guest study completed in 1988.

This information may be used as a guide until you have obtained specific information for your B&B area.

Goals of Step Four:

- 1. Determine travel/tourist growth trends regionally and locally.
- 2. Divide the market into segments: tourists, businesses, group meetings, package tours, special occasions, visits to family and friends, specialty markets, etc.
- Make an honest appraisal of your location, architecture and decor, landscaping, house condition, services, and prices.
- 4. List attractions in your community that draw or could draw customers.
- 5. List all the strengths and weaknesses of your B&B.
- Examine the competition by location, facilities, prices, and anything unusual about their policies, services, and community status.
- 7. From the information gathered, list problems and opportunities.
- 8. Set precise goals to:
 - improve the image of your B&B
 - establish an occupancy rate for the first three years
 - · increase weekday business
 - · increase off-season volume
- Develop a series of strategies in the form of specific recommendations and weigh in terms of cost, effectiveness, and ultimate benefit (return).

¹ See *The Inn Business*, Canadian Government Publishing Center, Supply Service Canada, Ottawa, Canada, K1A059. *Marketing of Hospitality Services, Food, Travel, and Lodging* by W.J.E. Crissy, Robert J. Boewadt, and Dante M. Laudadlo, published by the Educational Institute of the American Hotel and Motel Association, East Lansing, Michigan.





fter determining the market potential, you should make a monthly estimate of the room revenue for the first year. A good forecast estimates sales revenues over a three-year period broken down as follows: first year - weekly, second year - monthly, and third year - quarterly. The room sales forecast is very important to the profit planning process—it is also very difficult to estimate with certainty. Review your estimate repeatedly for accuracy, then develop strategies to increase revenue and profit. Without good sales forecasts, you cannot realistically plan expenses and make financial commitments.

Sales are calculated by multiplying the number of rooms rented during a given period (days of operation) by the average room rate. Occupancy measures the percentage of available rooms rented at a given time. Area B&B operators, the American Bed and Breakfast Association, and reservation service organizations may supply important information concerning occupancy. Keep in mind that factors such as the season of the year, time of week, and weather conditions affect occupancy.

The major variables affecting occupancy during your first year of operation will probably be your location, the amount of travel through your area, the attractive qualities of your B&B, and the amount of promotion and exposure you have received.

A few B&Bs have had all the business they wanted the first year, while others did not have a single customer during their first six months to a year. But, there are no hard, firstyear occupancy figures available. Informal reports from operators in different locations suggest that an average occupancy ranges from 10 to 25 percent the first year. B&Bs in rural areas usually have a relatively high occupancy rate because hotel/motel construction is not feasible in rural areas. Promotion, favorable word-ofmouth, and repeat customers may increase occupancy by perhaps 10 to 15 percent each year for the first three years.

To project income you need to:

- ◆ Determine preliminary room rates.
- Investigate your situation carefully.
 Use judgment and knowledge of

the area gathered from hotels and motels, the chamber of commerce, a reservation service, national, state and regional B&B associations, etc. Talk with several B&B operators in similar situations about their occupancy/marketing experience.

- A nine-state survey of B&B establishments conducted in May, 1990 by CenStates Chapter, Travel and Tourism Research Association and the Department of Hotel, Restaurant and Institutional Management, Iowa State University, showed that the occupancy ranges during the slowest month and the busiest month varied widely by state. Mean occupancy during the slowest month ranged from 5 to 13 percent, and during the busiest month ranged from 24 to 48 percent.
- ◆ A realistic occupancy percentage during the first year for many rural B&B locations without resort or major attractions has been 10 to 25 percent. With advertising, repeat guests, moderate competition, and favorable self and word-of-mouth promotion, occupancy should

TABLE 5-1.	
Example of Income for a 5-room B&B	Inn

	1st Year	2nd Year	3rd Year
Average Room Rate	\$60.00	\$60.00	\$70.00
Yearly Occupancy	15%	25%	40%
Days Open	365	365	365
Yearly Room Income	\$16,425	\$27,375	\$51,000

increase to about 25 percent the second year and perhaps by another 5 to 10 percent the third year.

- ◆ Annual revenue is projected by multiplying the number of rooms by the room rate times the number of days open, times the occupancy rate plus additional sales. (See Table 5-1).
- **♦** Additional Sales
 - · services, such as:
 - transportation
 - guided tours
 - child care
 - laundry
 - mending
 - meeting/banquet rental space
 - · retail sales, such as:
 - catering extra meals, luncheons, or off-premise (if in a licensed kitchen)
 - baked goods
 - crafts
 - antiques
 - books

The sales revenue is based on room rate, occupancy, and the number of days open. It is a key estimate because it serves as the basis for almost all other estimates you make. It is vital, therefore, that occupancy and income be projected in a realistic way—not just picked out of the air. Revenue projections must be based on facts and well-thought-out assumptions. It is critical that you know the anticipated time between start-up and the time you reach

occupancy break-even. You may need to refer to a book about break-even analysis, a hospitality accounting book, or an accountant.

Goals of Step Five:

- 1. Apply your knowledge from researching the market; and make realistic assumptions, taking into account the travel volume to your area and your competitor's occupancy percentage. Make goals for:
 - · first year weekly
 - · second year monthly
 - third year quarterly
- 2. Make assumptions based on everything going right.
- 3. Determine how much lower revenue would go if everything went wrong.
- 4. Determine how sales could be increased, and by how much:
 - promotion and advertising
 - · personal selling
 - · word-of-mouth
 - · quality services
 - retail sales
 - other
- Project the time between start-up and reaching break-even occupancy.



common saying in the hospitality industry is that the three most important factors for a successful operation are "location, location, and location." Ideally you would select a location by geographical region, a city within that region, an area within that city, and a specific site within that area. However, few prospective B&B hosts go through that process of site selection. Most B&B operators already have a location in mind based on personal preference for a certain climate or a hometown where long-time friends could help raise money and draw customers. However, prospective B&B hosts should balance personal preference with business sense. Because the two do not always coincide, it may be necessary to compromise.

In selecting a location and building, ask yourself why you prefer a particular area. Does the home match your expected customer profile? To select the best building and location, list the items that require minimal time and expense and those that require extensive time and expense.

The ideal location of your B&B

would be close to main traffic routes and year-around, high tourist destinations. Find out where tourists like to go, and locate there. An attractive country setting with little competition is also ideal. Unique features are valuable (but not compulsory), such as a historic building with antique furnishings.

An important criterion for selecting your location is that the environment meet your needs and those of your family. Consider factors such as climate, the size of the city, the recreational, social, educational, and cultural aspects of the community, availability of health care services, employment for your spouse, and distance from relatives. Before you commit yourself to a particular location and building, you should examine the zoning, fire, and health requirements that pertain to them. The cost of coming into compliance with such requirements may preclude the possibility of operating a B&B business there. See "Inspection Checklist, A Guide for Buyers and Owners of Vintage Houses" for questions to consider in the selection of a building and its location.2

Buying Considerations

If, after answering the questions in Appendix K, you are seriously considering buying property to start a B&B, there are a number of factors to consider and verify. Hillestad points out in his paper "B&B Acquisition and Opening Costs," that your initial building will likely range between \$50 and \$150 per square foot, and that you will need 4,000 to 7,000 square feet for a typical 10-bedroom inn. Renovation by a licensed contractor will cost approximately \$20 to \$70 per square foot. Additionally, Hillestad suggests, "If you are going to restore a historic structure, you should obtain the services of a special architect and contractor experienced with preservation techniques, which are vastly different from new construction techniques." References and the Better Business Bureau should be checked also. To be eligible for tax credit, you need to follow the Secretary of Interior standards for a historic building used for commercial purposes.

In his paper, "Preventative Law For Innkeepers - Contracts," Hillestad



Some things to consider when choosing a location and a building include availability of parking, attractiveness of outdoor landscape and surrounding neighborhood, and proximity to restaurants and highways.

suggests that you include several contingencies in any contract such as availability of financing, approval from all government entities, and condition of house such as mechanical systems and structural components. It would be worthwhile to pay someone and get a written report to make sure everything is in working condition and that you have adequate utilities. Other items to check for are back taxes, title, and a property survey.

Be sure to research the site's zoning classification and those of the surrounding properties. If zoning laws do not permit accommodation facilities, find out whether a variance or a change in zoning can be obtained.

Estimate the chances for objectionable future development such as noise producers, and examine factors that could limit expansion. Also find out about expected road and highway development. Review restrictions on the placement and size of signs. Also be sure to check the asking price and tax burden because these costs will ultimately be reflected in the room rates. Analyze the deed to see if there are site easements or other restrictions.

Goals of Step Six:

- 1. Realistically evaluate your location.
- 2. Evaluate the location as a place for you and your family.
- 3. Determine, if appropriate, the factors to research and verify in buying your B&B property.
- 4. Determine, if purchasing property, the specific contingencies to include in your contract.
- 5. Integrate the location, building, and concept.

¹Even if you have already selected a location and building, this step can help you evaluate your choice.

²Published by the Old-House Journal, 69A Seventh Avenue, Brooklyn, New York 11217.

Step Seven

Develop a Marketing Plan

Jour marketing plan should detail exactly what you want to accomplish, factors that may affect marketing efforts, resources available in the community, specific groups of potential guests most interested in your B&B and strategies to attract them, objectives for each market segment, an implementation plan, a budget, and a method for evaluation and change. Keep in mind that marketing is an ongoing process and that promotional activities must be continuously carried out.¹

Look upon your property, its architecture, decor, and pricing as your product package. Think of all the lodging alternatives in your area as competitive products sitting on a shelf next to yours. Then imagine travelers as consumers with a wide range of tastes, incomes, and interests. You need to examine the market, decide to whom you are going to sell, and then direct your marketing toward attracting those consumers. Step Four, "Determine and Research Your Market" provided the information to determine what segments of the market offer opportunity. Design your market strategies so

that your market will notice your B&B. In this step you will determine the best way to tell your market about your B&B and the best way to price it right. You need to develop a series of strategies that satisfies the special needs, desires, and behavior of your target markets. Then evaluate each strategy in terms of cost, effectiveness, and benefits (return).

Importance of Image, Name, and Word-of-Mouth

The personal image you project and the reputation of your B&B can make the difference between success and failure. You need to promote yourself as well as your B&B. You will be judged on how you dress, walk, speak, and interact. Your attitude of caring and ability to make guests feel special will produce repeat and referral business. A good, lasting impression can be created by (1) front desk personal and telephone contact with guests; (2) the name of your B&B, your logo, slogan, and sign; (3) the design of your stationery and business cards; and (4) the eye-catching brochures and confirmation cards.

Coming up with a catchy name—one that sounds good, piques people's

curiosity, and tells something about your B&B—is an important marketing consideration. The name alone can help generate customers. A consumer's decision to select a B&B may involve actually visualizing or imagining what it may be like to stay in the B&B. Try to choose a short name, falling early in the alphabet, with a lot of imagination associated with it.

B&Bs grow stronger by personal recommendations of customers and friends. Consumers generally ask trusted friends where to find a good B&B. It is the quality of the total B&B experience that makes the customer appreciative and talkative. Prospective owners/hosts need to be aware of how critical word-of-mouth public relations are in the growth of their B&B, thus one of your most important goals should be that every customer have an enjoyable experience.

Marketing Strategy (Mix)

The marketing strategy, or mix, should be viewed as a package of offerings designed to attract and serve the customer. Both external and internal marketing mixes need to be developed for different target markets. You need to develop ways to enhance the quality of the overall trip experience including (1) trip planning and anticipation, (2) travel to the B&B area, (3) the experience at the B&B, (4) travel back home, and (5) recollection. Focus attention on the experience desired by the guests and also the facilities, lodging, food services, and events that will produce these experiences.

Guidelines to External Promotion

Follow these guidelines to receive the best promotion for your money:

- Promote only to the market segments that are most likely to find your B&B attractive and satisfying.
- Become a member of the Chamber of Commerce, the Better Business Bureau, and the nearest Convention and Visitors Bureau. Find out if you can advertise in their annual or seasonal mailings. Volunteer to give presentations on the B&B business at local clubs and community gatherings. Become active in civic and community groups and offer your home as a meeting place to build rapport and cooperation. Provide rooms for charity auctions. Invite the community to an open house. Consider purchasing advertising space in local Chamber of Commerce brochures and specialty publications on local activities such as skiing and hunting. When buying ad space, compare prices based on cost per thousands (CPM) of readers reached.

Become the local tourist promoter and expert. Develop a reputation as an involved member of the community who provides quality, personal service at a fair price. Help develop promotional literature on the history, seasonal events, and unique features of your



To objectively evaluate your property and its architecture, imagine that you are a traveler driving by looking for a nice place to spend an evening.

- community. Through membership in a national, state, and regional B&B organization you may have the opportunity for joint publicity and advertising.
- State and regional directories published by your State Department of Tourism and Bed and Breakfast Association are very effective.
- An attractive brochure is an important marketing tool. Relatively inexpensive brochures need to be developed to provide information about your type of experience, unique features, location, bathroom arrangements, getaway aspects, rules, nearby restaurants and recreational activities, and sightseeing ideas. Make sure the brochure fits into a business envelope, is rack size (approximately 4 inches wide by 9 inches long), and has good rack visibility. Be very careful to select images and words that will represent your B&B in an accurate and inviting manner. Unless you are a talented writer and artist, you will need to hire professionals to write the copy and create the artwork for the brochure. You will also need to select a typesetter and a printer. Secure bids from several printers to get the best value for your money. However, be careful

not to sacrifice quality.

Keep in mind that you will have to review the brochure carefully at each stage of development. Make sure important information such as room rates and policies on deposits and credit card usage are clearly stated. The brochure can be distributed to potential customers; other B&Bs; lobby areas of restaurants, hotels/motels, and health care facilities: travel/ customer locations; appropriate public events, fairs, and festivals; recreation and sporting shows; local and regional retail service business firms and organizations; local funeral homes, upper-level schools, and antique dealers. Estimate your distribution number based on a six-month supply. Then obtain a printing cost for that amount, as well as estimates for additional quantities or reprints.

◆ Aggressively pursue opportunities for stories in newspapers² and magazines. Media coverage is very important for new B&Bs. Send regular news releases to national, state, and local newspapers and radio and television stations. Guest TV and radio appearances describing the uniqueness of your B&B can be extremely effective. Consider contracting with a freelance writer to develop articles about your B&B for submission to regional newspapers. Some newspapers have a weekly calendar and tourism section that lists the area's lodging accommodations. Finally, develop a press kit including a photograph, a brief history, and a description of your B&B to give to newspaper reporters, freelance writers, and travel writers.

Work on getting listed in B&B guidebooks.³ There are B&B "critic" guidebooks with independent opinions on B&Bs based on the author's standard, and usually there is no fee. Some guidebooks have someone inspect the B&B. Another type is a "listing" B&B guidebook which is useful in locating B&Bs in an area or alternative B&Bs in an area or city.

Listing your B&B in guidebooks is a relatively simple and inexpensive (the majority do not charge a fee, others charge about \$50 to \$75) way to attract guests, particularly distant customers. To decide which books you would like to be listed in, browse through the travel section of a bookstore. (See Appendix A for a listing of B&B guidebooks.) Select a reasonable number of guidebooks that look attractive and compare them based on the following factors: cost, circulation, market, updating frequency, membership requirements, type of B&B description, exclusivity stipulations, certain standards that must be met, and inspection policies. You may also want to inquire about liability and group life insurance policies. Also ask about newsletters and other benefits. Because it may be one to two years before a new or updated guidebook reaches the bookstores, contact the guidebook's writers before you open.

 Incorporating the name and logo of your B&B on business cards, fact sheets, stationery, and policy sheets is a relatively inexpensive way to promote your B&B. Professional-looking business cards can help establish credibility and raise interest. Attractive, well-written fact sheets can gain exposure and promote the image you have created for your business. Fact sheets can be posted on bulletin boards, handed out to guests, included in mailings, and sent to other B&Bs in your region.

Policy sheets should be posted in each room to outline the rules of your establishment while reminding guests of your business's name and logo.

Also consider incorporating the name and logo of your B&B on in-house items such as informational posters, placemats, stationery, and complimentary gifts such as matchbooks, pens, and postcards. Making your name and logo as visible as possible will make guests more likely to remember your particular B&B.

- ◆ If the advertising price to value ratio is appropriate, plan to attract travelers by advertising in state and association magazines for businesspeople, health care professionals, educators, engineers, and computer technologists.
- Cultivate and encourage good word-of-mouth through discounts and complimentary services.
- Follow up on contacts with the business firms of guests by offering midweek price reductions and small, corporate meeting packages. Encourage guests staying during vacation and pleasure times to take advantage of B&Bs for business trips.
- Provide discounts for customers who refer a guest to your B&B.
- Look into the cost/value relationship of accepting credit cards.



Promote your name and logo on a sign in your yard if the zoning allows; or display a B&B flag or banner.

Other Relatively Low-Cost Promotional Programs

After weighing the time, cost, and benefits, you may find it advantageous to become involved in other promotional and community programs that may include:

Cooperating with area businesses and competitors. Make personal sales calls on area business people, especially restaurant managers, personnel directors, purchasing agents, hotel and motel managers, real estate salespeople, and taxi drivers. Give them brochures and other promotional material and follow up each visit with a personal letter. Local referrals are a very solid way to attract guests at little or no cost. Cooperate with area hotels and motels to jointly promote facilities. Develop a referral network with area and regional B&Bs.

Contacting private citizens and community leaders. Read the local newspaper carefully and make personal



If you offer special features, such as a music room or fireplaces in the bedrooms, be sure to mention these in your promotional efforts.

calls to local people holding family reunions, weddings, funerals, confirmations, bar mitzvahs, and other events where out-of-town guests may be involved. Send out congratulatory letters concerning awards, promotions, and accomplishments to keep your business profile high among community leaders

Answering inquiries promptly. People who make inquiries are your most promising potential customers. Such inquiries should be answered promptly, and with the information requested. You should make it easy for those who inquire to make a reservation by including a phone number they can call collect or a self-addressed, stamped reservation form and envelope. Develop direct mail "thank yous."

Creating special promotions. Consider offering holiday and weekend packages that include activities such as cross-country skiing, snowmobiling, ice fishing, autumn hiking tours, Elizabethan Christmas themes, and international gourmet holidays. Create events

such as art classes, writing seminars, chess tournaments, mystery weekends, sweetheart escapes, and international and harvest fests. Promote your B&B's uniqueness to wedding consultants, town wholesalers, and meeting planners. Develop walking tours, and provide free rooms and a free packet to travel writers. During the off-season, advertise special rates in newsletters, newspapers, and regional magazines for families and senior citizens. Offer family and friend promotions to regular guests. Special events and package deals such as these will create interest in and generate publicity for your B&B.

Try to plan special events for each season of the year and encourage local merchants to co-sponsor and promote the events. Nonprofit sponsorship entitles you to free public service announcements on radio and television.

Listing in the Yellow Pages. There are now separate B&B sections. If you have a business phone number you are entitled to one free listing (name, address, and telephone number) in the

Yellow Pages. Because B&Bs are still a less common form of lodging, your listing may be most visible in the motel section. The majority of people who consult the Yellow Pages are passing through town and calling at the last minute to find a place to stay. Various Yellow Page advertisements can be purchased in addition, through the telephone sales representative.

Developing a newsletter. An important tool for reminding former guests about your B&B and generating repeat business is the newsletter. Ideally, a newsletter will contain information on the accommodations offered by your B&B, a history of the home, promotional events and package deals, special community attractions, and announcements of improvements or additions to the B&B. You might also consider sending out Christmas cards and other appropriate seasonal greetings.

Advertising on the radio. Radio is one of the most expensive forms of advertising. However, you might consider using it to announce your opening and to promote your B&B early in the busy season. Select a station that more or less shares your target market segment. For radio promotion to be effective, listeners should hear the name of your B&B several times a day during a period of a week. Seek professional advice in writing copy and choosing background music so that you project the image you want.

Listing with a Reservation Service Organization (RSO). B&B Reservation Service Organizations maintain and publish listings of B&Bs in various locations that travellers may consult when deciding on lodging. The B&B host pays a listing fee from \$5 to \$200—most fees are in the \$25 to \$75 range. RSOs do charge a commission, usually 20 percent of the guest's lodging fee and commission is charged for repeat guests as well. In exchange for the fees and commission, the RSO screens guests, handles deposits, and provides some publicity. Most arrangements

between B&B hosts and an RSO are clearly described in the form of a signed contract. Some RSOs require that your B&B conform to certain standards and may have exclusive contracts.

