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## The Design and Implementation of a Business Plan for a Neighborhood Inn

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THE DESIGN AND IMPLEMENTATION  
OF A BUSINESS PLAN FOR A NEIGHBORHOOD INN

Edward L. Beck, B.S.

An Abstract Presented to the Faculty of the Graduate  
School of Lindenwood College in Partial  
Fulfillment of the Requirements for the  
Degree of Master of Business Administration

1993



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ABSTRACT

This project will focus on the study of the eating and drinking establishment industry. Information was gathered for the purpose of constructing a business plan for The Haven.

Research has indicated that the owner of an inn must be concerned with several factors associated with the successful operation of an inn, those being: industry data, specific company data, financial data, and marketing data. The Haven inn's business plan was formed by utilizing information from each of these areas.

Once The Haven's business plan was completed, two members of the eating and drinking establishment industry were chosen to judge the plan's format and the plan's effectiveness.

Baldo Gandolfo and Karen Baker evaluated The Haven's business plan and collectively concluded that the document is structured properly and would

serve as an effective guide for operating the  
enterprise.



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Graduate School of Lindenwood College in Partial  
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1993

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Chapter I  
INTRODUCTION

Industry Description

The neighborhood inn falls into three different industry classifications: the hospitality industry, the restaurant industry, and the eating and drinking establishment industry. For the purpose of this paper, the inn will be depicted as being in the eating and drinking establishment category.

The eating and drinking industry can be described as a group of businesses whose purpose is to provide food and beverages to communities of people. The eating and drinking industry also consists of businesses which serve the nation as one of the most important social institutions of American society. It is the place where old friends meet, where new friendships are made, and where the foundations are laid for innumerable business transactions (Whyte 5).

The eating and drinking industry serves as a social center for informal gatherings, as a dining room away from home, for those who live in furnished rooms

or small apartments, as an indispensable agent in the promotion of business activity, as a stepping stone to romance, and as a home for some of the important ceremonials of the family--in all these roles, the inn makes its unique contribution to American society.

The inn also functions as a place for larger organizations to perform their activities. Fraternal orders, businessmen's associations, and political parties all rely on the inn to provide setting and substance for the ceremonies important to their existence.

Since the beginning of history, people have found that the sharing of food and drink contributes something to the life of the group for which there is no substitute. Food and drink nourish society just as it sustains the life of the individual. In primitive societies, the members work together according to custom to provide food for each family and to organize the large ceremonial feasts. As societies become larger, it is no longer possible to handle feeding and food ceremonials on this simple, informal basis. The rise of civilization requires a corresponding growth and development of the eating and drinking industry.



Without it, the failure of the industrial and social aspects of our society is assured (Whyte 9).

The eating and drinking industry includes an area of work and study that applies principles and information from a number of disciplines to the service of selling food and beverage to persons away from home. It includes a number of practices and techniques which have been developed, mostly from experience for accomplishing these purposes. The field of inn management is interdisciplinary. It draws upon economics, psychology, management, food technology, food chemistry, microbiology, physics, engineering, architecture, accounting, marketing, and law. From these disciplines are formulated approaches, systems, and analytical tools designed to make food and beverage service a satisfying and emotional experience for people when they are away from home. Much of inn management is an art and will remain so in the future. The relations with people--guests, patrons, employees, purveyors, and the community at large--are closer and often more sensitive than in most fields (Lundberg 1).

Iverson states that the eating and drinking industry is currently one of the world's largest employers, and the job outlook is just as favorable.

In order for the industry to thrive, certain guidelines must be followed for each individual business to succeed. Even with careful planning, many eating and drinking establishments do not survive. Although the reasons for success vary from inn to inn, some common denominators can be found in most long lived operations. The formula for success consists of the following factors: product quality, service, customer involvement, and consistency.

Product Quality - No business can survive if its products are of poor quality. An inn cannot generate repeat business if the food and beverage are not fresh, well prepared, and have a good presentation (56).

Service - The eating and drinking industry recommends that inns provide excellent service to its patrons. Customers are irritated by poor service. Inns need to train their employees, motivate their employees, select adequate employees, and develop standard procedures to insure that customers receive excellent service (56).

Customer Involvement - Inns that consistently meet their customers' needs, recognition, recommendations, and reassurance find that the chances of success are increased and the costs of advertising are reduced

because the power of word-of-mouth referrals increases (56).

Consistency - The industry reports that consistency is another important factor for success. Products and service must be consistently good for customers to patronize the inn repeatedly. Inconsistent behavior irritates the customer and causes people to discontinue use of the business.

The eating and drinking industry brings such rewards as celebrity, a sense of accomplishment, increased income and freedom from working for others for those inn owners who succeed. Almost 80 percent of all new inns fail within their first year. In order to succeed, each inn must plan ahead and follow the previously mentioned formula for success (56).

#### Makeup of the Firms in Industry

The firms in this industry can be classified as a bar, inn, and nightclub. According to Start-Up Guide, the average bar, inn, and nightclub is described as follows:

Neighborhood bars are usually gathering places for people within a one to two square mile radius of the business' location. People who frequent the

neighborhood bar tend to be blue collar, older, and heavy drinkers of low to medium income. They seldom care about fancy decor or gimmicks, but just want a relaxing place where they can stop on the way home from work or get out of the house for a drink or two and some companionship. Usually patrons of a neighborhood bar are married males 35 years and up who live or work in the neighborhood (Entrepreneur Group, Start-Up Guide 13).

A pub or inn strives for a more intimate, congenial atmosphere and usually caters to a younger crowd of single people who spend a lot of money. Most successful pubs feature comfortable decor and an amiable bartender. The real secret to success of an inn or pub is in creating an atmosphere that brings people together. The best pubs are crowded every night of the week with single men and women. Pubs and inns can draw from a larger radius than a neighborhood bar with savvy advertising aimed especially at women (13).

A nightclub is usually a larger location which features live entertainment on a regular basis, and dancing is often the main attraction (Entrepreneur Group, Start-Up Guide 6).



For a bar, inn, or nightclub, site location is probably the most important factor in determining success--and in some instances, all important. Studies have shown that poor location is among the chief causes of all bar-related failures. In this type of business, the owner must be willing to pay for a good location. The cost of the location often reflects the volume and/or quality of the business the firm has (13).

For the neighborhood bar, size should approximate 900 to 1200 square feet, conveniently located in a mixed residential/industrial area that is densely populated with blue-collar workers. A high visibility location with factories or other places of employment nearby would be ideal. Dense population in the immediate vicinity is vital; the more people, the more customers are attracted. On-street parking is often adequate for this type of bar. Rents for neighborhood bars can range from \$0.45 to \$1.50 per square foot on a monthly basis depending on the area of the country. Variations of the neighborhood bar are a beer-only bar and a wine-beer bar. Beer-only bars, where legal, are inexpensive to set up and quite simple to operate. In many cases, a beer bar may be purchased for \$5,000 or less. The markup on draft beer is high (ranging in the

150 to 200 percent range), and profits on wine are even greater (13).

For a pub or inn, there must be 1,200 to 1,800 square feet in a young, upwardly mobile, transient neighborhood. Start-Up Guide found successful pubs in stand-alone locations, strip shopping centers, shopping malls, and numerous other sites. A good location for a pub or inn should have ample parking, good visibility, and should be situated on a major four-lane thoroughfare without median dividers. Speed limits should be 25 to 35 m.p.h., and the site should have good night lighting since many of the patrons are single women. Rent for these locations can range from \$0.75 to \$2.00 per square foot (14).

Nightclubs are evening oriented and should have ample parking for patrons. Because of this requirement, many clubs are located in shopping malls and next to areas where adequate parking exists. Nightclubs usually require more space than bars or pubs because of the amount of floor space that must be reserved for either live entertainment or dancing. A good size location for a nightclub is 2,500 to 3,000 square feet. Nightclubs are most successful in areas where there are other night-time activity in an area

that attracts crowds. Restaurants, movie theatres, live theatres, sports arenas, convention centers, and other crowd gathering attractions are good businesses to have as neighbors. The nightclub's location should be easy to find. Rents for most nightclubs range from \$0.90 to \$3.50 per square foot. Good locations can be found for around \$2.00 per square foot (15).

#### The Size of Firms to Industry

According to Morris and Associates, the drinking places industry can be broken down into two groups: establishments with revenues between \$0 and \$1 million, and establishments with revenues between \$1 million and \$3 million. The assets, liabilities, and income data are figured as a percentage of gross sales. For example, the average inventory for a business in the drinking places industry with gross sales of \$1 million would be \$100,000. The breakdown of the drinking places industry is presented in Tables 1 and 2.

Table 1  
Retailers Drinking Places  
(\$0 to \$1 Million)

<u>Assets</u>	<u>Percentage</u>
Cash and Equivalents	10.8
Trade Receivables (Net)	3.1
Inventory	10.0
All Other Current	.8
TOTAL CURRENT	24.7
Fixed Assets (Net)	46.9
Intangibles (Net)	14.7
All Other Noncurrent	13.6
TOTAL NONCURRENT	75.2
<b>TOTAL CURRENT AND NONCURRENT</b>	<b>100.0</b>
<u>Liabilities</u>	<u>Percentage</u>
Notes Payable Short Term	4.1
Current Mat. (L/T/D)	4.9
Trade Payables	5.9
Income Taxes Payable	.4
All Other Current	7.6
TOTAL CURRENT	22.9
Long Term Debt	43.8
Deferred Taxes	.3
All Other Noncurrent	2.9
TOTAL NONCURRENT	47.0
Net Worth	30.2
<b>TOTAL LIABILITIES AND NET WORTH</b>	<b>100.0</b>
<u>Income Data</u>	
Net Sales	100.0
Gross Profit	59.4
Operating Expenses	55.3
Operating Profit	4.1
All Other Expenses (Net)	.6
Profit Before Taxes	3.5

SOURCE: RMA Annual Statement Studies 1991 by Robert Morris Associates (1992).



Table 2  
Retailers Drinking Places  
(\$1 to \$3 Million)

<u>Assets</u>	<u>Percentage</u>
Cash and Equivalents	9.2
Trade Receivables (Net)	4.0
Inventory	11.0
All Other Current	4.8
TOTAL CURRENT	29.0
Fixed Assets (Net)	57.2
Intangibles (Net)	4.0
All Other Noncurrent	9.8
TOTAL NONCURRENT	71.0
<b>TOTAL CURRENT AND NONCURRENT</b>	<b>100.0</b>
<u>Liabilities</u>	<u>Percentage</u>
Notes Payable Short Term	7.5
Current Mat. (L/T/D)	4.7
Trade Payables	9.4
Income Taxes Payable	1.3
All Other Current	15.9
TOTAL CURRENT	38.7
Long Term Debt	30.7
Deferred Taxes	.3
All Other Noncurrent	1.2
TOTAL NONCURRENT	32.2
Net Worth	29.0
<b>TOTAL LIABILITIES AND NET WORTH</b>	<b>100.0</b>
<u>Income Data</u>	
Net Sales	100.0
Gross Profit	63.2
Operating Expenses	60.7
Operating Profit	2.6
All Other Expenses (Net)	1.5
Profit Before Taxes	1.0

SOURCE: RMA Annual Statement Studies 1991 by Robert Morris Associates (1992).

Investment Required (Inn or Pub)

The figures in Table 3 are based on an average, new 1,800 square-foot pub with 20 stools along the bar and another 65 seats on the floor, for a total of 85 seats. The low end of the range assumes that the leased facility has the bulk of the required fixtures already in place and needs minimum redecorating and comes with an existing liquor license. The average costs associated with an inn will be presented in Table 3. The average costs will be exhibited according to the average ranges for expenses such as the average payroll for an inn would be \$2,700 to \$3,750.

Table 3  
Average Costs (Inn or Pub)

<u>Item</u>	<u>Range</u>	
Rent (Sec. dep. + 1st & last mo.)	\$ 3,300 to	\$ 5,250
Initial Inventory .....	8,813 to	11,049
Equipment/fixtures .....	22,455 to	43,475
Leasehold improvements (\$10 to \$35 per square foot)	18,000 to	63,000
Licenses/tax deposits .....	2,025 to	30,125
Grand opening/advertising .....	900 to	1,350
Utilities/phone .....	300 to	450
Professional services .....	420 to	525
Payroll .....	2,700 to	3,750
Supplies/uniforms .....	800 to	1,200

Table 3, cont.

## Average Costs (Inn or Pub), cont.

Insurance (1st quarter) .....	1,350 to	1,650
Miscellaneous .....	500 to	1,000
	<hr/>	<hr/>
<b>TOTALS</b>	<b>\$61,653 to</b>	<b>\$162,824</b>
Suggested Operating Capital	\$13,950 to	\$ 21,750

SOURCE: Entrepreneur Group, "Startup Guide for a Bar, Tavern, Nightclub," by Entrepreneur Group (1990).

