

Bed & Breakfast Market Analysis

Developing a business plan for an existing business or conducting a feasibility study for a new venture requires a thorough analysis of market conditions. Market conditions have a significant impact on the profitability of your bed and breakfast (B&B). The local lodging market influences how many rooms you can sell and the rates you can charge. This guidebook will help you analyze your market so you can measure the sales potential of your operation and make more informed operating and investment decisions.

To assist in your collection and analysis of information, a series of checklists are provided in this guidebook. Tailored specifically to bed and breakfasts, the checklists will help you understand the many market factors that can influence your profitability. Information collected in your analysis is then used to predict future occupancy levels and rates.

Types of Questions Answered

A market analysis will help you answer questions such as:

- What trends are occurring in the B&B industry?
- What are the strengths and weaknesses of my location?
- Who are my key competitors?
- Are the local economic and visitation trends favorable to my operation?
- What are the potential market segments available to B&Bs in the area?
- What occupancy levels and average room rates could I achieve?

Applications

This guidebook is designed to provide you with an industry-specific market analysis format that can be used in a feasibility study, business plan or marketing plan. It can also be used to analyze the market potential of an existing or new operation.

Existing innkeepers can use a market analysis to identify opportunities to improve sales. The analysis can provide valuable information on market conditions to help in forecasting and budgeting. It also can provide a foundation for developing an effective marketing plan.

Prospective bed and breakfast owners can use a market analysis to project sales volume for a new lodging venture. The analysis can provide essential information required in a business plan or feasibility study, and can lessen the risk of a business investment.

Using your market analysis findings, you can estimate the financial potential of your venture by creating financial projections. Software for developing bed and breakfast financial projections is available through the University of Wisconsin-Extension Center for Community Economic Development.

Conducting Your Analysis

The sections that follow include data collection checklists and worksheets. While the section on Projecting Your Sales Potential should be the final step, the other sections can be completed in any order. Remember, your efforts in studying the market will provide you with information to make better and more informed decisions.

Market Analysis Components

- Industry Trends
- Location and Facility
- Area Characteristics
- Competition
- Knowing Your Customer
- Projecting Sales

I. Industry Trends

Studying national and regional trends in the bed and breakfast industry will help you identify opportunities and threats that may affect your profitability. Trend information provides you with a basic understanding of issues that can affect the short and long term demand for B&B accommodations. Sources of trend information include:

- State Associations such as Wisconsin Bed and Breakfast Association
- Professional Association of Innkeepers International (PAII)
- Industry Periodical such as Inn Business Review
- Travel Periodicals such as Midwest Living and Country Inns Magazine
- Local Extension and State Tourism Offices
- Seminars and workshops

The following industry trend checklist provides a sample of topics you might want to study as part of your market analysis.

Market Demand

- What factors motivate a guest to select a B&B?
- How leisure and business travel are patterns changing?
- What are the different market segments available to a B&B operation?

Market Supply

- What other types of lodging operations compete with B&B's?
- What is the projected level of growth in number of B&B operations and rooms.
- What type of B&Bs are growing at the fastest pace?

Success Factors

- What type of B&B services and amenities are most important?
- What features contribute to an appealing décor and atmosphere?
- What pricing practices are most effective?
- What are some examples of effective marketing efforts?

II. Building and Location

The location of your bed and breakfast operation is a critical consideration because it affects your ability to draw customers. It is important that your location be visible, accessible, convenient and attractive to your market. Area aesthetics, noise, safety, off-street parking availability and accessibility to local attractions and businesses are important factors in selecting a location. You may want to highlight on a map other sources of demand, other B&Bs and relevant landmarks. How you evaluate your location will depend on the type of B&B customers you hope to serve. Use the following checklist to complete this part of your market analysis.

Building characteristics

- Charm and appeal of house
- First impressions of building ("curb appeal")
- Condition of building
- Size of bedrooms and public areas
- Private bathrooms
- Signage

Description of immediate area

- Adjacent land uses
- Proposed commercial and residential developments
- Area neighborhood safety
- Nearby services availability (food, fuel, shopping)
- On-site or off-street parking availability
- Zoning restrictions

Proximity to demand generators

- Business demand generators (industry, business, government,)
- Tourist attractions (museums, historical sites, recreation, ...)
- Local events (sports tournaments, festivals, conventions,...)
- Colleges, hospitals and other institutions

Traffic Volume

- Highway/Street traffic counts
- Traffic patterns

III. Local Market Area

In addition to having a good location for your property, a bed and breakfast establishment must be located in a market area that attracts a sufficient number of overnight visitors.