There are many B&B reservation organizations to choose from, so you will want to shop around in selecting the RSO that best suits your needs.⁴ When selecting an RSO, ask about the following: experience, type of operation, fee structure, advertising scope, exclusivity restrictions, special standards, and membership benefits.

Considering other options. There are now national B&B magazines, travel agent publications, travel clubs like AAA, and video brochures. Other potential advertising methods are outdoor advertising on main highways (billboards), directional signs, and signs in front of the B&B. Consider cost and potential problems with zoning and neighbors.

Using an internal mix. Provide quality personal service and if possible, a full breakfast, nicely decorated bedroom, thick towels, and a large bar of soap. Your internal marketing strategy needs to reflect: 1) hospitality and good guest relations (the central focus of the host and employees' thinking and actions is to satisfy customers and their needs)—treat each guest as a B&B critic, continually think of ways to make the experience memorable, call people by their names, etc. 2) quality control-service, cleanliness, food, safety, dependability, etc., and 3) personal selling—additional items, longer stay, more frequent return visits, referrals, higher priced rooms, etc.

Marketing Budget

Money and time should be spent during different times of the year for each Marketing Mix strategy. Decisions should be based on costs, projected revenues, and desired profitability of different activities.

A 1988 Facility Analysis of Minnesota Bed and Breakfast Industry revealed



Part of your marketing plan should include taking a few interesting photos of your B&B to distribute to publishers.

that in 1987, B&B operators spent an average of \$1,261 (several spent more than \$2,000) on marketing and related activities, but over half spent \$800 or less, which tends to reflect smaller, more rural B&Bs. The 1988 **Professional Association of Innkeepers** Bed and Breakfast/Country Inn Industry Survey & Analysis (of 72 inns in eight states) showed the average marketing expense to be \$2,738 for two to four rooms, \$4,975 for five to ten rooms, \$13.921 for 11 to 20 rooms, and \$9,498 for 21 plus rooms and an overall average of \$6,408. This study tended to reflect larger B&B inns located in higher priced areas.

Consumer Data Collection and **Evaluation**

Develop a formal and informal method to collect data about your guests such as where they are from, their party size, their trip purpose, how they found out about your B&B, and their evaluation of your B&B. Keep track of your occupancy rate and referrals sent and received from other accommodations. Promotions can be evaluated by money-off coupons, post office box numbers, or department numbers.

It is important that marketing efforts be continually evaluated to improve effectiveness.

Pricing Factors

Deciding the room rate is complex. Most B&B Inn owners with a large investment cannot survive many years unless they take in more than they pay out. It is important to realize that cost and profit estimates hinge on income from sales—and sales hinge on the right price, among other things.

Your price strategies should reflect the perceived value of the experience you are selling, your business costs, and your profit goals (not someone else's). Your income (before tax) is the revenue less variable and fixed costs.

PRICE = Guest experience + Image + Service + B&B Product + Overhead + Profit⁶

Let's take a quick look at the meaning of these terms:

- 1. Guest Experience is the psychological value of the experience you are selling to your guests such as: hospitality and personal touches, charm of building, romance, privacy, luxury, view, location, local attractions, etc. Is the experience unique enough to command a premium price?
- Image involves the personal image you project and the reputation of your B&B. The goal of imagebuilding is to create a good and lasting impression.
- 3. Service is a philosophy, a thought process, a set of values and attitudes that differentiates your B&B from competitors. The service-oriented host makes the customer's needs and expectations the central focus of the business. All aspects of the B&B are structured to make it easy for the customer to do business with you, and to give each guest a memorable experience.

- 4. *B&B Product* is the location, the design and condition of the facilities, quality of food and service, price, and the total guest experience.
- 5. Overhead expenses in the hospitality service industries are controllable by the manager, for example, administrative and general; advertising and promotion; heat, light, and power; and repairs and maintenance. Noncontrollable expenses, or nonoperating expenses include rent, taxes, insurance, interest, depreciation, and amortization.
- 6. *The profit formula* is: revenue less expenses equals profit. However, a better view of the profit is expressed by the formula: revenue less required profit equals allowable expenses. This promotes the belief that you must know profit requirements (not what's left) and factor them into your pricing and operating plans. Owners need to consider the amount of return to cover their original investment plus a return on their investment. The investor must determine "what the money is worth" so more accurate profit requirements can be established.

These are the factors that influence pricing:

◆ Price Sensitivity. The hotel/motel industry is considered to be price sensitive. There is some evidence that indicates a \$1 increase in room rates will reduce occupancy by one-half percent. Possibly B&Bs are not as price sensitive as hotels and motels because of the high average income of B&B guests and the selling of a total B&B experience. Results of a 1983 Laventhol & Horwath study support this assumption. The study showed that B&Bs charging \$70 a night had higher occupancy than those

- charging \$60. However, it cannot be assumed that higher prices automatically cause an increase in occupancy. Popular areas and higher cost-of-living areas such as California charge higher rates and have higher occupancy.
- ◆ Quality. Commit yourself to providing quality to establish and maintain credibility with your customers. If your B&B provides a great deal of luxury, personal touches and charm, historic value, private bathrooms, and full breakfasts, higher prices should reflect this. High quality and high prices often go together.
- ◆ **B&B Differentiation.** A differentiated B&B is sufficiently unique for customers to develop a preference for it. High differentiation, uniqueness, or distinctiveness and higher rates often go together. The more differentiated the B&B, the less price sensitive it is.
- ◆ Competition. Competitive markets stimulate lower prices.
- ◆ Service. The more service you provide, the higher the price may be. A B&B that focuses on the customer's needs and expectations can charge more because of a high perceived value⁵, and will probably also receive more repeat and referral business. Do everything to ensure that your customers are satisfied. If you do not please them and listen to them, you are less likely to succeed. Service builds credibility and reputation.
- Location. Urban, tourist intense, nearby attractions, and high cost of living areas can charge more than remote or low cost of living areas.
- ◆ Target Markets. Higher prices will tend to limit or attract high income and more prestige-conscious travelers. Lower prices will encourage more family and budget travel business.
- Size of B&B. Larger inns may have some economy based on size and

- greater possibilities of exceeding the break-even point. The financial survey of inns completed in 1988 by the Professional Association of Innkeepers International and published in *Innkeeping* showed that two to four room properties did not make money, but with six to seven rooms the owner/ innkeeper started making a profit, and an 11 to 20 room inn averaged an 8.23 percent return on initial investment including owner time (which excludes property appreciation). By 25 plus rooms, owners realized a 28.7 percent return.
- ◆ Marketing Goals. If you want to increase occupancy to cover operating costs during low occupancy periods, reducing rates may be considered to attract specific markets such as commercial and high frequency business. You may also want to encourage meetings, packages (confirmation of room and an event), and promotions to boost weekday or off-season periods.
- ◆ Your Business Cost. (See Appendix Q.)

Factors that may increase room rates are estimated to be:

- Private baths (\$10 to \$25)
- ♦ Historic value (\$10 to \$20)
- Amenities (\$.50 to \$6) for each amenity based on the time and materials involved and on the customer-perceived value. The following guidelines may be helpful:

modest, (\$.60 to \$1) average, (\$1 to \$2) above-average, (\$2 to \$4) luxury, (\$4 to \$6)

- ◆ Third adult in room (\$7 to \$10)
- ◆ Child under 12 (\$5 to \$10)
- ◆ Pets (\$5)
- Breakfast, based on cost of food and labor:

continental (\$1 to \$2) continental plus (\$1.50 to \$3) full (\$2.50 to \$6)

- Unusual features such as a pool, spectacular view, hot tub, access to a lake or river, fireplace, antiques, gardens, gift shop, etc.
- ◆ Equipment such as air conditioning, TVs in rooms, fax service, etc.

Factors that may decrease room rate and by how much:

- Over two rooms per bath or more than four persons per bath (\$5 to \$20)
- ◆ Single room (10 to 20 percent less than double)
- ♦ Weekly rates
- Special rates for families occupying two or more rooms
- ◆ Special rates for seniors (10 to 15 percent less)
- Special rates for a second night with no fresh sheets or towels (\$2 to \$4)
- Special off-season rates (20 to 25 percent less)
- ◆ Poor location (\$2 to \$4)
- Package deal
- ◆ Lack of sound insulation in floor, walls or ceiling (\$5 to \$10)

- ◆ Small room (\$5 to \$25)
- ◆ No closets, poor lighting (\$2 to \$5)

Some B&B Homestay operators are only trying to supplement their income with a few room sales a month to help pay utilities, taxes, and insurance. However, if you are opening a B&B Inn or Country Inn for profit and have high fixed expenses, such as loan payments, property taxes, and insurance premiums, you will want to cover all your costs and get a good return on your investment and a fair return on your time.

Pricing It Right

There are several avenues to try that might provide some help for price setting:

- Learn the pricing strategies of several B&Bs in your area, particularly ones with similar location, quality, and service.
- 2. Seek insight from state, national, and regional B&B associations.
- Obtain the recommendations of several reservation service organizations.

 Charge one dollar for each thousand dollars of construction cost as a pricing rule of thumb.
 See Table 7-1 for how the pricing formula works.

Cost Recovery and Return on Investment Plus Value of Special B&B Experience

Profits are the target. Revenue and expense projections are used to determine the average room rate that will fulfill investment and profitability goals. It takes more time and knowledge than pricing based on intuition, competition, and trial and error methods. A brief example follows:

Desired after tax dollar return (say 15 percent return on equity).

- overhead (taxes, interest, insurance, depreciation, wages, telephone marketing, maintenance, etc.)
- operating expenses (laundry, cleaning, guest supplies, food, office supplies, utilities, etc.)
- = required room revenue

TABLE 7-1. Pricing Formula

Turn Key/Total Cost (land, building, furniture, fixtures, and equipment)

number of rooms

Average Room Construction and Furnishing Cost multiplied by 1/10 of 1 percent = of average room cost

Room Rate

◆ EXAMPLE—Motel

 $\frac{\$5,000,000 \text{ (Total Cost)}}{100 \text{ rooms}} = \5

\$50.000/Room

 $$50.000 \times .001 = 50 Room Rate

◆ EXAMPLE—B&B

5 rooms

\$300,000 (B&B value) - \$60,000

= \$60,000/Room

\$60,000 x .001 = \$60 Room Rate

Required room revenue divided by projected number of occupied room nights equals average net rate (\$) per occupied room night. See Table 7-2 for an example of how a 5-room B&B inn arrived at a room charge.

Now evaluate your room rate structure based on the psychological perceived value of the unique experience, entertainment value, and special services you are providing.

Can You Meet Your Expenses?

The important question to answer is whether or not you are able to obtain your anticipated (or necessary) occupancy at a room rate that will allow you to (1) pay back your total financing expenses, (2) receive a salary, and (3) receive a return for your time and money? If not, analyze strategies to increase revenue and reduce expenses. Perhaps there are more profitable uses for your building, location, time, and money.

Goals of Step Seven:

- Specifically determine your business image.
- 2. Determine the marketing goals for the first three years:
 - list what you want your marketing plan to accomplish
 - estimate sales, occupancy, and profit goals

- 3. Identify the community resources to use.
- 4. List and describe target markets that offer the best opportunity.
- Determine reasonable modification of facilities, policies, and rules to attract more of each target market sited.
- 6. Establish market strategies to attract each target market group.
- Project the market potential of each target market and potential sales and advantage of each segment.
- 8. Determine the best way to attain your goals for:
 - overall marketing and promo tional strategies
 - competitiveness
 - promoting areas of strength
 - attacking weak areas of competition
 - pricing goals based on projected sales, experience, desired return, image, target marked, competition, customer sensitivity, perceived value of the unique experience offered, etc.
- 9. Make room rate check by confirming that:
 - · the rate makes sense
 - competitors rates make sense compared to yours
 - your B&B experience justifies a better, or poorer value than the results of the cost and recovery

- and return on investment formula
- · you can meet your expenses
- you can live with the time period between start-up and break-even
- 10. Briefly describe potential problems and proposed solutions.
- Create an implementation plan assignment of responsibility, goals, (objectives or steps), and timetable for completion of each segment.
- 12. Establish a marketing budget by a certain time of year.
- Establish a short schedule of important review methods by a specified time of year.

¹ Adapted from *Tourism Marketing. Tourism Information Series No. 4*, Edward M. Mahoney and Gary R. Warnell, Cooperative Extension Service, Michigan State University, East Lansing, Michigan, 1986.

² For \$20, you can purchase an updated list of 350 pressuresensitive labels for major news-papers, magazine travel editors and writers, and freelance writers from *Inn Review*, P.O. Box 1789. Kankakee. Illinois 60901.

³ Innkeeping Newsletter's 1988 Industry Survey showed that an average of 23 percent of inn business came from books and travel guides. Professional Association of Innkeepers International (P.O. Box 90718, Santa Barbara, California 93190) has an excellent Guide to the Inn Guidebooks. It contains a list of about 160 guidebooks, and information on fees, getting the author's attention, and responding to questionnaires.

⁴You can obtain a current listing of RSOs from: The American Bed and Breakfast Association, 16 Village Green, Suite 203A, Crofton, Maryland 21114 (as part of a kit), or from Ellie Chast, Sweet Dreams and Toast Inn, P.O. Box 4835-0035, Washington, D.C. 20008.

⁵ Perceived values are the customer's interpretation of his/her experience in relation to value received and the price charged. It is based on (1) lodging facility and food presentation (image); (2) service, and intangible personal touch of host and staff, agreement with house rules, etc.;
 (3) charm, atmosphere, historic value; (4) entertainment value; and (5) safety, cleanliness, sanitation value.
 ⁶ Adapted from *The Market Planning Guide*, David H.

⁶ Adapted from *The Market Planning Guide*, David F. Bangs, Jr., Upstart Publishing Company, Inc., Portsmith, New Hampshire.

TABLE 7-2. Example of a 5-room B&B Inn

\$ 7,000 desired return

- + \$17,000 overhead
- = \$24,000 required gross operating income
- + \$26,000 operating expense
- = \$50,000 required room revenue





Your B&B should always be clean, comfortable, distinctive, and should exude a sense of warmth. Your B&B should also be unique and reflect your family interests and tastes. You will want to increase the personal experience a guest will have at your B&B by considering the preferences of your market segments, enhancement of the style of your home and its interior architecture, and the geographical area.

Furniture and Furnishings

Furniture and furnishings include such items as: beds, chairs, side tables, dressers, special pieces, lamps, pictures, draperies, fabrics, linens, dinnerware, and plants. Purchasing should be done on the basis of investigation and comparison of several sources of supply. Furniture and furnishings need to be visually appealing (emotional factor) and functional (physical factor). Colors, lighting, paints, flooring, fabrics, and furniture need to be balanced and proportional, in good taste, able to provide long service, able to provide a peaceful, warm, and cozy feeling, and integrated with the overall B&B experience.

In selecting furniture, consider strong construction, upholstery fabrics that are wear and soil resistant, and compatibility with what is already in the room.

Ways to furnish relatively inexpensively include:

- Developing a display—lease/sell agreement with antique dealers
- Buying from local auctions and flea markets
- Seeking "Items for Sale" in local and area newspapers
- Shopping at "going out of business sales" throughout your state
- ◆ Using wholesale houses
- ◆ Buying from salvage houses

The best way to develop your list of needs is to go through an imaginary day, beginning with greeting the guest at the door. Major areas that you need to consider are: reception, common rooms, other possible gathering places, eating areas, kitchen, bedrooms (furniture, linen, accessories), bathrooms, laundry room and storage areas, and patio and porch areas.

Equipment and Supplies

Compare quality and prices, then purchase the best product to suit your needs in your price range. The best way to find what is on the market is to visit wholesale hotel/motel and janitorial supply houses, hotel/restaurant trade shows, or contact national and state B&B associations, write B&B trade newsletter editors, talk with nearby B&B innkeepers, and carefully study the hotel/motel trade journals and B&B newsletters.

A partial list of areas to consider is as follows:

- Housekeeping¹
 - heavy duty—floor machines such as vacuum cleaners, carpet shampoo machines, steam cleaning machines, etc.
 - cleaning—mops, pail and bucket, sponges, etc.
 - supplies—cleaning compounds, germicides, disinfectants, polishes, paper goods, guest supplies (information packet), etc.
- ◆ Kitchen
 - large appliances—stoves, ovens,



The style and arrangement of furniture in the public areas is particularly important in creating the overall feeling of your B&B.

refrigerators, freezers, ice maker, three-well sink, dishwasher, hot water heater, air conditioner, etc.

- small appliances—food processor, blender, mixers, slicers, coffee maker, scale, can opener, fans, etc.
- equipment—cutting boards, mixing bowls, sauce pans, stockpots, skillets, pans, measuring cups and spoons, knives, ladles, serving utensils, tongs, etc.
- supplies—silverware, dishes, glassware, cleaning materials, paper, uniforms, etc.

Other equipment would include such items as smoke detectors, typewriters, telephone and answering system, computers and software, keys and security system, lawn furniture, TV games, repair equipment (for electrical, plumbing, carpentry, building), fogging machines, insecticide sprayers, etc. Other office supplies would include stationery, receipt books, and bookkeeping/accounting papers.

A budget for furniture, furnishings, and equipment needs to be developed, and all items should appear on a priority basis: 1) absolutely essential, 2) adds to value and gives a fresh look, and 3) certain to be needed in a few years.

Restoration

The preservation of historical landmarks and the restoration of old homes pose challenges. The owner needs to 1) define the project, 2) clarify the room rate structure relative to the grading of the rooms and public areas (the amount of money spent should be in proportion to the room rates and expenses), 3) establish a budget, 4) establish a time line for completion, 5) list the resources to be acquired, 6) outline the quality of the products to be restored, and 7) determine the order of work to be done.

Goals of Step Eight:

1. List the areas of your building that guests will be in or that B&B work would be performed in for the guest.

- 2. List the furnishings, equipment, and supplies that are needed.
- 3. Develop a suppliers list for items needed.
- 4. Develop a budget based on first, second, and third priorities.

¹ You might start by obtaining a catalog of guest room supplies and amenities from: American Hotel Register Company, 2775 Shermec Road, Northbrook, Illinois 60062-7798; and The Breckenridge Company, 345 Williams Street, Huron, Ohio 44839. The *Inn Review*, P.O. Box 1789, Kankakee, Illinois 60901 publishes the *Inn Review Yellow Pages*, which is a fairly complete catalog/directory of resources for the Inn/Bed and Breakfast Business.

Step Nine



To develop an organizational and operational plan, you should begin by listing the operational activities and who will carry them out. (This decision is very important—couples and families should decide who will do what in advance.) You also need to know what necessary talents are missing and how any inadequacies will be handled, the goals of major activities, and the policies and procedures for reaching them.

In a B&B inn you are both the manager and an employee. As the manager, you plan, organize, direct policies and procedures, control, evaluate the effectiveness of the operation, and implement innovative improvements. Several important management functions can be performed by the owner and/or assisted by consultants.

Managerial Functions

Finance and Accounting. As a B&B owner you are responsible for securing funds to operate the B&B, conducting feasibility studies, showing anticipated earnings, coordinating cash flow plans, interpreting and evaluating profit and loss statements, etc. (See Step Twelve,

"Develop a Financial Plan.")

Marketing. As a manager, you are responsible for putting together a plan to attract customers to your B&B based on a desirable and unique customer experience. The manager also needs to establish marketing goals, market segments, and a marketing mix. (See Step Four, "Determine and Research your Market" and Step Seven, "Develop a Marketing Plan.")

Food Service. As a food service manager you are responsible for the menu, purchasing, service standards, enforcing cost controls, meeting sanitary requirements, and customer satisfaction.

Maintenance. As manager of maintenance you are responsible for maintenance contracts, costs, and schedules; work to be done by electricians, plumbers, painters, and carpenters; heating, ventilation, air conditioners, and refrigeration; security, telephone, water, waste, fire protection, and smoke control systems; management of sound; and maintenance of food service and laundry equipment.

Housekeeping. As a head house-keeper you are responsible for cleaning techniques, procedures, and schedules

for rooms, bathrooms, and public areas; inspecting all areas; cleaning materials and supplies; keeping an inventory of guest room supplies and amenities; cleaning floors and carpets; supplying clean linens, textiles, bedding, laundry supplies, and facilities; doing heavy cleaning; selecting, maintaining, repairing, refurbishing, and replacing furnishings; maintaining guest relationships; assuring safety, handling fire prevention; and keeping records.