Investment Required (Nightclub)

The figures in Table 4 are based on an average new 3,000 square-foot nightclub with 500 square-foot dance floor and 30 stools along the bar and another 100 seats on the floor, for a total of 130 seats. The low end of the range assumes that the leased facility has the bulk of the required fixtures already in place and needs minimum redecorating and comes with an existing liquor license. The high end reflects complete conversion of a building and purchase of a liquor license. The average expenses associated with a nightclub are presented in Table 4. For example, the average range for payroll expenses for a nightclub are \$7,000 to \$9,000.

Table 4  
Average Costs (Nightclub)

<u>Item</u>	<u>Range</u>
Rent (Sec. dep. + 1st & last mo.)	\$ 8,460 to \$ 11,475
Initial Inventory .....	17,000 to 21,600
Equipment/fixtures .....	43,525 to 77,425
Leasehold improvements (\$10 to \$35 per square foot)	30,000 to 105,000
Licenses/tax deposits .....	2,025 to 30,125
Grand opening/advertising .....	1,800 to 3,300
Utilities/phone .....	600 to 800
Professional services .....	1,050 to 1,500
Payroll .....	7,000 to 9,000
Supplies/uniforms .....	1,600 to 2,400
Insurance (1st quarter) .....	3,600 to 4,000
Miscellaneous .....	800 to 1,500
<b>TOTALS</b>	<b>\$117,460 to \$268,125</b>
Suggested Operating Capital	\$36,800 to \$ 50,000

SOURCE: Entrepreneur Group, "Startup Guide for a Bar, Tavern, Nightclub," by Entrepreneur Group (1990).

#### Investment Required (Bar)

The figures in Table 5 represent a hypothetical new 1,000 square-foot neighborhood bar with 16 stools along the bar and another 50 seats on the floor, for a total of 66 seats. The low end of the range assumes that the leased facility has the bulk of the required fixtures already in place and needs minimum redecorating and comes with an existing liquor



license. The high end reflects complete conversion of a building and purchase of a liquor license. The costs will be exhibited according to ranges; for example, the average range for rent is \$1,920 to \$2,250.)

Table 5  
Average Costs (Bar)

<u>Item</u>	<u>Range</u>	
Rent (Sec. dep. + 1st & last mo.)	\$ 1,920 to \$	2,250
Initial Inventory .....	8,813 to	11,049
Equipment/fixtures .....	19,485 to	37,175
Leasehold improvements (\$10 to \$35 per square foot)	10,000 to	35,000
Licenses/tax deposits .....	2,025 to	30,125
Grand opening/advertising .....	600 to	750
Utilities/phone .....	180 to	250
Professional services .....	300 to	360
Payroll .....	2,200 to	2,700
Supplies/uniforms .....	450 to	690
Insurance (1st quarter) .....	675 to	900
Miscellaneous .....	500 to	700
<b>TOTALS</b>	<b>\$47,148 to</b>	<b>\$121,949</b>
Suggested Operating Capital	\$ 9,000 to \$	16,000

SOURCE: Entrepreneur Group, "Startup Guide for a Bar, Tavern, Nightclub," by Entrepreneur Group (1990).

### Services/Products Provided

According to an interview with Gordon Beck, owner of The Haven, the inn usually offers a wide variety of liquors and mixers for customer consumption. The inn will offer: Blended Whiskeys, Straight Whiskeys, Bonded Bourbons, Canadian Whiskeys, Scotch Whiskeys, Gins, Vodkas, Rums, Brandies, Vermouths, Tequilas, Cordials, Mixers, and Beer (Beck, Gordon, Personal Interview 29 July 1992).

Beck states that the liquor business is stimulated by food sales. The typical inn offers the public a wide variety of food from which their meal can be selected. The inn should offer appetizers such as breads, chips, chicken wings, onion wings, and mushrooms. A variety of salads such as potato salad, cole slaw, macaroni salad, along with french fries may also be necessary. Soups and salads are a must. Dinner entrees should include fish, chicken, beef, and pasta (Interview).

An inn is also a service-oriented institution where the patrons expect to be treated accordingly. Most people expect to have their meals prepared properly, drinks made correctly, and all products delivered promptly and efficiently.

The inn provides the customer with many additional services such as a meeting place, a source for entertainment, competition (games), conversation, and information source (meeting times, announcements, political news (Interview)).

### Profits to be Realized

According to Morris and Associates, gross profit for a drinking place with a \$0 to \$1 million in revenue is approximately 59 percent of total revenue. With revenues ranging from \$1 million to \$3 million, the gross profit percentage is approximately 63 percent. Before tax profit is 3.5 percent. For example, the profit for a business that produces \$1 million in revenue is \$35,000 (Morris and Associates 541).

### Summary

In summary, the inn is a business which is a member of the eating and drinking establishment industry. Operating an inn requires the application of knowledge from a number of disciplines to the problem of selling food and beverages to persons away from home. The companies within the industry utilize theory from the following area of study: economics,

psychology, management, food technology, food architecture, accounting, marketing, and law. The successful operation of an inn consists of the following components: product quality, service, site location, and most importantly, customer satisfaction.

The average inn is housed in an 1,800 square-foot building with 20 stools along the bar and another 65 seats on the floor. The first year expenses range from \$61,653 to \$162,824. The suggested operating capital ranges from \$13,950 to \$21,750. The average expected profit for an inn with \$1 million in gross revenue is \$35,000.

#### Statement of Purpose

The intention of this paper is to collect information concerning the food and beverage industry, specifically an inn. The knowledge will be used to construct a business plan which will ultimately serve as a blueprint for the successful operation of an inn.



## Chapter II

### LITERATURE REVIEW

The process of creating a business plan forces the entrepreneur to take a realistic look at his/her business in its entirety. Constructing a business plan allows the potential owner to analyze specific facts and ideas in an organized manner. A finished business plan becomes an operating tool that will help the owner manage the business and work toward its success. The final, completed plan is the chief instrument for the owner to communicate his/her ideas to him/herself and others, business people, bankers, partners, etc. The importance of planning cannot be overemphasized. It is the key to succeeding at any business endeavor. The only way that the owner can effectively handle the numerous variables and problems associated with the business venture is to have a logical, well organized business plan (Entrepreneur Group, Writing Effective Business Plans 22).

By taking an objective look at his/her business, the entrepreneur can identify areas of strength and weakness. The owner can pinpoint specific needs he/she

might normally overlook. A business plan will give the entrepreneur enough information to spot potential problems before they arise. Planning will help the entrepreneur determine how business goals can best be achieved. The business plan does several things for the entrepreneur:

- o Helps identify objectives
- o Helps develop strategies to meet those objectives
- o Helps earmark problems and suggests ways to solve them
- o Helps to minimize problems
- o Helps create a structure to the proposed business by defining activities and responsibilities
- o Helps obtain the necessary financing to start the proposed business

For the business plan to be effective, it is imperative that the entrepreneur personally conduct most of the research and investigation. In short, the entrepreneur must do the planning (Entrepreneur Group, Startup Guide 178).

Fundamental to the preparation of any business plan is a thorough discussion of the necessary

components of a business. Some of these include: organizational structure, personnel considerations, licenses and permits, the marketing plan, pricing strategy, sales promotion, advertising, financing the small business, insurance, and the production/service strategy.

### Organizational Structure

After the decision has been made to start a business, the first problem an entrepreneur must consider is the legal form under which the business will operate: 1) sole proprietorship, 2) partnership, 3) limited partnership, or 4) corporation.

**Sole Proprietorship** - The sole proprietorship provides the easiest method of starting a business. No legal papers are required except a business license and a name filing with the county clerk. Separate income tax forms are not required and Social Security Taxes are less than in other forms of organizational structures. The sole proprietorship form does have a major disadvantage. Creditors of an enterprise can attach liens to the personal finances of the proprietor(s). In other words, creditors may force the owner of a business to pay for all debts incurred from

business operations with personal property (Brigham and Gapenski 10).

Partnership - A partnership is different from a sole proprietorship in that each partner is liable for the other's actions. In any legal or creditor action, each partner will be sued personally. If one partner defaults, the others are held responsible. Also, when an individual contributes assets to a partnership, he retains no claim to those specific properties but merely acquires an equity in all assets of the firm. The partner with the highest investment incurs the greatest loss (11).

Limited Partnership - The limited partnership is similar to the corporation. The investors become limited partners and are personally liable for the amount of their investment. However, that is all they can lose.

Limited partnerships are commonly used in real estate ventures. Legal costs for forming a limited partnership may exceed the costs of forming a corporation. Another aspect of limited partnerships is that in some lines of business, the limited partner may be subject to certain tax liabilities that may offset tax shelter advantages (Kuriloff and Hemphill, Jr. 425).



Corporation - The corporation exists as a separate entity apart from the owners. It alone is legally responsible for its actions and debts. The individual investors are personally protected.

Partners forming a corporation can divide ownership into shares, responsibilities can be defined into corporate minutes, and a partner who wants to leave can be accommodated without much legal hassle or dissolution of the business. Stock can be used as collateral, death of one shareholder doesn't stop the business, and, many executive privileges can be justified. Banks are more amenable to loaning to a corporation, profits can be delayed, capital can be accumulated without taxation, and the corporation can loan money to individuals. The only disadvantage is possible taxation because the corporation must pay taxes on its net income, and partners must pay taxes on dividends received from the corporation (426-428).

Research indicates that small firms in the industry choose to operate under the following organizational structures: sole proprietorship, partnership, and corporation.

During an independent survey, information was gathered concerning the organizational makeup of the

firms within the eating and drinking establishment industry. The survey consisted of 25 telephone interviews asking the legal form of organizational structure for each establishment. Eighteen (72%) of the firms operate under a sole proprietorship, six (24%) operate under a partnership, and one company chose the corporate structure.

Gordon Beck, owner of The Haven, commented that his father and mother had operated under a sole proprietorship and that he decided to adopt their method (Interview). Tony Lombardo, owner of Lombardo's Trattoria, maintains that his family had formed a corporation long ago and that his restaurant conformed to that organizational structure (Lombardo, Tony, Personal Interview 20 September 1992).

### **Social Responsibility**

Arlow and Ackelsberg state that social responsibility type goals seem to be the most important to smaller firms whose sales revenue is in the \$200,000 to \$399,000 range. It appears that small business firms incorporate crucial factors for their success or survival into goals, namely customer satisfaction and economic-type criteria. Small businesses also

incorporate social responsibility-type goals into their business philosophy. Improving community service has importance as a goal probably because it has a direct bearing on the viability of an alcohol-based firm. The inn can be a service to the community namely by monitoring alcohol consumption and protecting the citizens from the dangers associated with intoxicated behavior (170). The concern for the customer is reinforced by legislation which makes the owners liable for customer misuse of alcohol. This law also serves as an inexpensive way of advertising, and it relates to the goal of customer satisfaction. A safe customer has a basic need satisfied. Plotkin and Vitale claim that the challenge of the 1990s is to increase sales without promoting customer inebriation. The authors suggest that bartenders must learn suggestive sale's techniques that can increase gross revenues without increased alcohol consumption. Suggestive sales would introduce patrons to more expensive brands of liquor as a method to increase gross sales. Also, non-alcoholic drinks will be promoted to maintain sales and customer safety (Plotkin and Vitale 134). The eating and drinking scene is undergoing a dramatic shift to lighter, healthier cuisine served in a casual atmosphere. It

includes lighter drinks and more emphasis on food because of laws concerning driving while intoxicated (Benstein 21).

As in most businesses, economic force is a primary determinant of business practices. But without the balance of social responsibility, intervention from government, legal, and/or insurance forces is inevitable (Trabulsi 32). Controlling the attitude of the inn is a primary responsibility of the owner, but selection of the bartender plays a major role in whether or not the proprietor's positions concerning the business are upheld.

#### **Personnel Considerations**

The bartender is becoming an increasingly important factor to the success of an inn. A good bartender must be accurate, flexible, friendly, sensitive to customer needs and limitations, speedy, and, most of all, honest (Bar and Management Staff 10). According to Zaccarelli, most bartenders are honest; but of all the workers in the hospitality industry, the bartender has the best opportunity for stealing. Numerous preventative measures can be taken to insure honest behavior (Zaccarelli 9). A solution



to this potential problem is to help perform the bartending duties during the busiest periods. Family members and friends can be asked to fill in other time slots. Trustworthy people are hard to find. Friends and family are the most reliable people.

According to Rita Johnson, part owner of Jags Bar and Grill, organization of the work force is important to the successful operation of a business. Johnson states that it is the owner's responsibility to supervise the operation and occasionally serve as a replacement for the various positions necessary to make the business run smoothly. According to Johnson, positions essential to the inn's successful operation:

1. Bartender - The bartender is responsible for inventory control, cash management, accounting, maintaining service, customer satisfaction, and providing occasional public relations. The bartender should possess the following characteristics: personality, neatness, attractiveness, efficiency, honesty, dependability, and reliability. He or she should be a good listener and a good organizer.

2. Waitress - The waitress is responsible for taking orders, serving drinks, serving food, customer satisfaction, occasional public relations, and managing

cash. The waitress should be enthusiastic, neat, pleasant, and dependable. The servers should possess accurate and neat handwriting. The bartender and cook must rely on her messages to mix the right drinks and prepare the right meals. For the best organization, the inn should have the waitress work a minimum of 25 hours per week. This action prevents the business from having to hire and train too many servers.

