

How to Start a Bed and Breakfast Business

By the BizMove.com Team

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1. Determining the Feasibility of Your New Business

A. Preliminary Analysis

This guide is a checklist for the owner/manager of a business enterprise or for one contemplating going into business for the first time. The questions concentrate on areas you must consider seriously to determine if your idea represents a real business opportunity and if you can really know what you are getting into. You can use it to evaluate a completely new venture proposal or an apparent opportunity in your existing business.

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business will be determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates that very few ideas result in successful business ventures, even when introduced by well established firm. Too many entrepreneurs strike out on a business venture so convinced of its merits that they fail to thoroughly evaluate its potential.

This checklist should be useful to you in evaluating a business idea. It is designed to help you screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

Preliminary Analysis

A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: "Should I go into this business?" Answering this question involves first a preliminary assessment of both personal and project considerations.

General Personal Considerations

The first seven questions ask you to do a little introspection. Are your personality characteristics such that you can both adapt to and enjoy business ownership/management?

1. Do you like to make your own decisions?
2. Do you enjoy competition?
3. Do you have will power and self-discipline?
4. Do you plan ahead?
5. Do you get things done on time?
6. Can you take advise from others?
7. Are you adaptable to changing conditions?

The next series of questions stress the physical, emotional, and financial strains of a new business.

8. Do you understand that owning your own business may entail working 12 to 16 hours a day, probably six days a week, and maybe on holidays?
9. Do you have the physical stamina to handle a business?
10. Do you have the emotional strength to withstand the strain?
11. Are you prepared to lower your standard of living for several months or years?
12. Are you prepared to loose your savings?

Specific Personal Considerations

1. Do you know which skills and areas of expertise are critical to the success of your project?
2. Do you have these skills?
3. Does your idea effectively utilize your own skills and abilities?
4. Can you find personnel that have the expertise you lack?
5. Do you know why you are considering this project?
6. Will your project effectively meet your career aspirations

The next three questions emphasize the point that very few people can claim expertise in all phases of a feasibility study. You should realize your personal limitations and seek appropriate assistance where necessary (i.e. marketing, legal, financial).

7. Do you have the ability to perform the feasibility study?
8. Do you have the time to perform the feasibility study?
9. Do you have the money to pay for the feasibility study done?

General Project Description

1. Briefly describe the business you want to enter.

2. List the products and/or services you want to sell

3. Describe who will use your products/services

4. Why would someone buy your product/service?

5. What kind of location do you need in terms of type of neighborhood, traffic count, nearby firms, etc.?

6. List your product/services suppliers.

7. List your major competitors - those who sell or provide like products/services.

8. List the labor and staff you require to provide your products/services. _____

B. Requirements For Success

To determine whether your idea meets the basic requirements for a successful new project, you must be able to answer at least one of the following questions with a "yes."

1. Does the product/service/business serve a presently unserved need?
2. Does the product/service/business serve an existing market in which demand exceeds supply?
3. Can the product/service/business successfully compete with an existing competition because of an "advantageous situation," such as better price, location, etc.?

Major Flaws

A "Yes" response to questions such as the following would indicate that the idea has little chance for success.

1. Are there any causes (i.e., restrictions, monopolies, shortages) that make any of the required factors of production unavailable (i.e., unreasonable cost, scarce skills, energy, material, equipment, processes, technology, or personnel)?
2. Are capital requirements for entry or continuing operations excessive?
3. Is adequate financing hard to obtain?
4. Are there potential detrimental environmental effects?
5. Are there factors that prevent effective marketing?

C. Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

1. How much income do you desire?

2. Are you prepared to earn less income in the first 1-3 years?

3. What minimum income do you require?

4. What financial investment will be required for your business?

5. How much could you earn by investing this money?

6. How much could you earn by working for someone else?

7. Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income just to be your own boss with the only prospects of more substantial profit/income in future years?

8. What is the average return on investment for a business of your type? _____

D. Preliminary Income Statement

Besides return on investment, you need to know the income and expenses for your business. You show profit or loss and derive operating ratios on the income statement. Dollars are the (actual, estimated, or industry average) amounts for income and expense categories. Operating ratios are expressed as percentages of net sales and show relationships of expenses and net sales.

For instance 50,000 in net sales equals 100% of sales income (revenue). Net profit after taxes equals 3.14% of net sales. The hypothetical "X" industry average after tax net profit might be 5% in a given year for firms with 50,000 in net sales. First you estimate or forecast income (revenue) and expense dollars and ratios for your business. Then compare your estimated or actual performance with your industry average. Analyze differences to see why you are doing better or worse than the competition or why your venture does or doesn't look like it will float.

These basic financial statistics are generally available for most businesses from trade and industry associations, government agencies, universities and private companies and banks

Forecast your own income statement. Do not be influenced by industry figures. Your estimates must be as accurate as possible or else you will have a false impression.

1. What is the normal markup in this line of business. i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of sales?

2. What is the average cost of goods sold percentage of sales?

3. What is the average inventory turnover, i.e., the number of times the average inventory is sold each year?

4. What is the average gross profit as a percentage of sales?

5. What are the average expenses as a percentage of sales?

6. What is the average net profit as a percent of sales?

7. Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.

8. From an objective, practical standpoint, is this level of sales, expenses and profit attainable?

ANY BUSINESS, INC.
 Condensed Hypothetical Income Statement
 For year ending December 31

Item	Amount	Percent
Gross sales	773,888	
Less returns, allowances, and cash discounts	14,872	
Net sales	759,016	100.00
Cost of goods sold	589,392	77.65
Gross profit on sales	169,624	22.35
Selling expenses	41,916	5.52
Administrative expenses	28,010	3.69
General expenses	50,030	6.59
Financial expenses	5,248	0.69
Total expenses	125,204	16.50
Operating profit	44,220	5.85
Extraordinary expenses	1,200	0.16
Net profit before taxes	43,220	5.69
taxes	19,542	2.57
Net profit after taxes	23,678	3.12

E. Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales. after answering the following questions you will be in a better positions to answer question eight immediately above.

Population

1. Define the geographical areas from which you can realistically expect to draw customers.

2. What is the population of these areas?

3. What do you know about the population growth trend in these areas? _____

4. What is the average family size?

5. What is the age distribution?

6. What is the per capita income?

7. What are the consumers' attitudes toward business like yours?

8. What do you know about consumer shopping and spending patterns relative to your type of business?

9. Is the price of your product/service especially important to your target market?

10. Can you appeal to the entire market?

11. If you appeal to only a market segment, is it large enough to be profitable?

F. Competition

1. Who are your major competitors?

2. What are the major strengths of each?

3. What are the major weaknesses of each?

4. Are you familiar with the following factors concerning your competitors:

Price structure?

Product lines (quality, breadth, width)?

Location?

Promotional activities?

Sources of supply?

Image from a consumer's viewpoint?

5. Do you know of any new competitors?

6. Do you know of any competitor's plans for expansion?

7. Have any firms of your type gone out of business lately?

8. If so, why?

9. Do you know the sales and market share of each competitor?

10. Do you know whether the sales and market share of each competitor are increasing, decreasing, or stable?

11. Do you know the profit levels of each competitor?

12. Are your competitors' profits increasing, decreasing, or stable?

13. Can you compete with your competition?

G. Sales

1. Determine the total sales volume in your market area.

2. How accurate do you think your forecast of total sales is?

3. Did you base your forecast on concrete data?

4. Is the estimated sales figure "normal" for your market area?

5. Is the sales per square foot for your competitors above the normal average?

6. Are there conditions, or trends, that could change your forecast of total sales?

7. Do you expect to carry items in inventory from season to season, or do you plan to mark down products occasionally to eliminate inventories? If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (Your gross profits margin may be too low.)

8. How do you plan to advertise and promote your product/service/business?

9. Forecast the share of the total market that you can realistically expect - as a dollar amount and as a percentage of your market.

10. Are you sure that you can create enough competitive advantages to achieve the market share in your forecast of the previous question?

11. Is your forecast of dollar sales greater than the sales amount needed to guarantee your desired or minimum income?

12. Have you been optimistic or pessimistic in your forecast of sales? _____

13. Do you need to hire an expert to refine the sales forecast?

14. Are you willing to hire an expert to refine the sales forecast?

H. Supply

1. Can you make a list of every item of inventory and operating supplies needed?
2. Do you know the quantity, quality, technical specifications, and price ranges desired?
3. Do you know the name and location of each potential source of supply?
4. Do you know the price ranges available for each product from each supplier?
5. Do you know about the delivery schedules for each supplier?
6. Do you know the sales terms of each supplier?
7. Do you know the credit terms of each supplier?
8. Do you know the financial condition of each supplier?
9. Is there a risk of shortage for any critical materials or merchandise?
10. Are you aware of which supplies have an advantage relative to transportation costs?
11. Will the price available allow you to achieve an adequate markup?

I. Expenses

1. Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc?
2. Do you need to know which expenses are Direct, Indirect, or Fixed?
3. Do you know how much your overhead will be?
4. Do you know how much your selling expenses will be?

Miscellaneous

1. Are you aware of the major risks associated with your product? Service Business?
2. Can you minimize any of these major risks?
3. Are there major risks beyond your control?
4. Can these risks bankrupt you? (fatal flaws)

J. Venture Feasibility

1. Are there any major questions remaining about your proposed venture?
2. Do the above questions arise because of a lack of data?
3. Do the above questions arise because of a lack of management skills?
4. Do the above questions arise because of a "fatal flaw" in your idea?
5. Can you obtain the additional data needed?

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2. Starting Your Business Step by Step

Things to Consider Before You Start

This guide will walk you step by step through all the essential phases of starting a successful retail business. To profit in a retail business, you need to consider the following questions: What business am I in? What goods do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my store? How will I get the work done? What management controls are needed? How can they be carried out? Where can I go for help?

As the owner, you have to answer these questions to draw up your business plan. The pages of this Guide are a combination of text and suggested analysis so that you can organize the information you gather from research to develop your plan, giving you a progression from a common sense starting point to a profitable ending point.

What Is a Business Plan?

The success of your business depends largely upon the decisions you make. A business plan allocates resources and measures the results of your actions, helping you set realistic goals and make logical decisions.

You may be thinking, "Why should I spend my time drawing up a business plan? What's in it for me?" If you've never worked out a plan, you are right in wanting to hear about the possible benefits before you do the work. Remember first that the lack of planning leaves you poorly equipped to anticipate future decisions and actions you must make or take to run your business successfully. A business plan Gives you a path to follow. A plan with goals and action steps allows you to guide your business through turbulent often unforeseen economic conditions.

A plan shows your banker the condition and direction of your business so that your business can be more favorably considered for a loan because of the banker's insight into your situation.

A plan can tell your sales personnel, suppliers, and others about your operations and goals.

A plan can help you develop as a manager. It can give you practice in thinking and figuring out problems about competitive conditions, promotional opportunities and situations that are good or bad for your business. Such practice over a period of time can help increase an owner-manager's ability to make judgments.

A second plan tells you what to do and how to do it to achieve the goals you have set for your business.

What Business Am I In?

In making your business plan, the first question to consider is: What business am I really in? At first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." Hold on and think. Some owner-managers have gone broke and others have wasted their savings because they did not define their businesses in detail. Actually they were confused about what business they were in.