As an employee, you will do many of the tasks involved in the successful running of the B&B business.

Worker-Type Tasks

Front Desk. As a front desk host you are responsible for developing credibility, listening to guests, providing information, finding out about guests' plans, creating a friendly atmosphere, answering the telephone with courtesy, registering guests, receiving payments, handling complaints and correspondence, etc.

Food Service. As a food service employee you are responsible for food storage, food preparation and attractive plate presentation; dishwashing and

sanitation of equipment and utensils, disposal of waste, etc.

Housekeeping. Housekeepers' duties include airing rooms, making beds, vacuuming carpet and furniture, dusting, cleaning bathrooms and furnishings, adjusting shades, arranging furniture, emptying trash, replacing light bulbs, replenishing guest supplies, cleaning public areas, washing linens, etc.

Maintenance. As a maintenance employee you are responsible for routine oiling, greasing, and repairing; replacing, gardening and lawn care.

All managerial and employee activities need to be aimed toward customer satisfaction. Delayed maintenance, lack of cleanliness and sanitation, and indifferent telephone reception or an unanswered telephone are the quickest ways to reduce your B&B's image.

B&B Rules and Policies

When determining your house rules and regulations, keep in mind that your guests may be overwhelmed by a lengthy list. Focus on the rules that you feel strongly about and are most important for a well-run business. State your rules in a positive manner. A long list of negative rules is a turn-off to customers, and may reduce your B&B image and hospitality program. Tell the guest your policies before reservation confirmation. Post your policies in the rooms and at the front desk; they will be respected if you make them clear. Important or unusual items should be mentioned in your advertising and reservation material.

You may want to consider the following items when developing your house rules.

- Pets
- ◆ Telephone usage
- ◆ Children
- ◆ Laundry facilities
- ◆ Smoking/alcohol
- Tourist information



As the head housekeeper, you are responsible for inspecting the cleanliness of the bed linens, floors, and furniture.

- Check in/check out times
- ◆ Credit cards/personal checks
- ◆ Keys
- ◆ Reservations/cancellations
- ◆ Breakfast hours
- Deposits or advance payments
- ◆ Kitchen privileges
- ◆ Provisions for handicapped people
- ♦ Housekeeping
- **♦** Equipment rentals
- ♦ Visitors
- ◆ Use of house and ground areas
- ◆ Use of shared bath
- **♦** Emergencies
- ◆ Fireplace usage
- ◆ Taxi service
- **♦** Evening curfews

Food Plan

The objective of the food plan is to provide the guest with a memorable breakfast. Your menu may be built around your skills, region, family recipes, or recipes from guests, famous people, inns, and restaurants. A number of factors add considerably to the guests' enjoyment of the breakfast, such as a pleasant atmosphere, attractive food presentation, stimulating conversation, and special touches such as good china and flowers. Be sensitive to restrictive diets. Widen your culinary horizons by browsing through cookbooks, attending cooking classes, and developing a B&B breakfast sharing network.

Food poisoning can cause large lawsuits and tremendous image reduction. Sanitation rules have been developed by your state to protect the public. It is just good business practice to carefully study, understand, and follow the state regulations. Knowing how disease-causing bacteria grow and spread will help you to prevent potential problems.

Food safety is enhanced by: 1) understanding and following your state regulations; 2) reviewing your kitchen, food preparation, and sanitation plans with your health department; 3) verifying safe water; 4) purchasing



Unless health regulations forbid it, you can add a special touch to breakfast by giving guests the option of being served in their room.

U.S.D.A. inspected foods; 5) cooking food to 165°F in center and maintaining food at 140°F or refrigerating foods under 45°F (chilling food centers to 45°F within four hours); 6) properly washing, sanitizing, and storing all dishes, silver, utensils, etc.; 7) washing hands frequently; and 8) completing the National Restaurant Association Education Foundation Applied Food Service Sanitation Program.

State and local health regulations may restrict the kind of food you may serve for a continental breakfast, which normally includes rolls, fruit, coffee, and juice. However, you can make a continental breakfast distinctive by offering high-quality pastries and fresh fruits that are attractively garnished and presented. Add a personal touch by serving it in bed or in a basket. Refer to Appendix L for suggestions on how to make each portion of the breakfast memorable.

Estimating Food Cost

To determine the food cost per guest, you should take into account the following factors:

- Quality of the menu
- Estimated quantity of food items each guest will consume
- Estimated cost of the amount (in ounces) that each guest will consume — estimate for all food categories.
- Labor intensive food items

Goals of Step Nine:

- 1. Develop objectives for:
 - front desk (reception, hospitality, and service)
 - housekeeping (cleaning, laundry, supplies)
 - food service (food preparation, storage, service, sanitation, safety)
 - maintenance (repair, fire, safety, landscape)
 - finance and accounting (See Step Twelve)
 - marketing (See Step Four and Step Seven)
- 2. Layout in precise detail the steps (best ways) to accomplish each objective. Fix the responsibilities and limit the time.
- 3. Define and set operating standards for each item in goal 1.
- 4. Explain your appraisal methods for each item in goal 1.
- 5. Review and interrelate goals for:
 - return on investment (See Step Twelve)
 - owner's lifestyle (See Step Two)
 - unique customer experience (See Step Three and Seven)
 - neighborhood and community relations (See Step Two and Four)



aws and regulations for B&Bs are complicated enough that you should consult a lawyer at an early stage in developing your business plan. If you fail to comply with laws, your B&B could be closed. Attorneys can help with:

- Avoidance of courtroom battles
- Observance of all legal requirements
- Explanation of legal consequences and implications of actions and alternatives
- Explanation of advantages and disadvantages of the various types of business organizations
- Representation in court and to regulatory bodies

Charles Hillestad, Denver real estate and small business law specialist and owner of the award-winning Queen Ann Inn, offers four tips for innkeepers: 1) Don't sign anything unless you know what it means; 2) Get it in writing; 3) Ask lots of questions; and 4) Do independent investigations.

Look for an attorney with whom you feel comfortable and who has experience with small businesses (ideally home businesses and the lodging field). He should be accessible yet held in high esteem in the business community. It is important to realize that there are attorneys that specialize in small business, real estate, securities, building and construction, insurance, OSHA, workman's compensation, social security, and other related specialties. You can check recommended lawyers in the Martindale and Hubbel Directory.

Find out in detail what the fees are for various legal services and the different methods for charging fees.

A lawyer's service is usually charged on a time basis, but it is also possible to set up a retainer fee on an account basis. This costs an amount agreed upon by the parties and provides continual advice and service as needed, with special work such as defending a lawsuit charged separately. The advantage of having a retained lawyer available is that the attorney is much like part of management—he cannot represent the other side and the fees are generally a business expense.

The judgement of attorneys is by no means flawless, yet they reduce the odds of making the wrong choice. It is important to find out if the prospective attorney has malpractice insurance to cover losses resulting from bad advice.

One of the first things to discuss with an attorney, tax consultant (CPA), and banker is the type of business organization and loan agreement to best protect your business and personal assets. You do need to know about home-based business tax law, tax benefits, possible catastrophic-type losses, consequences, investment tax credit, legal liability, etc. If you proceed blindly, without proper advice, you are likely to encounter trouble.

You need to first consider under which legal form you will operate: 1) Corporation (regular, sub-chapter S, or 1244), 2) sole proprietorship, or 3) partnership (general, limited, or family). See Appendix M for a more detailed explanation of types of business organization.

A sole proprietorship can be commenced without the drafting of any legal papers in many states. The limited partnership offers the more flexible entity to attract private investments. A corporation seems the best entity to protect as many of your personal assets

as possible from creditors of a business. An S corporation avoids double taxation and payment of taxes at higher rates than personal taxes.

If you are being charged on an hourly basis, advice on formation of a partnership and drafting the agreement usually costs \$150 or more. The organization of a simple corporation, from the articles of incorporation through the first stockholders' and director's meeting, may cost \$250 to \$350, plus a filing fee of \$50 to \$100 to the Secretary of State. These charges normally include certain rebates, general advice, and counseling. Many attorneys do not charge for a call requiring only a quick response. However, there is likely to be a charge for questions requiring a long response or for several calls.

Regulations or ordinances that can effect the operation of B&Bs are primarily in the areas of zoning, fire codes, and public health. To some degree, these regulations may be in effect at the municipal, county, and state governmental levels. When a regulation or ordinance exists at a higher government level, lower levels will often adopt the same policy. Keep in mind that ordinances in effect at lower levels are often more strict than those operating at higher levels.

You should learn about the regulating details at all government levels by discussing your situation with the zoning administrator, fire marshal, and public health sanitarian. Each state varies in regard to specific legislation for B&B operations. You may have to consult legislation pertaining to other types of housing or lodging to find out which laws apply to you.

Zoning

Normally, there are no zoning laws at the state level that would affect B&B businesses. At the county level, zoning laws generally apply to rural areas outside corporate limits. These laws are usually vague enough to favor the



Don't forget about fire codes when arranging furniture and checking exits.

establishment of a B&B enterprise. Zoning difficulties usually revolve around operating a B&B in a residential area.

At the municipal level, zoning ordinances vary, if they exist at all. In some instances, B&B operators have helped local zoning administrators write the related ordinance because the officials were not adequately informed about the nature of a B&B enterprise. See Appendix R for examples of B&B-related zoning ordinances established in Galena, Illinois, and Warsaw, Indiana.

When reviewing zoning variance or change requests, administrators consider factors such as impact on the neighborhood and benefits and detriments, including any visual nuisance that might be caused by the enterprise. You should address these concerns in your request for a zoning change or variance. Also, try to meet the people in your neighborhood, as they will be notified of a zoning change and have an opportunity to appear at a public hearing on the proposed change. You should explain the benefits of having a B&B in the neighborhood and try to alleviate any of your neighbors' misgivings. If some are unsure about the establishment of a B&B, your neighbors could easily become polarized on the issue.

Keep in mind that applying for a zoning variance takes time and will

require a public hearing. It may also cost money and require the help of an attorney.

Fire Safety

Local fire codes are often a direct function of the state fire code and of the area's building and zoning codes. Additional safety provisions may also be included in the state building code; these would be enforced in those communities where the state building code is in effect.

The language in the codes is very detailed, often with several options given. All B&Bs should have smoke alarms, clearly marked exits, floor plans on display, and fire extinguishers visible and accessible. The fire codes identify other types of unsafe conditions including interior surface finishes that allow a quick spread of flame, improper storage of flammable materials, and attached garages without fire walls.

The code requirements may differ according to the size of the operation. It is incumbent upon the B&B operator to see that the fire codes are met and the safety of the visitors is ensured.

Licensing and Certificates

Aside from zoning there may be concern with building codes, historic district regulations, liquor licenses, (laws and regulations), etc. Changing a home to a B&B in some states requires a new certificate of occupancy.

Health Regulations

Health regulations will vary from state to state and according to the size of your B&B and how the operation is zoned. Some states do not regulate the public health aspect of a B&B at all, while others have very specific laws requiring inspection before a license is issued. Periodic inspections may occur subsequently.

You will need an approved water supply and sewage disposal system with periodic testing of the water to ensure a



You should request that the area health inspector conduct a preliminary site investigation, so that you can find out about areas that may need improvement, possibly requiring a financial commitment.

pure water supply. Safe food handling practices must be observed, and all food used must be obtained from an approved source. B&Bs should have those employees that prepare food attend a food handlers' training course. Some local sanitarians suggest that you simply use common sense and assume the same health and sanitary requirements you set for your own family, increasing them somewhat for your visitor.

There are significant differences in the regulations of different states regarding food handling, types of food which may be served, laundering of bed linens and towels, bathroom facilities, and related items. Before applying for licensing, you should evaluate the specific requirements of your state and local jurisdiction with regard to your proposed operation, and request that the health inspector conduct a preliminary site investigation so you can correct any deficiencies before applying. (Re-quired changes for a separate kitchen could cost more than \$25,000.)

Early in the decision-making process, you should meet with the health agency in your area to discuss its regulations and how they will affect your B&B. The health department's regulations on water supply, use of home-grown food, and kitchen use may have a major impact on how your B&B concept is developed.

There are also other laws that need to be considered, such as those regarding: 1) employee protection (safety and health, equal employment opportunity, unemployment compensation); 2) copyrights or trademarks; 3) environmental protection (air pollution, water pollution, solid waste disposal, underground tanks, asbestos, radon) and historic district regulations; 4) estate protection (will, insurance, contracts); 5) consumer protection (safety of food and accommodations, truth in menu); 6) acquisitions (purchasing a home, purchasing an existing B&B, history of property, leasing, rezoning, reviewing loan); and 7) taxes (use, sales, unemployment, lodging, withholding,

workman's compensation, investment tax credit).

Hillestad also recommends having a plan to avoid financial catastrophe caused by death, divorce, disability, and/or disagreements with partners or investors.

Goals of Step Ten:

- List your objectives for meeting laws and regulations and for seeking legal advice.
- 2. Lay out, in precise detail, the steps (best ways) to accomplish each of the objectives above, and set time limits and responsibility.
- Make separate short- and long-run lists.





Insurance primarily safeguards the liquidity of the B&B after a catastrophe. Professional help is needed to make sure the B&B is protected from dangers that the owner can neither foresee nor control. Protection is needed because of a population that is quick to sue and juries that grant astronomical awards.

Insurance rates are increasing rapidly for certain types of insurance. It is important to make the B&B as accident free and secure as possible, i.e., eliminate causes for falls, enforce swimming pool rules and keep recreational areas in good repair, use fire retardant fabrics and furnishings and fire and burglar detectors, supply long, spring door latches and safety deposit boxes, equip fireplaces with grates to prevent flying sparks, etc. There should be a fire evacuation plan posted in every guest room.

Insurance companies look for:

- Fire risks and preventions
 - smoke alarms and fire extinguishers

- structure type
- condition of wiring and heating system
- Food preparation and service
 - · equipment used
 - type of food served
 - · current food handlers' permit
- ◆ Potential guest dangers
 - lack of lighting in stairwells
 - swimming pools and other recreation areas

The more strict the local or state regulations are regarding licensing, inspections, minimum equipment, etc., the more comfortable the insurance company will feel.

Some two to four bedroom homestay owners have said that a simple rider on their homeowners' policy provides them with coverage at a rate of \$300 to \$400 a year. This needs to be thoroughly investigated. It is recommended that you obtain from the carrier (not your agent or broker) in writing the specific contingencies and dollar amounts covered. Some B&B innkeepers have spent from \$2,000 to

\$10,000 for insurance protection.

If you are thinking about joining an RSO or a state B&B association, you should check to see if the organization has an exclusive insurance program for members. Insurance packages are being sponsored by some of these groups so that individual B&Bs can take advantage of volume rates, but the agency or company should work with you individually to design coverage to satisfy your needs.

Systematic insurance planning calls for a complete insurance survey to (1) determine the property, perils and losses to which the owner and B&B is exposed, (2) determine the best and least costly way to arrange the insurance necessary to protect against their exposure, and (3) study loss prevention to use all avenues of rate reduction.

Risks can be distinguished as (1) large—endangering the survival of the B&B, (2) medium—forcing the owner to change business plans considerably without endangering its survival, and (3) small—changing the business plan is not essential.

Risks can also be categorized by what is threatened:

- 1) Property such as fire, water, theft.
- 2) Assets such as liability when guests and employees are hurt, business interruptions, etc.
- 3) Persons such as sickness (food poisoning, third-party liquor liability), the consequential loss of income, and acts of aggression (robbery, rape, kidnapping).

Gary Ablard and David Lipsky¹, partners in a Claremont, California law firm specializing in insurance-related litigation, make the following insurance suggestions:

- Make sure coverage is for replacement costs, not actual cash value. Many hotel furnishings and equipment are old and values decrease with age; therefore, if you are not covered properly, you will be responsible for the difference in replacement cost and actual cash value.
- ◆ Get a reputable, up-to-date appraisal of on-premise artwork, including paintings, prints, antiques, and unique furnishings. Do not count on insurance appraisers to offer the current value when you do not have professional documents to support those values. Also, photograph all fine art so documents can be verified. Keep the photos in a safe, fireproof place.
- Make sure your policy includes a rider requiring the insurance company to pay for mandated code updates. With new construction, there may also be new building codes that require new features and more money. Unless it is outlined in the rider, the insurance company may not cover the additional expense.
- Negotiate a policy rider for an adjustment allowance. For a major loss it is advisable to get help from a public adjuster or other professional, but first make sure that

- your insurance company will pay the adjuster's fees. The public adjuster's charge typically ranges from 10 percent to 15 percent.
- Obtain realistic estimates of yearly updating costs—don't rely on automatic inflation clauses in the policy. If the policy was written several years ago, all costs should be reviewed to determine what updates are needed on coverage limits.
- Make sure business-interruption coverage is adequate. Your business may have grown significantly since you obtained the original policy outlining your limits for business interruption.

The insurance industry is composed of many different types of carriers. Factors that should be considered in selecting a carrier are its financial condition, its service, and its rates. Competition tends to reduce the points of distinction among carriers. In purchasing insurance, you will want to determine the cost and exactly what the insurance contract will do. To determine exact coverage and limitations on coverage, it is necessary to find the answers to several clear-cut questions:

- What perils are covered? Some contracts cover only one or more named perils, and others use "all risk" contracts which cover every peril except those specifically excluded.
- What property is covered? Be sure that the insurance contract describes the property that is covered, and indicate the property specifically excluded. You can establish insurable value by hiring a professional appraisal service, having the insurance company or agent do it, or doing it yourself.
- What losses are covered? Some insurance contracts cover direct losses only, whereas others may extend to indirect or consequential losses on a limited basis.

- ♦ What persons are covered? Some policies cover only the named insured and his legal representatives, but others extend to several additional people. The extension may be automatic or at the option of the insured. Also, notification to or consent from the insurance company may be required.
- What factors limit or restrict the amount of recovery on the insurance contract? Consider actual cash value, replacement costs, deductibles, etc.

Comprehensive and all-risk policies come closest to insuring against all possible losses. B&B innkeepers should probably carry a \$5,000,000 minimum excess liability policy, because of the trend of more frequent suits and high court awards. Look out for exclusion clauses and check with your insurance agent to review punitive damage coverage. (Some states do not allow this coverage while other states have no restrictions).

Be sure you understand coinsurance and the reduced premium to cover a portion of the insurable value, and the deductibles based on per occurrence or per claim. Premiums are adjusted to the loss record. Evaluate the direct costs of losses as they are often as high or higher than the direct cost paid by the insurer for small to medium size claims.

The fields of insurance coverage that you need to consider are:

Fire insurance lines and forms that

(a) add descriptive material (such
as forms describing the physical
nature of the property and forms
providing floating coverage), (b)
extend standard forms to cover
additional perils (such as
extended coverage endorsements), (c) forms covering
additional losses, (such as
business interruption, living
expense, personal property,
personal belongings of customers,
rental insurance, replacement cost),



Before you purchase insurance, get an objective, up-to-date appraisal of all on-premise furnishings and equipment.

and (d) allied lines (such as earthquakes, floods, sprinkler leakages).

- Casualty insurance lines and forms include third-party liability forms (such as business liability of owners, landlords, and tenants and professional liability), and host liquor liability; and automobile (person and business).
- ◆ Crime coverage for business firms.
- Social insurance such as temporary disability benefits, and workmen's compensation.
- ◆ Accident and illness insurance.
- Life insurance ("key-man" and partnership), annuities, and pension plans for retirement income.

You will want to explore the cost of items that reduce premiums, factors that increase customer safety, and premium reductions for such items as: fire extinguishers, smoke alarms, sprinklers, burglar alarms, double-lock systems, hand-wired telephones, covered fire alarms, outside stairs, fire doors, emergency generators and lights, guest disclaimers, etc.

How do you locate a good agent? A well-informed banker or lawyer should be a good source of information about insurance agents. Check the B&B network and your state association. The insurance buying executive of local retail businesses, or a local motel owner may be well-informed on the comparative abilities of agencies as they apply to their business. Learn enough to communicate with agents and to ask the right questions. Then, contact at least three brokers or direct writer company agents, asking for the best coverage at the lowest possible cost. Work only with the brokers who can provide the answers. The buyer needs to feel he/she can trust and can discuss the financial details of the B&B business with this person. Look for someone who will be accessible when you need help.

Best Key Rating Guide classifies 1,970 licensed insurance carriers by six rating classifications and by financial size. A company is reliable if licensed in your state and rated high in the Best Guide.