3. Cook - It is the responsibility of the cook to prepare the food. He or she should be neat, well organized, and concerned with personal hygiene.

4. Dishwasher - The dishwasher should be meticulous about cleaning the dinnerware. The dishwasher can help promote customer satisfaction by offering clean eating accessories and maintain a healthy environment by sanitizing plates, glasses, and other utensils (Johnson, Rita, Personal Interview 5 Oct. 1992).

### Licenses and Permits

Most cities and counties require business operators to obtain various licenses or permits to show compliance with local regulations.

According to Brad Wade, owner of Bradfords Bar and Grill, there are many licenses and permits required to operate an inn within the St. Louis region. Some of these include: the business license, the Health Department permit, liquor, wine, and beer permits, the Fire Department permit, and zoning permits. Wade states that when an entrepreneur purchases an existing business, most of the licenses and permits are transferable or easily purchased from the original owners (Wade, Brad, Personal Interview 11 Oct. 1992).

The Business License:

City business license departments are operated as tax collecting bureaus and do not perform any public service. The owner of an inn simply pays a fee to operate the business in a specific city. The owner's application will be processed by the zoning department which will check to make sure the zone covering the property allows the proposed use and that there are enough parking places to meet the code. The new owner should not encounter any problems if the business is opened in a structure that previously housed a similar enterprise (Entrepreneur Group, Startup Guide 118).

The Health Department Permit

Purveying and distributing food requires a county health department permit. The health department will inspect the facilities before issuing the permit. The fee for such a permit will cost at least \$25. The permit's price is relevant to the operation's size (119).

#### Liquor, Wine, and Beer Licenses:

In most states, one type of license is required to serve wine and beer and another to serve hard liquor. In some areas, no new liquor licenses are being issued. A new owner can only obtain a license by buying it from an existing license holder. One advantage of purchasing an existing inn is that if the business served liquor, the new owner may be able to acquire the existing license as part of the transaction. Typically, the rules will require filing an application with the state beverage control board, and then posting notice on the premise of the intent to dispense liquor. The fee for the license originally costs less than \$100. But competition has forced the purchase price for an existing license upward. The price range for an existing license can range from \$2,000 to many thousands (120).



#### The Fire Department Permit:

City fire departments require inns to obtain a permit before any business transactions are allowed to transpire. The permit signifies that the structure housing the inn is adequately designed to protect customers from dangers associated with fire (121).

#### Zoning Ordinances:

If the owner locates his/her business in an existing structure previously used for commercial purposes, zoning regulations will not be a problem. However, if a new facility will be constructed, an existing building used for a purpose different from what it was originally intended, or extensive remodeling is required, local building and zoning codes should be checked (Entrepreneur Group, Startup Guide 121).

Because of the complexities of these regulations and the penalties imposed for violations, it is essential that the proposed owner consult an attorney. Legal council can render advice concerning regulations applicable to the inn.



### Marketing Information

Successful marketing includes the analysis of the industry, competition, and the customer. A thorough analysis of these areas will provide the basis from which a concrete marketing strategy can be developed. A market analysis will define the market and its sales potential. The market analysis will enable the owner of an inn to establish pricing and sales strategies that will allow the company to become more profitable within the competitive environment. A market analysis will also provide indication of the growth potential within the industry and allow the development of estimates concerning the future of the inn.

According to the U. S. News and World Report, restaurants and bars will have the greatest employment growth in the 1990s. The employment growth for restaurants and bars will grow 1,514 percent in the 1990s. Restaurants and bars top the list of businesses projected to be successful in the 1990's (U.S. News and World Report, 23 Oct. 1989: 75).

According to Lombardo, information is gathered which identifies specific tactics to help determine a reasonable growth forecast for an inn. Lombardo claims

that the proposed owner should conduct a market survey to assess the market where the business will be operating. The market assessment should help determine the following facts:

- o Market limits (trading area)
- o Spending characteristics of community
- o Area's purchasing power
- o Present sales volume of products being offered
- o Estimate of what proportion of sales volume the owner can obtain

Lombardo advises that the owner of an inn should utilize secondary information which is published by the United States Government. Information found in the "Census Tracts" can answer most of the questions about any market (Lombardo, Tony, Personal Interview, 20 Sept. 1992).

#### Target Market Evaluation:

According to Data Service, sales trends for eating and drinking establishments are slightly upward. Revenue in 1984 for eating and drinking establishments was \$349,678,000, up \$38,744,000 from 1983 (9-5). The Survey of Buying Power states that the St. Louis community spent \$514,625,000 in eating and drinking establishments during the year 1990 (9-5). Revenue

increased \$203,691,000 for the time period ranging from 1983 to 1990. This figure represents a 66 percent increase in revenue acquired. The trend shows an increase with regard to dollars spent. This trend appears to be growing stronger, and the increasing numbers suggest that the eating and drinking establishment industry will continue to flourish.

#### Pricing Strategy:

The method or combination of methods that an owner of an inn uses to price his/her product is important because it will have a direct effect on the success of the business. Though pricing strategy and computations can be complex, the basic rules of pricing are straight forward.

1. All prices must cover costs.
2. The best and most effective way of lower sales prices is to lower costs.
3. Prices must reflect the dynamics of cost, demand, changes in the market, and response to competition.
4. Prices must be established to assure sales.  
Do not price against a competitive operation alone. Rather, price to sell.

5. Product utility, longevity, maintenance, and end use must be judged continually and target prices adjusted accordingly.
6. Prices must be set to preserve order in the market place (Entrepreneur Group, Writing Effective Business Plans 71).

Before an owner can begin developing a pricing strategy, the projected costs of running the business must be determined. The owner must add fixed costs such as property/equipment leases, loan repayments, management costs (i.e. salaries), and depreciation to the variable costs of raw materials inventory, and hourly wages/commissions. The owner must also calculate the cost generated by markdowns, shortages, damaged merchandise, employee discounts, and add them to the operating expenses listed above to develop an initial price for the product (Entrepreneur Group, Writing Effective Business Plans 71).

Considering the matter simplistically, the pricing strategy should be an outgrowth of total costs and include the desired profit. Two methods of establishing prices are currently being used by small businesses in the eating and drinking establishment industry: competitive pricing and markup pricing (71).



According to Kotlar, Lilian, and Moorthy, a competitive pricing strategy is used by companies that are entering an industry where there is already an established price, and it is difficult to differentiate one product from another. For instance, if all competitors are charging \$3.00 for product X, that is what the new owner should charge. To employ competitive pricing effectively, it is imperative that an owner know exactly what prices the competition has established (209).

According to Writing Effective Business Plans, cost plus pricing assures that all costs, both fixed and variable, are covered and the desired profit percentage is attained. Should the owner decide to use cost plus pricing, careful attention must be given to make sure that all fixed and variable costs are accounted for before the profit factor is applied (72).

Beck claims that he combines competitive pricing with cost plus pricing. Beck states that he used this pricing strategy combination because his parents had been very successful with this method. Beck further states that his markup is easily calculated by doubling the cost of food products to attain a selling price and by multiplying the per ounce cost of beer, liquor, and



wine to achieve the selling price of drinks. He maintains that this pricing method allows him to remain competitive in the industry and realize the desired profit (Interview).

Sales Promotion:

According to Assael, a company needs sales promotion to attract new customers and hold present ones, to counteract competition, and to take advantage of opportunities revealed by market research. Promotion requires ongoing planning and execution to accomplish the following conditions: 1) establishment of clear policies outlining pricing procedures; and 2) creation of a company image emphasizing the competitive distinctions of the company such as better quality, faster service, lower prices, and convenience (Assael 371).

According to John Lawler, owner of Lawler's Kerry Patch Inn, there are many important factors to consider when initiating a promotion plan: publicity, image, company sign, and choosing a name for the establishment (Lawler, John, Personal Interview, 5 Nov. 1992).

Lawler claims that publicity is a great technique for inns to notify the public about the business and to stimulate their curiosity about the establishment's

services being offered. While stimulating the public's curiosity, the owners can create a desired image--how the owner wants the public to view their inn. Lawler emphasizes that the public must perceive an inn to have a good image for them to try the services being offered and to continue patronizing the establishment (Interview).

Promotion is very important to the success of an inn. According to Nation's Restaurant News, building excitement at an inn is a calculated maneuver. The magazine recommends twelve promotional strategies to increase business at an inn:

1. Get people involved by posting celebrities' birthdays and customers' birthdays. This action will stimulate people to patronize the inn by recognizing a special day in the customer's life.
2. Publicize the news of the day on bulletin boards.
3. Use the inn to exchange news. For example, run a bulletin board with news about vacations. This ploy will attract people interested in leisure activities.

4. Start or extend a happy hour where discounts and special products are offered.
5. Add a late night happy hour.
6. Satisfy the customers' hunger by offering a post-midnight breakfast special.
7. Start entertainment at an earlier hour.
8. Offer discounts for drinks bought early.
9. Work with local sporting groups.
10. Create all kinds of special nights for all categories of people--for example, start a celebrity bartending night or honor regular customers with a special night (30).

Another method for increasing business at an inn is to create a gimmick. According to a 1990 article in Nation's Restaurant News, successful operators know that better marketing and special events are essential. For example, bringing people together is an important part of attracting customers; so many promotions should be based on mutual attraction promotions. Beauty contestants and wet t-shirt contests are general examples (16).

An inn or a club may create friends with reliability, but excitement attracts large numbers of patrons. Bringing people together is important to the

success of most alcohol-related businesses; so many promotions are based on that mutual attraction. Beauty contests or wet T-shirt competitions are staples, but the intelligent operator goes a few steps further (NRN Bar Management 16).

In Louisville, Kentucky, Fred Brown of Toy Tiger drew 2,000 people to his parking lot with a "homemade bikini" contest. The twist was that contestants had to make garments with anything but cloth; so the attractive young ladies were parading in anything from candy to bumper stickers (16).

Using the same idea, the Shadow Lake Club in Noel, Missouri, drew more than 2,500 body-beautiful fans to watch 27 contestants compete for a \$1,000 grand prize (16).

According to Patrick Henry, promotion consultant for Patrick Henry Creative Promotions of Stafford, Texas, the most successful event works both as a Ladies Night or Valentines Day promotion. As played at Rio International in Adelaide, Australia, it's called the "Match Game" and begins with a simple heart-shaped graphic (16). Each side of the heart has a space on which management can write in some type of prize. As customers enter the club, they are given one half of



the heart and instructions to match their half with a member of the opposite sex. Not all the hearts match, but those who succeed win the prize designated on the graphic. Prizes really do not matter.

According to Jim Sullivan, author of the article "Read and Reap: Marketing Tips from the Inside Out", marketing is the best way to outsmart the competition. Sullivan claims that the inn owner must focus on customer maintenance. Excel at internal marketing, and make it a priority to generate repeat business from current patrons. Sullivan believes that most people develop a loyalty to and circulate within an average of five to seven inns. He asserts that inns should focus on existing clientele and attempt to market to their friends and co-workers (102).

#### Advertising:

Advertising provides a direct line of communication regarding products and services to customers and prospective customers. Advertising's purpose is to accomplish the following: 1) convince customers that your inn is the best, 2) enhance the image of your company, 3) point out the need and create a desire for your product or services, 4) announce new



products and programs, and 5) draw customers to your business.

Advertisements that succeed in accomplishing the aforementioned purpose have five characteristics. These are: 1) simple, 2) easily understood, 3) truthful, 4) informative, and 5) sincere (Entrepreneur Group, Startup Guide 134).

One effective form of advertising is utilizing the media. According to Pryor, using the media in advertising had advantages and disadvantages per each method. The following table will pinpoint the strengths and weaknesses for each type of media.

Table 6  
Using Media in Advertising

---

1) **NEWSPAPERS**

Advantages:

- Tangible medium, reader can clip ad and save it.
- Allows advertiser to include great detail.
- Enjoys great credibility and acceptance.

Disadvantages

- Circulation has steadily declined, doesn't equal readership.
- Deadlines constrain copy and layout.
- Passive medium. Reader can select what ads to read.

2) **MAGAZINES**

Advantages:

- Can offer optimal target marketing.
- Frequently highest quality production.
- Allows advertiser to include great detail.

## Table 6, cont.

## Using Media in Advertising, cont.

---

Disadvantages

- Passive medium (see newspapers, above)
- Advertising clutter means low readership recall.
- Extreme deadlines constrain copy and layout.

## 3) DIRECT MAIL/DIRECT ADVERTISING

Advantages:

- Offers optimal target marketing.
- Response rate can easily be measured.
- Can cover every household.

Disadvantages

- Traditionally low response rate.
- Requires lengthy preparation and lead time.
- Difficult to control delivery.

## 4) YELLOW PAGES

Advantages:

- Callers are already in market when they call.
- Copy can be long, full of information.
- High penetration (everybody has access to them).

Disadvantages

- Longest deadline lead time, inflexible.
- Passive medium (see newspapers, above).
- Cannot include price information unless fixed over long period.