Look at an example. Mr. Jet maintained a dock and sold and rented boats. He thought he was in the marina business. But when he got into trouble and asked for outside help, he learned that he was not necessarily in the marina business. He was in several businesses. He was in the restaurant business with a dockside cafe, serving meals to boating parties. He was in the real estate business, buying and selling lots. He was in boat repair business, buying parts and hiring a mechanic as demand rose. Mr. Jet was trying to be too many things and couldn't decide which venture to put money into and how much return to expect. What slim resources he had were fragmented.

Before he could make a profit on his sales and a return on his investment, Mr. Jet had to decide what business he really was in and concentrate on it. After much study, he realized that he should stick to the marina format, buying, selling, and servicing boats.

Decide what business you are in and write it down - define your business.

To help you decide, think of answers to questions like: What do you buy? What do you sell? Which of your lines of goods yields the greatest profit? What do people ask you for? What is it that you are trying to do better or more of or differently from your competitors? Write it down in detail.

Planning Your Marketing

When you have decided what business you are in, you are ready to consider another important part of your business plan. Marketing. Successful marketing starts with the owner-manager. You have to know the merchandise you sell and the wishes and wants of your customers you can appeal to. The objective is to move the stock off the shelves and display racks at the right price and bring in sales dollars.

The text and suggested working papers that follow are designed to help you work out a marketing plan for your store.

Determining the Sales Potential

In retail business, your sales potential depends on location. Like a tree, a store has to draw its nourishment from the area around it. The following questions should help you work through the problem of selecting a profitable location.

In what part of the city or town will you locate?

In the downtown business section?

In the area right next to the downtown business area?

In a residential section of the town?

On the highway outside of town?

In the suburbs?

In a suburban shopping center?

On a worksheet, write where you plan to locate and give your reasons why you chose that particular location.

Now consider these questions that will help you narrow down a place in your location area.

What is the competition in the area you have picked?

How many of the stores look prosperous?

How many look as though they are barely getting by?

How many similar stores went out of business in this area last year?

How many new stores opened up in the last year?

What price line does competition carry?

Which store or stores in the area will be your biggest competitors?

Again, write down the reasons for your opinions. Also write out an analysis of the area's economic base and give the reason for your opinion. Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working full time? Only part time? Did any industries go out of business in the past several months? Are new industries scheduled to open in the next several months?

When you find a store building that seems to be what you need, answer the following questions:

Is the neighborhood starting to get run down?

Is the neighborhood new and on the way up? (The local Chamber of Commerce may have census data for your area. Census Tracts on Population, published by the Bureau of Census, may be useful. Other sources on such marketing statistics are trade associations and directories).

Are there any super highways or through-ways planned for the neighborhood?

Is street traffic fairly heavy all day?

How close is the building to bus lines and other transportation?

Are there adequate parking spaces convenient to your store?

Are the sidewalks in good repair (you may have to repair them)?

is the street lighting good?

Is your store on the sunny side of the street?

What is the occupancy history of this store building? Does the store have a reputation for failures? (Have stores opened and closed after a short time)?

Why have other businesses failed in this location?

What is the physical condition of the store?

What service does the landlord provide?

What are the terms of the lease?

How much rent must you pay each month?

Estimate the gross annual sales you expect in this location.

When you think you have finally solved the site location question, ask your banker to recommend people who know most about location in your line of business. Contact these people and listen to their advice and opinions, weigh what they say, then decide.

How to Attract Customers

When you have a location in mind, you should work through another aspect of marketing. How will you attract customers to your store? How will you pull business away from your competition?

It is in working with this aspect of marketing that many retailers find competitive advantages. The ideas that they develop are as good as and often better than those that large companies develop. The work blocks that follow are designed to help you think about image, pricing, customer service policies, and advertising.

Image

A store has an image whether or not the owner is aware of it. For example, throw some merchandise onto shelves and onto display tables in a dirty, dimly lit store and you've got an image. Shoppers think of it as a dirty, junky store and avoid coming into it. Your image should be concrete enough to promote in your advertising and other promotional activities. For example, "home-cooked" food might be the image of a small restaurant.

Write out on a worksheet the image that you want shoppers and customers to have of your store.

Pricing

Value received is the key to pricing. The only way a store can have low prices is to sell low-priced merchandise. Thus, what you do about the prices you charge depends on the lines of merchandise you buy and sell. It depends also on what your competition charges for these lines of merchandise. Your answers to the following questions should help you to decide what to do about pricing.

In what price ranges are your line of merchandise sold

High _____, Medium _____, or Low _____?

Will you sell for cash only?

What services will you offer to justify your prices if they are higher than your competitor's prices?

If you offer credit, will your price have to be higher than if all sales are for cash? The credit costs have to come from somewhere. Plan for them.

If you use credit card systems, what will it cost you? Will you have to add to your prices to absorb this cost.

Customer Service Policies

The service you provide your customers may be free to them, but you pay for it. For example, if you provide free parking, you pay for your own parking lot or pick up your part of the cost of a lot you share with other retailers.

Make a list of the services that your competitors offer and estimate the cost of each service. How many of these services will you have to provide just to be competitive? Are there other services that would attract customers but that competitors are not offering? If so, what are your estimates of the cost of such services? Now list all the services you plan to offer and the estimated costs. Total this expense and figure out how you can include those added costs in your prices without pricing your merchandise out of the market.

Planning Your Advertising Activities

Advertising was saved until the last because you have to have something to say before advertising can be effective. When you have an image, price range, and customer services, you are ready to tell prospective customers why they should shop in your store.

When the money you can spend for advertising is limited, it is vital that your advertising be on target. Before you think about how much money you can afford for advertising, take time to determine what jobs you want to do for your store. List what makes your store different from your competitors. List the facts about your store and its merchandise that your advertising should tell shoppers and prospective customers.

When you have these facts listed and in hand, you are ready to think about the form your advertising should take and its cost. Ask the local media (newspapers, radio and television, and printers of direct mail pieces) for information about the services and results they offer for your money.

How you spend advertising money is your decision, but don't fall into the trap that snares many advertisers who have little or no experience with advertising copy and media selection. Advertising is a profession. Don't spend a lot of money on advertising without getting professional advice on what kind and how much advertising your store needs.

The following work sheet can be useful in determining what advertising is needed to sell your strong points to prospective customers.

Form of Advertising	Size of Audience	Frequency of Use	Cost of a single ad	Est. Cost
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
			Total	_____

When you have a figure on what your advertising for the next twelve months will cost, check it against what similar stores spend. Advertising expense is one of the operating ratios (expenses as a percentage of sales) that trade associations and other organizations gather. If your estimated cost for advertising is substantially higher than this average for your line of merchandise, take a second look. No single expense item should be allowed to get way out of line if you want to make a profit. Your task in determining how much to spend for advertising

comes down to the question, "How much can I afford to spend and still do the job that needs to be done?"

In-store Sales Promotion

To complete your work on marketing, you need to think about what you want to happen after prospects get inside your store. Your goal is to move stock off your shelves and displays at a profit and satisfy your customers. You want repeat customers and money in your cash register.

At this point, if you have decided to sell for cash only, take a second look at your decision. Don't overlook the fact that Americans like to buy on credit. Often a credit card, or other system of credit and collections, is needed to attract and hold customers. Customers will have more buying confidence and be more comfortable in your store if they know they can afford to buy. Credit makes this possible.

To encourage people to buy, self-service stores rely on layout, attractive displays, signs and clearly marked prices on the items offered for sale. Other stores combine these techniques with personal selling.

List the display counters, racks, special equipment (something peculiar to your business like a frozen food display bin or a machine to measure and cut cloth), and other fixtures. Figure the cost of all fixtures and equipment by listing them on a worksheet as follows:

Type of equipment	Number	X Unit Cost	= Cost
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Draw several layouts of your store and attach the layout that suits you to the cost worksheet. Determine how many signs you may need for a twelve month operation and estimate that cost also.

If your store is a combination of self-service and personal selling, how many sales persons and cashiers will you need? Estimate, I will need _____ sales persons at \$ _____ each week (include payroll taxes and insurance in this salaries cost). In a year, salaries will cost: _____.

Personal attention to customers is one strong point that a store can use as a competitive tool. You want to emphasize in training employees that everyone has to pitch in and get the job done. Customers are not interested in job descriptions, but they are interested in being served promptly and courteously. Nothing is more frustrating to a customer than being ignored by an employee. Decide what training you will give your sales people in the techniques of how to greet customers, show merchandise, suggest other items, and handle customer needs and complaints.

Buying

When buying merchandise for resale, you need to answer questions such as:

Who sells the line to retailers? Is it sold by the manufacturer directly or through wholesalers and distributors?

What delivery service can you get and must you pay shipping charges?

What are the terms of buying?

Can you get credit?

How quickly can the vendor deliver fill-in orders?

You should establish a source of supply on acceptable terms for each line of merchandise and estimate a plan for purchasing as follows:

Name of Item	Name of Supplier	Address Supplier	Disc. Offered	Delv. Time(1)	Freight Costs(2)	Fill-in Policy(3)
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

(1) How many days or weeks does it take the supplier to deliver the merchandise to your store.

(2) Who pays? You, the buyer? The supplier? Freight or transportation costs are a big expense item.

(3) What is the supplier's policy on fill-in orders? That is, do you have to buy a gross, a dozen, or will the supplier ship only two or three items? How long does it take for the delivery to get into your store?

Stock Control

Often shoppers leave without buying because the store did not have the items they wanted or the sizes and colors were wrong. Stock control, combined with suppliers whose policies on fill-in orders are favorable to you, provides a way to reduce "walkouts".

The type of system you use to keep informed about your stock, or inventory, depends on your line of merchandise and the delivery dates provided by your suppliers.

Your stock control system should enable you to determine what needs to be ordered on the basis of: (1) what is on hand, (2) what is on order, and (3) what has been sold. Some trade associations and suppliers provide systems to members and customers, otherwise your accountant can set up a system that is best for your business. Inventory control is based upon either a perpetual or a periodic method of accounting that involves cost considerations as well as stock control. When you have decided what system you will use to control stock, estimate its cost. You may not need an extensive (and expensive) control system because you do not need the detailed information such a system collects. The system must justify its costs or you will just waste money and time on a useless effort.

Stock Turnover

When an owner-manager buys reasonably well, you can expect to turnover stock several times a year. For example, the stock in a small camera shop should turnover four times to four and a half times a year. What is the average stock turnover per year of your line of merchandise? How many times do you expect your stock to turnover? List the reasons for your estimate.

Behind-the-Scenes Work

In a retail store, behind-the-scenes work consists of the receiving of merchandise, preparing it for display, maintaining display counters and shelves, and keeping the store clean and

attractive to customers. The following analytical list will help you decided what to do and the cost of those actions.

First list the equipment (for example a marking machine for pricing, shelves, a cash register) you will need for: (1) receiving merchandise (2) preparing merchandise for display, (3) maintaining display counters and shelves, and (4) keeping the store clean. Next list the supplies you will need for a year, for example, brooms, price tags, and business forms.

Use this format to figure these costs:

Name of Equip./Supplies	Quantity	X Unit Cost	= Cost
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Who will do the back-room work and the cleaning that is needed to make a smooth operation in the store? If you do it yourself, how many hours a week will it take you? Will you do these chores after closing? If you use employees, what will they cost? On a worksheet describe how you plan to handle these tasks. For example:

Back-room work will be done by one employee during the slack sales times of the day. I estimate that the employee will spend _____ hours per week on these tasks and will cost _____ (number of hours times hourly wages) per week and _____ per year.

I will need _____ square feet of space for the back-room operation. This space will cost _____ per square foot or a total of _____ per month.