Some companies write policies for groups of B&B hosts. A broker might be able to get group coverage if there are several in your area.

Goals of Step Eleven:

- Determine the perils and losses to which you and the B&B are exposed.
- 2. Divide your risks into large, medium, and small.
- Determine the best and least costly way to arrange for the necessary insurance.
- 4. Examine all avenues to reduce premiums.
- Determine insurance for special risks.
- 6. Learn the services an insurance agent can bring to you, and how accessible he/she is.
- Evaluate the benefits and liability of a good agent compared to a B&B group insurance policy.

¹ Quoted from *Hotel and Motel Management,* May 30, 1988.



Develop a Financial Plan

If you do not have any accounting background, this step may be difficult. You may want to obtain some hospitality accounting books, take a course in accounting, or tap the expertise of a small business accountant to help manage the financial aspects of your business. Finances need to be a primary issue when you borrow large amounts of money. You will have an advantage in borrowing with a well-prepared business plan showing projections for cash budget, pro forma statements, and how and when the loan will be repaid.

Financial considerations were not the primary reason many people gave for opening a B&B business according to a Wisconsin study.¹ The most common responses had to do with meeting people (69 percent), adding to income (66 percent), and sharing the house to relieve loneliness (42 percent). However, a smaller group indicated reasons for starting that probably required greater concern for financial consideration such as helping to finance their home (36 percent), finding tax advantages (26 percent), restoring an

old building (15 percent), owning their own business (15 percent), and earning primary income (9 percent). Both groups tend to have much greater concern for financial matters after they open and these need to be a major consideration in your Business Plan and in your decision to open a B&B.

Budgeting - Profit Planning

A business budget (profit plan) is a management plan covering all phases of operations—usually for one year. It is a formal expression of policies, plans, objectives, and goals. A business budget is the best means for (1) analyzing alternative courses of action and investment opportunities, (2) forcing the potential owner to examine alternatives prior to adopting particular courses of action, (3) examining the facts necessary to achieve particular profit levels, (4) carrying out a selfevaluation of the operation and its progress toward its financial objectives, and (5) providing reasonable estimates to assist in the setting of room prices.

Before you start to budget you must spell out your operating plans and

define your goals and objectives for marketing, staffing, insurance, accounting, and legal requirements. Note that these are all big parts of the business plan. Your budget can be no better than your well-researched projections.

Forecasting Expenses

Your expenses for the first year of operation can be divided into two categories: start-up costs and ongoing/operating expenses. You should plan for these expenses carefully, making sure that you have taken all possible costs into account. The following guidelines for determining start-up and ongoing costs will help you develop a realistic and comprehensive forecast of expenses.

Start-Up Costs

When determining start-up costs, separate expenses into the following categories: one-time starting expenses, start-up costs that can be gradually written off or "amortized" over time, and ongoing expenses of operating the B&B. Use the B&B Start-Up Costs in Appendix P to determine which costs apply to your B&B, additional start-up

costs particular to your situation, and the overhead costs of doing business. You may also want to consider the spread between optimistic and pessimistic projections. See Figure XX for sample start-up costs.

Create a table similar to the one above that includes all your start-up costs. The table will help estimate the total cost of getting started; the cost and proportion of one-time costs; the cost and proportion of operating expenses for your B&B during the first year; and the amount and proportion of the costs spread over five to ten years of operation. You will be able to recognize the impact of long-term overhead and look at major capital expenditures as "fixed."

Operating or Ongoing Expenses

Next, you should examine the total expenses incurred during the first year of operation. Start by determining the direct costs of running the business, then add the cost of overhead items. These figures should be reviewed monthly.

See Appendix Q for the Professional Association of Innkeepers International chart of accounts. Be as thorough as possible in your efforts to prepare accurate projections for these expense categories.

When figuring ongoing expenses, take into account relatively stable items such as rent, mortgage payments, insurance, loan payments, and interest on loans. Some ongoing expenses increase slightly with greater occupancy, such as the cost of hourly wages, utilities, telephone use, and office supplies. Other expenses will vary directly with the occupancy rate, such as the cost of food, commissions, and operating supplies. You will want to cut back on controllable items during slow periods. Also take into account periodic expenses, such as maintenance and repairs, professional services, and

TABLE 12-1. Example of Projected Start-Up Expenses							
Item	Expected Investment or Cost	Expected Life	Annual Cost	Monthly Overhead			
Renovation cost of construction, of electrical,							
plumbing, painting, landscaping	\$22,200	10 yrs.	\$2,220	\$185			
Mattresses, sheets,		v					
blankets, etc.	\$4,500	5 yrs.	\$900	\$75			
Smoke detectors	\$500	5 yrs.	\$100	\$8.33			
Kitchen Equipment	\$1,200	10 yrs.	\$120	\$10			
Directional road signs	\$1,500	5 yrs.	\$300	\$25			
Front entrance sign	\$500	5 yrs.	\$100	\$8.33			
First Year Costs							
Legal fees, permits, licenses	\$1,200						
Promotion, advertising	\$2,200						
Supplies	\$600						
TOTAL	\$34,400		\$3,740	\$311.66			
Note: This projection assumes that the building is completely paid for.							

advertising and promotion. A sample projected profit and loss statement is provided in Appendix O.

Frequently, prospective B&B owners believe they can do all of the work. They do not budget salaries for employees for busy periods, illnesses, some evenings, and vacation times. You also need to budget for personal costs such as the value of your time, new clothes, food, entertainment, etc.

Depending on the amount of loan payments and other variables, at about 40 percent occupancy, your fixed monthly and yearly expenses may consume from about 50 to 70 percent of your gross revenue. These expenses cover relatively fixed mortgages, rent, or building payments, accounting costs, taxes and licenses, office and administration costs, and depreciation. As your occupancy rate increases, the percentage spent for fixed costs will decline, the percentage spent for variable expenses will stay about the same, and profits will increase.

Depreciation

Depreciation is a systematic means by which costs associated with the acquisition and installation of an asset are allocated over the estimated, useful life of that asset. An accountant can explain the various depreciation methods and possible tax advantages. Capital expenditures are for assets and improvements with a useful life of more than one year. Tax deductibility is spread over the number of years that represent their approximate life expectancy.

Cash Reserve

It is important to project expenses from start-up to the time you reach breakeven occupancy level. If there are no reserves for losses during the period until you break even, bankruptcy could occur. It is not uncommon to take two or more years to generate a profit.

Considering the Necessary Investment

After estimating the start-up costs and ongoing expenses, you need to decide whether investing in a B&B will pay off. You may want to look at the lost investment opportunity if your home is paid for. Determine the value of your home, the cost of a smaller house, and the financial return on investing the dollar difference of the two homes.

You may have to take out a loan initially to pay for all the start-up costs and ongoing expenses during your first or second year of operation. For example, the projection of start-up costs, listed earlier in this step, projected an initial investment of \$34,400. Assuming that you had \$4,400 available, you would have to borrow the remaining \$30,000 and pay interest on the principal.

You should carefully consider the additional financial burden of such a loan before committing yourself to starting a B&B operation. By taking a first mortgage on your home for \$30,000, at a 11.5 percent interest rate for 20 to 25 years, you would have monthly payments ranging from \$305 to \$320 per month. Some new hosts may have house payments, or payments for the purchase of property to start a B&B or payments toward buying an existing B&B. Calculate whether the B&B will bring in enough income to pay your bills and compensate you for your time and invested capital.

Prepare the worst case scenario and have access to twice as much as you think you need. Consider delaying loan repayment until a period when your projections show an adequate cash flow. Tap the expertise of a small business lawyer if you are making a large investment in a B&B inn, purchasing an existing inn, or forming a partnership or corporation.

Where You Go for Money²

Small business and family business owners may be able to provide helpful financial information. Planned financing may be a combination of the following items:

- Borrowing on a note basis from friends and relatives
- Borrowing the cash surrender value of your life insurance policies and those of your relatives'
- Contacting an insurance company for a long-term loan
- Securing a loan from a local bank if your net worth is high enough (you will need to locate a cosigner if you have insufficient assets)
 - Loan officers look for borrower's worth with good credit ratings and sound business plans.
 Interest rates and repayment plans vary from bank to bank, so comparison shop for the loan that is best suited for your circumstances. You will probably spend from 2 to 5 percent of the total amount of a commercial loan up front as loan closing costs.
- ◆ Contacting the Small Business Administration for a business loan
 - For an SBA loan, you need a good business plan and cash or collateral. If you are refused by two banks, SBA will consider guaranteeing the loan. Women and minorities may qualify for special loan programs.
- Obtaining financing from a small business investment company
 - Selling interest in your B&B by forming a partnership or corporation may produce the capital you need
 - You do not have to repay equity money. Investors are interested in return on their investment.
- Obtaining a long-term lease for the property
 - Long-term leases eliminate down payments and mortgage

payments. You would probably have to locate people to purchase the property to be leased to you.

Obtaining a Bank Loan

To find a suitable bank or lender ask them the following questions:

- Do you have small business loan officers with whom I may speak?
- What size small business loans do you handle?
- Do you have innovative, commercial loan programs and do you handle SBA loan guarantees?
- Are you loaning now for home businesses and B&B-type projects?

You need to have a good business plan to present a loan proposal. A SCORE counselor from the Small Business Administration or the Small Business Development Center should review it first. Your plan should answer at least five questions including: 1) How much money is being requested? 2) What is the exact purpose of the loan (itemized)? 3) For how long a period is the loan wanted? 4) How is the loan going to be repaid (proven by projections)? 5) What is being offered as collateral?

After presenting your loan proposal to the loan officer, the last question should be, "How long will it be before I get an answer?"

Capital Budgeting

Capital budgeting decisions involve the commitment of large amounts of capital for long periods. Typical capital budgeting decisions include whether to buy equipment, whether or not to add rooms and bathrooms, and whether or when to renovate the kitchen. Capital budgeting involves planning and measuring the estimated economic profitability of alternative use of your resources.

Figuring Net Profit

Once you have determined your estimated revenues and expenses, you

can figure your projected profit. Profit before taxes is the excess of revenue (sales) over all costs and expenses incurred over a given period of operation (see bottom line of income statement in Appendix O). When you have determined your after-tax profit, make sure that it will provide adequate compensation for your time and effort and a worthwhile return on your personal investment.

The Profit and Loss Statement in Appendix O projects timing of the incoming revenues, operating expenses, fixed expenses, and profit or loss before taxes. It also shows income and expense accounts recommended by the Professional Association of Innkeepers International.

Knowing how many guest days (or dollars) are necessary to cover costs is exceedingly important. The break-even chart, or profit graph, indicates how sales volume, selling price, and operating expenses affect profits and how many room sales are necessary before you begin to make a profit.

Break-even analyses pinpoint where revenue equals total costs. To calculate your break-even point, take your projected income statement and identify each cost as either fixed or variable.

Fixed costs are those that over the short run (a year or less) do no vary

regardless of revenue fluctuations. Examples are salaries, rent, property taxes, interest, fire insurance, depreciation, and the committed cost of an advertising campaign. Over the long run, all these costs can, of course, change. But changes are not directly caused by the number of guests accommodated.

Variable costs vary in direct proportion with sales or revenues—the higher the occupancy, the higher the cost. Very few costs are strictly linear, but several that are (with slight possibility that they will not always have this strict definition) include the costs of food, laundry, linen, and guest supplies.

Semifixed or semivariable costs have an element of fixed expenses (independent of volume) and an element of variable expenses—and not always variable directly to sales on a straight-line basis. Such costs would include payroll, maintenance, and utilities. A B&B operator needs to separate these semifixed or semivariable costs. Perhaps a good way to initially analyze this is to examine the fixed and variable components of each semifixed cost in regard to a low occupancy month compared to a high occupancy month, and determine a mid-point between the two.

There may be a relatively high portion of a fixed cost element for many

costs because of the relatively low number of rooms sold in the first year or two and the number of units contained in the most economical purchase container, minimum service charge, or cost.

The break-even formula shown in Table 12-2 shows that costs will exceed revenue until you have sold \$54,237 worth of rooms. Consult hospitality financial and accounting textbooks for more information on this important topic.

Significance of Cash Flow

Net profit is not the same as net cash flow. In addition to accurate estimates of revenue, expenses, and profits, you need to estimate the timing of cash flows. Your profit and loss statement (see Appendix O) does not provide accurate information about cash available for an accounting period.

Probably the most important part of the financial plan is a solid cash flow projection, which translates an operating plan into dollars. The statement discloses cash in (operating and other receipts), cash out (operating disbursements, fixed charges, and other disbursements), and their timing. It thereby identifies the elements that make up net change in the cash balance between the beginning and end of a period, and shows fluctuations in cash balances. The cash budget also predicts future cash flow based on an expected level of sales volume. It indicates when borrowing will be necessary and in what amount, and shows when cash will become available to repay the loan. It is especially useful during the pre-opening renovation and furnishing stage and the first months of operation. Unfortunately, dollars actually received (particularly cash received from some credit card plans) are not necessarily received when you need them. Some operators have seasonal cash flow problems. The negative impact can be greatly reduced by appropriate advance planning.

TABLE 12-2. Break-Even Formula

$$BE = \frac{F}{(S-V)}$$

$$Where BE = break-even sales in dollars$$

$$F = fixed costs in dollars$$

$$S = sales expenses as 100 percent$$

$$V = variable costs as a percent of sales$$

EXAMPLE:

If F = \$32,000, S = 100 percent, and V = 41 percent,³

BE =
$$\frac{\$32,000}{(100 \text{ percent} - 41 \text{ percent})} = \$54,237$$



Installing insulated window shades is one small and relatively simple way to help keep your fixed costs for heat down in the winter.

The cash budget is usually composed of six parts:

- 1. beginning cash balance
- 2. receipts expected operating and other receipts
- 3. disbursements operating, fixed, and other such as food, labor, supplies, investments, owner's draw, house and other loan payments, and income taxes
- cash excess or deficiency the difference between cash receipts and cash disbursement. If a deficiency exists, you will need to arrange for borrowed funds
- financing a detailed account of the borrowings and repayments projected to take place during the budget period - this includes a projection of interest payments that will be due on money borrowed
- 6. ending cash balance

The cash budget should be divided into monthly (or shorter) periods for one year. For more information, see the latest edition of the Uniform Systems of Accounts and Expense Dictionary for Small Hotels and Motels, American Hotel and Motel Association (see Appendix A).

Developing a Bookkeeping/ Accounting System⁴

An accounting system allows you to plan and control your business, keep tax records, compile historical data, and prevent theft and fraud. For guidance on setting up a B&B accounting system, refer to The Professional Association of Innkeepers system⁵ and the Uniform System of Accounts for Hotels.⁶ You may also want to consult an accountant to develop your system.

Record keeping alternatives include (1) regular family checkbook and accompanying record book with separate accounts to keep track of expenses, (2) one-write or pegboard system - combination checkbook and record keeping system, (3) duplicate check system - get a carbon copy of each check written and identifying account, and give to your accountant each month and the accountant provides you

with a monthly Profit and Loss Statement, and (4) computer record keeping program.

Investigating the Tax Laws⁷

You can make the tax laws work for you if you are well-informed and have good counsel. An accountant and representatives of the Internal Revenue Service. Small Business Administration and/or a Reservation Service Organization can assist you in understanding your legal responsibilities, allowable deductions, and options. Be sure to learn about tax preparation, possible investment tax credit for newly purchased items, deductions for renovating historic homes, business deductions, selfemployment tax, social security tax, state income tax on home-based businesses, and sales tax. Depending on your tax bracket, there may be advantages to you or your spouse discontinuing present employment. There may also be benefits to having one spouse hold the B&B business as a separate property.



If you are thinking of restoring a historic home, be sure to check into possible tax deductions.

Overall Analysis

If the results of your budget and tax plan are positive after comprehensive analysis, have the plan reviewed by a banker, accountant, and/or a B&B operator. An independent review of the operating plan, marketing plan, and budget is advisable to ensure that they are realistic and attainable. If the financial results are negative, but you want to persevere, review the B&B concept for possible changes. Consider choosing another location, and determine strategies for increasing revenues and reducing construction, start-up, and operating expenses.

Goals of Step Twelve:

- Determine the amount of money you need to carry out the business plan (to cover land, building, equipment, start-up, and operational expenses).
 - Determine how you expect to finance this debt capital and when it is needed.
 - Determine how the money will be spent.
 - Determine how soon it can be repaid.

- 2. Determine possible sources of funding.
- 3. Project start-up costs.
- 4. Determine the break-even point of your B&B.
- Determine the time period between start-up and break-even.
 Then determine the amount of cash reserve needed for that period of time.
- 6. Project a monthly cash budget for one year.
- 7. Prepare a pro forma profit and loss statement for three years.
- 8. Decide on an accounting/bookkeeping system.
- Investigate the tax laws for maximum benefits and records required.

- ¹ The Wisconsin Bed and Breakfast Industry; An Enterprise Study, Recreation Resource Center and Small Business Development Center, University of Wisconsin, 1990.
- ² See *The ABCs of Borrowing,* Small Business Administration, FM1.
- ³ In a Professional Association of Innkeepers 1988 Bed & Breakfast/Country Inn Industry Survey & Analysis, 5 to 10 room inns' variable expenses were 41.23 percent and fixed operating expenses were 58.77 percent.
- ⁴ New England Business Service, 500 Main Street, Groton, Massachusetts 01471 has a one-write check system for about \$70. It includes 300 checks, a peg board, a journal, envelopes, and other components. The one-write receipt and deposit system includes 50 receipts, deposit slips, journal peg board and envelopes. Also, Breakfastn-Bed, provides a B&B accounting system for about \$80. Their address is 2101 Crystal Plaza Arcade, Suite 246, Arlington, Virginia 22202. Also see *Recordkeeping in Small Business*, U.S. Small Business Administration FM10.
- ⁵ The Professional Association of Innkeepers, P.O. Box 90710, Santa Barbara, California 93190.
- ⁶ The American Hotel & Motel Association, 1201 New York Avenue, N.W., Washington, D.C. 20005-3917.
- ⁷ See *Business Use of (Your) Income For Use in Preparing 1989 Returns,* Publication 587,
 Department of the Treasury.

Step Thirteen



Wo other items essential to the business plan are the cover letter and the appendix. The cover letter should briefly summarize the plan and emphasize its purpose and premise. It is a selling tool, addressed primarily to prospective investors, lenders, or partners.

The appendix should provide easy access to supportive and detailed information that you have gathered for the business plan. The items in the appendix are best arranged in the same order as the plan. It is helpful to use a numbering system for each section of the appendix for use in making references to the appendix material. The type of information that might be listed in the appendix includes:

- Detailed biographical sketches of key people
- Charts, graphs, tables, and statements referred to specifically in the body of the plan
- Detailed assumptions supporting the financial projections (like profit and loss projections, pro forma cash flow analysis, balance sheet, and a break-even sheet)

- Detailed explanations of occupancy patterns from B&B operators, local and regional hotel/motel occupancy trends, and other data upon which B&B revenue is based
- Organizations and individuals providing key services to B&Bs (e.g., lawyers, bankers, accountants, and insurance agents)
- ♦ B&B competitors
- Specially prepared market surveys and existing local market surveys
- Sales projections for the first three years
- Advertising and promotion schedule for the first three years
- Equipment and supplies list

Review, update, confirm for accuracy, and summarize in a clear, concise fashion each step of this guide. Carefully review the financial plan and get opinions from accountants, bankers, and B&B innkeepers before making a major investment or change in family status, location, job, etc. This then is your "B&B Business Plan." It provides you with an initial operating plan and explains your

business to outside parties. Now you should have a realistic idea of the time and resources required to operate a B&B business and what you can expect from that business. You must now decide:

- Is a Bed and Breakfast the best use of this space or would conversion to apartments, office space, or other alternatives provide a better yield for my time, money, and interests?
- Will I attract enough customers at the room rate to cover expenses?
- Is it worth devoting a large part of your time to the business?
- Will it be worth investing a great deal of your assets to the business?

If you answered "YES" to these questions, you are ready to implement the business plan for your B&B.

Goals of Step Thirteen:

- 1. Complete the business plan.
- 2. Determine what specific knowledge you have.
- 3. Determine how your knowledge, experience, and abilities transfer to the B&B business.
- 4. Determine how best to exploit the opportunity.
- 5. Evaluate all the facts and DECIDE:
 - Is it worth a big piece of your time?
 - Is it worth a big piece of your assets?
 - Do you want to proceed?