Lodging establishments, which depend on tourists as part of their customer base, typically rely on local attractions to draw customers. Attractions can include both natural and man-made places of interest. Attraction operators may be able to provide you with their estimates of attendance and data describing seasonality trends and place of customer origin.

Lodging establishments that primarily serve business travelers usually rely on the strength of the local business climate. A solid business climate may create more lodging demand. The size, stability and diversity of major local employers as well as plans for future business development are important factors that should be researched. Local planning officials and the local Chamber of Commerce are good sources for this information.

It is also important to analyze the transportation network serving the market area. Existing highways and proposed highway improvements should be identified. Distances to feeder markets (where guest originate) may be particularly important to B&B operations in resort destinations.

Local economic and demographic trends should be considered. Information such as population growth and household income will help you identify potential demand from local residents and their friends and families. In addition, demographic and lifestyle data (from private data firms) can be obtained for the zip codes or census block groups of current visitors to your community. This data can be useful in prospecting for new customers. Use the following checklist to complete this part of your market analysis.

Tourism Trends

- Park visitation
- Museum visitation
- Amusement and attraction visitation
- Casino visitation
- Festivals and events visitation
- Snowmobile trail usage
- Boating activity
- Hunting and fishing activity
- Golf course usage

Biking/biking trail usage
Visitation to colleges or universities
Visitation to local hospital

Business and Economic Trends

Room tax collections*
Eating and drinking place sales
Retail sales
Employment (levels, types, major employers)
Office/Industrial space occupied
New business development

Transportation Characteristics

Distance from urban areas
Traffic volume
Airport volume
Ferry volume
Passenger rail volume

Local Economic and Demographic Characteristics

Population
Household income distribution
Age
Lifestyle information reported by marketing data firms

*Municipal room tax collections can provide you with a measure of the growth in lodging revenues. This is typically a reliable source of data to supplement your analysis of area competition.

IV. Competition

Current and proposed competitors are some of the most important market analysis components to study. Competitors are primarily divided into two categories, depending on the degree to which they affect your operation:

- *Primary competitors* are typically other B&Bs, inns, hotels and motels that may also target your clientele.
- *Secondary competitors* are typically operations that provide lodging, but generally don't attract your clientele. Example of this group might be campgrounds, hotels and motels.

When evaluating your competition you want to closely analyze your competitors. It is important to keep in mind that there are both advantages and disadvantages resulting from competition. It is possible that you might lose some customers to your competitors; however, there are numerous advantages such as:

- Referrals
- More services for tourists that results in:
 - stronger destination area image
 - greater market exposure and market power
 - greater acceptance and support from the community
- New ideas and advice from fellow B&B operators

Essentially, the more you know of your competitors the better are your chances of success. Become familiar with your competitors monthly and annual operating performance. Try to obtain occupancy

percent and average daily room rates which are good indicators of their monthly or annual sales levels. All of this information can help you gage your own success, and identify areas in which you need to improve upon.

$$\text{Occupancy Percent} = \frac{\text{number of rooms sold}}{\text{number of rooms available}}$$

$$\text{Average Daily Room Rate} = \frac{\text{total room revenue}}{\text{number of rooms sold}}$$

In addition to estimating the occupancy and average room rates of your primary competitors, you should also study their strengths, weaknesses and competitive position in the market area. Determining the health and prosperity of other local B&Bs in the market can also be a good determinant of future potential. To determine the relative success of existing B&Bs, you might ask some of the following questions:

- Do they require minimum stays? This indicates that an establishment can afford to be selective.
- Have other existing B&Bs expanded?
- Are price ranges at other area's B&B's similar? If they are uniformly high, innkeepers may be prospering; if low competition may be fierce.
- Does the B&B support the innkeepers financially? Is on partner working outside?
- Is there a supportive innkeeper association in the area?
- What kind of media coverage have area inns received?