List and analyze all expense items in the same manner. Examples are utilities, office help, insurance, telephone, postage, accountant, payroll taxes, and licenses or other local taxes. If you plan to hire others to help manage, analyze these salaries.

How Much Money Will You Need

At this point, take some time to think about what your business plan means in terms of dollars. This section is designed to help you put your plan into dollars.

The first question concerns the source of dollars. After your initial capital investments in a retail store, the main source of money is sales. What sales volume do you expect to do in the first twelve months? Write your estimate here _____, and justify your estimate.

Start-Up Costs:

List the following estimated start-up costs:

Fixtures and equipment*	_____
Starting inventory	_____
Decorating and remodeling	_____
Installation of equipment	_____
Deposits for utilities	_____
Legal and professional fees	_____
Licenses and permits	_____
Advertising for the opening	_____
Accounts receivable	_____
Operating cash	_____
Total	_____

*Transfer your figures from previous worksheets.

Whether you have the funds (say in savings) or borrow the money, your new business will have to pay back start-up costs. Keep this fact in mind as you work on estimating expenses and on other financial aspects of your plan.

Expenses

In connection with annual sales volume you need to think about expenses. If, for example, you plan to do sales amounting to \$100,000, what will it cost you to do this amount of business? How much profit will you make? A business must make a profit or close.

The following exercise will help you to make an estimate of your expenses. To do this exercise you need to know the total cost of goods sold for your line of merchandise for the period (month or year) that you are analyzing. Cost of goods sold is expressed as a percentage of sales and is called an operating ratio. Check with your trade association to get the operating ratios for your business's. The following is the format for an Income Statement with operating ratios substituted for dollar amounts.

**Summary of Operating Ratios
of 250 high Profit Hardware Stores**

Sales		Percent of sale
Cost of Goods Sold		100.00
		-64.92
Margin		<hr/> 35.08
Expenses		
Payroll and other employee expenses	16.23	
Occupancy expenses	3.23	
Office supplies and postage	0.40	
Advertising	1.49	
donations	0.08	
Telephone and telegraph	0.24	
Bad Debts	0.30	
Delivery	0.47	
Insurance	0.66	
Taxes (other than real estate and payroll)	0.46	
Interest	0.61	
Depreciation (other than real estate)	0.57	
Supplies	0.37	
Legal and accounting expenses	0.31	
Dues and subscription	0.08	
Travel, buying, and entertainment	0.19	
Unclassified expenses	0.64	
	<hr/>	
Total operating expense		-26.33
Net operating profit		8.75
Other income		1.65
		<hr/>
Net profit before income taxes		10.40

Now using your operating ratio for cost of goods sold and your estimated Sales Revenue, you can breakdown your expenses by substituting your ratios and dollar amounts in the Income Statement.

Notice that Gross Margin must be large enough to provide for your expenses and profit.

	Expressed in Percent	Expressed in dollars	Your Percentage	Your Dollars
1. Sales	100	\$100,000	100	\$ ___
2. Cost of Goods Sold	-66	-66,000	___	-\$ ___
3. Gross Margin	<hr/> 34	<hr/> \$34,000	<hr/> ___	<hr/> \$ ___

and continue to fill out the entire Income Statement. Work out statements monthly or for the year.

Cash Forecast

A budget helps you to see the dollar amount of your expected revenue and expenses each month. Then from month to month the question is: Will sales bring in enough money to pay for the store's bills? The owner-manager must prepare for the financial peaks and valleys of the

business cycle. A cash forecast is a management tool that can eliminate much of the anxiety that can plague you if your sales go through lean months. Use the following format.

Estimated Cash Forecast

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
(1) Cash in Bank (Start of Month)	---	---	---	---	---	---	---	---	---	---	---	---	---
(2) Petty Cash (Start of Month)	---	---	---	---	---	---	---	---	---	---	---	---	---
(3) Total Cash (add (1) and (2))	---	---	---	---	---	---	---	---	---	---	---	---	---
(4) Expected Accounts Receivable	---	---	---	---	---	---	---	---	---	---	---	---	---
(5) Other Money Expected	---	---	---	---	---	---	---	---	---	---	---	---	---
(6) Total Receipts (add (4) and (5))	---	---	---	---	---	---	---	---	---	---	---	---	---
(7) Total Cash and Receipts (add (3) and (6))	---	---	---	---	---	---	---	---	---	---	---	---	---
(8) All Disbursements (for month)	---	---	---	---	---	---	---	---	---	---	---	---	---
(9) Cash Balance at end of Month in Bank Account and Petty Cash (subtract (8) from (7))*	---	---	---	---	---	---	---	---	---	---	---	---	---

*This balance is your starting figure for the next month

Is Additional Money Needed? Suppose at this point that your business needs more money than can be generated by present sales. What do you do? If your business has great potential or is in good financial condition, as shown by its balance sheet, you will borrow money (from a bank most likely) to keep the business operating during start-up and slow sales periods. The loan can be repaid during the fat sales months when sales are greater than expenses. Adequate working capital is needed for success and survival; but cash on hand (or the lack of it) is not necessarily an indication that the business is in bad financial shape. A lender will look at your balance sheet to see the business's Net Worth of which cash and cash flow are only a part. The balance sheet statement shows a business's Net Worth (financial position) at a given point in time, say at the close of business at the end of the month or at the end of the year.

Free Retail Business Plan How To.

Even if you do not need to borrow money you may want to show your plan and balance sheet to your banker. It is never too early to build good relations and credibility (trust) with your banker. Let your banker know that you are a manager who knows where you want to go rather than someone who merely hopes to succeed.

Control and Feedback

To make your plan work you need feedback. For example, the year-end profit and loss (income) statement shows whether your business made a profit or took a loss for the past twelve months.

Don't wait twelve months for the score. To keep your plan on target you need readings at frequent intervals. An income statement compiled at the end of each month or at the end of

each quarter is one type of frequent feedback. Also you must set up management controls that help you insure that the right things are done each day and week. Organization is needed because you as the owner-manager cannot do all the work. You must delegate work, responsibility, and authority. The record keeping systems should be set up before the store opens. After you're in business it is too late.

The control system that you set up should give you information about stock, sales, receipts and disbursement. The simpler the accounting control system, the better. Its purpose is to give you current useful information. You need facts that expose trouble spots. Outside advisers, such as accountants can help.

Stock Control

The purpose of controlling stock is to provide maximum service to your customers. Your aim should be to achieve a high turnover rate on your inventory. The fewer dollars you tie up in stock, the better.

In a store, stock control helps the owner-manager offer customers a balanced assortment and enables you to determine what needs ordering on the basis of (1) what is on hand, (2) what is on order, and (3) what has been sold.

When setting up inventory controls, keep in mind that the cost of the stock is not your only cost. There are inventory costs, such as the cost of purchasing, the cost of keeping stock control records, and the cost of receiving and storing stock.

Sales

In a store, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, you need answers to questions, such as: How many sales were made? What was the dollar amount? What were the best selling products? At what price? What credit terms were given to customers?

Receipts

Break out your receipts into receivables (money still owned such as a charge sale) and cash. You know how much credit you have given, how much more you can give, and how much cash you have with which to operate.

Disbursement

Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. You should pay bills on time to take advantage of supplier discounts. Your review systems should also give you the opportunity to make judgments on the use of the funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax monies, such as payroll income tax deductions, must be set aside and paid out at the proper time.

Break-Even Analysis

Break-even analysis is a management control device that approximates how much you must sell in order to cover your costs with no profit and no loss. Profit comes after break-even.

Profit depends on sales volume, selling price, and costs. Break-even analysis helps you to estimate what a change in one or more of these factories will do to your profit. To figure a

break-even point, fixed costs (like rent) must be separated from variable costs (like the cost of goods sold).

The break-even formula is:

$$\text{Break-even point (in sales dollars)} = \frac{\text{Total fixed costs}}{1 - \frac{\text{Total variable costs}}{\text{Corresponding sales volume}}}$$

Sample break-even calculations: Bill Mason plans to open a shoe store and estimates his fixed expenses at about \$9,000 the first year. He estimates variable expenses of about \$700 for every \$1,000 of sales. How much must the store gross to break-even?

$$\text{BE point} = \frac{\$9,000}{1 - \frac{700}{1,000}} = \frac{\$9,000}{1 - 0.70} = \frac{\$9,000}{0.30} = \$30,000$$

Is Your Plan Workable?

Stop when you have worked out your break-even point. Whether the break-even point looks realistic or way off base, it is time to make sure that your plan is workable.

Take time to re-examine your plan before you back it with money. If the plan is not workable, better to learn it now than to realize six months down the road that you are pouring money into a losing venture.

In reviewing your plan, look at the cost figures you drew up when you broke down your expenses for the year (operating ratios on the income statement). If any of your cost items are too high or too low, change them. You can write your changes above or below your original entries on the worksheet. When you finish making your adjustments, you will have a revised projected statement of sales and expenses.

With your revised figures, work out a revised break-even analysis. Whether the new break-even point looks good or bad, take one more precaution. Show your plan to someone who has not been involved in working out the details with you. Get an impartial, knowledgeable second opinion. Your banker, or other advisor may see weaknesses that failed to appear as you went over the plan details. These experts may see strong points that your plan should emphasize.

Put Your Plan Into Action

When your plan is as thorough and accurate as possible you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a wishful dream. A successful owner-manager does not stop after gathering information and drawing up a business plan, as you have done in working through this Guide. use the plan.

At this point, look back over your plan. Look for things that must be done to put your plan into action. What needs to be done will depend on your situation and goals. For example, if your business plan calls for an increase in sales, you may have to provide more funds for this expansion. Have you more money to put into this business? Do you borrow from friends and relatives? From your bank? From your suppliers (through credit terms?) If you are starting a

new business, one action may be to get a loan for fixtures, stock, employee salaries, and other expenses. Another action will be to find and to hire capable employees.

Now make a list of things that must be done to put your plan into action. Give each item a date so that it can be done at the appropriate time.

To put my plan into action, I must:

1. Do (action) _____ By _____(date)
2. etc.

Keep Your Plan Current

Once you put your plan into action, look out for changes. They can cripple the best business no matter how well planned. Stay on top of changing conditions and adjust your business plan accordingly. Sometimes the change is within your company. For example, several of your sales persons may quit. Sometimes the change is with the customers whose desires and tastes shift and change or refuse to change. Sometimes the change is technological as when products are created and marketed.

In order to adjust your plan to account for such changes, you the owner-manager, must:

Be alert to the changes that come about in your line of business, in your market, and in your customers.

Check your plan against these changes.

Determine what revisions, if any, are needed in the business plan.

The method you use to keep your plan current so that your business can weather the changing forces of the market place is up to you. Read trade and business papers and magazines and review your plan periodically. Once each month or every other month, go over your plan to see whether or not it needs adjusting. Certainly you will have more accurate dollar amounts to work with after you have been in business for a time. Make revisions and put them into action. You must be constantly updating and improving. A good business plan must evolve from experience and the best current information. A good business plan is good business.

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3. Complete Bed and Breakfast Business Plan Template

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1.0 Executive Summary

Introduction

[Company Name] is two bed & breakfast houses located in the heart of Napa Valley. The company operates from [Address, City, State ZIP]. Each historical house is built in the late 19th century, with five charmingly decorated rooms geared to provide luxurious hospitality at its finest.