Conclusion:

This publication has outlined a systematic method for developing and analyzing your potential B&B business. Although a business plan cannot ensure success, careful completion of the preceding steps should give you a fairly clear idea of your chances for success or failure. We hope you have found through your research that operating a Bed and Breakfast will be a profitable and rewarding venture.



Appendix A Bed and Breakfast Business References

U.S. Small Business Administration -Management Aids

Number	Title								
Financial Management									
FM 1	The ABCs of Borrowing								
FM 3	Basic Budgets for Profit Planning								
FM 4	Understanding Cash Flow								
FM 5	A Venture Capital Primer for Small Business								
FM 6	Accounting Services for Small Service Firms								
FM 7	Analyze Your Records to Reduce Costs								
FM 8	Budgeting in a Small Service Firm								
FM 9	Sound Cash Management and Borrowing								
FM 10	Recordkeeping in a Small Business								
FM 11	Simple Breakeven Analysis for Small Stores								
FM 12	A Pricing Checklist for Small Retailers								
FM 13	Pricing Your Products and Services Profitably								
General Man	agement								
MP 1	Effective Business Communications								
MP 2	Locating or Relocating Your Business								
MP 3	Problems in Managing a Family-Owned Business								
MP 6	Planning and Goal Setting for Small Business								
MP 9	Business Plan for Retailers								
MP 10	Choosing a Retail Location								
MP 11	Business Plan for Small Service Firms								
MP 12	Checklist for Going into Business								
MP 14	How to Get Started with a Small Business Computer								
MP 15	The Business Plan for Homebased Business								
MP 19	Small Business Decision Making								
MP 20	Business Continuation Planning								
MP 21	Developing a Strategic Business Plan								
MP 23	Techniques For Problem Solving								
MP 25	Selecting the Legal Structure for your Business								
MP 28	Small Business Risk Management Guide								
Marketing									
MT 1	Creative Selling: The Competitive Edge								
MT 2	Marketing for Small Business: An Overview								
MT 8	Researching Your Market								
MT 11	Advertising								

Fact Sheets and Order Forms

(Order through your local U.S. Small Business Administration Office. The SBA office can also tell you about small business workshops and counseling.)

Small Business Administration Regular Business Loan Fact Sheet

Facts About SBA - Fact Sheet 39

Business Loans from the SBA

• This is a partial list. There are many others.

Books and Pamphlets

(Order through your local bookstore.)

- Preventative Law for Innkeepers, Charles Hillestad. 2151 Tremont Place, Denver, CO 80205. 1991.
- Small Business Reporter, Bank of America. Bank of America Center, San Francisco, CA 94104.
- *Trends in Hotel Business.* Pannell, Kerr and Forster, 420 Lexington Avenue, New York, NY 10017.
- *The Inn Business.* Canadian Government Publishing Centre, Supply and Services, Ottawa, Canada K1A 059
- How to Start Your Own Bed & Breakfast, Mary Zander. The Talman Co., 1985.
- *Professional Management of Housekeeping Operations,* Robert J. Martin. John Wiley & Sons, 1986.
- *The Professional Housekeeper,* Georgina Tucker and Madeline Schneider. CBI Publishing Company, Inc., 1984.
- Check In Check Out, Jerome Valten. Wm. C. Brown Publishers, 1985.
- Uniform System of Accounts and Expense Dictionary For Small Hotels and Motels.

 American Hotel and Motel Association Educational Institute, East Lansing, MI, 1986.
- Hotel Restaurant and Travel Law, 2nd ed., Norman Cournoyer and Anthony G. Marshall. Breton Publishers. 1983.
- Modern Hotel and Motel Management, 3rd ed., Gerald W. Lattin. W.H. Freeman, 1977.
- Principles & Practice of Management in the Hospitality Industry, James Keiser. SBI Publishing Company, Inc., 1979.
- Renovating the Victorian House, Katherine Rusk. 101 Productions, 1983.
- *Essentials of Hospitality Administration,* Harold Lane and Mark Van Hartesvelt. Reston Publishing Company, 1983.
- Maintenance and Engineering for Lodging and Foodservice Facilities, Frank Borssenik. The Educational Institute of the American Hotel & Motel Association, East Lansing, MI, 1977.
- The New York Times Complete Manual of Home Repairs, Bernard Gladstone. Macmillan Co, New York, 1969.
- So You Want To Be an Innkeeper, Mary E. Davies, Pat Hardy, Jo Ann M. Bell, and Susan Brown. 101 Productions, 1985.
- Open Your Own Bed & Breakfast, Barbara Notarius and Gail Sforzabrewer. John Wiley and Sons, Inc., New York, 1987.
- *How To Open and Operate a Bed & Breakfast Home,* Jan Slankus. The Globe Pequat Press, Chester, Connecticut, 1986.
- How To Open a Country Inn, Karen L. Etsell and Elain Brennan. The Berkshire Traveller Press, 1983.
- The Entrepreneur's Master Planning Guide, John Welsh and Jerry White. Prentice Hall, 1983.
- Start-Up Money: How to Finance Your New Small Business, Mike McKeever. Berkeley Nole Press, 1984.

- *Applied Foodservice Sanitation.* National Institute for the Food Service Industry, Chicago, 1974.
- Design: Criteria for Decisions, Harold H. Alexander. New York: Holt, Rinehart, and Winston, 1984.
- *Inside Today's Home,* 4th ed., R. Faulkner and S. Faulkner. New York: Holt, Rinehart, and Winston, 1984.
- *Environmental Interiors*, Mary Jo Weale, James W. Croake, and Bruce W. Weale. New York: Macmillan Publishing Co., Inc., 1982.
- *Understanding Hospitality Insurance,* William J. Hoffman. The Cornell H.R.A. Quarterly, February, 1983, pp. 72-79.
- Honest Business, Michael Phillips and Salli Rasberry. New York: Random House, 1981.
- Marketing Ideas for Small Service Businesses, Tom and Marilyn Ross. Dow Jones Irwin, Homewood, IL. 1990.
- *The Unabashed Self-Promoter's Guide,* Jeffrey Lant. J. Lant Associates 50 Follen Street, Suite 507, Cambridge, MA 02138, 1983.
- *Beginning a B&B in South Carolina,* Clemson University. Cooperative Extension Service, Columbia, South Carolina 29201.
- Guidelines for Developing an Operation of a Bed & Breakfast Home in Alberta, Development Division, Alberta Tourism, 16th Floor, 10025 Jasper Ave., Edmonton, Alberta Canada T5J323.

Food and Recipes

- Bread & Breakfast, Linda Kay Bristow. San Francisco: 101 Productions, 1985.
 Country Inns Cookery, Coralie Castle and Jacqueline Killeen. San Francisco: 101
 Productions, 1982.
- *The Inn Cookbook: New England,* Marjorie and Igor Kropotkin. Boston: Little, Brown and Company, 1983.
- Country Inns of America Cookbook, Robert R. Reid, ed. New York: Holt, Rinehart, and Winston, 1982.
- *The American Bed and Breakfast Cookbook,* Volumes I and II, The Best Post Writers Group. The East Woods Press, 1985.

Cooperative Extension and Sea Grant Publications

- Home-Based Business...Is It for Me? Minnesota Extension Service, University of Minnesota, 1987. Distribution Center, Room 3 Coffey Hall, 1420 Eckles Ave., St. Paul, MN 55108.
- Family Tension and the Home-Based Business. Minnesota Extension Service, University of Minnesota, 1987. Distribution Center, Room 3 Coffey Hall, 1420 Eckles Ave., St. Paul, MN 55108.
- Why Have a Home-Based Business? Advantages and Disadvantages. Minnesota Extension Service, University of Minnesota, 1987. Distribution Center, Room 3 Coffey Hall, 1420 Eckles Ave., St. Paul, MN 55108.
- Catering Successfully. Minnesota Extension Service, University of Minnesota, 1987.Distribution Center, Room 3 Coffey Hall, 1420 Eckles Ave., St. Paul, MN 55108
- Starting a Bed and Breakfast or Farm Vacation Business. Minnesota Extension Service, University of Minnesota, 1987. Distribution Center, Room 3 Coffey Hall, 1420 Eckles Ave., St. Paul, MN 55108.
- Establishing the Ambience in a Bed and Breakfast or Farm Vacation Home. Minnesota Extension Service, University of Minnesota, 1987. Distribution Center, Room 3 Coffey Hall, 1420 Eckles Ave., St. Paul, MN 55108.
- Courtesy is Contagious. Great Lakes Sea Grant Network, 1986. Illinois-Indiana Sea Grant Program, University of Illinois, 51 Mumford Hall, 1301 W. Gregory Dr., Urbana, IL 61801. This publication can also be obtained by contacting any of the Great Lakes Sea Grant programs.

Bed and Breakfast in Iowa, Jim Huss. Pm12631, June 1986, Iowa State University, Ames, IA 50011.

Starting a Bed and Breakfast in Michigan, Philip Alexander and Judy Watson-Olson. Cooperative Extension Service Bulletin E-2143, Michigan State University.

Account Book for Small Business. Robert W. McIntosh. Cooperative Extension Service Bulletin E-1332, Michigan State University.

Bed and Breakfast Zoning: A Guide to Regulations, Jim Huss. Cooperative Extension Bulletin NCR358, Iowa State University, Ames, IA 50011.

Considerations in Starting a Bed and Breakfast Business, John Mulcahy. New York Sea Grant and Cooperative Extension, Cornell University, Ithaca, NY 14853.

Opening a Bed and Breakfast, Rich Novak. UNC Sea Grant Publication UNC-SG-84-03, North Carolina Department of Administration, North Carolina State University, Raleigh, NC 27695-8605.

Advertising: An Investment in Your Business Future, James Huss. North Central Regional Extension Publication #299, Iowa State University, Ames, IA 50011.

Marketing the Small Lodging Business, Chad P. Dawson. Cooperative Bulletin 212, Cornell University, Ithaca, NY.

Zoning Principles and Definitions, Agriculture Extension Service, Extension Folder 25 - Revised 1978, University of Minnesota, St. Paul, MN 55108

Tourist and Resort Series

(Order from Michigan State University Bulletin Office, Box 6640, East Lansing, MI 48876-6640.)

E-483: Employee Motivation and Work Incentives in the Service Industries

E-484: Recruiting and Training Employees in the Service Industries

E-1332: Account Book for Small Tourist and Resort Businesses

E-677: In the Lodging Industry-Marketing Management

E-656: In the Lodging Industry-Management Through Figures

E-729: Tourism and Your Community

E-1381: Tourism: Greeting a Guest

E-1937: Tourism and Its Significance in Local Development

E-1959: Tourism Marketing

Hospitality Periodicals

Hotel and Motel Management. Harcourt Brace Jovanovich Publications, 7500 Old Oak Boulevard, Cleveland, OH 44130.

◆ Hotel and Motel Management is a newspaper format publication that aims to provide lodging industry and related news to its 45,000 subscribers nationwide. The publication's every-three weeks mailing schedule allows it the largest staff of any lodging business journal—to report on news in a timely fashion. Regular departments and features cover the gamut of topics from hotel development, financing and franchising to interior design, sales and marketing and risk management. Our readers are lodging industry professionals: chain executives, general managers, food and beverage directors, hotel developers and investors and lenders. Michael DeLuca is editor-in-chief. Articles cover topics including operations, managers, food, purchasing, beverage, accounting, products, trends, and general news.

Lodging. American Hotel and Motel Association, 888 7th Ave., New York, NY 10019.

◆ As the official publication of AH&MA, *Lodging* is the association's primary means of communicating its work to the hotel industry. Since much of this work pertains to hotel operations, most of the magazine's features provide operational advice. Operational areas usually covered include financial management, human resources, sales and marketing, and food and beverage. Readers are members of AH&MA, the Hotel Sales and Marketing Association International, and Interna-

tional Association of Hospitality Accountants. Because AH&MA is a federation, AH&MA members are also members of their state lodging associations. Some smaller properties, which are state association members but not AH&MA members, also receive the publication.

Lodging Hospitality. 1111 Superior Street, Cleveland, OH 44114.

◆ The magazine informs the reader about site selection, operation design and decor, financing, building, personnel, maintenance and sanitation, computerization, merchandising, and renovation.

Old House Journal. 69A Seventh Ave., Brooklyn, NY 11217. Published monthly.

◆ Short, non-technical articles about new products and renovating and maintenance ideas for old houses. \$16/year. Also publishes newsletter.

Restaurant Business Management. 644 Third Ave., New York, NY.

◆ A monthly magazine for the restaurant trade featuring articles on what's new, different, and successful. Contains information on suppliers and services which may be difficult to locate in rural areas.

Restaurant Hospitality. 1111 Superior Street, Cleveland, OH 44114.

◆ The magazine covers all phases of management, communication, operation, merchandising, equipment, furnishings, decor, and industry trends.

"Critic" B&B Guidebooks

Critic B&B Guidebooks give independent opinions on B&Bs listed. Usually, the B&B does not pay for this listing to insure that the editor is not influenced by advertising revenue or payment from the B&B. The following list was adapted from material submitted by Charles Hillestad, 2151 Tremont Place, Denver, CO 80205, (303)296-2151.

America's Wonderful Little Hotels & Inns by Sandra W. Soule

P.O. Box 150

Riverside, CT 06878

Recommended Country Inns Series by Globe Pequot Press

138 W. Main St.

Chester, CT 06412

B&B American Style and Country Inns and Back Roads by Jerry Levitin

1565 Patrick Road

Napa, CA 94558

The Recommended Country Inns, Lodges and Historic Hotels Series: Complete Travelers Guides by Hitchcock & Lindgren

P.O. Box 151

Bridge Hampton, NY 11932

Mobil Travel Guides for various regions by Rand McNally Travel Research Center

P.O. Box 7600

Chicago, IL 60680

(has special listings for B&Bs)

Birnbaum's United States by Houghton Mifflin Co.

2 Park St.

Boston, MA 02108

AAA Tourbook by American Automobile Association

Most of them are by states, some list more than one state, and there is a special B&B listing.

"Listing" B&B Guidebooks

These are useful in locating alternative available B&Bs in a particular city. The description given usually comes from the innkeeper, not the editor. Although most of such books strive for accuracy, the sheer volume of listings sometimes precludes checking personally on every listing. In a few cases, the innkeeper pays to have the information inserted in the guide. It is like an advertisement.

Complete Guide to B&B Inns & Guest Houses by Pamela Lanier

Lanier Publishing International, Ltd.

P.O. Box 20467

Oakland, CA 94620

Complete Guide to American B&Bs by Rik and Nancy Barnes

P.O. Box 270471

San Diego, CA 92128

B&B North America by Norma Buzan

Betsy Ross Publications

3057 Betsy Ross Drive

Bloomfield Hills, MI 48013

Innviews by Sheila McCormick

157 8th Street

Norco, CA 91760

(only B&Bs that pay travel agent commissions are listed)

Almost Every B&B Series

Rockrimmon Press

110 East Enterprise

Colorado Springs, CO 80918

Secrets of Entertaining by America's Best Innkeepers by Gail Greco

5600 Southwick St.

Bethesda, MD 20817

Annual Directory of American B&B by Toni Sotor

P.O. Box 152

Harrington Park, NJ 07640

Frommer's Regional Guides:Frommer's B&B North America

Prentice Hall Press

One Gulf & Western Plaza

New York, NY 10023

Fodor's USA, Fodor's American Cities, and Regional Guides

c/o Fodor's Travel Publications

201 E. 50th Street

New York, NY 10022

(this one has opinions, but they tend to be very brief)

Featherbeds & Flapjacks by Barbara Sturni and Suzanne Dane

National Trust for Historic Preservation

1785 Mass Ave. NW

Washington, D.C. 20036

A Treasury of Bed & Breakfasts and Bed & Breakfast Hostess

The American Bed & Breakfast Association

Washington, D.C. 20026

Other B&B Guidebooks

Additional books listed in alphabetical order:

ABC Hotel and Motel Guide

American Express Guide to B&Bs

American Guide to Hotels, Motels & Inns

B&B North America

Bed and Breakfast, USA

B&Bs, Guesthouses & Inns of America

B&Bs in the U.S. & Canada

B&B Directory

Best Places to Stay in America's Cities

Christian B&B

Christopher's B&B Guide to U.S. & Canada

Complete Traveler Series

Country Inns: America Revisited

Country Inns of America Series

Country Inns of the Region

Distinctive Lodgings

Elegant Small Hotels

Family Vacation Services

Fisher's World

Great Affordable B&B Getaways

Great America Guest House Book

Great American Travel Book

Great Ski Inns

Guest House Book Series

Home Base Holidays

Hotel & Travel Index

INNterlodging Bed & Breakfast

Insight Guides

Motorcycle B&B

North American Vacation Brochure Directory

Official Airlines Guide North American Travel Planner

Old House Lover's Guide to Inns, B&Bs and Guesthouses

Resorts and Great Hotels

Sleepcheap

Smoke-Free Travel Guide

Sojourners Bed & Breakfast

Starguide

Traveller's Bed and Breakfast

Zaggat's Survey

B&B Periodicals

Reading several newletters can help you locate specific information, avoid costly mistakes, and stay abreast of current B&B events. There are a variety of periodicals. Some are primarily for the traveler, some are directed to the B&B owners. The periodicals listed below focus full time on B&Bs and other accommodations.

Country Inns

Full Color Magazine

c/o Gail Rudder Kent, Editor

P.O. Box 182

South Orange, NJ 07079-0182

Innsider

Full Color Magazine

c/o Cynthia G. LaFerle

821 Wanda

Ferndale, MI 48220

Entree Newsletter

c/o William Tomicki, Publisher

1470 East Valley Road

P.O. Box 5148

Santa Barbara, CA 93150

The Hideaway Report Newsletter

c/o Andrew Harper Harper Associates

Box 300

Whitefish, MT 59937

Inn Review Newsletter

c/o Norman Strasma, Editor

P.O. Box 1789 Kankakee, IL 60901

Inn Times Newspaper

c/o Forrest Lowrey

2101 Crystal Plaza Arcade #246

Arlington, VA 22202

Romantic Hideaways Newsletter

c/o Barbara Brass, Editor Suite 258, 217 E. 86th Street New York, NY 10028

Uncommon Lodgings Newsletter

c/o Barry W. Gardner, Editor

P.O. Box 181329 Dallas, TX 75218

Bed & Breakfast Update Newsletter

P.O. Box 4814

North Hollywood, CA 91607

Winston Travel Deluxe Newsletter

c/o Daniel Winston

P.O. Box C

Sausalito, CA 94966

Yellow Brick Road Newsletter

c/o Bobbie Zane, Editor 2445 Northcreek Lane Fullerton, CA 92631

Nationwide B&B Trade Associations

Trade Organizations are not automatically reservation services, although most Trade Organizations do make direct reservations. Some have 800 numbers, which makes it very convenient to use them for reservation purposes. A membership fee is required.

Great Inns of America

2666 Riva Road, Suite 410

Annapolis, MD 21401

Attn: Ray Dunn

800/533-4667

(has a full color national guidebook available—Great Inns of America)

(also functions as a reservation service)

(specializes in more luxurious accommodations with ten or more rooms and all

private baths)

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Association of American Historic Inns
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P.O. Box 336

San Juan Capistrana, CA 92629

Attn: Deborah Sakach

714/496-6953

(has national guidebook available — American Historic B&B Inns and Guest

Houses)

(also functions as a reservation service)

(specializes in inns that qualify for the National Registry of Historic Places)

American B&B Association

1407 Huguenot Rd.

Midlothian, VA 23113

Attn: Sarah W. Sonke

804/379-2222

(has regional guidebooks available produced in association with AAA — A

Treasury of B&Bs)

Tourist House Association

R.D. 2, Box 355A

Greentown, PA 18426

717/857-0806

(has a national guidebook available — *B&B USA*)

Clarion Carriage House Inns

20 South Battery

Charleston, SC 29401

Attn: Frank and Rebecca Gay

Homecomings B&B Network

P.O. Box 502J

Bellingham, WA 98227

Attn: Dolores Hermann

International Inn Society (formerly Treadway Inn Partners)

180 Summit Avenue

Montvale, NJ 07645

Attn: Wendy Denn

201/666-1500

Independent Innkeepers Association

Stockbridge, MA 01262

Attn: Church Davis

413/298-3636

B&B Society International

P.O. Box 1789

Kankakee, IL 60901

Attn: Norman Strasma

815/939-3509

(has a national guidebook available — *Host Directory*)

B&B Registry

P.O. Box 8174

St. Paul, MN 55108

Attn: Gary Wingert

612/646-4238

(has a national guidebook available — Fodor's North American B&B Guide)

(also functions as a reservation service)

National B&B Association

P.O. Box 332

Norwalk, CT 06852

Attn: Phyllis Featherston

203/847-6196

(has a national guidebook available - *B&B Guide*)

(specializes in family-owned B&Bs)

B&B League, Ltd.

