



# **Guide to Buying and Running a Guest House**



**Want your own B & B or guest house?  
Maybe this will help.**

1. Why?  
**Is this a long-held dream? It's more demanding and a little bit more complicated than you might think. But it is a nice dream.**
2. "Operating Model" – Options  
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**Country Bumpkins. And loving it!**



## 1. Why?

Because you want to “downshift”, get a “lifestyle” that will be relatively stress-free? That you’ll have plenty of free time to work on your golf swing? That you’ll make enough money to live on? And it must be a pretty simple business to run, right? Well, maybe.

### Side Bar

*Brian says...“Now I know you’re not interested in our life stories but this is based on our experience, so a bit of “I-ing” and “We-ing” is going to be difficult to avoid. I’ll try and keep it to a minimum though. I’ll do it in a Side Bar – like this.*

*We knew nothing when we started. We had to learn by trial and error and, as you’ll see, we’ve paid some school fees.”*

### **Let’s talk about the “relatively stress-free”.**

Unless it’s a “walk-in”, you gear up for every guest’s arrival. Is the room perfect? Has the geyser been turned on? Does your intended menu (dinner and breakfast) cater for any dietary preferences they might have expressed? You’ve got a picture – an expectation. And there’s just a little bit of adrenalin.

They have expectations too. And their expectations have got to be met. Exceeded even. If that doesn’t seem like much, try it. If you’re doing well, this is happening 3, 4 or 5 times a day. And in peak seasons that can be 45 days on the trot. You haven’t got time for golf swings.

Did I forget to mention that after you’ve met them and shown them to their room, you’re going to be entertaining them in the bar pre-dinner, preparing and serving dinner, serving the wine, entertaining them again with after-dinner liqueurs? And we haven’t done the breakfast yet. Or taken the cash. Or done the farewells. Or thought about whether or not you have to go shopping today for fresh supplies.



**Now let's talk about the "make enough money to live on" bit.**

Yes, you can make enough. But you're not going to sit back, watch it roll in and then spend it. Surpluses are ploughed back into the property. You're developing an asset that you're planning to sell for a fortune down the track. And you're never short of ideas on how things could improve. And somehow that top-of-the-range "Big Bertha" you've had your eye on always seems to be bottom of the priority list.

But there are always things you could do if you wanted to. To make more, or even a lot more. We don't deal with travel agents. We don't open the bar or restaurant to local clientele. We don't use the land we've got. We don't have other jobs. It's always a trade-off between how much money you want and how hard you're prepared to work. But generally speaking, you don't buy a place like this so as you can work 15 hours a day.

\* \* \*

So there's stress. It's more work than you thought. You have less money than you'd like. And there are times when you're just so exhausted, you wonder if you're "burning out". And that single-figure handicap? Well, it might take a few more years.

**Just thought I'd mention these things up-front. As a little "reality check."**



### **On the other hand...**

There are a lot of positives. First and foremost, the guests. If you are a social animal, this is a very rewarding business to be in. You have to enjoy your guests.

And they're easy to enjoy. I could, and one of these days I will, write a book about some of the guests we've had. It's an astonishing diversity of fascinating people. And as you get older, and your world gets smaller, it's exciting to have a business that brings a stream of people to your front door.

Bad experiences? Rare. We can count on the fingers of one hand the number of guests that we really haven't enjoyed and won't welcome back.

Another plus. Feedback is immediate. If they've loved it, they'll tell you. Effusively. You get a big bang out of knowing that you've created an experience for your guests that they're not going to forget in a hurry.

And the cherry on top? Notwithstanding the fact that you're going to be a lot busier than you might think, your time is your own. If you've got a gap you can take it. And in the slow season, you've got gaps. What difference does it make to you if it's a Sunday or a Tuesday? If you feel like taking a picnic and a fly rod into the mountains – well, that's what "downshifting" and "lifestyle" are all about!