- *The 1872 Victorian Style Ambrose Bierce House*
- *The Shady Oaks Country Inn on 2 acres land*

The Market

The Napa Valley is one of California's number one vacation destination locations. A statistical report shows that 2.75 million overnight trips were made to this area with bed and breakfast reflecting an annual revenue income of \$40 million. 60.9% of travelers are over the age of 45 with an average income of over \$100,000 per year. The total economic impact of visitors to Napa County was \$1.3 billion in 2005.

The Management Team

[Name], a husband and wife team has managed these two Inns for over twenty-four years showing a steady income growth over the years. Their expertise in hospitality totals over 60 years combined and is a direct reflection of their word to mouth marketing strategy. Community leadership and local annual donations are just a few aspects [Name] and [Name] pride themselves with. Local wineries will recommend the Inns to their customers which almost always lead to repeat visitors to St. Helena.

The Company

With ten rooms over two properties, the owners have a solid income stream and a 10% market share to this area. Adding additional marketing will draw new and existing customers for this tourist attraction. Renovating, remodeling, and adding rooms will help local vendors with their business.

[Company Name] is committed to participate in reviving the economy and return the sales to the heart of the Napa Valley. These opportunities will ensure a strong competitive edge to other bed and breakfasts and at the same time implement a long-term revenue stream.

The Request

An immediate grant in the amount of **\$250,000** will allow to

Increase Marketing Efforts - \$60,000

Renovate and upgrade existing rooms - \$119,000

Add two rooms - \$71,000

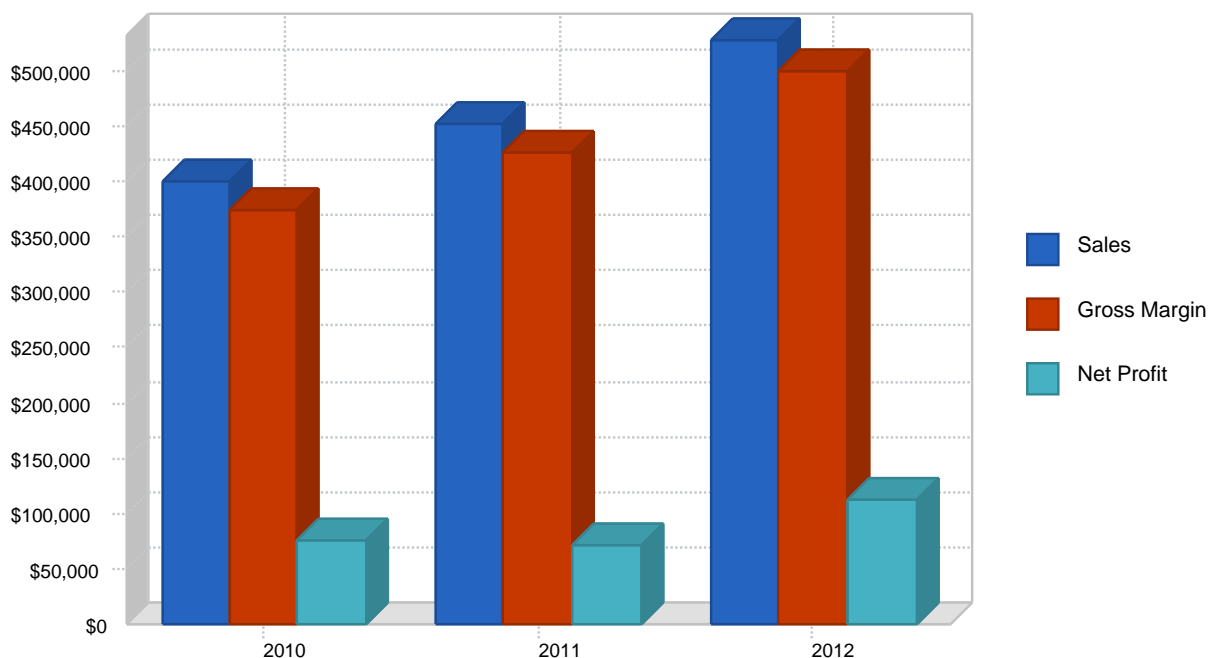
A second grant one year later in the amount of **\$100,000** would allow to

Add three more rooms - \$100,000

This capital injection will create jobs, labor work, and additional reservation count. With an average annual capacity of 43% - 47%, the added rooms would generate a new revenue stream of an additional 33% to the Inns. Projecting only 30% of capacity for the FY 2011 and 2012 would yield an additional income of **\$127,567**. As the highlights reflect, sales could reach over \$500,000 by year three from receipt of capital.

This additional income and the projected gross profits will support the overall efforts in hiring a total of five more employees over the next three years.

Highlights



1.1 Objectives

The [Company Name]s' concept for this business plan is to obtain an immediate capital injection in the amount of \$250,000 to address the following areas needed for the Inns and a second injection of \$100,000 one year thereafter to add three additional rooms.

Realizing these objectives will boost the revenue streams, add jobs to the community, and inject labor jobs for a period of three years for the renovation, remodeling, and addition projects.

- **Marketing - \$60,000**
 - Paid search engine listing to reach a higher presence on the internet “hit” rate
 - Upgrade websites
 - Produce direct mailers to existing and new customers
 - Create e-blast e-mail advertisements
 - Produce brochures and pamphlets for local advertisement

- **Remodel and Upgrade existing rooms - \$119,000**
 - Replace carpets
 - Upgrade bathrooms and tubs (include conversion of two tubs into jetted tubs)
 - Purchase furniture and beds
 - Interior and exterior painting at Shady Oaks Country Inn
 - Add fireplaces to five rooms
 - Upgrade flooring to increase AAA rating

- **Expansion of two rooms at Ambrose Bierce House - \$71,000**

- Add two rooms
- **Future Expansion of three additional rooms at Shady Oaks Country Inn - \$100,000**

a. Add three rooms

1.2 Mission

The [Company Name]'s mission is to provide luxurious and hospitable lodging at an affordable price. The goal is to give guests a wonderful Bed and breakfast experience and assist them in their Napa Valley vacation.

1.3 Keys to Success

[Company Name] keys to success for the Napa Valley bed and breakfast Inns are:

- The great location of the Inns with access to the vineyards and wine train
- Local presence of over 24 years in business
- Highly recommended by local winery owners
- Proven track record of successful profit making operation over the past 24 years
- Community leadership and support
- Excellent service with "personal touch" hospitality

2.0 Company Summary

The target market is adult couples between ages 24 and 75 years visiting the Napa Valley as well as visitors arriving in St. Helena without reservations.

[Company Name]s LLC operates two bed and breakfasts in the heart of Napa Valley in St. Helena, California which are:

[Company Name]

[Company Name]

2.1 Company Ownership

[Company Name]s is a Limited Liability Corporation operated by its original owners:

[Name]

Both, [Name] and [Name] have been in the hospitality industry for more than 30 years each.

2.2 Company History

[Company Name]s LLC was formed in [Date]. [Name] have been operating these two facilities from the Napa Valley vacation destination infancy, contributing a tremendous amount of success with regards to the lodging and hospitality support. This success is reflected by the local recommendations made by vineyard owners who suggest the Inns for their overnight stay.

While the beautiful vineyards offer one of California's finest wines, it is the Inns unprecedented personal service and their charmingly decorated rooms that create the memorable experience for visitors to return and new ones to choose the Inns.

In the last 10 years, the Napa Valley wine country also attracted a more high-end wealthier clientele, making the Napa Valley a number one tourist attraction in California. As a result of this attraction, in the past five years, the numbers of available rooms have risen.

The economic challenges of the recent 18 months have placed a financial burden on the Inns that creates a challenge for competition. The solutions represented in this Business Plan are geared towards the reviving aspects of the visitor attraction, keeping up with the new marketing and advertising technology, and to upgrade, remodel, and add more rooms to the Inns. Both of the Inns are historical buildings constructed in the late nineteenth century and require a great deal of upkeep.

Table: Past Performance

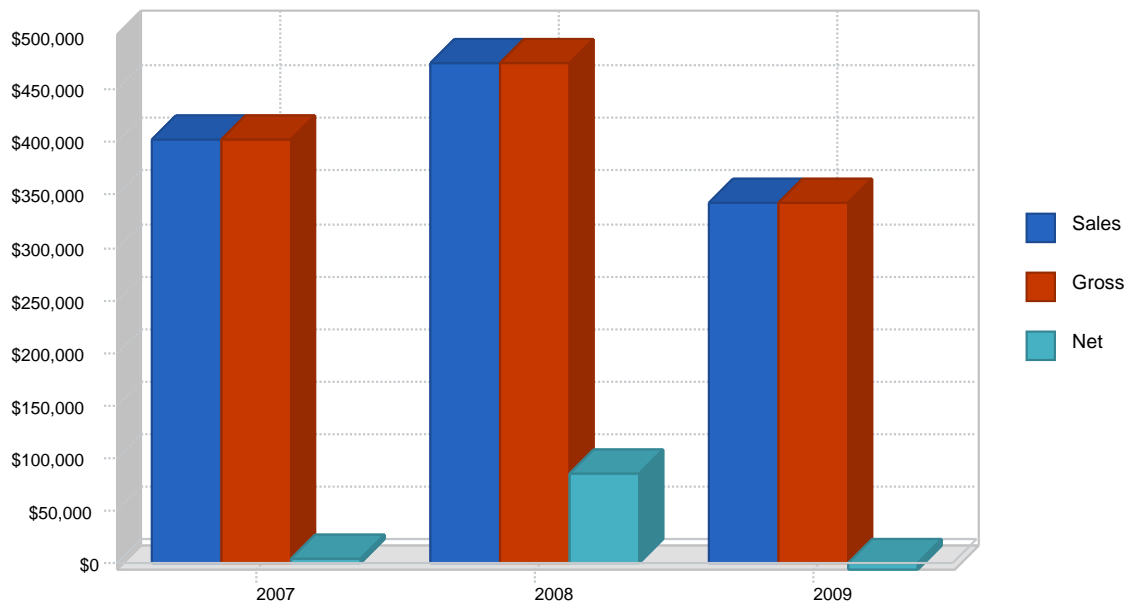
Past Performance			
	2007	2008	2009
Sales	\$402,926	\$475,746	\$341,965
Gross Margin	\$0	\$0	\$0
Gross Margin %	0.00%	0.00%	0.00%
Operating Expenses	\$397,987	\$389,731	\$347,229

Balance Sheet			
	2007	2008	2009
Current Assets			
Cash	\$19,365	\$18,000	\$21,000
Other Current Assets	\$225,000	\$271,000	\$247,000
Total Current Assets	\$244,365	\$289,000	\$268,000
Long-term Assets			
Long-term Assets	\$1,237,000	\$1,734,000	\$1,990,000
Accumulated Depreciation	\$0	\$0	\$0
Total Long-term Assets	\$1,237,000	\$1,734,000	\$1,990,000
Total Assets	\$1,481,365	\$2,023,000	\$2,258,000
Current Liabilities			
Accounts Payable	\$36,900	\$2,600	\$5,900
Current Borrowing			
Other Current Liabilities (interest free)	\$0	\$0	\$0
Total Current Liabilities	\$36,900	\$2,600	\$5,900
Long-term Liabilities	\$684,000	\$674,000	\$664,000
Total Liabilities	\$720,900	\$676,600	\$669,900
Paid-in Capital	\$0	\$0	\$0

Retained Earnings	\$760,465	\$1,346,400	\$1,588,100
Earnings	\$0	\$0	\$0
Total Capital	\$760,465	\$1,346,400	\$1,588,100
Total Capital and Liabilities	\$1,481,365	\$2,023,000	\$2,258,000
Other Inputs			
Payment Days	0	0	0

Chart: Past Performance

Past Performance



3.0 Services

Both bed and breakfast properties offer lodging in a luxurious and intimate setting. The owners offer special attention to their guests, a tranquilizing ambiance, and a relaxing atmosphere in the heart of the Napa Valley.