3639 Van Ness St., N.W.

Washington, DC 20008

Attn: Millie Broobey

202/363-7767

B&B Service

P.O. Box 5025

Bellingham, WA 98227

Attn: Dolores Herrmann

(also functions as a reservation service)

B&B Hospitality

P.O. Box 2407

Oceanside, CA 92054

Attn: Ruth Dickerson

(also functions as a reservation service)

Romantik Hotels of USA and Europe

Romantik Hotels und Restaurants

Beratungs-Und Betreuungs kG

Handelregister Aschaffenburg

HRA 2334

Horsteiner Str. 34

D-8757 Karlstein/Main

(has a national guidebook available - Romantik Hotels)

Professional Association of Innkeepers International

P.O. Box 90710

Santa Barbara, CA 93190

805/965-0707

The Professional Association of Innkeepers International is a trade association providing services for the bed and breakfast/country inn owner/operator and the aspiring innkeeper. Services include a hotline for referrals or consultation, technical assistance to associations, publications, specials programs on phone systems, insurance, airline reservation system access, and discounts on products and credit card fees, workshops for innkeepers and referrals to workshops for aspiring innkeepers, travel and expertise exchange for innkeepers and a staff locator file. The organization sponsors a biannual international conference.

The following books, periodicals and pamphlets are available from the Association:

Guide to the Inn Guidebooks: The most complete compilation of books and directories that list inns. Includes guidelines for listing and where to submit information.

This is also a good tool for aspiring innkeepers to begin researching the market. Updated annually.

Bed and Breakfast/Country Inns Industry Survey and Analysis: The only comprehensive financial and operational data analysis of small inns presently available. In-depth survey of occupancy, amenities, prices, employees, rate of return on investment,

break-even, revenue and expenses, delineated by actual and percentage graphs. Broken-out geography, size and age of inns. Updated biennially.

Marketing Handbook: From the basics of writing a news release to writing brochure copy, this compilation of promotional ideas will keep your inn in the media's eye and get guests to return when you need them. From the well-researched back issues of innkeeping comes this indexed easy reference 3-ring binder. A must for innkeepers with less than 100% occupancy. Regularly updated.

My Staff Manual: Reference and tool for busy innkeepers; 70 page 3-ring binder with index tabs delineating great lines for ads, sample job descriptions, legal information, innkeepers' suggestions on interviewing, training, and keeping staff, as well as pertinent back issues of innkeeping. 1988 edition.

To order the above or receive additional information about the Professional Association of Innkeepers International, write PAII, Box 90710, Santa Barbara, CA 93190; 805/569-1853.

Innkeeping Workshops and Seminars

The Bed & Breakfast Innkeepers Guild of Santa Barbara

P.O. Box 20246 (805) 966-0589

Santa Barbara, CA 93120 Costs from \$300 including room

B&B Seminars

P.O. Box 295 c/o B&B Productions (707) 963-0852

St. Helenda, CA 94574 Costs from \$375 plus room

Chanticleer Bed & Breakfast Inn (Innkeepers & Associates, Ashland) Jim & Nancy Beaver (503) 482-1919

120 Gresham Street Costs from \$225 including room

Ashland, OR 97520

William Oates and Associates

P.O. Box 1162 (802) 254-5931

Brattleboro, VT 05301 Costs from \$295 plus room

Held periodically at country inns in Vermont and Pennsylvania.

The Captain Freeman Inn

15 Breakwater Road, RR 2 (617) 896-7481

Brewster, MA 02631

Wedgwood Inn of New Hope

111 West Bridge Street (215) 862-2570

New Hope, PA 18938

Brown's Farm B&B

Wendi Brown (509) 548-7863

11150 Highway 209

Leavenworth, WA 98826

Charles Hillestad (303) 296-2151

2151 Tremont Place Denver, CO 80205

For additional workshops and seminars, contact your nearest inn or innkeepers' association, the extension divisions of nearby state universities, B&B magazines and newsletters, and *Yellow Pages Directory* published by Inn Business Review.

Consultants

See lists in "Start your B&B" paper back books, B&B magazines, and newsletters, and *Yellow Pages Directory* published by *Inn Business Review Newsletter* or *Inn Times*.

Other Organizations

American Hotel & Motel Association, 888 Seventh Avenue, New York, NY 10019 (212)265-4506.

Sponsors hotel show in New York each November. The AH&MA Educational Institute, 1407 S. Harrison Rd., East Lansing, MI 48832; provides courses for group or individual study in operations and management. These can be very helpful to small operators with little experience. Sliding scale membership charges. Most members have 25 rooms or more.

Historic House Association, Decatur House, 1600 H Street N.W., Washington, DC 20006 (202)673-4025.

A membership organization for historic house owners. The Association sponsors annual conferences and provides specialized information to members upon request.

National Restaurant Association, 311 First Street N.W., Washington, DC 20001. Non-members: (202)638-6100; members: (800)424-5156.

Publishes *NRA News* and consumer surveys, and maintains an active lobbying office and up-to-date information on the state of the industry. Also sells books, brochures and films about cookery, sanitation, laws, training, etc., through their Educational Materials Center.

National Trust Regional Office—Midwest, 407 Dearborn Street, Suite 710, Chicago, IL 60605 (312)353-3419.

This office provides technical and advisory services on preservation as well as financial and legal assistance for housing rehabilitation.

The New England Innkeepers Association, Norton-Grandi Educational Resource Library, Statler Office Building, Suite 636, Boston, MA 02116 (617)357-5115.

Offices of Preservation Assistance, National Park Service, U.S. Department of the Interior, Washington, DC 20240 (202)272-3761.

This office provides copies of the Secretary of the Interiors' rehabilitation standards and the names and addresses of state preservation offices. It also provides information on technical issues relating to housing rehabilitation and certifies projects for federal investment tax credit.

American Bed and Breakfast Association, P.O. Box 2384, Washington, DC 20026. This trade association represents B&B operators renting 12 rooms or less. It has an annual directory, listing individual descriptions of B&B homes from reservation services. It also publishes a monthly newsletter, provides national and local public relations, develops regional advertising packages, and is active in zoning, insurance, and other current issues.

The Educational Institute of the American Hotel and Motel Association, 1407 S. Harrison Road, East Lansing, Michigan 48823.

The Institute has developed text books, courses, and programs of study designed to improve the skills and attitudes of individuals in all areas of hospitality service. A diploma and certification program verifies course end program completion.

Cooperative Extension Service, available locally.

Educatonal workshops and one-on-one counseling are offered by many extension offices. Your local county Cooperative Extension Service office can refer you to the nearest programs in your area.

Sea Grant Programs, available locally or regionally.

Sea Grant offices frequently offer educatonal programs for B&B operations. Your local Sea Grant office can refer you to the nearest program in your area.

Small Business Development Center (SBDC), available regionally.

This agency often offers educational workshops and counseling to various types of small business enterprises, including B&Bs. Programs are administered through the extension service of the state university system or the state Department of Economic Development.

General Useful Resources

American Woman's Economic Development Corp. (AWED)

60 East 42nd Street, Suite 405

New York, NY 10165

(800)222-AWED; in NY: (800)442-AWED

National Alliance of Small Business

1825 Eye Street NW, Suite 400 Washington, DC 20077-2740

National Small Business United (NSBU)

1155 15th Street NW, Suite 710

Washington, DC 20005

(800)541-5768

(202)293-8830

Federal Information Centers

Each state maintains one or more Federal Information Center that provides a source of free information on a wide range of government-related topics.

U.S. Government Printing Office

Superintendent of Documents

Washington, DC 20402

Books, reports, and government documents on a variety of subjects.

Census Bureau

Public Information Office

Building 3, Room 2705

Washington, DC 20233

Statistics and information useful in making marketing decisions.

Small Business Development Centers

These centers provide small businesses with management technical assistance, counseling and answers to business planning and management questions.

Minority Business Development Center

Call (312)353-0182 to locate the closest regional office.

Small Business Administration (SBM)

1441 L Street; N.W.

Washington, D.C. 20416

(202)653-6822

Contact to obtain location of nearest field office and publications list. They offer

free consulting help.



Appendix B List of Important Sources of Information for Prospective Bed and Breakfast Hosts

This list identifies sources that can provide key information for prospective bed and breakfast hosts. Unfortunately, many states do not provide a one-stop clearing house of necessary information that can be used by prospective hosts. Effective utilization of this list of resources can save time and money, provide useful information that might otherwise be missed, and reduce or eliminate difficulties before they occur.

County Cooperative Extension Office

Look in the telephone book for the name and address of your County Cooperative Extension Office in the county offices section. Your Extension office may provide bulletins, videos, advice, and sometimes one-day workshops.

The Educational Institute of the American Hotel and Motel Association

1407 South Harrison Road

East Lansing, MI 48823

The Institute has developed text books, courses, and programs of study designed to improve the skills and attitudes of individuals in all areas of hospitality service. A diploma and certification program verify course and program completion.

Hotel, Restaurant, and Institutional Management Institute

101 Young Graduate House, Purdue University

West Lafayette, IN 47907

(317)494-2749

Correspondence courses are offered by this institute in management, professional cooking, food service, purchasing, travel and tourism marketing, contemporary nutrition, and computer application in food service.

State Bed and Breakfast Association

The association provides answers to specific questions, information about their goals, membership services, and a directory of members. It is recommended that potential hosts visit as many association members as possible.

Your State Institute for New Business Ventures

This institute provides an information packet and information about possible financial assistance through local economic agencies.

State Department of Commerce

The department is a contact for various state agencies that can help you begin a bed and breakfast business.

State Tourism Development Division

The division is a contact that can provide information about your B&B, and its possible inclusion in the state B&B facilities list. It also handles the distribution of B&B brochures, marketing information, etc.

City or County Clerk

The county clerk's office includes the zoning department, planning board, and building inspector. Their specific telephone numbers are listed under governmental offices—city, village, or township.

City or County Health Department

The health department is a source of information about regulations, permits, etc. Obtain a copy of Food Service Sanitation Requirements. Invite your local health inspector to your facility for an informal environmental site evaluation (for water supply, septic tank, well/sewage disposal, etc.). Explain your type of breakfast menu and food preparation methods. Show your kitchen and ask for advice and recommendations concerning your food storage, preparation, service, and sanitation capabilities.

County Recorders Office

Use this office to file as sole proprietorship or partnership. This office, listed under "Government Offices" in your phone directory, is a contact for information and questions concerning personal property taxes.

State Department of Fire and Building Services

This department inspects and reviews plans for modifications of public buildings for compliance with state fire codes. The local fire department checks exits, smoke detectors in guest rooms, and hallways, etc.

Secretary of State

You will need to contact this office if you want to incorporate. You may also want to protect the use of your business name by registering it with the secretary of state.

Internal Revenue Service (Federal)

Obtain a federal ID number if you will have employees. If you do not have employees, you would use your social security number as the federal ID number. Obtain a self employment (SS), estimate tax form 104OFF, and small business kit.

State Department of Revenue

From this department you need to obtain a kit or information for sales and withholding tax. Obtain a withholding tax number (if you have employees), and a sales tax number. Figure the amount of your capital improvement, local food and room tax, if any, etc. This office will answer questions concerning individual income tax, tax deductions for business use of home, etc.

State Small Business Development Center

The center provides a cooperative effort between small business administration and local Chamber of Commerce agencies. Contact for free help and directions to additional resources and outreach programs.



Appendix C A Guide: When a B&B Is Not a B&B

The Houston Post Sunday, July 16, 1989 By Charles Hillestad SPECIAL TO THE POST

- Almost everyone has heard about Bed and Breakfasts, or B&Bs as they are commonly known. They have been around for decades and are particularly common in Europe where half the travelers stay at B&Bs at one time or another.
- Outside of New England, they are a fairly recent phenomenon in the United States. But their acceptance has been so rapid, there may be as many as 20,000 in the United States today.
- B&B is a generic term encompassing a wide variety of accommodations. Such establishments have anywhere from one to 100 guest rooms. They range from modern suburban home to city Victorian gingerbread structures, mountain cabins and full-service hotels. There is even a B&B trout farm.
- Some are fancy and expensive. Some are funky and low cost. All are unique. There are few chains of B&Bs. The only unifying theme is that some sort of food service at breakfast time is provided as part of the price and the emphasis is on personalized service and hospitality.
- There are several distinct subcategories of B&Bs. Although they are only approximate, the following should give some guidance:
- A boarding house or bed and board is not a B&B. The people staying in a boarding house do so for a long period and consider it their permanent address. A B&B, on the other hand, provides only temporary lodging.
- A guesthouse is an entire house, cabin or possibly a condominium for rent. More often than not, it is not a B&B either. But it might be if breakfast is delivered each day. In any event, there is nowhere near the same opportunity for interaction with the hosts or other guests as in regular B&Bs. That can be viewed as an advantage if anonymity is desired.
- A homestay establishment normally is a B&B. It is primarily a private home where the owner rents out one to four or five spare bedrooms. Staff seldom exceeds two people, usually the owners. THe European concept of a B&B most often is some sort of homestay. This means baths are shared more often than not. They are usually the least expensive of the B&Bs.
- A B&B inn is a structure devoted principally to the care and comfort of overnight guests. The owners may not live there. Typically, such inns have four to 25 rooms, larger staffs and a higher percentage of rooms with private baths. The innkeepers run the establishment as a full-fledged business, not as a part-time activity, which tends to make operations somewhat more professional. As a result, credit-card acceptance, late check-in and other hotel-oriented conveniences are more prevalent.
- A country inn is much like a B&B inn. In fact, the words are often used interchangeably. Usually the difference, if any, is that most country inns are located in rural areas with fewer places to eat nearby. Therefore they usually offer lunch or dinner or both for the convenience of guests. The advantage is that guests

- do not have to travel far for non-breakfast meals. Many country inns evolved from buildings which originally were solely restaurants or cafes that had a few unused rooms on the floors above.
- Boutique B&B may be developing as a new term. This occasionally refers to a B&B inn or country inn so superior in attractions, accountrements and amenities as to deserve a category of its own. This is a highly subjective evaluation and is a matter of taste more than standards.
- Lodges are often country inns located in a wilderness area. Not everything named a lodge is a B&B. If breakfast is not included in the room price, it cannot be a B&B.
- Dude ranches are not usually thought of as B&Bs, even though meals are included.
- Resorts are not usually included as B&Bs either since they tend to be quite large and provide many activities.
- Historic hotels are full-service B&Bs with some or all of such extras as bars, restaurants, shops, room service, bellhops, concierges, valets, etc. Obviously, not all historic hotels are B&Bs, especially if they charge for breakfast. Some have elected to be viewed as B&Bs for one reason or another and include at least a continental breakfast in the price of the room.
- Hostels are not B&Bs even if breakfast is included. They serve an entirely different purpose, basically dormitory-style living with only the bare essentials. These are excellent for traveling students or those on a shoestring budget.
- Ordinary hotels/motels are definitely not B&Bs even if they try to use the phrase bed and breakfast in their ads or signboards. The definition may be broad, but it is not that broad.
- Each category has its own advantages and disadvantages, its own charms. A particular B&B may even overlap into two or more categories. There is no best category.
- The important thing to remember is to ask questions. In addition to asking price, always ask about the size of the rooms, types of beds available, whether the bath adjoins the room or is down the hall, whether a full or continental breakfast is served and inquire about the rules of the house. Most B&Bs prohibit smoking, for example. If a smoking room is important, specify that as a request. Check to see if pets and children are permitted and if telephones and televisions are available in the rooms if that is important to you.



Appendix D Determining Personal Goals

Personal Goals	1st Year	5th Year	10th Year
Annual income (total family income; other sources included)			
Type of home			
Size of home			
Location of home			
Travel			
Professional development			
Hobbies			
Membership in organizations			
Community activities			
Luxuries			
Status and prestige			
Professional time			
Leisure time			
Family time			
Lifestyle			
Retirement			
Health insurance			
(Add other personal goals you would like to achieve.)			

Family goals	
Goals for family responsibility	
Goals concerning friends and neighbors	



Appendix E Housing and Family Responsibilities Associated with Owning a Bed & Breakfast Business

Directions: For each of the following types of activities, please indicate how the responsibilities are divided in your home and how satisfied you are with the arrangement. Be sure that the total percentage adds up to 100% from left to right in the columns. If an item is not applicable to you, circle N/A.

How satisfied are you with this

WHO IN YOUR FAMILY USUALLY:		Husband	Wife	Children	Other	arrangement? (Complete after several weeks and discussions) 1 = Very Satisfied 5 = Very Dissatisfied				
Prepares the breakfast?	N/A					1	2	3	4	5
Plans the meals?	N/A					1	2	3	4	5
Does the food shopping?	N/A					1	2	3	4	5
Does the cleanup after meals?	N/A					1	2	3	4	5
Does the household repairs and maintenance?	N/A					1	2	3	4	5
Organizes social activities and coordinates day-to-day activities?	N/A					1	2	3	4	5
Pays bills and maintains business records?	N/A					1	2	3	4	5
Vacuums the house?	N/A					1	2	3	4	5
Does the laundry?	N/A					1	2	3	4	5
Takes care of the yardwork?	N/A					1	2	3	4	5
Cleans the guest rooms?	N/A					1	2	3	4	5
Cleans the bathrooms?	N/A					1	2	3	4	5
Does the "extra nice" things?	N/A					1	2	3	4	5
Takes reservations?	N/A					1	2	3	4	5
Is the major guest greeter (host or hostess)?	N/A					1	2	3	4	5
Keeps up-to-date on community activities that guests might like to participate in?	N/A					1	2	3	4	5
Keeps up-to-date on community attributes such as restaurants, parks, tourist spots, etc.?	N/A					1	2	3	4	5
Is responsible for advertising your B&B?	N/A					1	2	3	4	5
Handles the animals (dog, cat, etc.) while guests are present?	N/A					1	2	3	4	5
Other?	N/A					1	2	3	4	5



Appendix F A Sample Bed and Breakfast Concept

The Scottish Lion B&B

Experience the charm of Bonnie Scotland... and a personalized B&B experience. Our Scottish Lion Bed and Breakfast is located on State Route 36, one-quarter mile east of its junction with State Route 45 North. As hosts, we (Susan and Norman Scott) offer warm hospitality and friendship. Our hobbies include European history, historic preservation, and chess. Guests will find the quiet, cozy, and romantic atmosphere reminiscent of a Scottish country inn, and will be treated as Very Important People. Every guest is considered a Bed and Breakfast investigative reporter. We constantly strive to discover what guests need or want to make their visits unforgettable.

The common room is the perfect place for guests to relax and get to know each other. When you enter this spacious, sunny area, you will notice the fireplace, parquet floors, and stained glass windows. A library of great books encompasses one entire wall, and comfortable seating makes reading, playing chess, watching television, or conversing a pleasant pastime.

Our guest rooms are warm and inviting. The colors and furnishings for the rooms were chosen to delight the eye and make the customer's stay a warm and memorable one. Guests can control their environment with individual adjustments for heating, cooling, and ventilation.

Peace and tranquility will greet our guests in the soft blue and cream-colored "Lady of the Lake Room," inspired by the Sir Walter Scott poem; the price is \$70 for this double occupancy room with private bath. Guests wake to the freshness of spring reflected in the sun-filled, romantic "Brigadoon Room", inspired by the musical; the price is \$70 for this double occupancy room with private bath. "Robert the Bruce Room" features a photograph of a bronze statue of Bruce, Stirling Castle, and pictures of the great victory at Bannockburn; \$70 and private bath. The "Flag Room" displays the colorful Rampant Lion and St. Andrews Cross; \$70 and private bath. The "Bonnie Prince Charlie Room" has pictures, books, and highlights of his life; \$70 and private bath. A large bay window is featured in the bold "Scottish Tartan Room;" the price is \$70 for this double occupancy room with shared bath. The "Robert Burns Room" features pictures, books, and articles about this famous Scot; the price is \$60 with shared bath.

A wicker basket of fresh fruit in the room sets the mood for the visit. Bed turn-down service is provided, with homemade mints left on the pillow. A morning coffee and tea tray will be left at the door.