## 2. “Operating Model” - Options

### Self-Catering

Let me deliver a short, grouchy blast on the subject of self-catering. If you go for a self-catering operating model, you’re buying into:

- people who want more freedom than they would normally have in a B & B or a hotel room and somehow feel they have the right to be careless with your stuff and even, occasionally, destructive;
- the cheaper end of the market;
- unruly kids;
- indulgent parents;
- fewer opportunities to interact with your guests; and
- theft issues.

These aren’t good things. Why else do you think self-catering places are normally so sparsely furnished with the cheap and readily replaceable?

### Bed & Breakfast

Depending on your location, your operating model can vary. If you’ve decided to set up, or buy, in a city, or a hot tourist destination that’s bursting at the seams with good restaurants and vibey bars, you can simplify your operating model. Straight B & B. It takes a lot of load off. And it means you’re concentrating on the most profitable aspect of the business.

### Full Service Guest House

On the other hand, maybe you like the idea of running your own restaurant and bar, and creating opportunities to interact more intensively with your guests. It also means your guests are going to interact more intensively with each other. And you’d be surprised how many friendships are created in your restaurant and bar. It is more work though.



And if you've got your heart set on some remote, rural location, you've got no option. Your guests have got to be fed and watered. And if there's nowhere else to go, you're going to have to do it.

Even if there are other places to go, a lot of guests will tell you, that having a bar and restaurant, on-site, is a big draw.

**Side Bar**

***Janette says...*** *Just a note on the importance of the "interaction" stuff. We're sometimes asked why we don't have TVs in the rooms. And it's simple. We want to encourage and facilitate interaction in every way that we can. Because the guests enjoy it."*



### 3. Who Are Your Customers? And How Do You Reach Them?

Business travelers (people travelling with a *purpose*) or tourists (people at *leisure*)?

#### **Business Market**

Let's cover the "business market" first because there are more opportunities here than you might imagine. Here's an example. There's a successful guest house in Johannesburg, close to a specialist plastic surgery clinic that caters for patients from all over the world. This creates a steady inflow of guests looking for a week to 10 days of fully catered privacy.

So don't limit your thinking to passing sales reps or corporate business. There are endless possibilities.

The "business market" is characterized by one important thing though – it's based on relationships. The only way you reach this market is by being "connected" to the right people. So you've got to be prepared to develop and sustain these relationships.

#### **Tourists**

On to tourists. If this is your market, you're not dependent on relationships with specific people. Tourists these days (and increasingly more so) research their accommodation options on the Internet. So, the only thing you need is a decent web site that comes up on Google in the first 2 or 3 pages for the search terms that people are most likely to use to find you.

(*Caveat*: It doesn't matter how good your web site is – if it doesn't get found, you're invisible – and virtually nobody goes past the 3<sup>rd</sup> page on Google.)

#### **Side Bar**

**Brian says...** *"Why am I rabbiting on about Google? Because it's the only search engine that matters. It handles more than double the number of searches of its nearest competitor – Yahoo."*

**Is that it? Yup, that's it. Pick one that's going to dominate – is it strategic relationships or the Internet? One or the other is going to drive 90% of your bookings.**



#### 4. Your Location and the Internet – Finding Your Niche

If you're primarily going for the "business market" your location choice has probably been made for you. You're almost certainly going to find yourself in an urban situation and you'll have a very good idea of the relationships that are going to matter to you.

If it's the tourist market you're after, you could choose either an urban or a rural situation.

What you won't have is a choice about how you're going to reach your target market. The Internet is by far the cheapest and the most effective. In fact, it's the only thing that works.