In addition to interviews with management, information on your competition can be obtained from:

- Tour books and travel guides
- State association and local lodging directories
- Newspapers and Magazines
- Local Chamber of Commerce or Convention and Visitor's Bureaus

You should also investigate any plans for other new lodging operations in the area. Too many new hotel/motel rooms can lead to depressed occupancy levels and "price wars" among the larger lodging facilities. Such intense competition might have an affect on area B&B's. Local planners and the development department of hotel companies are usually aware of developments proposed for you community. Use the following checklist to complete this part of your market analysis.

Location

Proximity to sources of demand
Accessibility
Visibility
Surrounding neighborhood

Facility

Private bathrooms
Charm/character
Exterior appearance and condition
Interior appearance and condition
Cleanliness
Signs
Types of rooms (suites, standard room,...)
Adequate parking

Service/Amenities

- Quality of service and hospitality
- Other amenities
- Food and beverage service
- Full breakfast
- Recreational activities

Information from Hotel/Motel Managers:

- Weekday vs. weekend demand patterns
- Monthly occupancy levels
- Average room rate per month (after any discounts)
- Major sources of demand

General Information

- Number of rooms
- Months open
- Published rates
- Ratings in travel guides
- Local reputation
- Credit card acceptance
- Owner operated

V. Identifying Your Customer

The image, size, location, prices and amenities of your B&B should be tailored to fit the type of customer you want to attract. It is important to analyze the type of travelers that frequent your area and how you might serve these visitors. Market demand for B&B's is typically segmented into two categories: leisure and business. Each has its own needs and preferences.

Leisure room demand is often seasonal. In larger, urban market areas, leisure room demand may be limited to weekends, summer months and holiday periods. To measure the significance of leisure demand in your market area, interview representatives of the local visitor bureau, Chamber of Commerce and local event and attraction operators. Also, study variations in room rates by day of the week and time of year. Higher rates usually indicate periods of higher occupancy. Finally, inspect other local lodging facilities to determine if they have been designed to serve leisure travelers. Recreational facilities such as pools, fitness centers, tennis courts, snowmobile trails and other features may indicate the importance of leisure travelers to a particular operation.

Business demand is usually experienced Monday through Thursday nights. Understanding why business travelers are visiting the market area can help you estimate how many room nights they might generate. Typical reasons for visiting a particular area might include visiting a local company (recruiting, training, management meetings...), calling on multiple businesses (by suppliers, vendors, sales reps...) and stopping over between destinations.

Interviews with local business representatives can be the most effective way to estimate how many room nights their firm might generate. Questions to ask include: type of visitors, frequency of visits, length of stay, where most visitors tend to stay and what rate range is acceptable.

Analyzing visitor origin can be a complicated process. As these visitors may be traveling great distances, it can be more difficult to acquire customer information than with a traditional analysis of local residents. Nonetheless, understanding these customers requires obtaining information about their places of origin, as well as data about their demographics and lifestyles.

A technology called geographic information systems (GIS) can be used to solve these problems. Combining GIS with your customer address lists or chamber of commerce inquiry records, allow for

profiling tourism customers both geographically and demographically. Furthermore, GIS technology can use this information to search (prospect) for new potential customers in other communities that match your geographic or demographic criteria.

VI. Projecting Your Sales Potential

At this point in your market analysis, you have completed your data collection. You have analyzed industry trends, the building and location suitability, market area visitation activity, local competition and potential market segments. You are now ready to estimate your sales potential based on these factors.

For most B&B establishments, sales potential is based primarily on the projected number of overnight room rentals. Other income sources may include food sales, gift and book sales, and other services such as rental of the inn's common areas or grounds for weddings and meetings.

Room sales in a bed and breakfast establishment are a function of the number of rooms, your occupancy percent and your average room rate as defined in section IV. (Competition). A good starting point for projecting future performance is past occupancy and room rate. Existing B&B operators can rely on their historical records for this information. Prospective operators need to look at other B&B's in the area for this information.

1. Evaluate Your B&B's Competitive Strengths

There is no magical formula to predict your occupancy level. However, by analyzing your B&B's competitive strengths and weaknesses relative to others in the area, you can estimate if you will achieve a higher or lower occupancy rate. Compare your operation with other B&Bs in your market area using the criteria below. Be sure to keep in mind the types of travelers that make up local lodging demand.