Breakfast is served between 7:00 and 9:00 a.m. on the enclosed patio overlooking the peaceful woodlands. On bleak or cold days breakfast will be served beside a crackling fire in the common room. A glorious Traditional Scottish B&B breakfast is served, in keeping with the guidelines of the State Board of Health Regulation. It consists of orange juice, kippers, oatmeal or corn flakes, eggs, toast and scones, orange marmalade, bacon, grilled sliced tomatoes, fried potatoes, and

- cheese. Guests may linger over cups of fresh-brewed tea or coffee. They will have a choice of five types of tea and five types of coffee beans.
- Guests will enjoy strolling through the 50 acres of woodland, or hiking and bicycling along country roads. Our screened gazebo is a perfect place to spend summer evenings, and in the winter, our area is well known for cross-country skiing.
- Play our par ten, three-hole golf course with a mashie and a putter. Watch our border collies in the evening take a flock of sheep and ducks through a highland games type obstacle course.
- We suggest that our guests explore the nearby Indian mounds, visit the cheese-making factory and winery, attend outdoor plays, and take the nature walk in the state forest. Local golfing, tennis, fishing, swimming, and a courtesy membership to a health club are also available. Shops and an antique mall are nearby. We will make your reservation at restaurants in the area. We are also pleased to offer 24-hour answering and fax service.

Evaluate the Concept

- 1. State in a sentence or two the experience that you are selling.
- 2. Identify the customer expectations as promised by the hosts.
- 3. Do the various components of the concept fit together and complement each other?
- 4. Are the parts compatible with the overall concept?
- 5. Is the concept compatible with the market segment or segments identified in Step Four, "Determine and Research Your Market" and Step Seven, "Develop a Marketing Plan?"
- 6. How could the concept be improved?
- 7. Could there be greater return for your time and money if the home was converted into apartments, offices, or another home business?



Appendix G Types of Visitor Attractions¹

Natural or environmental

Beaches Lakes and ponds

Caves Mountains
Cliffs Orchards
Climate Parks

Fall foliage Rivers and streams
Farms Scenic views
Forests Springs
Gorges Waterfalls
Gardens Wetlands
Geologic formations Wildlife

Islands

Historical Battlefields

Battlefields Historic buildings
Birthplaces of famous people Historical markers

Burial grounds Mansions
Forts Museums

Cultural

Archaeological sites Festivals
Art galleries Folklore
Arts and crafts Indian culture
Churches Libraries
Concerts Theater

Distinctive architecture Unique lifestyles
Ethnic celebrations Universities or colleges

Recreational

Boating Ice skating
Camping Mountain climbing

Canoeing Skiing

Dancing Snowmobiling Fishing Soaring

Golf courses Spectator sports
Hang gliding (e.g., tournaments) Swimming
Hiking Tennis courts
Horseback riding Windsurfing

Hunting

¹Planning for Tourism, University of Vermont Extension Service, p. 19.



Appendix H Marketing Worksheet

1.	Determine and briefly state exactly what you are selling.

EXAMPLE: Estimated Room Nights from Attractions

Attraction	Months Open	No. of People	Location	B&B Room Nights	Methods to Promote and Attract
Lincoln Lake	12	480	3 mi	240	Tourist Department Chamber of Commerce Mailing Lists
Indian Burial Grounds	12	150	6 mi	300	Tourism Department
Octoberfest	October	30	1/2 mi	60	Festival mailing list
Chess Tourney	Dec 18	18	B&B	12	State chess tournament association newsletter
	Jan 18	18	B&B	12	announcement and
	Feb 18	18	B&B	12	advertisement
Golf Course	6-9	75	2 mi	150	State Golf Magazine
				TOTAL 786	

^{2.} List the tourist attractions in your area. Note for each attraction the time of year that people generally come, the number of people that visit, the number of nights that guests might stay, and methods that you will use to attract people to your B&B. Also note the location, if possible.

	ravantages of staying at your Bees. What do ye	ou have that no one else in your area offers?
1		
4		
5		
6		
7		
8		
	Disadvantage Disadvantage	rermine how they might be eliminated or reduced. How to Eliminate/Reduce
1		
2		
2		
2 3 4		
2 3 4		
2 3 4 5		
2 3 4 5 6		
2. 3. 4. 5. 6. 7.		
2. 3. 4. 5. 6. 7. 8.		
2. 3. 4. 5. 6. 7. 8. 9.		

c)based on the advantages you listed in 3a, stat	te briefly the major benefits and attra	ractions of your B&B that would be highlighted	l in
your promotional material:.			

4. List business and community leaders that have contact with potential area visitors, and hotels and motels that may have overflow to refer to you. Prepare a plan to meet these people and to provide them with promotional material in order to obtain referrals from them. You will probably meet with varied levels of interest. Several good contacts may be necessary for positive results. Estimate the number of room nights to be gained as a result of each contact.

EXAMPLE: Estimated Room Nights from Business and Community Leaders

Promotional Method	Potential Room Nights
Personal Contact - Brochure	50
Personal Contact - Brochure	50
Personal Contact - Brochure	20
Newspaper follow-up - Mail/Telephone	20
Newspaper follow-up - Mail/Telephone	20
Membership - Co-op Mailings - Referrals	10
Personal Contact - Brochure	15
Personal Contact - Brochure	15
Personal Contact - Brochure Antique News Ads	60
_	40
Purchasing/Sales Manager	70
	 Total 370
	Personal Contact - Brochure Personal Contact - Brochure Personal Contact - Brochure Newspaper follow-up - Mail/Telephone Newspaper follow-up - Mail/Telephone Membership - Co-op Mailings - Referrals Personal Contact - Brochure Personal Contact - Brochure Personal Contact - Brochure Antique News Ads Purchasing/Sales Manager

5. Based on the information you have provided thus far, estimate the total number of room nights for each type of group by month (for example, businesspeople, families, sports enthusiasts, seniors, etc.)

EXAMPLE: Estimated Room Nights by Month

Group	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec



Appendix I Amenities Checklist

An amenity in the hospitality industry is a physical item given to or a service provided for the guest. Amenities create a sense of luxury, build the image of your B&B, and encourage favorable word-of-mouth advertising. Consider the full range of amenities listed below in relation to the projected image and cost of your B&B:

Adapter Clocks with alarms

Afternoon tea Closets (large) and shelf space

Aftershave Clothes brush
Air freshener Cologne
Airport transportation Comforter

Antique furnishings Computers, word-processors (in room)

Art gallery Corkscrew
Baby strollers Cotton balls
Babysitting service Courier service
Baggage storage Curling iron
Bar Department gift
Barbecue Door locks (separate)

Bath salts, bubbles, powder Drinking glasses (not plastic)

Bathrobes Drinks (complimentary champagne,

Beach towels coffee, liquor, tea, wine)

Beds (King/Queen) Dry cleaning

Bedboards Earmuffs, hand warmers
Bed turn down Exercise equipment
Bicycles, mopeds Extension cords
Boat charters Farm animals
Books, library Fireplace

Brush snow off windshield First-aid supplies

Car rental discounts Flowers (plants in guest room)

Fishing poles

Card tables Fruit basket
Carriage rides Games/activities

Chairs, easy Gardens, trails, woodlands

Cheese tray Golf service

Child care Hair conditioner/spray
Chocolates Hair dryers/curling iron

Candy/cookery

Hand cream Sauna/hot tub
Heat controls (individual) Secretarial services
Hobby displays/collections Sewing kits/sewing

Homemade items/meals

Hors d'oeuvres

Shaving cream

Hot tub/sauna

Shoehorns

Ice bucket in room

Shoe polish many

Ice bucket in roomShoe polish, mittsInsect repellentShoe shine service

Interpreters/Foreign language Shopping discounts, gift certificates knowledge Shower cap/special shower heads Iron, ironing board Sightseeing tours/guide service

Kitchen privileges Skirt hangers
Laundry privileges/service Slippers
Laundry soap, bags Soap
Letter openers Social hour
Limousine service Souvenirs

Lint removers Space & equipment for business

Luggage tags conference retreats and sales meetings/

Maps extra space/privacy

Massage Special rooms — music, billiards

Membership in club/fitness center Sports equipment Message-taking service (24 hours) Spot remover Mineral water Stamps/stationery Mints/candy on pillow Stereo in room Mouthwash Sunscreen Musicians Swimming pool Nail polish remover Tanning beds Newspapers Tar remover Night manager Telephone

Pens Television/VCR

Photocopying Telex

Picnic basket/tables Tickets to events
Pillows Toothbrush
Playing cards Toothpaste

Radio Tours, tourist information packets
Raincoat Towels (large, thick, and many)
Reading material Typewriters (secretarial service)

Telescope

Refrigerator use Umbrellas Restaurant Views

Restaurant discount Wake-up service

Robes/slippers Water purifiers/bottled water

Sachet/potpourri in drawers Wheelchairs

Safe for valuables Window shades (light blocking)

Safety pins

Piano



Appendix J Bed and Breakfast Guest Studies

Results of a Michigan¹ and Minnesota² B&B guest study completed in 1988 are rather similar and provide a profile of B&B guests. Both states are travel destination states with a developed tourism industry but a relatively recent B&B industry. Results from other states may vary depending on location in the United States, location in the state, distance from major market areas, etc. However, this market research can be considered for use as a guideline until more specific information relative to your B&B is obtained. Two figures in the following market research results indicate the range of response from the two surveys. One figure indicates the response from one of the state B&B surveys.

Where Are They From?

Sixty to 72 percent were residents of the state and 52 percent drove (Minnesota) 100 miles or less to the B&B.

Who Are They?

Seventy-seven to 81 percent were under 50, 50 to 60 percent between 25 and 44, and 35 to 40 percent under 34. The average age was 41. Sixty-six to 78 percent were married couples with 38 to 45 percent having children at home. Forty-five to 50 percent had a family income exceeding \$50,000, and 17 to 21 percent had incomes over \$75,000. Sixty-four to 75 percent had college degrees, with 29 to 33 percent having some advanced degrees. Occupations were (Minnesota): business, 17 percent; health care, 12 percent; education, 10 percent; and professional, 9 percent. Thirty-seven to 41 percent were staying the first time in a B&B, and of the 59 to 63 percent of guests previously staying at a B&B, 51 to 56 percent had stayed in more than three B&Bs, 33 percent (Michigan) had stayed in two B&Bs.

What Is the Trip Behavior?

Reasons for staying at a B&B were (Minnesota): personal touch, 80 percent; charm of building, 78 percent; getaway, 71 percent; nicely decorated bedrooms, 61 percent; romance, 61 percent; and an alternative to a hotel, 61 percent.

The primary purpose of the trip (some difference between in-state and out-of-state guests) were: pleasure, 57 to 67 percent; visit to friends and family, 6 to 11 percent; business, 8 to 11 percent; anniversary, 3 to 8 percent; honeymoon, 2 to 4 percent; and wedding/funeral, 2 to 4 percent. Forty-five to 57 percent indicated that staying at the B&B was not the primary reason to visit the area. Activities participated in during the stay (Minnesota) were: dining out, 80 percent; shopping, 55 percent; walking, 55 percent; and sightseeing, 42 percent.

Attributes, which played an important part in selecting a B&B were: private bathrooms, 53 to 54 percent; full breakfasts (Minnesota), 47 percent; shoppers/dining, nearly 28 to 40 percent; credit cards accepted, 30 percent; and recreational activity, nearly 31 percent. Fifty-two percent (Michigan) said they would not stay in a B&B if private bathrooms were not available and 66 percent who shared a bath would prefer a private bath. Guests considered the following qualities very

important after a B&B stay:³ warmth of innkeeper, 79.8 percent; private bath, 68.5 percent; breakfast, 63.3 percent; and owner-operated, 37.1 percent.

Seventy-two percent of the B&B guests (Michigan) selected the B&B and made reservations before leaving home; 14 percent selected the B&B after leaving home. Information sources which prompted B&B stays were as follows: family and friends, 22 percent; state B&B directories, 9 to 14 percent; other B&B directories and books, 8 to 10 percent; advertisement or story in newspaper, 4 to 7 percent; recommendations from another host/operator, 6 percent; local chamber of commerce, 3 to 6 percent; and B&B brochures, 5 percent.

The Wisconsin Bed and Breakfast Industry: An Enterprise Study 1990⁴ found that the highest effectiveness ratings were given to B&B directories and to the Chamber of Commerce Registration. Telephone book listings and newspaper advertisements are considered relatively ineffective by operators. Results YBR Survey of Inn-Goers⁵, found the following sources of information used in planning trips: guidebooks, 85.8 percent; friends/relatives, 81.2 percent; magazine articles, 70.6 percent; and Inn Association brochures, 54.8 percent. About half the persons on this list had requested brochures published by Inn Associations and newspaper ads.

¹ 1988 Michigan Bed Breakfast Guest Study. Dr. Edward M. Mahoney, Ning Na, and Dr. Donald F. Holecek. Michigan Travel Tourism and Recreational Center, Michigan State University.

 $^{^2}$ A Market Analysis of Minnesota's Bed and Breakfast Guests, 1988. William C. Norman. The University of Minnesota Tourism Center, St. Paul, Minnesota.

³ Results YBR Survey of Inn-Goers, Yellow Brick Road, Fullerton, California, 1988.

⁴ By Nancy A. Miller, Rollin Cooper, and John Gruidl, Recreation Resource Center and Small Business Center, University of Wisconsin, Madison, Wisconsin.

⁵Yellow Brick Road, Fullerton, California, 1988.



Appendix K Questions to Answer When Choosing a Location and Building

To obtain and analyze the facts about a specific location, answer the following questions:

- Are the neighboring houses well kept?
- ◆ How close is the competition?
- Is there enough parking space allowable by zoning regulations?
- ◆ Is it on the street or off?
- ◆ Is the site easily accessible? How far is it from a freeway?
- ◆ Is it on a main highway or street so people see it when driving through?
- ◆ Are there any natural barriers?
- ◆ Is the site accessible to public transportation and attractions?
- ◆ What zoning, fire, building code, and health requirements must be met?
- ◆ Are there adequate utilities?
- ◆ What is the reputation of the owner of the property?
- Is it within two hours of a major metropolis?
- ◆ Will customers be willing to travel to the site?
- Are there nearby traffic generators, such as malls, tourist attractions, colleges, sporting events, hospitals, business, and industries that will draw customers?
- How close are restaurants?
- ◆ What is the overall trend in the number of travelers visiting the area?
- ◆ What is the quality of police and fire protection?
- ◆ What is the crime rate?
- ♦ How attractive is the landscape and outdoor living area?
- What is the trend toward future resale value?
- ◆ What is the overall estimate of the quality of the location in ten years?
- ◆ What are the liquor laws?
- ◆ What are the discrimination laws?

Also answer the following questions with regard to the house or building¹:

- ◆ What is the charm, character, and scenic appeal that will attract customers?
- ◆ What will be a guest's or passer-by's first impression of the building?
- ◆ What is the condition of the building (lighting, wall surfaces, floors, windows, equipment, furnishings, plumbing, insulation, sound, heat, etc.)?
- ◆ Is there adequate telephone and cable T.V. service?
- How large are the bedrooms, dining room, parlor, and kitchen? How many bedrooms are there?
- ◆ Are there individual heat controls?
- ◆ Is there room to install more bathrooms? At what cost? (It is estimated that about fifty percent of guests will object to sharing a bathroom.)
- ◆ What is the arrangement for private quarters?
- ◆ Are there enough storage areas (for housekeeping supplies, food, lawn care equipment, recycling materials, and laundry facilities)?
- ◆ Is there an attractive office and check-in space?
- ◆ Is it free of pet, cigarette, and other odors?
- ◆ Is the building easily accessible for people with handicaps?
- What is the condition of utilities and water and sewage systems? Collect information and corrective costs on drainage, soil depth, source of water (city, privately owned wells and septic system, potable water), pollution control, storm sewers, sanitation sewers, water mains, and electrical power supply.
- ◆ Does the area or the basement flood?
- ◆ What is the cost and future availability of gas, electricity, and water?
- Is there room for expansion?
- ◆ Is there space for retail shops or space for additional revenue generators such as meetings, parties, art exhibits, and weddings?
- Can catering be done?
- ◆ Is it free of radon, asbestos, underground tanks, etc.?
- What will be the future resale value of the building?

¹Adapted from the Mary E. Davis, Pat Hardy, Joann Bell, and Susan Brown, So... You Want To Be An Innkeeper (San Francisco: 101 productions, 1985), p. 32.



Appendix L Ideas for Continental Breakfasts

Coffees and Teas

All items served in your continental breakfast must be of high quality and plentiful. Provide a variety. High quality coffees and teas are very important to the success of a continental breakfast. You should offer brewed coffee both regular and decaffeinated. Consider offering a final cup of coffee "to go." To please tea drinkers, provide several kinds of herbal and black teas, as well as a decaffeinated variety.

Wines and Fruit-Based Drinks

You might try offering champagne with strawberries, or variations such as champagne punch, champagne and orange juice, or wine coolers. (Of course you must check into your liability before offering alcoholic beverages.) There are also many non-alcoholic fruit-based drinks you can serve such as a banana frappe, made by blending bananas and pineapple with orange and lemon juice.

Danishes, Sweet Rolls, and Specialty Breads

Pastries, specialty breads, assorted bagels, toast, croissants, or scones, are the centerpiece of a classic continental breakfast. You should provide a variety of high quality baked goods served either warm or cold, with butter and assorted jams and jellies.

Decide whether you will serve this portion of the breakfast or allow your guests to serve themselves from a pastry bar. If you plan to serve breakfast, consider showcasing your pastry selection on a tray or cart from which your guests can order.

If you decide on a self-service pastry bar, elegantly arrange a variety of danishes, sweet rolls, and breads on a linen tablecloth. Also set out small tubs of chilled fruit juice and pots of coffee and tea. Be sure to replenish the pastry bar throughout the breakfast hour so that it always look plentiful and attractive.

Adding Variety

Fresh fruit is the perfect complement for a continental breakfast, especially if the fruit is locally produced and in season. Place the fruit on the table just before the guests arrive. An example of an elegant fruit dish would be large glazed strawberries or blueberries (not available all year) served in long-stemmed crystal, or a plate of cantaloupe wedges topped with kiwi slices.

You can also add variety by providing certain foods that require little or no preparation, such as individual cold cereals, assorted yogurts, and cheeses.

Finishing Touches

The presentation of the meal is as important as the food itself. Take care to select garnishes that add the right color and texture. A quality set of dishes and attractive serving bowls are also very important.

Imaginative centerpieces can enhance the dining atmosphere. Create unusual arrangements that complement the dining room decor and the season of the year. In the fall, for example, you might arrange small colorful gourds and squash on a base of leaves. Change your centerpieces from time to time to reflect the uniqueness of your locale or to add festivity to holidays and special events. You should also

carefully consider elements that affect the overall atmosphere such as music, lighting, decor, and aroma.

Choose an attractive eating area such as the dining room; a patio, porch, balcony, deck, or flower garden; the guest room itself (only if the space is large enough); by a crackling fire, or by a window with a beautiful view.

Plan special table settings by using cloth tablecloths and napkins or attractive placemats and pretty china or dishes that complement your color scheme. Also add an interesting centerpiece (plan a theme according to the season).

Use decorative techniques for folding napkins. And if you know your guests are traveling on a special occasion such as a birthday, anniversary, graduation, etc., make the event memorable by creating a centerpiece to help celebrate. If you have a child-sized table and chairs, use them for children who are guests. Decorate with something the children can take with them.

Attractive Eating Places

Table Settings



Appendix M Which Form of Business Management Is Best for Me?

Proprietorship (One Person in Sole Control)

Some Advantages

Absence of formalities, red tape and organization expense.

You are your own boss and not dependent on others.

Avoidance of "double tax" on owners of corporations ineligible for small corporation tax benefits.

Anticipated losses of new business may be set off against other income.

Some Disadvantages

Unlimited personal liability.

No provision for continuity in case of absence, disability or death.

No one with whom to make a buy-sell agreement in case of death.

All profits are taxed as income to you as proprietor.

Expansion can only come from after-tax dollars.

If business grows, may eventually have to incorporate.

Partnership (Two or More Persons)

Some Advantages

Absolute right to select your business partners.

Lower tax brackets for many-membered families actively engaged in the business.

As a limited partner, you can put capital into the business without general personal liability, but only if you are completely divorced from business activity or direction.

Can make buy-sell agreements to cover death or retirement.