- **The 1872 Romantic Victorian Style - Ambrose Bierce House B&B - average room/suite rate of \$227.00/night**

- 5 Rooms Total
- **The Shady Oaks Country Inn on two acres - average room/suite rate of \$249.00/night**
 - 5 Rooms Total

Both Inns offer amenities such as:

- Ambrose Bierce House B&B: Location is in walking distance to the wine train
- Shady Oaks Country Inn: Location is on two acres amidst the vineyards

Both Inns offer rooms available with:

- Jacuzzi Tubs
- Fireplaces (in room)
- Satellite TV / Internet Access
- Air Conditioning
- Balcony / Deck
- Parlor

Specialty amenities include:

- The famous Champagne Breakfast
- Wine and cheese every evening

4.0 Market Analysis Summary

Napa Valley and its Tourism

A recent study named "Napa County Visitor Profile Study & Napa County Economic Impact Study" published in March 2006 revealed very important tourism and economical statistics regarding the impact tourism has on Napa Valley. Below are key findings that directly impact the marketing analysis for the bed and breakfast properties.

How much does a Visitor spent?

Visitors who did not stay overnight within Napa County spent an average of \$146 per-day, **while overnight visitors spent \$233 per-day**. Average total Daily Spending of both categories is \$197. Tourism in Napa County generates over \$1.3 Billion in economic impact annually.

The visitor serving industry is the second largest sector of Napa County's economy. Every 24 hours, guests of The Napa Valley spend approximately \$4 million in local

businesses, with Napa visitors contributing about \$176 million to the revenue of commercial hotels in Napa County. **Bed and breakfasts received another \$40 million of their revenue from visitors.** Tax revenue generated by tourism spending is **\$125 million annually.**

In addition to the well known winery attraction, the Napa Valley has many other great activities that draw tourists to stay additional days. Some of the activities include:

- California Wine purchase and vineyard visits
- Fine Dining
- Art
- Hot Air Ballooning and Bicycling
- Golf
- Casinos
- Site Seeing Tours
- Spas / Massage
- Shopping
- Museum and Live Performances and Tours

4.1 Market Segmentation

Visitor Age Profile

The largest age group of respondents in the annual sample was between **35 and 44 years**. They made up **21%**. The age composition of all visitors showed a more senior picture, with the **45-54** age groups making up **23%** of all visitors represented by the total annual sample. Respondents between **35 and 54 years** of age (three age groups combined) made up close to **50%** of the annual total sample. Those at the age of **45 and above** accounted for **60.9%** of all visitors.

Visitor Income Profile

- \$100,000 and over = 57.6%
- \$150,000 and over = 26.6%

- \$50,000 to \$99,000 = 30.1%

Visitors Education Profile

- Professional and Technical = 30.2%
- Managers and Executives = 23.7%
- From the above sample about 73.5% hold a bachelor's to doctorate degree
- and 32.1% hold a master's and doctorate degree

How many visitors stay at a bed and breakfast annually?

According to the above statistics, approximately **171,673 visitors** utilized a **Bed and breakfast** for their lodging needs.

How likely are the Visitors to return to the Napa Valley and when?

This question is extremely important to [Company Name]operation as it directly impacts their repetitive customer base. The Inns pride themselves with service that is worth coming back for. Therefore, we opted to illuminate this aspect in the Market Analysis. The findings are:

Napa Valley's travel market can be considered as highly loyal. The proportion of all guests who expressed either "**very likely**" or "**likely**" to return to the area for future visits was nearly **90.1%**.

This strongly suggests that the more often they visit the area and the more they know about it, the more likely they are to return. Among those who expressed a likelihood of future visits, **22.1%** would come back within **three months**; another **34.7%** between **four months and one year**.

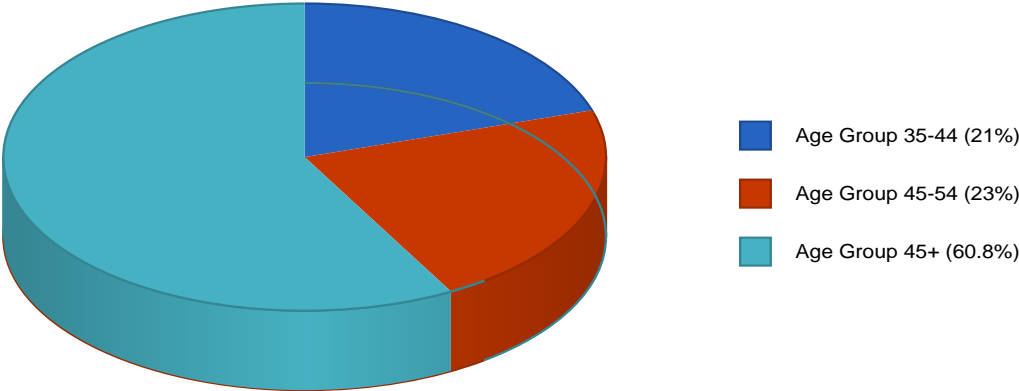
Table: Market Analysis

<i>Market Analysis</i>					
	2010	2011	2012	2013	2014

Potential Customers	Growt h						CAG R
Age Group 35-44 (21%)	3%	36,052	37,134	38,248	39,395	40,577	3.00 %
Age Group 45-54 (23%)	3%	39,485	40,670	41,890	43,147	44,441	3.00 %
Age Group 45+ (60.8%)	3%	104,375	107,506	110,731	114,053	117,475	3.00 %
Total	3.00%	179,912	185,310	190,869	196,595	202,493	3.00 %

Chart: Market Analysis

Market Analysis (Pie)



4.2 Target Market Segment Strategy

The Inns targeted market groups are couples ranging from age 24 to 75 years of age seeking to visit the Napa Valley. The major focus group which is also the highest percentage of visitors to this area would be those of age 45 and over making up over 60% of the total visitors to the Napa Valley. The secondary group classification would be the income level of \$100,000 and above, making up about 86.2% of visitors.

4.3 Service Business Analysis

The [Company Name]s offer bed and breakfast hospitality accommodations as well as some food service for their guests. The Shady Oaks Country Inn and The Ambrose Bierce House B&B each have five distinctively and individually decorated rooms for rent. Aside from the room, the Inns offer breakfast and wine & cheese in the evening.

4.3.1 Competition and Buying Patterns

Both of the Inns are competitively priced at an average price of \$245.00/night. The intimate atmosphere which is created by the historical properties is an important aspect that new buildings can not compete with. Additionally, the Owners have a proven track record of returning guests based on the customer service, the rooms, and the personal attention they provide.

The Inns' greatest assets are the location of the Inns and the owner's long time community relationships with the town and county. This presence and involvement from the beginning of this tourist attraction are all added values that set the Inns apart from newly introduced bed and breakfast properties in the Napa Valley. The Shady Oaks Country Inn is one of only three bed and breakfast locations in this immediate area.

5.0 Strategy and Implementation Summary

Tourists visiting the Napa Valley expect to vacation amidst the vineyards, restaurants, and shops in an atmosphere that "takes them back in time". Equipped with the amenities a modern traveler needs today, the owners have maintained this distinct "time capsule" ambiance through their perfectly situated 19th century bed and breakfasts. The goals of the Inn are two-sided; preserving these revenue making buildings and continue to provide exceptional memories to tourists visiting the beautiful enchanted Napa Valley.

5.1 SWOT Analysis

The [Company Name]s **strengths** are the locations, the 19th century historical buildings, and their original owners for over twenty-four years of operations are their

major assets. Stemming from these strengths is a repetitive customer base through positive word of mouth recommendations from local winery owners, restaurants, and shops. The historical buildings, a major marketing asset, also create a **weakness** in regards to the costs associated with the maintenance and upkeep. Coupled with the economic challenges, a capital injection would yield a positive solution to upgrade and remodel these Inns while creating equity on the balance sheet.

These upgrades also present an **opportunity** for the Inns to create a competitive edge driven by added visibility on the internet to reach new customer who, no doubt, will become repeat guests. The noted weaknesses are ultimate the **threats** to the Inns which can be eliminated by implementing these opportunities.

5.1.1 Strengths

Great Locations: Both Inns are perfectly situated to accommodate two major groups of visitors

- Guest who wish to walk to restaurants and downtown shopping. Ambrose Bierce House is located in walking distance to the wine train.
- Or Guests who wish to be on the country side among the vineyards on a two acre land.

Experience & Presence: The original owners of twenty-four years also have over thirty years of experience in the hospitality industry. Coupled with the knowledge, the owners have built a tremendous amount of reputation, trust, and community support over the years. These owners have operated longer than any other Innkeepers in this area.

Napa Valley Community Involvement: From the start of operating the Inns, both [Name] have been active members of the St. Helena Chamber of Commerce and have been on the board of the Napa Valley Visitors and Convention Bureau. Giving back to the community is a philosophy that comes naturally. **Each year donations of fifteen room nights are made available to benefit the local community services such as the St. Helena Rotary and the local school scholarship fund.**

5.1.2 Weaknesses

- The needed cash flow from profits is a result of the recent economic challenges. The Inns are historical buildings and need constant upkeep.
- Having to lay off four employees who are needed to maintain the Inns and to service the guests.

- The need for more internet presence through paid search engine tools to gain a higher reservation "hit rate".

-

5.1.3 Opportunities

- Travelers seeking reservations online will allow for the needed visibility to attract guests from all regions of the United States and world wide.
- The Napa Valley, for the past five years, has been the number one destination point in California. Preparing for the economical recovery, the owners will utilize the time to remodel and upgrade the Inns.
- Hiring five employees will create the needed labor force to assist with guest services
- Placing ads in magazines specifically for the San Francisco bay area
- Maintain communication with the existing customers on a regular basis (4 times a year)
- Attracting those guests with no reservation by local advertisement
- Adding five rooms over a period of three years will generate a higher revenue stream

5.1.4 Threats

- Lack of funding to maintain, remodel, and upgrade the historical buildings
- Low visibility on the internet to reach new guests
- Limited funds to maintain communications with repeat customers
- Unable to re-hire the needed employees
- Maintaining the Inns' competitive edge from emerging local competitors

5.2 Competitive Edge

The tangible competitive edge the Inns have over other lodging facilities are easily identified as:

- The owners who have diligently serviced the hospitality needs of thousands of guests for the past 24 years
- The 19th. century historic buildings bring the bed and breakfast to live with each room idyllically decorated

- Both bed and breakfast are perfectly situated in the heart of Napa Valley
- Ambrose Bierce House B&B was bought at a time when prices were low
- Having a twenty year lease on Shady Oaks Country Inn - one of only three Inns available in the area

5.3 Marketing Strategy

Internet Search Engine Upgrade:

Upgrade the URL links to be added to paid search engine return results. Add more keywords, and maintain service to stay on the top 10 hit return list when users search for Napa Valley accommodations.

Direct Print Mailers & E-Mail:

Sent out e-mails and postcard mailers of updates from the bed and breakfast highlights, inform about upcoming events, and announce annual festivals to the existing customer base. Mailers should be sent at least four times a year. Addresses are available through the reservation system by zip code, status, and other criteria.