## 5) SHOPPERS/PENNY SAVERS

Advantages:

- Effective to reach buyers about to make decision.
- Appeals to price conscious.
- Allows advertiser to include a lot of detail.

Disadvantages

- Small reach (limited readership usually duplicated in other print media).
- Frequently low quality production.
- Rarely read thoroughly, discarded quickly.

## Table 6, cont.

## Using Media in Advertising, cont.

---

**6) OUTDOOR/TRANSIT (Billboards)**Advantages:

- Location.
- Size, impact.
- Highly effective for simple ideas.

Disadvantages

- Inflexible, changes difficult.
- Messages can physically deteriorate.
- Both have negative image, subject to much regulation.

**7) RADIO**Advantages:

- Reach, 95% of people listen in a week, 75% in a day.
- Messages can physically deteriorate.
- Both have negative image, subject to much regulation.

Disadvantages

- Advertiser cannot include much detail.
- Proliferation of stations breaks up audiences/demos
- Certain day-parts of little value.

**8) TELEVISION**Advantages:

- High production valuables available, creativity.
- Highest reach per single exposure.
- Can demonstrate product or service.

Disadvantages

- Audiences increasingly fragmented (new channels).
- Increasingly limited to nighttime viewing.
- Highest media costs.

**9) SPECIALTY ADVERTISING (Caps, Calendars, Buttons, Pens, etc.)**Advantages:

- Ability to target into specific markets.
- Usefulness of product insures longevity of message.



## Table 6, cont.

## Using Media in Advertising, cont.

- 
- Allows for personalized messages.
- Disadvantages
- Limited space for messages.
  - Long production and delivery times.
  - Difficult to evaluate effectiveness.
- 

SOURCE: Small Business Marketing. Chris Pryor (1989).

According to the Entrepreneur's Startup Guide, the business' sign is the most important contact between the inn and much of the outside world. Usually, it is the first thing a potential customer sees. The sign should be sufficiently bright and conspicuous to attract attention (without being garish) and sufficiently informative to let prospective customers know what is sold there. The guide also advises to purchase a large professional looking sign that can be seen from all directions. It is important not to cut costs in this area because the sign is considered the most important advertising device (Entrepreneur Group, Startup Guide 152).

According to Terry True, sales representative for the Levy Sign Company, prices for an electric sign range from a few thousand dollars to tens of thousands

of dollars. True states that prices in the sign industry are comparable and that the factor which differentiates the sign companies is the firm's artistic capabilities (True, Terry, Telephone Interview 12 April 1993).

Another important type of advertising is telephone directories. The main advertising directory in the St. Louis area is the Yellow Pages. Jody Smith, customer relations representative for Yellow Pages, says prices for advertisement space range from \$54 per month for one half-inch space to \$3,472 per month for a full page advertisement (Smith, Jody, Telephone Interview 12 April 1993).

Another method of advertising is personal recommendations. According to Michael Phillips, promoting personal recommendations is a superior, yet overlooked, strategy to attract and keep customers. The overriding reason why personal recommendation is a good source of new customers is that it is cost effective. To succeed in the long run, a marketing campaign based on personal recommendation must be in tune with the following elements:

1. Trust - The person making the recommendation must be trusted.



2. Reliability - A recommendation must be backed up with information to give the statement reliability.
3. Responsibility - People will only recommend an inn if they trust that the operation will live up to their expectations.

Personal recommendation is also known as word-of-mouth advertising, and this type of action can significantly improve the profitability of an inn (Phillip 2:1).

Beck agrees that promotion and advertising are major factors that determine the success of an eating and drinking establishment. Beck says that the first step in advertising is to learn as much as possible about the market that will be targeted. The following questions should be considered when doing this: 1) Who are my potential customers?, 2) How many customers are there?, 3) Where are the customers located?, 4) Where do the customers buy the product?, 5) Can I offer them anything they are not getting now?, and 6) How can I persuade them to do business with me? (Beck, Gordon, Personal Interview 13 April 1993).

Beck explains that he examines the following concepts when he initiates an advertising campaign: 1) budgeting, based upon how much advertising can be

afforded, 2) determining the best means to reach the customers, 3) choosing the message, and 4) gathering facts which justify the money being spent (Interview).

Lastly, Beck discussed the types of media which he uses to advertise. He utilizes the following forms of advertising: personal contact, radio, newspapers, magazines, yellow pages, direct mail, and specialty advertising (distribution of such items as matchbooks, pens, calendars, etc.) (Interview).

### Financing the Small Business

The finance section of the business plan is of great concern to any owner or investor of a business. This section summarizes financial information into financial statements that chart the growth of the business over a set period of time. The business plan should include information concerning the following areas: goals established, direct costs, indirect costs, a cash flow analysis, capital required, record keeping, taxes, and an insurance plan (St. Louis University School of Business 4).

#### Goals

The primary goal of any establishment is to maximize profits. Businesses do, of course, have other

objectives which are related to financial aims. Owners and managers, who make the actual decisions, are interested in their own satisfaction, in their employees' welfare, the good of the community and of society at large. For example, if the employees' needs are satisfied, their performance on the job will improve. Also, if society is pleased with the services provided by the establishment, the community will patronize the inn, thus adding to the revenues (Brigham and Gapenski 14).

#### Costs:

According to Entrepreneur Group, Start-Up Guide, costs have to be mapped out thoroughly in order to obtain the necessary financing to take the company through the development period. Two types of costs should be discussed: direct costs and indirect costs. These costs should pertain to the start-up of the business and to the normal every day operating expenses (105).

#### Cash Flow:

According to the Entrepreneur Group, the cash flow statement is one of the most crucial information tools for your business, showing how cash is going to be required, and the source of necessary funds. It shows



a schedule of the money coming into the business and expenses that need to be paid. The result is the profit or loss at the end of the month or year (139).

The Entrepreneur Group also states that the cash flow statement should be prepared on a monthly basis during the first year, on a quarterly basis during the second year, and on an annual basis thereafter. Items that should be included in the cash flow statement are as follows:

1. Cash sales
2. Receivables
3. Other income
4. Total expenses (materials, labor, overhead, marketing sales, research and development, administrative costs, taxes, and loan payment)
5. Capital
6. Cash flow
7. Cumulative cash flow

**Capital Required:**

The first stage of operating a business is called the start-up stage. During this period, the entrepreneur needs money to purchase the business, rent, supplies, inventory, equipment, wages, advertising, licenses and



fees, and other expenses associated with starting the business.

According to Entrepreneur, the average startup expenses for an inn are based on a hypothetical new 1800-square foot facility with 20 stools along the bar and 65 seats on the floor for a total of 85 seats. The low end of the range assumes that the leased facility has the bulk of the required fixtures already in place and needs minimum redecorating and comes with an existing liquor license. The high end reflects complete conversion of a building and purchase of a liquor license. The average start-up costs for an inn can be found in Table 7.

Table 7  
Average Startup Costs

<u>Item</u>	<u>\$ Range</u>	
Rent (sec. dep. + 1st & last month)	3,300	to 5,250
Initial Inventory	8,813	to 11,049
Equipment/Fixtures	22,455	to 43,475
Leasehold Improvements	18,000	to 63,000
Licenses/Tax Deposits	2,025	to 30,125
Grand Opening/Advertising	900	to 1,350
Utilities/Phone	300	to 450
Professional Services	420	to 525
Payroll (monthly)	2,700	to 3,750
Supplies/Uniforms	800	to 1,200



Table 7, cont.  
Average Startup Costs, cont.

Insurance	1,350	to	1,650
Miscellaneous	500	to	1,000
<b>TOTALS</b>	<u>61,563</u>		<u>162,824</u>
Suggested Operating Capital	\$13,950	to	\$21,750

SOURCE: Entrepreneur, Startup Guide, p. 177.

There are many different ways of financing and obtaining capital. Four different lending institutions are given consideration:

1. Commercial Banks - Four types of loans are discussed including:

A. Short Term Demand Note - This is the most common type of loan that a commercial bank makes. A sum of money is extended to the borrower who signs a document (promissory note) promising to repay the loan after a period of time has elapsed. The funds are extended for a single purpose with clearly defined repayment sources. This is a demand note; that is, if something adverse happens, the bank has the right to call the loan (demand repayment) at any time

according to its discretion (Small Business Council 3).

- B. Line of Credit - This is an arrangement to borrow up to a specified amount with the flexibility to pay down the loan and receive additional funds. Usually the agreement is arranged for a one-year period. The bank reserves the right to terminate the arrangement if the financial condition of the borrower changes or if the borrower uses the line for other than the intended purpose (Small Business Council 3).
- C. Revolving Credit Agreement - This type of loan is similar to the line of credit, in that there is an established commitment amount. Unlike the line of credit, however, there is a written loan agreement between the bank and the borrower. The loan agreement specifies the duration of the loan which is often more than one year as well as restrictive covenants relating to the borrower's continuing financial

status (financial ration maintenance, etc.) (Small Business Council 4).

- D. Term Loan - This is a contractual loan agreement between the bank and the borrower for an advance over a period of time. The entire amount of the loan can be advanced on the front end or according to an agreed upon schedule. Principal is repaid according to an amortized schedule of payments (Small Business Council 4).

According to Mary Kiely, President of Commerce Bank of Spanish Lake, when an advance is made for an acquisition or startup, it would usually be a term loan secured by the assets of the business being acquired or the assets purchased for the start-up (Kiely, Mary, Personal Interview 21 Sept. 1992).

2. Commercial Finance Company - In an interview with Tom Shaeffering, Loan Officer of Georgetown Finance, information was gathered concerning a leveraged buyout. Shaeffering commented that this option is only available to entrepreneurs who are purchasing an existing business. He claimed capital could be acquired with minimal investment from the

borrower (Shaeffering, Tom, Personal Interview 20 Aug. 1992).

3. SBA 503/504 Financing - Another option of acquiring capital for a business is the 503/504 program. There is a low down payment with this loan, long maturities, and a fixed interest rate (Office of Business Development 4).

4. Individual Investors - In an interview with Tom Foley, part owner of Foley's Bar, individual investors are the best way to acquire funds for a business. Foley advises that the bureaucracy associated with financial institutions is best avoided by securing funds from individuals such as friends, family, and associates (Foley, Tom, Telephone Interview 5 July 1992).

This method of acquiring capital provides the owner of a small business with certain advantages and disadvantages. Some of the advantages might include: easier loan approval, decreased default risk, increased patronage from investors, supporters, and greater assistance from shareholders who are protecting their interest in the business.

Some of the disadvantages might include: decreased amount of available capital, diluted



authority of original owner and damage to friendly relationships because of business conflicts.

### Recordkeeping and Tax Reporting

Recordkeeping is a necessity when operating a business. Good records are needed for good management and provide assistance in the following areas:

1. Identify source of receipts
2. Keep track of deductible expenses
3. Figure depreciation expenses
4. Record details of assets
5. Determine earnings for federal, state, and local income
6. Support items reported on tax returns (Tax Payers Starting a Business 4)

Records are not required to be kept in bound books. Records are adequate if they show current income on the basis of an annual accounting period. A recordkeeping system for a small business should include:

1. Business checkbook
2. Daily summary of cash receipts
3. Monthly summary of cash receipts
4. Check disbursements journal

5. Depreciation record
6. Employee compensation record (IRS Taxpayer Starting a Business 583)

Taxes:

The business owner and employer is responsible for collecting various state and federal taxes and remitting these to the proper agencies. In addition, there are certain personal taxes which must be paid. The following section will describe the taxes which must be addressed when operating an inn:

1. The owner must apply for an Employer Tax Identification Number. This number allows the owner to withhold income tax and social security tax from each employee's paychecks and remit these amounts to the proper tax-collecting agency (Tax Guide for Small Businesses, Rev. Nov. 91: 5).
2. Income Tax Withholding - The amount of pay-as-you-go tax which must be withheld from each employee's wages depends on the employee's wage level, the number of exemptions he claims on his withholding exemption certificate (Form W-4), his marital status, and the length of the payroll period.

The percentage withheld is figured on a sliding basis, and IRS percentage tables are available for weekly, bi-weekly, monthly, semi-monthly, and other payroll periods (Tax Guide for Small Business, Rev. Nov. 91: 20-23).

3. Social Security Tax - The Federal Insurance Contributions Act, or Social Security Tax, requires employers to match and pay the same amount of Social Security tax as the employee does. Charts and instructions come with the IRS payroll forms. Four different reports must be filed with the IRS district director in connection with the payroll taxes (both Social Security Tax and income taxes) that must be withheld from employee's wages:
  - A. Quarterly return of taxes withheld on wages (Form 941).
  - B. Annual statement of taxes withheld on wages (Form W-2).
  - C. Reconciliation of quarterly returns of taxes withheld with annual statement of taxes withheld (Form W-3).

- D. Annual Federal Unemployment Tax Return (Form 940). Tax Guide for Small Businesses (Rev. 91 120).
4. Tips - Employees receiving cash tips of \$20 or more in a month must report these tips before the tenth day of the following month. The employee's Social Security Tax due and income tax due on this amount are withheld at this time (Tax Guide for Small Business 120).
  5. Personal Income Tax - The owner estimates tax liability each year and pay it in quarterly installments. The form which is required for tax estimation is 1040-ES (IRS 1040-ES).