##### Side Bar

**Brian says...** "You're sceptical. Well, let me tell you the things that don't work.

*Travel agents and inbound tour operators. They want a commission of 20% - 25% before they're interested. They prefer expensive places for obvious reasons. They also don't believe in up-front payment, so you've got to run a debtor's book and manage the associated credit control and cash flow issues.*

*This might be an option if you've been able to differentiate yourself in some unique way that creates very high margins – like some of the "foodie" places run by well-known chefs. But generally, travel agents and tour operators are not going to be a significant source of business.*

*What about these innumerable accommodation guides you can buy in the CNA? The AA does one. There's the Portfolio Collection. The Tourism Grading Council does one and so do a whole raft of people. The problem with these things is that there are hundreds if not thousands of listings for each geographic region. And unless you're a marketing genius, it's difficult to stand out from the crowd (you've normally only got 50 words of your most persuasive prose and a picture). And the listing is expensive. You've got to get quite a few bookings a year to cover the cost.*

*I can count on the fingers of one hand the bookings we've had from these sources. And I need 2 hands, three times over, to count the thousands of rands, I've wasted on them.*

*And these travel and accommodation portals? Like [www.safarinow.com](http://www.safarinow.com); [www.wheretostay.co.za](http://www.wheretostay.co.za); [www.sa-venues.com](http://www.sa-venues.com); and [www.roomsforafrica.com](http://www.roomsforafrica.com) to mention a few. Yes...they cover their costs but they're not generating enquiries at the rate your own web site will."*

Since the Internet is going to be so important to you, there are a few location-specific things you need to consider. From an Internet point of view, to be a "good" location you need to have a manageable level of "Internet competition" and command a respectable level of "Internet interest". You want an example?



Let's say (hypothetically) that you've decided you want to set up in KwaZulu Natal. You're undecided as to whether or not it should be the big city (Durban), the mountains (Drakensberg), a game reserve (Zululand) or the seaside (Umhlanga Rocks).

The first question you need to ask is how difficult is it going to be to get the web site you inherit, or the web site you're going to build, displayed on page 1, 2 or 3 of Google for the most likely search term people are going to use? That's "Internet competition".

Second, you want to know if you do get a page 1, 2 or 3 ranking, how many people are actually using that search term? Are you going to get enough "hits" to generate enough business? That's "Internet interest".

Let's answer the first question first. Go to [www.google.com](http://www.google.com). Put in "durban accommodation". It will tell you (top right) "Results 1 – 10 of about 3.3 million" (at the time of writing – May 2006). Try it.

So what does this mean? It means make a new plan. You will never get a page 1, 2 or 3 ranking for any web page when you've got 3.3 million competitors. In fact anything over half a million is tough. Now try "drakensberg accommodation". Competition's down to 420 thousand. Better. Do the same for "zululand accommodation" (280 thousand). Better yet. And "umhlanga rocks accommodation" (a mere 135 thousand).

Now the second question, how often are these terms actually searched for? Let's find out. Go to: <http://inventory.overture.com/d/searchinventory/suggestion/> and put in "durban accommodation". (This free tool is powered by Yahoo. So it reflects less than half the searches that are actually happening. If Google had the same thing I'd use it. It doesn't matter though it gives you a very good *relative* indication of "Internet interest").

What does it tell us? It tells us that in the month of April 2006, 379 people asked Yahoo to help them find accommodation in Durban. Try "drakensberg accommodation". We find that 213 people asked Yahoo to help them find accommodation in the Drakensberg during April. Try "zululand accommodation" and "umhlanga rocks accommodation". Not so good. Zero in fact.

Conclusions? If you're keen on setting up or buying your B & B or guest house in Durban you need to know right from the start that your web site is never going to get anywhere near the front pages of Google for such a general search term as "durban accommodation". Unless you find a "niche", the Internet is not going to be a significant source of customers.



If you're keen on Zululand or Umhlanga rocks you know that from an Internet point of view you can build a web site (or optimise an existing web site) in a way that will completely dominate the front page of Google. You can probably get several pages from your site on page 1 relatively easily. The only problem is it appears that not too many people are looking for what you're going to be selling.

So? You're going to have to find "niches". Like what? Scuba diving, whale watching, big game fishing, birding, 4x4 trails, golf. Whatever.