Local Print Advertising:

Advertise locally for those travelers without any reservations. Main focus is directed at winery, restaurants and shops in the Napa Valley. Maps of winery, local magazines, and free brochures are available for advertising.

5.4 Sales Strategy

The [Company Name]s have fully functioning websites with reservation tools in place for each location. Currently, 72% of their reservations are made online.

- Paid search engine tool to increase internet presence
- Update website with flash player, new high graphic pictures, and interactive reservation tools
- Add more direct mailers and e-mail campaigners for existing customers
- Distribute more brochures and pamphlets at local places such as the winery, restaurants, and shops

5.4.1 Sales Forecast

The table below outlines the sales projections for the next three years (including 2010 current) based on both Inns with a total of 10 rooms combined. The direct costs associated with the sales are also combined and reflect an approximate 3% margin for the credit card merchant fee, a 6% margin for the Food and Beverages, and a 2% margin for Other Supplies and Linen from the annual Gross Sales amount.

In FY2010 sales are forecasted to include the marketing impact for the added visibility on paid search engines and a total of a 10 room capacity at 47% or \$400,000 per year. FY-2011 sales include two additional rooms respectively an added revenue stream of \$170,090, a 30% capacity of the added rooms would generate additional sales of \$51,027 per year thus impacting the overall sales to \$452,000 at a 44% capacity level.

In FY-2012 the added three rooms would generate even more revenues to the overall sales in the amount of approximately \$255,135 per year. A 30% capacity of the added three rooms would generate additional sales in the amount of approximately \$76,540 per year thus impacting the overall sales to \$527,541 at a 41% capacity level.

Renovating, upgrading, and adding the five rooms over a period of three years will prove beneficial to the overall revenue stream to the Inns.

The current 100% revenues are reflective of about 3,650 reservations with a maximum income of \$850,450. By the end of year three this revenue stream will be at 5,475 reservation opportunities with an increased revenue opportunity of \$1,276,675.

A \$350,000 grant capital injection would yield 27% in new revenue opportunities.

Table: Sales Forecast

Sales Forecast			
	2010	2011	2012
Sales			
Ambrose Bierce House B&B	\$148,500	\$167,805	\$195,325
Shady Oaks Country Inn	\$251,500	\$284,195	\$332,224
	\$0	\$0	\$0
Total Sales	\$400,000	\$452,000	\$527,549
Direct Cost of Sales	2010	2011	2012
Credit Card Merchant Fee	\$6,600	\$6,732	\$6,867
Food and Beverage	\$14,400	\$14,688	\$14,982
Other Supplies and Linen	\$4,800	\$4,896	\$4,994
Subtotal Direct Cost of Sales	\$25,800	\$26,316	\$26,842

Chart: Sales Monthly

Sales Monthly

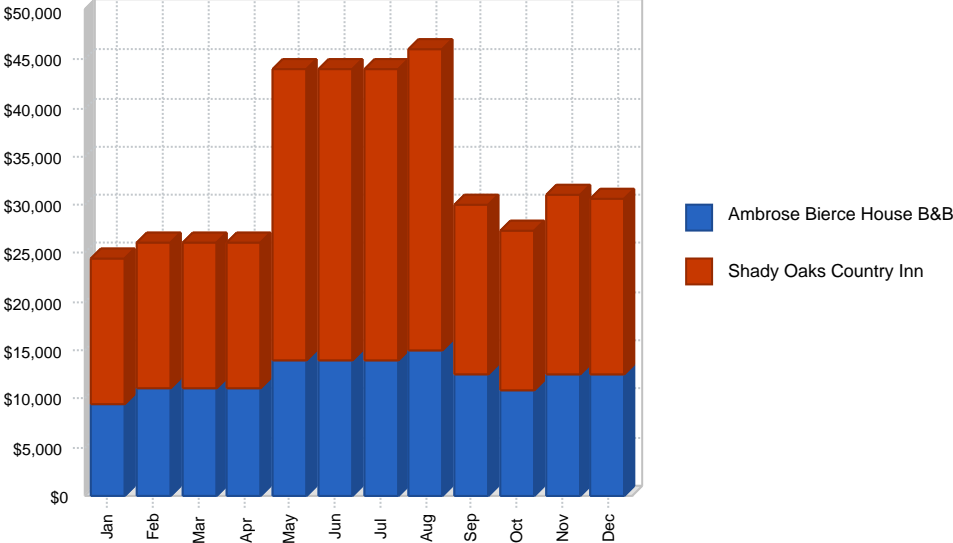
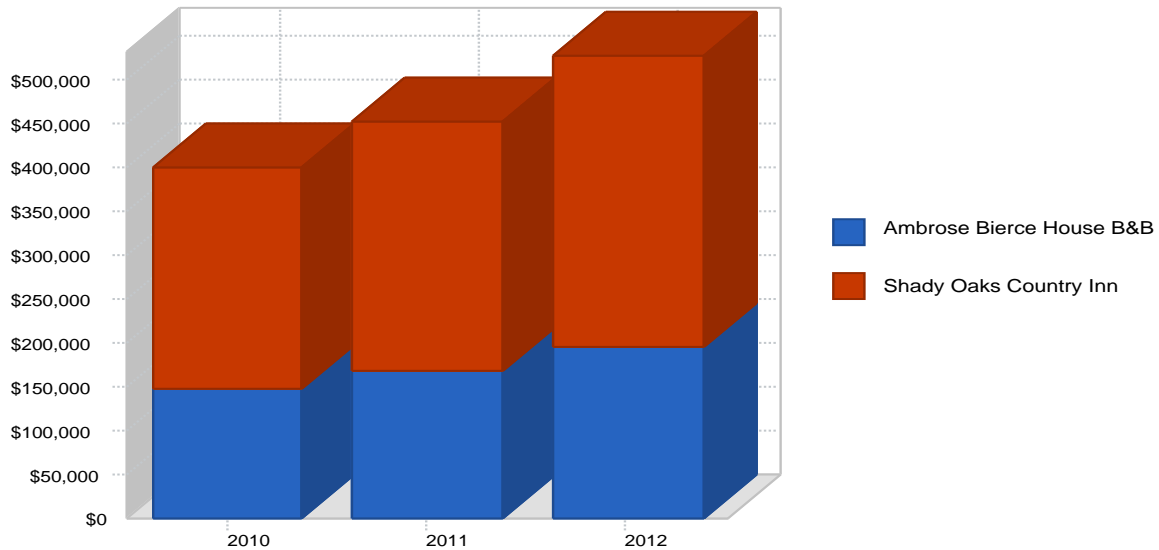


Chart: Sales by Year

Sales by Year



5.5 Milestones

The following table lists important milestone dates and budget amounts. Upon receipt of the anticipated capital injection of \$250,000, the internet search engine development can start immediately.

Print Advertisement is scheduled to be released throughout the year and the remodel/upgrade work is schedule within weeks after receipt of the capital.

Adding two rooms in phase I will increase the added revenue stream for FY-2011 and adding three additional rooms from the second funding of \$100,000 will add additional revenue streams for FY-2012.

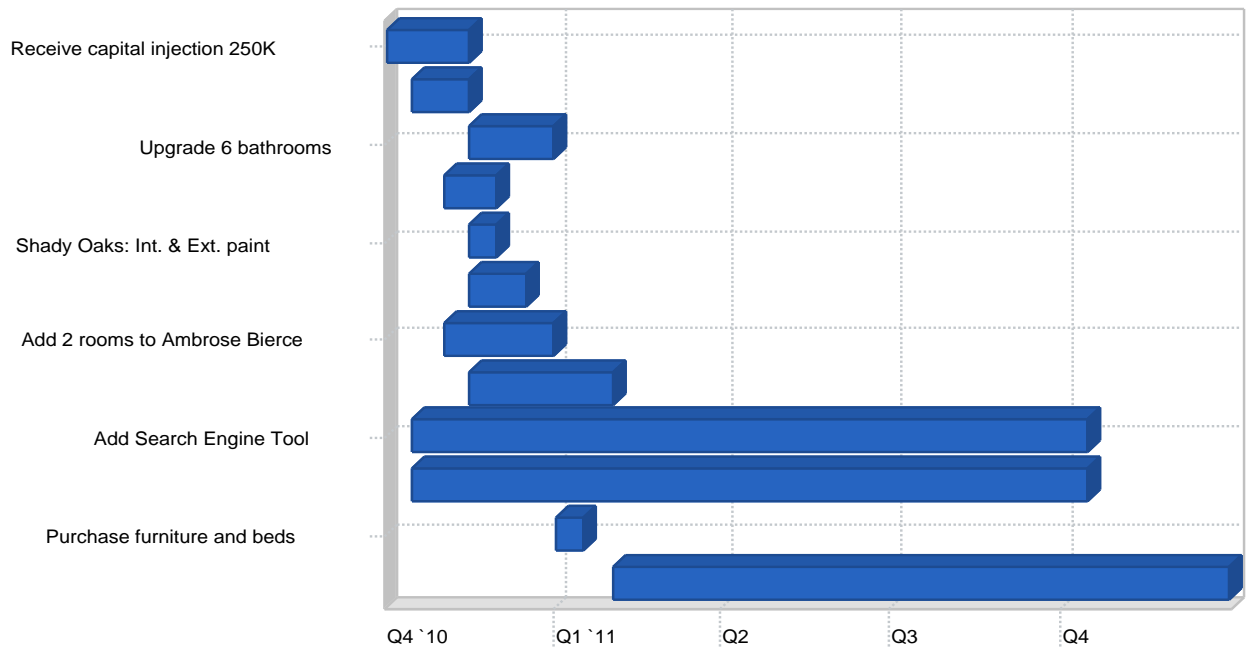
Table: Milestones

Milestones				
Milestone	Start Date	End Date	Budget	Manager
Receive capital injection 250K	10/1/2010	11/15/2010	\$0	
Add Search Engine Tool	10/15/2010	10/15/2011	\$42,000	Owners
Print Advertisement	10/15/2010	10/15/2011	\$18,000	Owners

Replace carpet	10/15/2010	11/15/2010	\$12,000	Owners
Upgrade 6 bathrooms	11/15/2010	12/31/2010	\$19,000	Owners
Convert 2 tubs to jetted tubs	11/1/2010	11/30/2010	\$8,000	Owners
Purchase furniture and beds	1/1/2011	1/15/2011	\$28,000	Owners
Shady Oaks: Int. & Ext. paint	11/15/2010	11/30/2010	\$22,000	Owners
Add 5 fireplaces	11/15/2010	1/31/2011	\$15,000	Owners
Upgrade bathroom flooring	11/15/2010	12/15/2010	\$15,000	Owners
Add 2 rooms to Ambrose Bierce	11/1/2010	4/1/2010	\$71,000	Owners
Add 3 rooms to Shady Oaks	10/1/2011	3/1/2012	\$100,000	Owners
Totals			\$350,000	

Chart: Milestones

Milestones



6.0 Management Summary

The Inns are currently operated by the two owners, [Name], a full-time manager, and two hourly housekeeper employees. The company anticipates re-hiring two more employees by November 2010 to assist with the guest services and the remodel and renovation clean up work. One additional employee will be hired by April 2011 when the two rooms are added. Another two employees will be hired by the end of phase II completion of the three rooms in FY-2012.

6.1 Personnel Plan

The Inns will maintain its primary management functions through the current owners.

The manager employee has an annual gross salary of \$64,000 and the housekeepers are at a gross hourly rate of \$10.00/hour. The current two housekeepers will maintain the current workload until the renovation and remodel begins.