#### **Tax Reporting Summary**

Every government entity, bureau, or agency that has legal jurisdiction whatsoever over the inn requires the entrepreneur submit something in writing, usually accompanied by a payment, on a monthly, quarterly, or annual basis as depicted in Table 8.



Table 8  
Tax Reporting Basis

	<u>Description</u>	<u>Frequency</u>
<u>Federal</u>		
	Income Tax	Annually
	Estimated Income - Tax Deposits	Quarterly
	Self-Employment Tax	Annually
	Income Tax - Withholding	Annually
	Income Tax - Withholding Deposits	Quarterly
	Social Security Tax	Annually
	Social Security Tax Deposits	Quarterly
	FUTA (Unemployment) Tax	Annually
	FUTA Tax Deposits	Quarterly
<u>State</u>		
	Income Tax (Residence)	Annually
	Income Tax (Business)	Annually
	Estimated Income Tax (Residence)	Quarterly
	Estimated Income Tax (Business)	Quarterly
	Withholding Tax	Quarterly
	Withholding Tax Deposits	Annually
	Sales Tax	Quarterly
	Conservation Tax	Quarterly
	Retail Sales License	Once (Start-Up)
<u>City</u>		
	Sales Tax	Quarterly
	Transportation Tax	Quarterly
	Earnings Tax	Annually
	Earnings Tax Withholding	Quarterly
	Business Earnings and Profit Tax	Annually

SOURCE: Entrepreneur, "Start-Up Guide for a Bar Tavern, Nightclub," by Entrepreneur Group (1990).

Insurance: Managing Risk

Mickey Dowling, Vice President of the Crane Insurance Agency, says, "No business can possibly eliminate or transfer all of the risks." Some risks must be assumed. Dowling advises that the inn owner

should estimate the maximum potential loss that might result. If the loss would force the company into bankruptcy or cause serious financial damage, the risk should not be assumed. The key to purchasing insurance (and all risk management) is "do not risk more than you can afford to lose." The following risks can be covered by insurance:

1. Loss or damage of property including merchandise, supplies, fixtures, and building
2. Loss of income resulting from interruption of business caused by damage to the firm's operating assets
3. Personal injury to employees and the general public
4. Loss to the business caused by death or disability of key employees or the owner
5. Consequential losses including:
  - A. Loss of use of the facility
  - B. Continuing expenses after a fire
  - C. Extra expenses of obtaining temporary quarters
6. Workers compensation claims
7. Worker's compensation insurance
8. Life insurance

9. Liquor liability coverage (Dowling, Mickey, Telephone Interview 5 Dec. 1992)

### Production/Service Strategy

The inn owner should be aware of how the business' product selection will be prepared. Entrepreneur's Start-Up Guide suggests that the inn could offer menu items which are associated with specific regions of the world such as Spanish, Italian, or Chinese entrees. Another possibility is to include on the menu meals which are prepared from original formulas, such as family recipes. The business could also concentrate on selling sandwiches. The key to this strategy is to create delicious sandwiches (157).

Drink selection is another concern of the inn keeper. The inn should include non-alcoholic as well as alcoholic beverages. The inventory should include an array of liquors and beer with a range of prices suitable for all income levels (Entrepreneur Group, Start-Up Guide 64).

Lastly, the owner of the inn must provide his/her customers with product servers who are well trained in the job of satisfying the patrons. The servers will

play an important role in how the purchasers of the product perceive the quality of the food and beverages.

#### Managerial Problems Associated with Ownership

According to Bob Karliner, manager of the Big Kahuna, operating an inn is a highly competitive business and requires strong management abilities. Until the owners have assembled a team of trusted employees, top management will work long hours supervising liquor control, cash flow, and promotional tactics to maintain high levels of enthusiasm among the customers. The long work hours last for at least six months to a year (Karliner, Bob, Telephone Interview March 1, 1993).

Another potential problem is theft. According to Lou Thies, former manager of the pipefitters lounge and restaurant, employees handle large amounts of cash and have easy access to a highly convertible inventory. Thus, employees are the primary source of problems associated with thievery. Thies maintains that workers should be carefully screened during the hiring process. Thies further states that theft can be minimized if the work force is aware that adequate accounting procedures have been implemented and a



continuous accurate description of inventory is maintained (Thies, Lou, Personal Interview 4 Feb. 1993).

Another consideration is that some municipalities place stringent restrictions on bars and inns and will often scrutinize their operation. However, if the management closely monitors employee behavior and every worker hired is honest and intelligent, problems associated with selling alcoholic beverages to under-age customers can be avoided (Thoman).

Finally, Archie and Lucille Crabtree, former owners of the Rainbow Lounge, believe that a location can become a problem if the surrounding neighborhood becomes uninhabited. For example, another source of entertainment may attract customers to a different location leaving the inn's trading area desolate. The situation can be combated by creating a wide range of well-promoted activities to recruit/retain customers (Crabtree, Archie and Lucile Crabtree, Personal Interview 20 March 1993).

### **Summary**

In this chapter, discussion was presented concerning the many factors associated with owning and operating an inn. Research was conducted in these

areas for the purpose of constructing a business plan. A thorough investigation has revealed that many integral components must be addressed before purchasing an inn. Ultimately, these elements are vital to the successful operation of the eating and drinking establishment. The business plan will be the entrepreneur's reference guide used to communicate ideas to other people. The plan will also allow the inn owner to quickly identify facts that are necessary to formulate various business strategies. The significant sections of the enterprise include:

Organizational Structure - The inn can operate under various legal forms of organization including sole proprietorship, partnership, limited partnership, or corporation.

Personnel Considerations - The owner of an inn will have to coordinate the various aspects associated with the work force including social responsibility and the staff.

Licenses and Permits - The owner of the inn must purchase various licenses and permits such as the business license; the health department permit; liquor, wine, and beer permits; the fire department permit; and zoning permits.

The Marketing Plan - The marketing plan is actually a study of the environment surrounding the business. Specific areas include the industry, competition, and customer. A thorough analysis of these areas will provide the basis from which the marketing strategy will be developed.

Pricing Strategy - The method used to price a product will have a direct effect on the success of a business. Certain factors must be considered when developing a pricing strategy including total costs and desired profit. Two methods of pricing are currently being used in the eating and drinking establishment industry: competitive and markup pricing.

Sales Promotion - Sales promotion is the aspect of marketing which enables the inn owner to attract customers and combat competition. Promotion is mainly concerned with pricing procedures and creating a company image by emphasizing competitive distinctions.

Advertising - Advertising provides a direct line of communication to customers and potential customers. The media is an effective form of advertising. The sign and telephone directories are the most important types of advertising used by the inn owner.

Financing the Small Business - The inn owner should be concerned with various aspects of finance including goals established, direct costs, indirect costs, cash flow, capital required, record keeping, taxes, and insurance.

Problems Associated with Owning an Inn - The problems that may confront the inn owner include poor working conditions, theft, municipal restrictions, and business location.

Finally, all the factors mentioned in the chapter must be considered when creating a business plan for an inn. The plan will be an effective tool if each of the previously mentioned topics are carefully developed.



Chapter III  
METHODS AND EVALUATION

Subjects

The evaluators of the business plan's format and content were Karen Baker and Baldo Gandolfo. Each of these evaluators are highly educated and experienced in the eating and drinking establishment industry. A list of Baker's and Gandolfo's qualifications can be found in the Tables 9 and 10:

Table 9

Resume  
BALDO GANDOFO

---

**EDUCATION**

**Major Course of Study:** Foreign Languages,  
**Teacher's Certificate:** Washington University,  
St. Louis. Coursework included marketing,  
organizational behavior, management planning, and  
operations.

**EXPERIENCE**

**OWNER,** Baldo Restaurant; St. Louis, Missouri  
(1981-Present). Responsible for entire operation  
of business.

**OWNER,** Italian Gardens Restaurant; St. Louis,  
Missouri (1976-1981). Responsible for entire  
operation of business.

## Table 9, cont.

OWNER, Lacino Restaurant; St. Louis, Missouri (1963-1981). Responsible for entire operation of business.

TEACHER - SECONDARY EDUCATION, West Ladue Junior High; Ladue, Missouri (1969).

MANAGER, La Caravella Restaurant; Rome, Italy (1956-1961)

MANAGER, Da Peppino Restaurant; Catania, Italy (1953-1956)

WAITER, Giardino Restaurant; Palermo, Italy (1950-1952)

**AWARDS**

- 1987 - South County Journal Award of Excellence  
 1985 - St. Louis Magazine Award of Excellence
- 

## Table 10

Resume  
 KAREN BAKER

---

**EDUCATION**

B.S. Degree in Business Administration with an emphasis in Marketing; University of Missouri - St. Louis. Completed advanced courses in Legal Environment of Business, Financial Markets and Institutions, Business Policy, and Management as a Behavioral Science.

**EXPERIENCE**

MANAGER, Lombardo's Trattoria; St. Louis, Missouri (1991-Present).

Table 10, cont.

HOSTESS/WAITRESS/CASHIER/COOK, Lombardo's Trattoria; St. Louis, Missouri (1976-1993). Responsible for general operations of business, managed and organized private parties, and took care of customer relations and service.

---

### Instruments

The instruments used to evaluate this project were a questionnaire and a personal interview.

The questionnaire (Appendix A) consisted of seven questions, each having a yes and no answer. The questions were designed to gain perspective into the business plan's effectiveness.

The personal interview consisted of requests for general comments about the business plan.

### Materials

The project which was evaluated is a business plan describing the prospective operation of The Haven. The plan contains information about many aspects of operating an eating and drinking establishment including: finance, marketing, and management.

### Procedure

The evaluation of the business plan took place on two different dates: July 28 and July 29, 1993.

On July 28, 1993, Baker was interviewed in her home in St. Louis, Missouri. At this time, Baker was given a questionnaire consisting of requests for opinions about the effectiveness of the plan. After Baker completed the questionnaire, she was asked to make general remarks concerning the business plan; and she willingly obliged.

On July 19, 1993, Gandofo was interviewed at his restaurant in St. Louis, Missouri. Gandafo was asked to answer the questions contained in the critical review questionnaire. After completing the questionnaire, Gandofo made some general comments about the plan's content and effectiveness.



## Chapter IV

### RESULTS

#### Questionnaire

The evaluators, Gandolfo and Baker, concurred on each question presented in the critical review questionnaire. The evaluators concluded that the business plan designed for The Haven (Appendix B) identified the owner's objective, effectively described business strategies, effectively described potential problems associated with the inn, and the business plan helped to create an operational structure for the inn by defining activities and responsibilities.

The evaluators also agreed that the business plan's format was structured properly.

Lastly, Gandolfo and Baker concluded that the business plan would help the prospective owner of The Haven obtain necessary funding to start the business.

#### General Comments

Gandolfo stated that he was impressed by the marketing section of the business plan. He believed the statistics describing the residents residing within

the census tracts neighboring The Haven would help the inn's operator determine which areas contained potential customers. Gandolfo believed that the demographic statistics would assist the owner of the inn, identifying which areas should be targeted for an advertising campaign.

Gandolfo concluded that the plan should contain specific arrangements for sustaining a clear work phase. The bartender should take care of the bar work area during and at the end of the shift, and the servers should be responsible for cleaning the tables.

Bathrooms, floors, and fixtures will have to be cleaned each day before opening. An economical way to accomplish this is to hire a high school student or handyman at minimum wage to take care of the chores each morning.

Gandolfo claims that cleanliness is an extremely important factor for the inn's success. Patrons will not return if the establishment is dirty.

Baker stated that she was impressed by the section describing special methods to attract customers. Baker claimed that every inn should stimulate the public to patronize the establishment by creating distinctive occasions for groups of people. Situations which allow

members of the opposite sex to meet and interact are the most successful promotional tactics, Baker added.

Lastly, Baker remarked that the inn's lengthy existence is an indication that the business has a strong customer base. She firmly advised that the prospective owner satisfy the needs and wants of the patrons who presently frequent the establishment.

## Chapter V

### DISCUSSION

#### Summary

Chapter IV reports the results of the evaluation of The Haven's business plan. The two evaluators-- Baldo Gandofo and Karen Baker--agreed that the plan was structured properly and would be an effective tool for acquiring necessary money to make the business viable. The plan also offers a prospective owner a guide on how to structure the operation of the enterprise.

Gandofo commented that the marketing section of the plan offered the inn owner critical information about the establishment's surrounding population. Gandofo advised the author of the plan to study the census information in order to gain insight about potential target markets. He stated that once specific markets are identified, an advertising and promotional campaign should be initiated for the purpose of attracting new patrons.

Baker stated that the promotional section of the project was valuable to the operator of the inn



emphasizing the owner must devise a plan to attract members of both genders into the business. She claimed that the best way for an inn to bolster profits is to gain a reputation as a meeting place for single adults.