	Competitive<----->						
	Strength			Weakness			
Attractiveness of immediate area	*	*	*	*	*	*	*
Inn's appearance	*	*	*	*	*	*	*
Proximity to demand generators	*	*	*	*	*	*	*
Accessibility	*	*	*	*	*	*	*
Visibility	*	*	*	*	*	*	*
Guest room quality	*	*	*	*	*	*	*
Reputation and ratings	*	*	*	*	*	*	*
Management/Ownership	*	*	*	*	*	*	*
Amenities	*	*	*	*	*	*	*
Uniqueness/charm	*	*	*	*	*	*	*
Pricing	*	*	*	*	*	*	*
Service	*	*	*	*	*	*	*
Private bathrooms	*	*	*	*	*	*	*
Food quality/full breakfast	*	*	*	*	*	*	*
Credit Card Acceptance	*	*	*	*	*	*	*
Recreational activities	*	*	*	*	*	*	*

2. Project Your Occupancy

Use the monthly occupancy worksheet below to estimate how many rooms you could sell on an annual basis. To do this, analyze the seasonality of leisure travel demand and code each month as Peak-season (P), Middle-season (M) or Off-season (O). Do the same for business travel demand.

Based on these demand patterns, the performance of other B&Bs in the area that serve these segments and your strengths and weaknesses relative to those B&Bs, estimate your monthly occupancy potential. Complete the multiplication in the worksheet and sum the monthly "Rooms Sold" to arrive at your annual totals. Your annual occupancy percent is equal to your annual rooms sold divided by your annual rooms available.

Monthly Occupancy Projection Worksheet													
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
Indicate Peak Season (P), Middle-Season (M) or Off-Season (O)													
Leisure													
Business													
Occupancy Projection													
Days Open													
X Rooms													
Rooms Available =													
X Occupancy %													
Rooms Sold =													

Example:													
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
Indicate Peak Season (P), Middle-Season (M) or Off-Season (O)													
Leisure	M	M	M	O	M	P	P	P	M	M	O	M	
Business	M	M	M	M	O	O	O	O	M	M	M	M	
Occupancy Projection													
Days Open	31	28	31	30	31	30	31	31	30	31	30	31	
X Rooms	5	5	5	5	5	5	5	5	5	5	5	5	
Rooms Available =	155	140	155	150	155	150	155	155	150	155	150	155	1825
X Occupancy %	25%	25%	25%	15%	20%	40%	40%	40%	25%	25%	15%	25%	27%
Rooms Sold =	39	35	39	23	31	60	62	62	38	39	23	39	488

Compare your annual occupancy projection with local, state and national averages to make sure it is realistic. You want to be careful not to overestimate occupancy rates. B&Bs tend to experience lower occupancy levels than hotels and motels. Also be aware that well established B&Bs tend to have higher occupancy rates than newly established B&Bs.

3. Project Your Room Rates

Effective pricing is critical in the lodging business as increases or decreases in rates have a major impact on the "bottom-line." Setting prices to maximize profit is an important process that requires consideration of the rates charged by competitors and the price sensitivity of travelers to the area.

The following four steps will help ensure that you are competitively priced relative to your completion.

- a. Analyze your expected market segments. What factors do they consider when choosing a B&B (location, service, charm, private baths...).
- b. Compare your expected quality level and appeal with that of your competitors, Make this comparison using the factors identified in step a.
- c. Analyze the room rates charged by your competitors. Consider differences in rooms and variation in rates by season.

- d. Project your monthly and average annual room rate by considering the above factors. Remember, your rates must be acceptable to the market segments you are targeting.

After you have developed occupancy and average room rate projections, you can calculate your projected room revenue as follows:

Projected Annual Occupancy	_____	%
X Number of Rooms in Your B&B	_____	
X Days Open	_____	
X Average Room Rate	_____	
=Projected Annual Room Revenue	\$ _____	

The Next Step: Developing Financial Projections

Once you complete your market analysis, you will be able to develop realistic financial projections for your bed and breakfast. If you are an existing operator, these projections can serve as a financial plan or budget. If you are a prospective operator, they will help you determine the financial feasibility of your venture. To help you develop financial projections, guidebooks and spreadsheet software templates are available through the University of Wisconsin-Extension Center for Community Economic Development.

This guidebook was updated in 2003 by Bill Ryan and Michael Chrisler of the University of Wisconsin-Extension Center for Community Economic Development and the Wisconsin Small Business Development Center. Assistance provided by Hannah Kirking. This publication was originally written in 1994 with assistance from Ana Maria Tolentino, Rolf Sovre, and David Bornstein; project assistants.

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