At that time, the Inns plan to hire or re-hire two of the three additional employees to service the facilities and guests. By the end of FY 2012, the Inns anticipate to have eight employees to service the facilities.

Table: Personnel

<i>Personnel Plan</i>			
	2010	2011	2012
Manager	\$55,248	\$55,248	\$55,248
Housekeepers	\$30,464	\$62,016	\$81,600
Total People	5	6	8
Total Payroll	\$85,712	\$117,264	\$136,848

7.0 Financial Plan

The operations of the Inns do not require purchase of inventory and almost all sales are pre-paid or on cash basis, therefore, an increase in sales will not be accompanied by initial cash-flow deficits.

7.1 Important Assumptions

The financial plan depends on several important assumptions such as:

- The capital injections are received
- The paid search engine will attract new customers making online reservations
- The renovation, remodel, and addition will attract new and high-end customers

7.2 Break-even Analysis

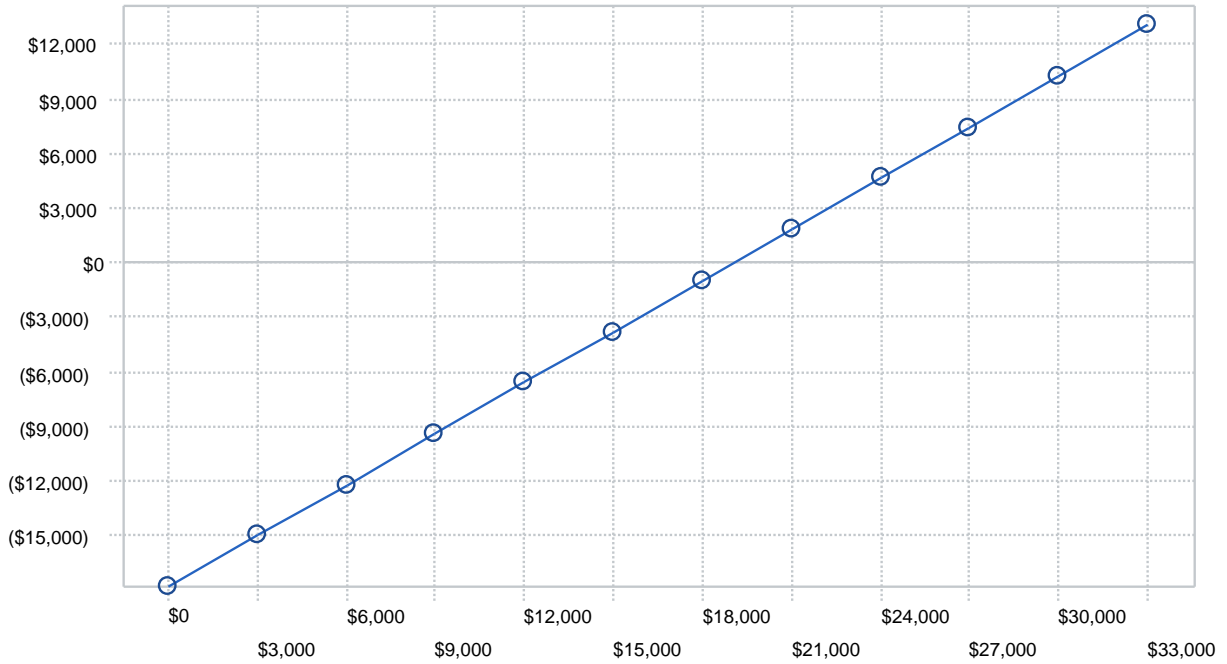
The break-even analysis is based on the Inns fixed costs of rent, maintenance, payroll, insurance, and general monthly costs. The monthly revenue break even point for the Inns is at \$19,044 with an average percent variable cost of six percent.

Table: Break-even Analysis

<i>Break-even Analysis</i>	
Monthly Revenue Break-even	\$19,044
Assumptions:	
Average Percent Variable Cost	6%
Estimated Monthly Fixed Cost	\$17,816

Chart: Break-even Analysis

Break-even Analysis



7.3 Projected Profit and Loss

Receiving a capital injection to handle the major marketing costs, renovations, and upgrades will yield a higher profit return for the FY 2010/2011/2012. The anticipated net profits will be used to re-hire and hire six additional employees by FY-2012.

Table: Profit and Loss

<i>Pro Forma Profit and Loss</i>			
	2010	2011	2012
Sales	\$400,000	\$452,000	\$527,549
Direct Cost of Sales	\$25,800	\$26,316	\$26,842
Other Costs of Sales	\$0	\$0	\$0
Total Cost of Sales	\$25,800	\$26,316	\$26,842

Gross Margin	\$374,200	\$425,684	\$500,707
Gross Margin %	93.55%	94.18%	94.91%
Expenses			
Payroll	\$85,712	\$117,264	\$136,848
Rent	\$52,500	\$52,500	\$52,500
Depreciation	\$0	\$0	\$0
Utilities	\$21,000	\$21,420	\$21,848
Insurance & Auto Expenses	\$15,504	\$15,814	\$16,130
Phone/Fax/Internet/Supplies/Equipment	\$9,504	\$9,694	\$9,888
Payroll Taxes	\$2,571	\$3,518	\$4,105
Marketing & Advertisement	\$12,000	\$12,240	\$12,485
Repairs	\$15,000	\$15,300	\$15,606
Total Operating Expenses	\$213,791	\$247,750	\$269,411
Profit Before Interest and Taxes	\$160,409	\$177,934	\$231,296
EBITDA	\$160,409	\$177,934	\$231,296
Interest Expense	\$72,060	\$94,767	\$98,679
Taxes Incurred	\$13,252	\$12,475	\$19,893
Net Profit	\$75,096	\$70,692	\$112,724
Net Profit/Sales	18.77%	15.64%	21.37%