### Limitations

The pursuit of data was hampered by the fact that wholesale beer distributors were unwilling to provide helpful information about The Haven's immediate trading area. The companies contacted were brash and rude with their responses when asked about the beer drinking characteristics of the citizens who live in the census tracts surrounding the inn.

Another limitation to my study was the difficulty associated with finding eating and drinking establishment owners willing to discuss their business operations.

Lastly, problems developed while searching for experts willing to evaluate the business plan itself. Many of the subjects disqualified themselves from performing the task due to the fact that they were unfamiliar with the criteria needed to critique the document.

### Suggestions for Future Research

A new study of the eating and drinking establishment industry should definitely include information acquired from the Division of Liquor Control. The Division of Liquor Control could possibly provide the prospective inn owner with vital information about certain trading areas which could be utilized in a marketing plan.

The Division of Liquor Control might also furnish the prospective author with information about inn operators who are willing to participate in a detailed study concerning the eating and drinking establishment industry.

Finally, the author of a business plan project should begin searching for persons qualified to evaluate the finished document during the beginning stages of the investigation. Banks, eating and drinking establishments, and other lending institutions are areas where the evaluators might be located.

APPENDIX A

BUSINESS PLANS CRITICAL REVIEW QUESTIONNAIRE

---

1. Does this business plan effectively identify the owner's objective?  
\_\_\_\_\_ 1 Yes            \_\_\_\_\_ 2 No
  
  2. Does this plan effectively describe business strategies which are to be developed for the successful operation of The Haven?  
\_\_\_\_\_ 1 Yes            \_\_\_\_\_ 2 No
  
  3. Does this plan effectively describe problems or potential problems associated with The Haven?  
\_\_\_\_\_ 1 Yes            \_\_\_\_\_ 2 No
  
  4. Will the business plan help the prospective owner of The Haven avoid problems associated with The Haven?  
\_\_\_\_\_ 1 Yes            \_\_\_\_\_ 2 No
  
  5. Does the business plan help create an operational structure for The Haven by defining activities and responsibilities?  
\_\_\_\_\_ 1 Yes            \_\_\_\_\_ 2 No
  
  6. Is the business plan's format structured properly?  
\_\_\_\_\_ 1 Yes            \_\_\_\_\_ 2 No
  
  7. Would this business plan help the prospective owner of The Haven obtain the necessary funding to start the business?  
\_\_\_\_\_ 1 Yes            \_\_\_\_\_ 2 No
-

APPENDIX B

THE HAVEN INN

An Eating and Drinking Establishment Company.  
A Sole Proprietorship Formed Under the  
Laws of the State of Missouri.

Company Location: 6625 Morganford Road,  
St. Louis, MO 63116 (314) 353-7350

A Proposal/Business Plan

Prospective Owner: Edward L. Beck



## Executive Summary

The business will provide consumers with a gathering place which will nourish their eating, drinking, and social contact needs. The business will also serve as a precinct for organizations of all kinds and sizes to perform their activities.

Four factors will be observed by the business to insure that the operation is successful; product quality, service, customer involvement, and consistency.

The Haven was founded in 1940. The inn's location is at the intersection of Morganford Road and Haven Avenue. The business has been in existence for over fifty years and has a stable position in the eating and drinking establishment industry.

The inn presently has captured a 1 percent market share of the total revenue of the eating and drinking places in St. Louis city. The Haven also receives annual profits of 16 percent of its own revenues. Profits have increased by \$5,000 per annum for the previous 3 years. Given this return, owning The Haven is an attractive proposition.

The purchase prices of The Haven is \$100,000. The beginning operating capital required is \$25,000. In order to obtain the funds necessary to operate The Haven, the proposed owner has secured a loan valued at \$125,000 from one of the founders of the business.

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## Industry Description

The neighborhood inn falls into three different industry classifications: the hospitality industry, the restaurant industry, and the eating and drinking establishment industry. For the purpose of this plan, the inn will be depicted as being in the eating and drinking establishment category.

The eating and drinking industry can be described as a group of businesses whose purpose is to provide food and beverages to communities of people. The eating and drinking industry also consists of businesses which serve the nation as one of the most important social institutions of American society. It is the place where old friends meet, where new friendships are made, and where the foundations are laid for innumerable business transactions.

The eating and drinking industry serves as a social center for informal gatherings, as a dining room away from home, for those who live in furnished rooms or small apartments, as an indispensable agent in the promotion of business activity, as a stepping stone to

romance, and as a home for some of the important ceremonials of the family--in all these roles, the inn makes its unique contribution to American society.

The inn also functions as a place for larger organizations to perform their activities. Fraternal orders, businessmen's associations, and political parties all rely on the inn to provide setting and substance for the ceremonies important to their existence.

Since the beginning of history, people have found that the sharing of food and drink contributes something to the life of the group for which there is no substitute. Food and drink nourish society just as it sustains the life of the individual. In primitive societies, the members work together according to custom to provide food for each family and to organize the large ceremonial feasts. As societies become larger, it is no longer possible to handle feeding and food ceremonials on this simple, informal basis. The rise of civilization requires a corresponding growth and development of the eating and drinking industry. Without it, the failure of the industrial and social aspects of our society is assured.

The eating and drinking industry includes an area of work and study that applies principles and information from a number of disciplines to the service of selling food and beverage to persons away from home. It includes a number of practices and techniques which have been developed, mostly from experience for accomplishing these purposes. The field of inn management is interdisciplinary. It draws upon economics, psychology, management, food technology, food chemistry, microbiology, physics, engineering, architecture, accounting, marketing, and law. From these disciplines are formulated approaches, systems, and analytical tools designed to make food and beverage service a satisfying and emotional experience for people when they are away from home. Much of inn management is an art and will remain so in the future. The relations with people--guests, patrons, employees, purveyors, and the community at large--are closer and often more sensitive than in most fields.

Currently, the eating and drinking industry is one of the world's largest employers, and the job outlook is just as favorable. In order for the industry to thrive, certain guidelines must be followed for each individual business to succeed. Even with careful

planning, many eating and drinking establishments do not survive. Although the reasons for success vary from inn to inn, some common denominators can be found in most long lived operations. The formula for success consists of the following factors: product quality, service, customer involvement, and consistency.

Product Quality - No business can survive if its products are of poor quality. An inn cannot generate repeat business if the food and beverage are not fresh, well prepared, and have a good presentation.

Service - The eating and drinking industry recommends that inns provide excellent service to its patrons. Customers are irritated by poor service. Inns need to train their employees, motivate their employees, select adequate employees, and develop standard procedures to insure that customers receive excellent service.

Customer Involvement - Inns that consistently meet their customers' needs, recognition, recommendations, and reassurance find that the chances of success are increased and the costs of advertising are reduced because the power of word-of-mouth referrals increases.

Consistency - The industry reports that consistency is another important factor for success.



Products and service must be consistently good for customers to patronize the inn repeatedly.

Inconsistent behavior irritates the customer and causes people to discontinue use of the business.

The eating and drinking industry brings such rewards as celebrity, a sense of accomplishment, increased income and freedom from working for others for those inn owners who succeed. Almost 80 percent of all new inns fail within their first year. In order to succeed, each inn must plan ahead and follow the previously mentioned formula for success.

#### **Makeup of the Firms in Industry**

The firms in this industry can be classified as a bar, inn, and nightclub.

Neighborhood bars are usually gathering places for people within a one to two square mile radius of the business' location. People who frequent the neighborhood bar tend to be blue collar, older, and heavy drinkers of low to medium income. They seldom care about fancy decor or gimmicks, but just want a relaxing place where they can stop on the way home from work or get out of the house for a drink or two and some companionship. Usually patrons of a neighborhood

bar are married males 35 years and up who live or work in the neighborhood.

A pub or inn strives for a more intimate, congenial atmosphere and usually caters to a younger crowd of single people who spend a lot of money. Most successful pubs feature comfortable decor and an amiable bartender. The real secret to success of an inn or pub is in creating an atmosphere that brings people together. The best pubs are crowded every night of the week with single men and women. Pubs and inns can draw from a larger radius than a neighborhood bar with savvy advertising aimed especially at women.

A nightclub is usually a larger location which features live entertainment on a regular basis, and dancing is often the main attraction.

For a bar, inn, or nightclub, site location is probably the most important factor in determining success--and in some instances, all important. Studies have shown that poor location is among the chief causes of all bar-related failures. In this type of business, the owner must be willing to pay for a good location. The cost of the location often reflects the volume and/or quality of the business the firm has.

For a pub or inn, there must be 1,200 to 1,800 square feet in a young, upwardly mobile, transient neighborhood. The most successful pubs are found in stand-alone locations, strip shopping centers, shopping malls, and numerous other sites. A good location for a pub or inn should have ample parking, good visibility, and should be situated on a major four-lane thoroughfare without median dividers. Speed limits should be 25 to 35 m.p.h., and the site should have good night lighting since many of the patrons are single women. Rent for these locations can range from \$0.75 to \$2.00 per square foot.

#### **The Size of Firms in Industry**

The eating and drinking places industry can be broken down into two groups: establishments with revenues between \$0 and \$1 million, and establishments with revenues between \$1 million and \$3 million. The assets, liabilities, and income data are figured as a percentage of gross sales. For example, the average inventory for a business in the drinking places industry with gross sales of \$1 million would be \$100,000. The breakdown of the drinking places industry is presented in Tables 11 and 12.

Table 1  
Retailers Eating and Drinking Places  
(\$0 to \$1 Million)

---

<u>Assets</u>	<u>Percentage</u>
Cash and Equivalents	10.8
Trade Receivables (Net)	3.1
Inventory	10.0
All Other Current	.8
TOTAL CURRENT	24.7
Fixed Assets (Net)	46.9
Intangibles (Net)	14.7
All Other Noncurrent	13.6
TOTAL NONCURRENT	75.2
<b>TOTAL CURRENT AND NONCURRENT</b>	<b>100.0</b>
<u>Liabilities</u>	<u>Percentage</u>
Notes Payable Short Term	4.1
Current Mat. (L/T/D)	4.9
Trade Payables	5.9
Income Taxes Payable	.4
All Other Current	7.6
TOTAL CURRENT	22.9
Long Term Debt	43.8
Deferred Taxes	.3
All Other Noncurrent	2.9
TOTAL NONCURRENT	47.0
Net Worth	30.2
<b>TOTAL LIABILITIES AND NET WORTH</b>	<b>100.0</b>
<u>Income Data</u>	
Net Sales	100.0
Gross Profit	59.4
Operating Expenses	55.3
Operating Profit	4.1
All Other Expenses (Net)	.6
Profit Before Taxes	3.5

---



Table 2  
Retailers Eating Drinking Places  
(\$1 to \$3 Million)

---

<u>Assets</u>	<u>Percentage</u>
Cash and Equivalents	9.2
Trade Receivables (Net)	4.0
Inventory	11.0
All Other Current	4.8
TOTAL CURRENT	29.0
Fixed Assets (Net)	57.2
Intangibles (Net)	4.0
All Other Noncurrent	9.8
TOTAL NONCURRENT	71.0
<b>TOTAL CURRENT AND NONCURRENT</b>	<b>100.0</b>
<u>Liabilities</u>	<u>Percentage</u>
Notes Payable Short Term	7.5
Current Mat. (L/T/D)	4.7
Trade Payables	9.4
Income Taxes Payable	1.3
All Other Current	15.9
TOTAL CURRENT	38.7
Long Term Debt	30.7
Deferred Taxes	.3
All Other Noncurrent	1.2
TOTAL NONCURRENT	32.2
Net Worth	29.0
<b>TOTAL LIABILITIES AND NET WORTH</b>	<b>100.0</b>
<u>Income Data</u>	
Net Sales	100.0
Gross Profit	63.2
Operating Expenses	60.7
Operating Profit	2.6
All Other Expenses (Net)	1.5
Profit Before Taxes	1.0

---

### Investment Required (Inn or Pub)

The figures in Table 1 are based on an average, new 1,800 square-foot pub with 20 stools along the bar and another 65 seats on the floor, for a total of 85 seats. The low end of the range assumes that the leased facility has the bulk of the required fixtures already in place and needs minimum redecorating and comes with an existing liquor license. The average costs associated with an inn will be presented in Table 3. The average costs will be exhibited according to the average ranges for expenses such as the average payroll for an inn would be \$2,700 to \$3,750.

Table 3  
Average Costs (Inn or Pub)

<u>Item</u>	<u>Range</u>	
Rent (Sec. dep. + 1st & last mo.)	\$ 3,300 to	\$ 5,250
Initial Inventory .....	8,813 to	11,049
Equipment/fixtures .....	22,455 to	43,475
Leasehold improvements (\$10 to \$35 per square foot)	18,000 to	63,000
Licenses/tax deposits .....	2,025 to	30,125
Grand opening/advertising .....	900 to	1,350
Utilities/phone .....	300 to	450
Professional services .....	420 to	525
Payroll .....	2,700 to	3,750
Supplies/uniforms .....	800 to	1,200

Table 3, cont.