Liquidation of a retired or deceased partner's interest can include a distribution of earning taxable only to the recipient.

Some Disadvantages

Unlimited liability of general partners for acts of other partners.

Federal tax uncertainties surrounding family and limited partnerships.

Must share the profits of the business with partners.

Cost of organizing partnership.

Business can only expand on retained profits on which you pay income taxes even though the income is retained in the business.

Death of one partner may dissolve business.

Danger of disagreement between partners with no way of resolving the stalemate except through liquidation.

Corporation (Consists of One or More Persons)

Some Advantages

Limitation of personal liability to amount of capital contributed.

Perpetual existence.

Ease of obtaining capital from a number of sources through issue of stock.

Official status can be given to key employees by designation as directors and officers.

Easier to grow and expand with dollars left after corporate tax, which may be lower than individual tax.

Corporation stock is an efficient way of making gifts.

Inactive family members and others can own a share of the business.

Stock is easier to probate and keep the business going.

Buy-sell agreements may be made to liquidate the stock of a deceased stockholder.

Pension, profit sharing, tax advantages and other fringe benefits.

Permits various categories of investors—nonvoting stock, preferred stock.

Some Disadvantages

Costs of incorporation and corporate taxes.

Organization and operation governed partly by statutes.

Need for filing corporate papers and holding corporate meetings.

Unless properly guarded against, minority stockholders can be almost completely subject to the wishes of the majority.

"Double tax" burden on corporate profits and dividends except where stockholders are eligible for small corporation tax benefits.

Retained earnings are lock-in until sale, liquidation or paid out as dividends. More complicated tax records and returns.

From Starting A Business, a public service of the State Bar of Wisconsin.



Appendix N Planning for a Tax Audit

An Interview with Richard Engel, CPA

The law: "weighty, complex, inscrutable, its seamless web waits to entangle the hapless business owner at the first misstep," recites the March 1990 issue of Entrepreneur.

With the recent flurry of Internal Revenue Service (IRS) innkeeper tax audits, this article seemed appropriate, a pointed reminder that April is the month U.S. citizens pay, or attempt not to pay, the government what it demands.

Richard Engel, a Certified Public Accountant and President of Engel and Company, shares advice given to his large covey of inn clients on preparing for a tax audit.

Ownership Options

With the tightening of home-based business tax laws and the increased success and professionalism of bed and breakfast and country inns, a review of your financial situation is definitely in order. This discussion of legal liability and the potential tax consequences is simplified and condensed to assist you in preparation for conversations with your tax advisor.

A sub-chapter S-corporation which owns everything is an option Engel does not prefer. In this situation, the real estate, the business and the furniture, fixtures and equipment (FFE) are all within the corporation. Tax losses are limited to stockholder basis (capital and stockholder loans). Tax problems develop whenever S-corporation status is lost or basis problems develop. Stockholders are taxed only as individuals, even though they gain the other advantages of the corporate structure.

Sole proprietorship or partnership owns all aspects of the inn. In this entity, the owner living on premises must allocate depreciable assets to personal and business uses. This allocation is measured by the more rigid home-based business law. For example, if you use an area at all to cook, eat or chat, it is viewed as personal space. Even the inn's maintenance costs must be prorated and, at the very least, are questionable under either of these legal designations. This allocation has not yet been tested in the courts. However, a private-letter ruling has been issued that is contradictory to the interests of owner-innkeepers.

Traditional is what Engel calls a combination of personal ownership of land and buildings and S-corporation ownership of FFE as well as corporate operation of the business. A written lease between corporation and individual makes it possible for the individual to receive depreciation benefits on all assets and still obtain business loss benefits. Allocations between personal and business usage are not required here. However, the S-corporation must report the value of fringe benefits, such as shareholders living on premises (owner/innkeepers).

But Isn't a Corporation a Pain?

You probably have heard that setting up a corporation and doing the annual paperwork is more trouble than it's worth. In reality, the government has done the small entrepreneur a favor. Two primary corporate forms apply to inns—sub-chapter S and the regular or C-corporation.

A slight variation of the "traditional" form results from operating as a regular or C-corporation. A written lease still exists between the corporation and the individuals; however, tax losses are passive and limited to \$25,000 per year. Under the 1986 tax law revisions, income is divided into "baskets" (passive, earned and portfolio) and cannot be intermingled when claiming losses. In other words, if you receive rent from the active operation of an inn, the depreciation and interest losses cannot exceed \$25,000 if it is a C-corporation. Fringe benefits (i.e., health insurance and value of lodging), however, are not taxable for the C-corporation stockholders.

The C-corporation has the least amount of paperwork. It can end its fiscal year on any date, and the issue of allocating innkeeper space as a fringe benefit is eliminated. Losses may build up in the corporation, but the owners cannot receive any tax benefit from them. Rent paid by the C-corporation needs to be at arms-length. Rental losses are considered passive losses, subject to the \$25,000 cap. In addition, at the time of sale, you will be double-taxed—as a corporation and as an individual.

Sub-chapter S-corporation is more involved and requires additional elections, compliance and, perhaps, deposits. All income and losses pass through to the shareholders. In a recent IRS ruling, income from lease contracts under the S-corporation (where your corporation pays rent on the building you own separately) is not passive income and is not subject to the \$25,000 cap. However, an owner needs to bite the bullet and pay self-employment tax on the fringe benefit of living on premises. But a few years after buying an existing inn or operating a new one, you will recoup substantial tax benefits.

Incorporating for tax reasons just does not cut it with the IRS; you need a solid, valid business reason. With the broadening consumer base of this industry, along with the increase in utilization of staff and more sophisticated food service and preparation, incorporating may be a wise business decision for no other reason than to limit your liability in possible legal action. With a larger mainstream consumer base comes another price to pay: the potential attraction of a guest or two who may not be gracious and careful with your inn and its furnishings. This is not meant to sound pessimistic—only realistic. Innkeepers, and their individual assets, need to be protected. This is just good business acumen.

You cannot arbitrarily change from one form of corporation to another. Additional taxes, as well as time and other limitations, are involved. If you are considering incorporating your business or transferring your assets to a corporation, you should seek tax advice from a competent attorney and Certified Public Accountant.

Innkeeping, Vol. 9, No. 4. April 1990. Richard J. Engel, CPA, President, Engel and Co., POB 1359, Manchester Center, VT 05255. (802)362-1946.

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Appendix O Example of a Projected Profit and Loss Statement*

Gross Revenue	JAN	FEB	MAR	APR	MAY	JUN
Bed & Breakfast	220	715	1430	1870	1925	2365
Gift Shop	_	10	15	25	25	30
Total	220	725	1445	1895	1950	2395
Less Cost of Sales						
Food	12	39	78	102	105	129
Gifts	75	25	25	_	_	_
Net Cost of Sales	87	64	103	102	105	129
Gross Profit	133	661	1342	1793	1845	2266
Variable Expenses						
Room & Housekeeping Supplies	25	25	50	75	75	90
Hourly/Part-time Employees —	_	_	175	225	225	300
Food/Beverage Employees —	_	_	_	_	_	30
Utilities	90	90	90	90	90	90
Towels & Linens	<u>_50</u>		<u></u>		=	_50
Total	165	115	315	390	390	560
Fixed Operating Expenses						
Marketing	900	50	25	25	25	25
Commissions	_	_	_	_	_	25
Office Supplies	15	10	10	10	15	10
Telephone	70	70	70	70	70	70
Travel & Entertainment	_	50	200	_	_	100
Dues & Subscriptions	25	50	100	50	_	_
Auto	10	10	20	20	30	50
Maintenance	200	150	100	100	100	100
Outside Services	_	_	_	_	_	120
Insurance	75	75	75	75	75	75
Legal & Accounting Fees	200	50	_	_	_	100
Business Taxes	10	25	50	65	70	85
Interest	675	675	675	675	675	675
Salaries	10	15	25	100	100	120
Owner's Wages	150	150	150	150	150	250
Other Expenses	<u>90</u>	90	90	90	90	90
Total	$24\overline{30}$	1470	1590	1430	1400	1895
Total Expenses	2595	1585	1905	1820	1790	2455
Net Profits/Loss (before taxes, debt service, and depreciation)	-2462	-924	-563	-27	55	-189

^{*} This example is for a first year, six-room B&B, open 360 days, projected for 20 percent occupancy, and an average room rate of \$55.00. These figures serve as illustrations only, and should not be interpreted as ideal or serve as a standard.

JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
3850	3330	2860	2145	1925	1155	23,760
55	40	30	25	25	20	300
3905	3340	2890	2170	1950	1175	24,060
210	180	156	117	105	63	1296
_	_	_	_	_	_	125
210	180	156	117	105	63	1421
3695	3160	2734	2053	1845	1112	22,639
150	130	110	80	75	40	925
475	400	350	250	225	150	2775
60	50	40	20	_	_	200
90	90	90	90	90	90	1080
<u>100</u>	=	=	=	=	=	<u>200</u>
875	670	590	440	390	280	5180
25	25	25	25	25	25	1200
50	40	35	25	_	_	175
20	15	20	10	10	10	155
70	70	70	70	70	70	840
_	_	_	_	50	_	400
_	_	_	_	_	_	225
50	50	50	40	20	20	370
100	100	100	100	50	50	1250
120	120	120	120	_	_	600
75	75	75	75	75	75	900
_	_		_	_	200	550
135	120	100	75	70	45	850
675	675	675	675	675	675	8100
120	120	120	120	100	50	1000
250	250	250	250	150	150	2275
90	<u>90</u>	<u>90</u>	<u>90</u>	<u>90</u>	90	<u>1080</u>
1780	1750	1700	1675	1385	1460	19965
2655	2420	2290	2115	1775	1740	25145
1040	740	444	-62	70	-628	-2506



Appendix P B&B Start-Up Costs

- ◆ Building acquisition, appraiser fees, independent investigations of mechanical systems and structural components, tax situation, etc.
- ♦ Home renovation, architect fees
- **♦** Furnishings
- ♦ Bedroom and bathroom items
- ◆ Safety equipment (smoke detectors, fire extinguisher, exit light)
- **♦** Utilities
- ◆ Energy conservation improvements
- ◆ Office equipment
- ◆ Loan cost, loan closing cost
- ◆ Accounting fees and equipment
- ◆ Complimentary items and reading material for guests
- ◆ Legal fees, licenses, permits
- ◆ Insurance (homeowners, property damage, liability, business interruption, workman's compensation, hospitalization)
- ◆ Membership fees for business-related associations
- ◆ Initial advertising and promotion, sign cost
- **♦** Security features
- ◆ Cleaning equipment, staff, and supplies
- **♦** Food inventory
- ◆ Dishes and kitchen utensils
- **♦** Automobile
- **♦** Uniforms
- ♦ Ice machine
- Petty cash
- ◆ Operating capital, cash reserve

It is recommended to project high for the following cost categories, and then base the cost on the cost per rentable room.

- 1. **Acquisition** If you buy, include the down payment, closing costs, etc., and divide the total by the number of rentable rooms. If you lease, include the cost of the first and last month's rent and security deposit, other fees, etc.
- 2. **Renovation and Furnishings** These costs will vary widely depending on the condition of the house but may include costs for linens, wall coverings, drapes, fixtures, furnishing for the guest rooms and common rooms, kitchen equipment; bathroom additions; paving and landscaping; painting (interior and exterior); electrical work; plumbing (sewer, gas, water); and others. Add the costs together and divide by the number of rooms rented. Find out about available financing arrangements and develop a schedule for any necessary construction.

3. Start-up Working Capital and Cash Reserve - These are costs incurred prior to opening. They might include the owner's living costs during the renovation period, office and stationery supplies, purchase or lease of equipment and installation, starting inventory, utility deposits, legal and accounting service, market research, licenses and permits, insurance, promotional materials (advertisements, brochures, logo, signs, business cards), travel costs and fees for trade associations, mortgage or lease payment, owner's salary, emergency needs, petty cash, etc. These initial costs may seem high, but they include both a home and a business opportunity. Again, divide the total by the number of rooms. Bankruptcy could occur if there are no cash reserves for losses during the period to reach break-even occupancy. Project the occupancy needed to break even, and the point in time (months) when you can expect to make a profit. It may take two or more years.



Appendix Q Sample Chart of Accounts

In order to establish a consistent standard of comparison (as is currently available in the rest of the lodging industry), bed & breakfast/country innkeepers are encouraged to set up their accounts as listed here.

Revenue Accounts

Room Revenue (Room rental excluding sales and bed

taxes.)

Food & Beverage Revenue (Meals, catering, liquor, etc.)

Other Revenue (Weddings, entertainment, conferences,

books, souvenirs, etc. Does not

include room rental.)

Operating Expense Accounts

Food (All food and liquor for the inn.)

Room and Housekeeping Supplies (Supply items such as soap, toilet paper,

light bulbs cleaning supplies, laundry

soap, notions, toiletries, etc.)

Hourly or Part-time Employees (All wages and payroll taxes such as

FICA, Worker's Comp., etc.)

Food & Beverage Employees (All wages and payroll taxes as above for

full-time and part-time food &

beverage employees, if the inn serves meals

other than breakfast.)

Utilities (Utilities including trash, gas, electric,

water, etc.)

Towels & Linens (Purchase price of all towels, linens,

blankets, pillows, bathrobes, etc.)

Marketing - Advertising & Promotion (Brochures, magazine and newspaper

ads, printing, direct mail lists, etc.)

Commissions & Bank Card Charges (Agent commissions, referral services,

credit card fees.)

Office Supplies (Paper, tape, pens, letterhead, etc.)
Telephone (Telephone and related expenses.)

Travel & Entertainment (Travel-related expenses and business

entertainment.)

Dues & Subscriptions (Dues to associations and subscriptions

to services, magazines, etc.)

Auto Expenses (Automobile gasoline, repair and

maintenance, car leasing.)

Maintenance, Repairs, and Fixtures (Materials for maintenance and repair.

Also include miscellaneous purchases under \$300 for appliances, fixtures,

furniture, etc.)

Outside Services (Fees for outside services such as

gardening, maintenance, laundry, etc.)

Insurance (Non-payroll insurance such as fire,

theft, auto, liability, etc.)

Legal & Accounting Fees (Fees for legal and accounting services.)

Business Taxes & Fees (Property taxes and business fees.

Exclude sales and bed tax and income

tax.)

Interest Expense (Interest paid on all types of business-

related loans, excluding any mortgages.)

Salaried or Permanent Employees (All wages and payroll taxes such as

FICA, Worker's Comp., etc. Do not

include owners.)

Owners' Wages or Draw

Other Expenses (Money actually taken out of the

business by the owner(s). All expense items that do not belong to any other

fixed or variable account.)



Appendix R Examples of B&B-Related Zoning Ordinances (Warsaw, Indiana; Galena, Illinois)

BEFORE THE PLAN COMMISSION
OF THE CITY OF WARSAW,
INDIANA
PETITION FOR AMENDMENT TO
THE ZONING ORDINANCE OF
THE CITY OF WARSAW

- IN THE MATTER OF THE PETITION OF WILLIAM S. HAMBRIGHT, et ux. FOR AMENDMENT OF THE ZONING ORDINANCE OF THE CITY OF WARSAW
- The petitioners, William S. Hambright and Deborah Hambright, husband and wife, by counsel, respectfully petition the Plan Commission of the City of Warsaw, for amendments to the Zoning Ordinance and in support thereof say the following:
- 1. That they are proceeding under Article 7 of the Zoning Ordinance of Warsaw, Indiana as revised in April, 1981.
- 2. That they are the owners of more than fifty percent (50%) of the area involved in the petition.
- 3. That they propose an amendment to Article 11: Definitions to read as follows:

Bed and Breakfast Facility

- An owner occupied, or owner employee occupied, architecturally or historically significant residence containing no more than six (6) guest rooms for hire, for lodging by prearrangement for periods not to exceed three (3) consecutive weeks and providing for occasional meals daily (usually breakfast) and not a hotel, boarding or lodging house.
- 4. That they propose an amendment to Article 12: Zoning District Regulations, specifically, Article 12.4.5 List of Special Exceptions to read as follows:
- Bed and breakfast facilities shall be permitted in the R-2 and R-3 Zone Districts, provided that:
- (a) the owners of such facility obtain annually on or before February 15, a permit or license from the building commissioner of the City of Warsaw for the operation of said facility.
- 5. That your petitioners request a hearing upon this petition after public notice in accordance with the laws of the State of Indiana.
- WHEREFORE, your petitioners request the Plan Commission for its approval of the proposed amendment and that upon its approval that its recommendation be forwarded to the Common Council of the City of Warsaw for hearing thereon.

Rasor	Harris	Lemon	&	Reed

By		
Rex L. Reed		
Attorney		

CITY OF GALENA, IL 61036 CITY ORDINANCE SECTIONS ON GUEST HOUSE AND GUEST HOMES	3.2.79	Garage, Public. A building other than a private garage, used for the care, incidental servicing and sale of automobile supplies or where motor vehicles are parked or stored for remuneration, hire or sale within the structure, but not including trucks, tractors, truck-trailers and commercial vehicles exceeding one and one-half (1-1/2) ton capacity.
	3.2.80	Guest House. Sleeping quarters for rent within a dwelling and/or detached accessory building for use by temporary guests of the owner or agent of the premises.
	3.2.81	Grade: Street a. For buildings having walls adjoining one street only, the elevation of the street at the midpoint of the wall adjoining said street. b. For buildings having walls adjoining more than one street, the average of the elevation of the street at the midpoints to the walls adjoining said streets. c. For buildings having no wall adjoining the street, the average level of the finished surface of the ground adjacent to the exterior walls of the building. Any wall approximately parallel to and not more than twenty (20) feet from a street line is to be considered as adjoining the street for the purpose of this definition. Where no street is near or established, the grade shall be determined by the City Engineer.
	3.2.82	Height of Building. The vertical distance measured from the street grade or equivalent established grade to the highest point of the front facade or uppermost habitable floor, whichever is greater.
	3.2.82(A)	Historic District. That portion of the City of Galena located within "The Original City" as recorded in the Courthouse of Jo Daviess County on 28 March 1838 and all subdivisions added to the City prior 31 December 1859. The same boundary is recognized by both local ordinance and the National Register of Historic Places and represents an area predominantly characterized by nineteenth century architecture.
	3.2.82(B)	Historic District Design Guidelines. Architectural guidelines as presented in "Architectural Styles and Design Elements of the Main Street Buildings of Galena, Illinois, 1830-1890" by Tacie N. and Thomas A. Campbell and any other design guidelines that may be adopted by the City of Galena in the administration of the Galena Historic District.
	3.2.83	Home Occupation. The conduct of an art or profession, the offering of a service, the conduct of a business or the handicraft manufacture of products for gain in accordance with provision in Section 11.2.1.1. There shall be no exterior display or sign except as allowed in sign regulations for the district in which such "home occupation" is located, and there shall be no exterior storage of equipment or materials used in connection with the home occupation.
	8.4.2.4	That spacing between principal buildings shall be at least equivalent to such spacing as would be required between buildings similarly developed under the terms of this ordinance on separate zoning lots, due consideration being given to the openness normally afforded by intervening streets and alleys; and,

- 8.4.2.5 That along the periphery of such planned developments, yards shall be provided as required by the regulations or the district in which said development is located.
- 8.5 RESERVED
- 8.6 **Guest Homes.** Guest homes, as defined in Section 3, are of such a nature as to require additional standards to insure the integrity of the neighborhoods of which they are a part.
- 8.6.1 The following additional standards shall be applied to each guest home:
 - a. A maximum of four (4) guest units shall be permitted on one zoning lot.
 - b. The owner or his agent mush reside on the premises or immediately adjacent to the house, this distance not to exceed one hundred (100) feet.
 - c. Proof of registration with the Illinois Department of Revenue and Jo Daviess County for tax purposes must be submitted to the Office of the Zoning Administration within ninety (90) days of City Council approval of the Special Permit.
 - d. All applicable state and local codes and ordinances must be complied with or the special use permit shall be subject to revocation.

Additional Concerns Regarding Guest Homes:

- Should an applicant wish to prepare and serve food in a guest home, they
 must obtain a permit from the Health Department in compliance with the
 State Restaurant Code.
- 2. Adequate transportation routes to the guest home and available parking must be provided.
- 3. That the guest home provide the proper number of exits as required by State Fire Codes.
- 4. That the guest home must maintain the appearance of a residential dwelling.
- 5. That signage and exterior lighting be kept at a minimum. First time guest homes are usually only given a two (2) year permit.