Chart: Profit Monthly 2010

Profit Monthly

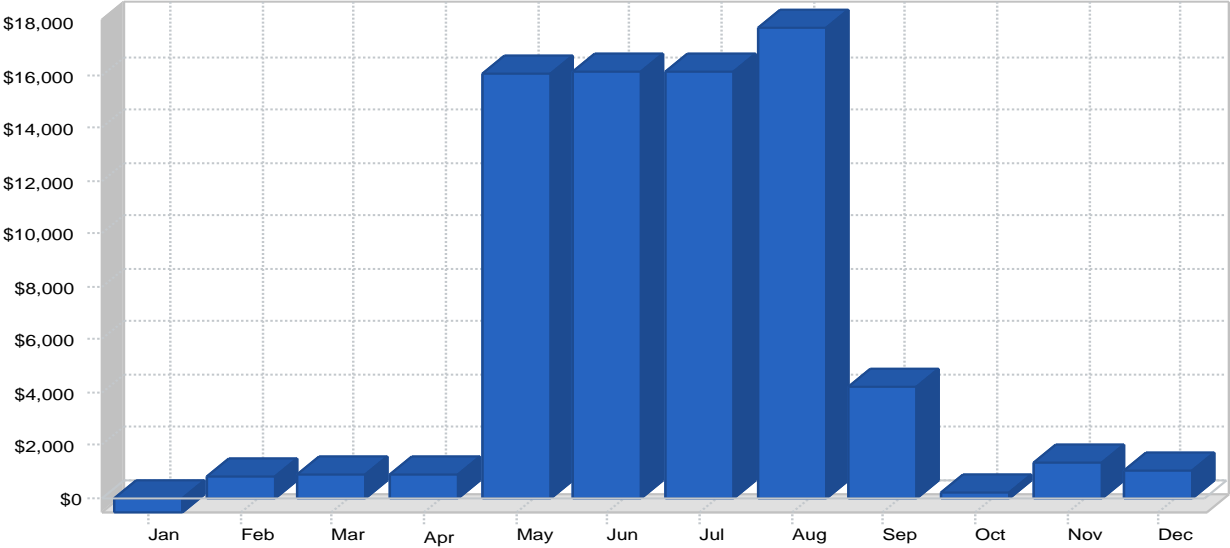


Chart: Profit Yearly

Profit Yearly

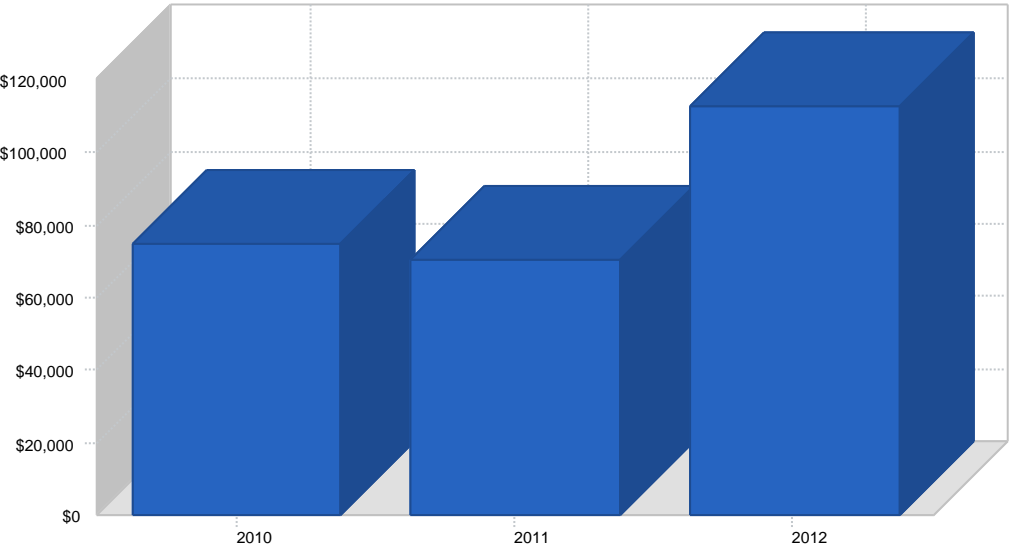


Chart: Gross Margin Monthly

Gross Margin Monthly

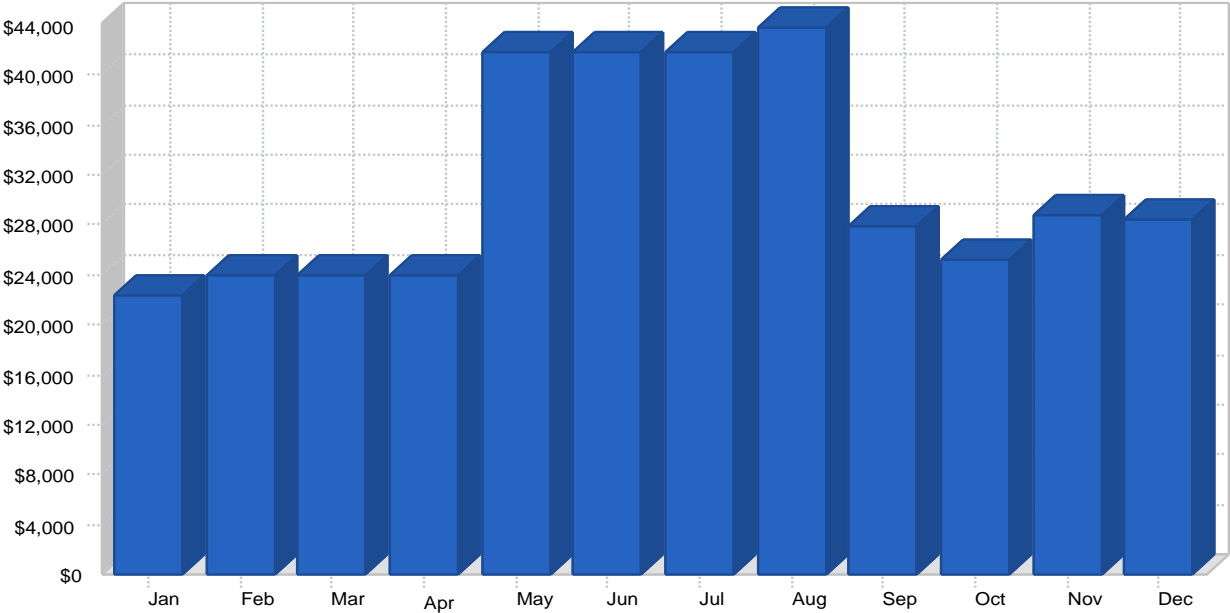
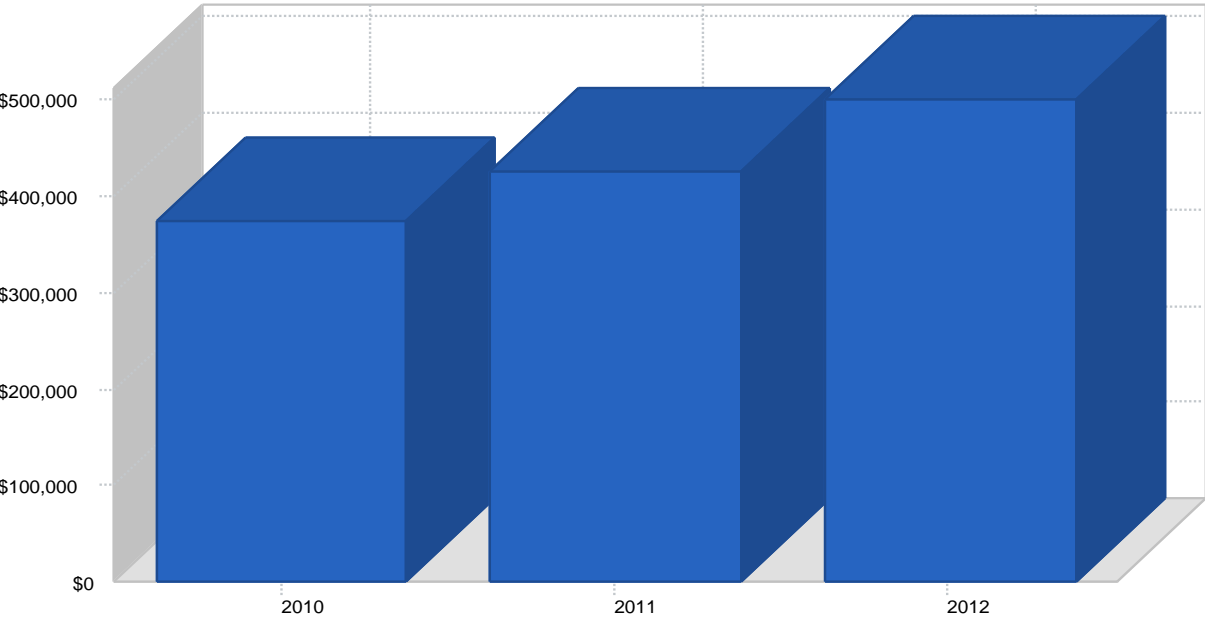


Chart: Gross Margin Yearly

Gross Margin Yearly



7.4 Projected Cash Flow

According to the projected profit and loss statement, the Inns will make positive cash flow as the capital injection is received towards the end of FY 2010 to address the costs of marketing, renovations, and room additions. Utilizing the capital injection to generate additional revenues and staying competitive in this market will generate sufficient cash flow to support the operations.

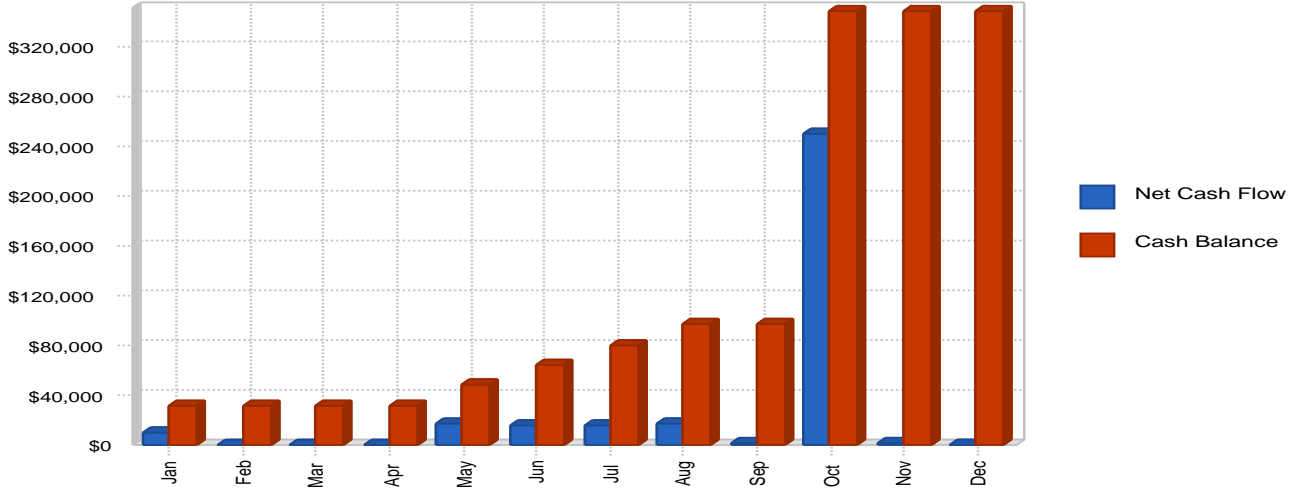
Table: Cash Flow

<i>Pro Forma Cash Flow</i>			
	2010	2011	2012
Cash Received			
Cash from Operations			
Cash Sales	\$400,000	\$452,000	\$527,549
Subtotal Cash from Operations	\$400,000	\$452,000	\$527,549
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	\$0	\$0	\$0
New Current Borrowing	\$250,000	\$100,000	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0
New Investment Received	\$0	\$0	\$0
Subtotal Cash Received	\$650,000	\$552,000	\$527,549
Expenditures	2010	2011	2012

Expenditures from Operations			
Cash Spending	\$85,712	\$117,264	\$136,848
Bill Payments	\$225,189	\$262,246	\$276,832
Subtotal Spent on Operations	\$310,901	\$379,510	\$413,680
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0
Principal Repayment of Current Borrowing	\$0	\$0	\$0
Other Liabilities Principal Repayment	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$10,884	\$10,884	\$10,884
Purchase Other Current Assets	\$0	\$0	\$0
Purchase Long-term Assets	\$0	\$0	\$0
Dividends	\$0	\$0	\$0
Subtotal Cash Spent	\$321,785	\$390,394	\$424,564
Net Cash Flow	\$328,215	\$161,606	\$102,985
Cash Balance	\$349,215	\$510,822	\$613,807

Chart: Cash Flow

Cash



7.5 Projected Balance Sheet

The projected balance sheet for [Company Name]s LLC is shown on the table below.

Table: Balance Sheet

<i>Pro Forma Balance Sheet</i>			
	2010	2011	2012
Assets			
Current Assets			
Cash	\$349,215	\$510,822	\$613,807
Other Current Assets	\$247,000	\$247,000	\$247,000
Total Current Assets	\$596,215	\$757,822	\$860,807
Long-term Assets			
Long-term Assets	\$1,990,000	\$1,990,000	\$1,990,000
Accumulated Depreciation	\$0	\$0	\$0
Total Long-term Assets	\$1,990,000	\$1,990,000	\$1,990,000
Total Assets	\$2,586,215	\$2,747,822	\$2,850,807
Liabilities and Capital			
Current Liabilities			
Accounts Payable	\$19,903	\$21,702	\$22,847
Current Borrowing	\$250,000	\$350,000	\$350,000
Other Current Liabilities	\$0	\$0	\$0
Subtotal Current Liabilities	\$269,903	\$371,702	\$372,847

Long-term Liabilities	\$653,116	\$642,232	\$631,348
Total Liabilities	\$923,019	\$1,013,934	\$1,004,195
Paid-in Capital	\$0	\$0	\$0
Retained Earnings	\$1,588,100	\$1,663,196	\$1,733,888
Earnings	\$75,096	\$70,692	\$112,724
Total Capital	\$1,663,196	\$1,733,888	\$1,846,612
Total Liabilities and Capital	\$2,586,215	\$2,747,822	\$2,850,807
Net Worth	\$1,663,196	\$1,733,888	\$1,846,612

7.6 Business Ratios

Please find below the business ratios for the years of this plan. The Industry profile ratio is based on industry standard for "all other accommodations" with sales over \$250,000 - \$499,999

Table: Ratios

Ratio Analysis				
	2010	2011	2012	Industry Profile
Sales Growth	16.97%	13.00%	16.71%	4.33%
Percent of Total Assets				
Other Current Assets	9.55%	8.99%	8.66%	22.99%
Total Current Assets	23.05%	27.58%	30.20%	28.04%
Long-term Assets	76.95%	72.42%	69.80%	71.96%
Total Assets	100.00%	100.00%	100.00%	100.00%
Percent of Liabilities				
Current Liabilities	10.44%	13.53%	13.08%	12.54%
Long-term Liabilities	25.25%	23.37%	22.15%	34.42%
Total Liabilities	35.69%	36.90%	35.22%	46.96%
Net Worth	64.31%	63.10%	64.78%	53.04%
Percent of Sales				
Sales	100.00%	100.00%	100.00%	100.00%
Gross Margin	93.55%	94.18%	94.91%	100.00%
Selling, General & Administrative Expenses	74.78%	78.54%	73.54%	64.95%
Advertising Expenses	13.13%	11.62%	9.95%	3.29%

Profit Before Interest and Taxes	40.10%	39.37%	43.84%	1.03%
Main Ratios				
Current	2.21	2.04	2.31	1.13
Quick	2.21	2.04	2.31	0.86
Total Debt to Total Assets	35.69%	36.90%	35.22%	58.34%
Pre-tax Return on Net Worth	5.31%	4.80%	7.18%	1.59%
Pre-tax Return on Assets	3.42%	3.03%	4.65%	0.66%
Additional Ratios				
	2010	2011	2012	
Net Profit Margin	18.77%	15.64%	21.37%	n.a
Return on Equity	4.52%	4.08%	6.10%	n.a
Activity Ratios				
Accounts Payable Turnover	12.02	12.17	12.17	n.a
Payment Days	28	29	29	n.a
Total Asset Turnover	0.15	0.16	0.19	n.a
Debt Ratios				
Debt to Net Worth	0.55	0.58	0.54	n.a
Current Liab. to Liab.	0.29	0.37	0.37	n.a
Liquidity Ratios				
Net Working Capital	\$326,312	\$386,120	\$487,960	n.a
Interest Coverage	2.23	1.88	2.34	n.a

Additional Ratios				
Assets to Sales	6.47	6.08	5.40	n.a
Current Debt/Total Assets	10%	14%	13%	n.a
Acid Test	2.21	2.04	2.31	n.a
Sales/Net Worth	0.24	0.26	0.29	n.a
Dividend Payout	0.00	0.00	0.00	n.a

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