## Average Costs (Inn or Pub), cont.

<u>Item</u>	<u>Range</u>	
Insurance (1st quarter) .....	1,350 to	1,650
Miscellaneous .....	500 to	1,000
	<hr/>	<hr/>
<b>TOTALS</b>	<b>\$61,653 to</b>	<b>\$162,824</b>
Suggested Operating Capital	\$13,950 to	\$ 21,750

**Services/Products Provided**

The inn usually offers a wide variety of liquors and mixers for customer consumption. The inn will offer: Blended Whiskeys, Straight Whiskeys, Bonded Bourbons, Canadian Whiskeys, Scotch Whiskeys, Gins, Vodkas, Rums, Brandies, Vermouths, Tequilas, Cordials, Mixers, and Beer.

The liquor business is stimulated by food sales. The typical inn offers the public a wide variety of food from which their meal can be selected. The inn should offer appetizers such as breads, chips, chicken wings, onion wings, and mushrooms. A variety of salads such as potato salad, cole slaw, macaroni salad, along with french fries may also be necessary. Soups and

salads are a must. Dinner entrees should include fish, chicken, beef, and pasta.

An inn is also a service-oriented institution where the patrons expect to be treated accordingly. Most people expect to have their meals prepared properly, drinks made correctly, and all products delivered promptly and efficiently.

The inn provides the customer with many additional services such as a meeting place, a source for entertainment, competition (games), conversation, and information source (meeting times, announcements, political news).

#### **Profits to be Realized**

The average gross profit for an eating and drinking place with a \$0 to \$1 million in revenue is approximately 59 percent of total revenue. With revenues ranging from \$1 million to \$3 million, the gross profit percentage is approximately 63 percent. Before tax profit is 3.5 percent. For example, the profit for a business that produces \$1 million in revenue is \$35,000.



### Company Description

The Haven has been in existence for 52 years. In 1940, Edward Beck and his wife Dorothy opened The Haven Bar, located at 6625 Morganford. This bar also sits on Haven Avenue. The Haven's primary trading area is bounded by Highway 40 on the north end, Interstate 55 on the east, Interstate 270 on the west, and Highway 270 on the south.

The people who patronize this establishment are predominantly white and range in age from infants to elderly. The majority of the clients are of German ancestry, and the rest of the customers are from a variety of ethnic groups. Men are the dominate gender patronizing the bar while women and children frequent the dining for lunch and dinner. During the morning and noontime hours, the clients are usually older in age. As the day turns into night, the clients become younger, and the 21 to 25 year old clients frequent the area from 10:00 p.m. till the close of operation at 1:30 a.m.

The inn generates most of its profit from liquor sales, but some the earnings come from the sale of food. The alcohol aspect of the business consists of the sales of an array of liquors and beer. The price

for a beer is \$1.00. The liquor prices are \$2.25 for a drink with bar liquor, \$1.50 for shot drinks, and \$1.75 for drinks with V.O. content. The owner figures his profit by setting the prices at a figure which is 2.5 times the cost. Each drink contains one shot of liquor which is approximately one ounce. The inn is supplied with expensive and inexpensive liquors for a wide range of customer monetary budgets. The food segment of the business stimulates liquor consumption.

The inn offers a large variety of food and beverage for customer selection. The following items are offered:

Table 4

## Menu

FOOD MENU:	PRICE:
<u>Appetizers</u>	
garlic bread .....	\$1.75
cheese garlic bread .....	\$3.25
potato skins .....	\$4.00
haven chips .....	\$2.00
chicken wings .....	\$3.00
onion wings .....	\$3.00
mushrooms .....	\$3.00
tossed salad .....	\$2.00
combination salad .....	\$4.50
<u>Side Orders</u>	
cole slaw .....	\$1.25
potato salad .....	\$1.25
macaroni salad .....	\$1.50
french fries .....	\$1.50

Table 4, cont.

## Menu, cont.

---

FOOD MENU:	PRICE:
chili .....	\$ 2.25
soup .....	\$ 1.75
<u>Sandwiches</u>	
brains .....	\$ 3.50
hot dog .....	\$ 1.75
hamburger .....	\$ 1.75
cheeseburger .....	\$ 2.00
jack salmon .....	\$ 3.75
cod fillet .....	\$ 1.75
corned beef .....	\$ 2.75
roast beef .....	\$ 2.75
steak .....	\$ 3.50
hot ham .....	\$ 2.30
chicken patty .....	\$ 2.00
<u>Dinner</u>	
fried shrimp .....	\$ 7.00
rainbow trout .....	\$ 7.00
jack salmon .....	\$ 5.00
fillet of fish .....	\$ 4.00
roast beef .....	\$ 6.00
t-bone steak .....	\$11.00
Each dinner comes with two choices from the side order list and one soft drink.	
<u>Beverages</u>	
<u>Alcoholic:</u>	
beer (draft) .....	\$ 1.00
beer (packaged) .....	\$ 1.50
wine (glass) .....	\$ 2.25
<u>Non-Alcoholic:</u>	
beer .....	\$ 2.25
soft drinks .....	\$ 1.25
coffee .....	\$ .70

---

## Operating Income Statement

The owner of The Haven would only supply approximate figures concerning the income generated by

the inn. The inn produced profits of \$45,000, \$50,000, and \$55,000 during the last three years. The business has realized growth in the profit area of \$5,000 per year. The obvious growth in profits is evidence that The Haven is a successful establishment.

Table 5  
Income Statement - 1990

---

<u>Revenue</u>	
Sales	\$286,580
<u>Costs</u>	
General Maintenance	\$ 45,000
Rent	\$ 7,800
Food	\$ 86,000
Loan	\$ 8,750
Insurance	\$ 6,180
Beer	\$ 19,000
Liquor	\$ 45,000
Taxes	\$ 42,000
Wages	\$ 31,850
TOTAL	\$241,580

(1990 profit was approximately \$45,000.)

---

Table 6  
Income Statement - 1991

---

<u>Revenue</u>	
Sales	\$299,580
<u>Costs</u>	
General Maintenance	\$ 42,000
Rent	\$ 7,800



Table 6, cont.

## Income Statement - 1991, cont.

Food	\$ 86,000
Loan	\$ 8,750
Insurance	\$ 6,180
Beer	\$ 19,000
Liquor	\$ 45,000
Taxes	\$ 42,000
Wages	\$ 31,850
TOTAL	\$249,580

(1991 profit was approximately \$50,000.)

---

Table 7

## Income Statement - 1992

---

<u>Revenue</u>	
Sales	\$343,580
<u>Costs</u>	
General Maintenance	\$ 42,000
Rent	\$ 7,800
Food	\$ 86,000
Loan	\$ 8,750
Insurance	\$ 6,180
Beer	\$ 19,000
Liquor	\$ 45,000
Taxes	\$ 42,000
Wages	\$ 31,850
TOTAL	\$288,580

(The profit after taxes was approximately \$55,000.)

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## Ownership

The principal owner of The Haven will be Edward L. Beck. Table 8 outlines Mr. Beck's education, work experience, and extracurricular activities.

## Table 8

## Resume

EDWARD L. BECK

1141 Walker Avenue; St. Louis, MO 63138

(314) 653-0778

---

**EDUCATION**

**B.S. Business Administration**, University of Missouri-St. Louis (August 1989). Included concentrated study in marketing, organizational behavior, management planning, and operations.

- o Backflow Preventer Course (October 1991), Received License as Backflow Prevention Assembly Tester.
- o Foreman Training Seminar (July 1991)
- o Effective Speaking and Human Relations, Dale Carnegie (July 1990).
- o Completed four-year apprenticeship program at the Pipefitters Complex.

**STRENGTHS**

- o Capable of managing time and coordinating variables which influence bottom-line productivity (have an aptitude for leading individuals to understand their own abilities).
- o Successful at administering responsibilities affecting the safety of hundreds of residents and workers as a maintenance engineering specialist.
- o Familiar with many types of welding techniques, blueprint reading, and general maintenance and trouble-shooting procedures.
- o Worked under the guidance of project managers, foremen, and peers to assist in the completion of major industrial projects including the General Motors Plant in Wentzville, Missouri and Chrysler Plant No. 2 in Fenton, Missouri.

**WORK POSITIONS**

LICENSED PIPEFITTER, JOURNEYMAN STATUS, Local Union 562, St. Louis, Missouri (1981 to Present)

Maintain a reputation for producing high-quality work and gaining an immediate understanding of the necessity of completing work on time and within the budget.

## Table 8, cont.

## Resume, cont.

INTERN, Judy O'Connor (State Rep 76th District),  
Jefferson City, Missouri (1989)

Assisted in verbal and written correspondence  
with constituents and key political figures at  
the Capitol. Attended numerous state sessions.

MAINTENANCE ENGINEER, Pipefitters Complex, St.  
Louis, Missouri (1975 to 1981)

Selected to oversee all aspects of maintenance  
for a 400-acre retirement and recreation complex  
including HVAC, landscaping, pumps, etc.

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### Business Organization

The Haven will operate as a sole proprietorship. A sole proprietorship is the simplest form of business organization. The business has no existence apart from the owner. Its liabilities are personal and ownership ends upon the owner's death. The risks of ownership are extended to the limits of the owner's assets (personal and business).

### Reputation

The Haven is an intimate, congenial gathering place for the citizens of St. Louis City. The Haven has the reputation as a place for well behaved people to have their eating and drinking needs satisfied. The

inn has been in existence for over half a century and has served the public in a prideful manor. The establishment is known for excellent service, delicious food, a variety of liquor, and their nationally known brain sandwich. Regular patrons of The Haven have learned to expect a clean, safe, and enjoyable atmosphere each and every time they visit the inn.

#### Organization of the Workforce

The workforce of The Haven will consist of the owner/manager, bartender, waitress, cook, and dishwasher. Table 9 is an outline of the duties which will be performed by the individual employees.

Table 9

#### Organizational Chart

- 
- A. Owner/Manager
    - 1. Supervises operations
    - 2. Occasional replacement
  - B. Bartender
    - 1. Inventory control
    - 2. Cash management
    - 3. Accounting
    - 4. Maintaining service
    - 5. Keeping customers happy
    - 6. Provides public relations



Table 9, cont.  
Organizational Chart, cont.

- 
- C. Waitress
    - 1. Takes orders
    - 2. Serves drinks
    - 3. Serves food
    - 4. Keeps customers happy
    - 5. Provides public relations
    - 6. Manages cash
  - D. Cook
    - 1. Food preparation
  - E. Dishwasher
    - 1. Washes dishes/utensils
    - 2. Sweeps
    - 3. Cleans windows
- 

### **Business Philosophy**

The business philosophy of The Haven will be based on four factors which are the common denominator for the successful operation of any eating and drinking establishment: product quality, service, customer involvement, and consistency.

The food and beverages prepared by The Haven will be fresh and presented to the customer in a pleasing manner.

The ownership of The Haven will train and motivate its workforce to provide its patrons excellent service.

The Haven will strive to satisfy its customers' needs and attempt to comply with their recommendations.

The Haven will be consistent with its treatment of product quality, service, and customer involvement.

The customer will be the most important aspect of The Haven's business. The customers' needs and wants will always be the focus of the inn.

### **Finance**

The finance section of the business plan is of great concern to any owner or investor of a business. This section summarizes financial information into financial statements that chart the growth of the business over a set period of time--three years in the case of The Haven. The financial section of this business plan will cover the following areas: goals established, direct costs, indirect costs, Pro Forma Cash Flow analysis, capital required, recordkeeping, taxes, and an insurance plan.

### **Financial Goals**

The goals which have been set for The Haven were established from the profit trend which occurred during the last three years of operation. It will be the intention of the new owner to maintain a \$5,000 per year growth in profits.

### **Direct Costs**

The labor for The Haven will cost the business approximately \$32,000 in wages. The wages paid during 1991 were approximately 9 percent of the sales amount.

The materials required to operate The Haven cost the company \$150,000. The materials which are necessary to conduct business at the inn are: food, beer, and liquor. The cost of the materials is 44 percent of revenues.

### **Indirect Costs**

The indirect costs for The Haven will be approximately \$65,000. The indirect costs are 19 percent of revenues. The indirect costs are comprised of general maintenance costs and loan payment costs.

The following paragraph is an explanation of the Pro Forma Cash Flow chart found in Table 10. The narrative includes a line-by-line description of the figures entered.

1. Line 1 - The figure on this line represents the original amount borrowed for operating capital plus realized profit for the previous month.
2. Line 2 - The figure on this line is one-twelfth of the previous year's revenue.
3. Line 5 - Same as Line 2.
4. Line 6 - This figure is the sum of Lines 1 and 2.
5. Line 7 - This figure represents the sum of costs for liquor, beer, and food.
6. Line 8 - This figure represents general maintenance costs.
7. Line 9 - This figure represents costs of wages.
8. Line 13 - This figure represents taxes owed.
9. Line 15 - This figure represents the cost of insurance.
10. Line 16 - Is the sum of all disbursements except loan payment.



11. Line 23 - This figure represents the amount needed to purchase the business plus the amount needed for operating capital.
12. Line 24 - This figure represents the amount which must be paid to Dorothy Beck, who is the individual lending the capital.
13. Line 26 - This figure is the beginning cash balance plus the profit realized.
14. Line 28 - This figure is the original amount owed on the loan minus the monthly payment.

All of the amounts represented on the chart are one-twelfth of one year's collections and disbursements.

TABLE 10. CONT.

Pro Forma Cash Flow\*  
(Attach Narrative Explaining Basis For Figures, i.e., Detailing All Assumptions Used)

Name of Business: Haven

YEAR: 82

	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Months	Total
1 Beginning Cash Balance	41,800	43,700	44,600	46,000	47,400	48,800	50,200	51,600	53,000	54,400	55,800	57,200	58,600	60,000	61,400	62,800	64,200	65,600	67,000	586,000
2 Plus Receipts:	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	260,000
3 ACFTs Pkg. Cost																				
4 Other Income																				
5 Total Receipts	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	260,000
6 Total Cash Available	67,800	70,600	72,000	73,400	74,800	76,200	77,600	79,000	80,400	81,800	83,200	84,600	86,000	87,400	88,800	90,200	91,600	93,000	94,400	846,000
7 Less Disbursements:	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	125,000
8 New Materials	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	125,000
9 Payroll	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	27,000
10 Gen. and Admin. Expense																				
11 Basic Inventory (Increase)																				
12 Equipment																				
13 Taxes	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	35,000
14 Accounts Payable																				
15 Other	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	5,000
16 Total Disbursements	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	22,700	227,000
17																				
18 Cash Surplus (Deficit)																				
19																				
20																				
21 Bank Loan Required - Short-Term																				
22 Bank Loan Required - Short-Term																				
23 Bank Loan Required - Long-Term																				
24 Bank Loan Required - Long-Term	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	19,000
25																				
26 Ending Cash Balance	44,800	46,200	47,600	49,000	50,400	51,800	53,200	54,600	56,000	57,400	58,800	60,200	61,600	63,000	64,400	65,800	67,200	68,600	70,000	616,000
27 Cumulative Bank Loans - Short-Term																				
28 Cumulative Bank Loans - Long-Term	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	9,800	98,000
29																				

\*Rounded figures to the nearest \$100. This pro forma should be prepared for the first 24 months of operation, subsequent to the first loan advance by bank.





### Capital Required

The purchase price of The Haven is is \$100,000. Numerous possibilities exist which would secure the capital needed to buy the business. In addition to the purchase price, \$25,000 would also be needed. The \$25,000 amount would be used as operating capital.

### Debt Schedule

The entire amount of capital required to purchase and begin operating The Haven is \$125,000. This amount includes: the purchase price of the business, start-up costs, equipment, existing inventory, and operating capital.

The required capital will be obtained by securing a loan from the founder of The Haven, Dorothy Beck. The terms of the loan are as follows:

1. Loan amount: \$125,000.00
2. Simple interest rate: 5%
3. Term of the loan: 15 years
4. Total interest charge: \$6,250.00
5. Annual loan payment: \$8,750.00
6. Monthly loan payment: \$729.11
7. Prepayment penalty: none



## Recordkeeping and Tax Reporting

Recordkeeping is a necessity when operating a business. Good records are needed for good management and provide assistance in the following areas:

1. Identify source of receipts
2. Keep track of deductible expenses
3. Figure depreciation expenses
4. Record details of assets
5. Determine earnings for federal, state, and local income
6. Support items reported on tax returns

Records are not required to be kept in bound books. Records are adequate if they show current income on the basis of an annual accounting period. A recordkeeping system for a small business should include:

1. Business checkbook
2. Daily summary of cash receipts
3. Monthly summary of cash receipts
4. Check disbursements journal
5. Depreciation record
6. Employee compensation record

**Taxes:**

The business owner and employer is responsible for collecting various state and federal taxes and remitting these to the proper agencies. In addition, there are certain personal taxes which must be paid. The following section will describe the taxes which must be addressed when operating an inn:

1. The owner must apply for an Employer Tax Identification Number. This number allows the owner to withhold income tax and social security tax from each employee's paychecks and remit these amounts to the proper tax-collecting agency.
2. Income Tax Withholding - The amount of pay-as-you-go tax which must be withheld from each employee's wages depends on the employee's wage level, the number of exemptions he claims on his withholding exemption certificate (Form W-4), his marital status, and the length of the payroll period. The percentage withheld is figured on a sliding basis, and IRS percentage tables are available for weekly, bi-weekly, monthly, semi-monthly, and other payroll periods.

3. Social Security Tax - The Federal Insurance Contributions Act, or Social Security Tax, requires employers to match and pay the same amount of Social Security tax as the employee does. Charts and instructions come with the IRS payroll forms. Four different reports must be filed with the IRS district director in connection with the payroll taxes (both Social Security Tax and income taxes) that must be withheld from employee's wages:
  - A. Quarterly return of taxes withheld on wages
  - B. Annual statement of taxes withheld on wages
  - C. Reconciliation of quarterly returns of taxes withheld with annual statement of taxes withheld
  - D. Annual Federal Unemployment Tax Return (Form 940). Tax Guide for Small Businesses
4. Tips - Employees receiving cash tips of \$20 or more in a month must report these tips before the tenth day of the following month. The employee's Social Security Tax due and income tax due on this amount are withheld at this time.

5. Personal Income Tax - The owner estimates tax liability each year and pay it in quarterly installments. The form which is required for tax estimation is 1040-ES.

### Tax Reporting Summary

Every government entity, bureau, or agency that has legal jurisdiction whatsoever over the inn requires the entrepreneur submit something in writing, usually accompanied by a payment, on a monthly, quarterly, or annual basis as depicted in Table 11.

Table 11

### Tax Reporting Basis

	<u>Description</u>	<u>Frequency</u>
<u>Federal</u>		
	Income Tax	Annually
	Estimated Income - Tax Deposits	Quarterly
	Self-Employment Tax	Annually
	Income Tax - Withholding	Annually
	Income Tax - Withholding Deposits	Quarterly
	Social Security Tax	Annually
	Social Security Tax Deposits	Quarterly
	FUTA (Unemployment) Tax	Annually
	FUTA Tax Deposits	Quarterly
<u>State</u>		
	Income Tax (Residence)	
	Income Tax (Business)	Annually
	Estimated Income Tax (Residence)	Annually
	Estimated Income Tax (Business)	Quarterly
	Withholding Tax	Quarterly



Table 11, cont.  
Tax Reporting Basis, cont.

<u>Description</u>	<u>Frequency</u>
Withholding Tax Deposits	Annually
Sales Tax	Quarterly
Conservation Tax	Quarterly
Retail Sales License	Once (Start-Up)
<u>City</u>	
Sales Tax	Quarterly
Transportation Tax	Quarterly
Earnings Tax	Annually
Earnings Tax Withholding	Quarterly
Business Earnings and Profit Tax	Annually

#### Insurance Plan

Currently, The Haven must expend \$6,500 per year to insure against risk. The deal is a three-year package which means that premiums cannot be raised during that time period. This policy covers robbery, burglary, broken windows, food poisoning, robbery of persons on the way home, and breaking and entering. The policy also covers fire and earthquakes. The major uninsurable risks are economic shortages and price war possibilities. To avoid each of these situations The Haven continues to offer products at the lowest possible prices and the lowest prices in the area to maintain a competitive edge.

It is the intention of the new owner to adopt the insurance plan which was followed by the previous owners.

### **Marketing Plan**

#### **Location and Expansion Possibilities**

The Haven is located in south St. Louis City at the intersection of Haven Street and Morganford.

The expansion possibilities are few due to the fact that the business plan has already been enlarged twice and the existing space remaining is minimal.

#### **Market Size and Potential**

The St. Louis area ranked 17th in the United States with regard to dollars spent in eating and drinking establishments. The eating and drinking places within St. Louis generated approximately \$53 million in 1992.

Currently, the city of St. Louis is attempting to attract more visitors to the metropolitan area. Numerous projects have been proposed, started, or completed which will allow the city to compete with the largest towns in the United States for conventions, sports attractions, and gambling enthusiasts. The city

is evolving into an attractive tourist town, thus increasing the potential for market size growth.

### **Market Share**

During 1992, the city of St. Louis generated approximately \$54 million in revenue for the eating and drinking industry. For the same time frame, The Haven collected approximately \$340,000 in revenue. As a percentage of the total revenue for the city, The Haven captured a 1 percent market share. This figure of one percent has remained steady for the previous three years while the average revenue amount was \$306,000. Given the steadiness of the market share captured by The Haven over the last three years, it is reasonable to conclude that with the proper amount of hard work and dedication, the one percent market share can be maintained in the forthcoming years.

### **Competition**

The competition facing The Haven is contained within the St. Louis city limits. The focus of the competitive analysis will be directed to competing inns surrounding The Haven within a one mile radius. The

main competitor is the Hilltop inn located at Loughborough and Morganford roads.

The prices at the Hilltop are similar to The Haven as are the products being offered. The service at the Hilltop is satisfactory. The only obvious difference between the two establishments is the Hilltop's parking area.

The Hilltop has the advantage of having more parking space than does The Haven. The Hilltop has a small parking lot while customers visiting The Haven must part on the street. The Haven's parking disadvantage cannot be overcome because of space limitations. Therefore, The Haven must concentrate on providing better products and service to the customer. The Haven must differentiate as the inn offering the finest products and service.

#### **Licenses and Permits**

The purchase price of The Haven includes the transfer of all licenses and permits required to operate the business.

#### **Market Segmentation**

The proposed inn is bounded by four census tracts: 1012, 1013, 1023, and 1025. These areas were



sampled to get a more focused view of the immediate surrounding area for marketing purposes.

Tract 1012

This tract includes a sample size of 3,287. Fifty-four percent of this sample are females. Ninety-eight percent of the sample are white, and two percent are Hispanic. The median age for this area is 45 years old. The median average income for Tract 1012 is \$35,065. Eighteen percent of the sample have attended college. The highest percentage of people are employed in the technical sales category. The median home value for census Tract 1012 is \$69,900.

Tract 1013

This area includes a sample size of 4,446. Fifty-five percent of the sample are females. 100 percent of the population is white. The median age is 38 years old. The median income is \$33,000. Eighteen percent of the people attended college and received an associate or bachelor degree. The highest percentage of people are employed in the technical sales category. The median price for a home in this area is \$67,800.

**Tract 1023**

The sample size for Tract 1023 is 1,834. Fifty-six percent of this area is comprised of females. The highest percent of the people are within the 20 to 39 years of age range. The median income is \$28,000. Thirty-five percent of the sample has completed high school and are employed in the technical sales category. The median price for a home in this area is \$49,200.

**Tract 1025**

The sample size for this area is 2,253. Fifty-three percent of the sample are female. Ninety-nine percent of the sample are white people. The median age is 34 years old. The median income is \$29,747. Thirty-one percent of the sample has completed high school. The highest percentage of people are employed in the technical, sales, administrative, or support category. Lastly, the median value for a home in this area is \$57,285.

**Target Market**

The target market for The Haven will be white adults. The age group will be in the 21 to 45 range. The target market will be consumers who own a home with

a value in the \$28,000 to \$70,000 range and who receive an income in the \$28,000 to \$40,000 range. A slight emphasis will be put on the female gender.

### **Market Evaluation**

Revenue generated by the eating and drinking industry in the St. Louis area increased approximately \$204,000 million during the years 1983 to 1990. This figure represents a 66 percent increase in revenue acquired. The trend shows an increase with regard to dollars spent. This trend is growing stronger, and the increasing numbers suggest that the eating and drinking industry will continue to flourish.

### **Pricing Strategy**

The Haven will utilize a competitive pricing strategy. This strategy was chosen because of the similarity of the inns competing in the eating and drinking industry. It is nearly impossible to differentiate one product from another or differentiate the quality of service each business offers. Table 14 provides a list of the products available at the Haven and their prices. An informal investigation provided facts confirming the competitiveness of The Haven's prices.

### Promotion

The Haven Inn will use a variety of promotional tactics to increase revenue. The inn will focus on maintaining the existing customers. The Haven will attempt to excel at internal marketing and make it a priority to generate repeat business from its current patrons. The tactics to be implemented are:

1. Customer birthdays will be posted to stimulate customer involvement. This action should please the regular patron by recognizing a special day in his/her life.
2. Publicize the news of the day to keep customers informed about community events.
3. The inn will designate certain times of the day when drink discounts will be offered.
4. The inn will create special nights for all categories of people. Special emphasis will be given to events which are designed to stimulate male and female attraction.

### Advertising

The new owner of The Haven will use the existing business sign to attract customers. The



existing business sign consists of large bright letters which spell "The Haven". This message is suitable.

Next, The Haven will spend \$100 per month to rent space in the "Yellow Pages" telephone directory. This type of advertising is important because it allows regular and potential customers to use the telephone to receive answers to many types of questions.

Lastly, word-of-mouth advertising will be used. Family members will call upon old friends and acquaintances to notify the public about the change in ownership. Also, the new owner will initiate a neighborhood canvas to meet the potential patrons and inform them that the inn is ready and willing to satisfy their eating and drinking needs.

#### **Credit Policy**

No tabs or IOU's will be accepted. All major credit cards will be welcomed.

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