#### Side Bar

*Brian says... "This just covers the research principle. You should test every keyword phrase or search term you think might work. For Durban and Umhlanga you might try "kzn golf accommodation". For Zululand you might try "zululand safaris". You might be surprised at the niches you uncover...and the niche(s) you choose to target."*

**You've got to have customers. And since the Internet is the only way to get them, you must find a niche (and the associated search terms) that offers an acceptable trade-off between "Internet competition" and "Internet interest".**

#### Side Bar

*Brian says... " Before we bought this place, I'd never built a web site in my life. 6 years on - I'm quite good at it and I've enjoyed doing it. I use a tool called Site Build It. If you're an idiot (and I was), this product is fantastic. It does everything. And I mean everything. All you have to provide is the motivation."*

#### **Other "location-related" things to think about:**

- Potential customers are either travelling for business purposes or they're on holiday. In the right urban location you can attack both markets. In a rural location business travellers are going to be rare.
- Do you have any special skill sets that you can use to diversify your income stream? Are these best exploited in an urban or a rural situation?
- In an urban situation people like plumbers, electricians, firemen, hairdressers, dentists and doctors are readily available, when those little, and sometimes not so little, disasters strike. You need to be a lot more self-sufficient in the country.
- Getting supplies in is a lot easier in an urban location. Life's more difficult if the nearest Woolies is 60 or 70 kilometres away.



## 5. The Skills You Need

You don't necessarily have to tick all of what follows. But you do need most of them. The skill sets you don't have you're going to have to outsource – and that can be rather expensive.

### Side Bar

**Brian says...** *It's a couple thing. It would be a rare individual who had the diversity of skill sets needed to do this. Couples can cover more ground between them. In a "full service" situation, you're running 3 entire businesses – bar, restaurant and hotel. And a lot of the skill sets you need to run a B & B are girl things.*

### So What Are The Skills?

#### People Skills – How Easily Do You Establish Rapport With Strangers?

### Side Bar

**Janette says...** *Real experience in a front-line, customer-facing role is invaluable. If you're trying to run a "full service" operation, you're meeting, and entertaining, new people on an almost continuous basis. It can be very demanding when you're busy. But it's also very satisfying.*

#### Technology Skills – Are You Internet Capable?

### Side Bar

**Brian says...** *"You're going to be spending a few hours a day behind your computer. Responding to enquiries that come in and creating new content to keep Google interested."*

#### Maintenance Skills – Are You DIY Handy?

### Side Bar

**Brian says...** *"I'm practically helpless. So we have to outsource. And it costs a bomb."*

#### Culinary Skills – Are You a Dab Hand in the Kitchen?

### Side Bar

**Janette says...** *"Food matters. A lot. It doesn't have to be "chefy" but it's got to be quality ingredients, thoughtfully prepared. It's not that difficult – you need 3 or 4 WOW starters, mains and desserts. That you can train the staff to do perfectly."*

#### Managerial / Process Skills – Born Under Virgo?

### Side Bar

**Janette says...** *"Some things have to go like clockwork. Room strips and cleans, breakfast, dinner preparation, plating-up and serving. You're relying on unskilled and untrained people who don't really relate to your need to have things done exactly the same way, time after time after time."*



## 6. Financial Due Diligence

You've found a place you think you might like to buy? The business is held inside a Close Corporation or something similar and they've even got audited financial statements. Looks kosher.

**Be Wary.**

**Why?**

Let's look at the income statement first. These kinds of businesses generate quite a high percentage of their takings in cash. Personal expenses are going to have been written off against the business. So the income line is probably understated and the expense line is probably overstated. But by how much? You're never going to know.

**So treat the financial statements (audited or otherwise) with circumspection – at best they're a guide, at worst misleading. You have to get a handle on those enquiries. How often is the phone ringing? How many e-mails are coming in a day? It's the only real indicator of financial viability.**

Now the balance sheet. The only bit that matters (generally) is the assets and the creditors line (make sure that the sale contract indemnifies you against undisclosed creditors). Back to assets. Asset registers are never right, even in the biggest corporates, with huge resources. In a small business, it's likely to be a lot less right. Whatever you're offered that purports to be an asset register, there is no way around the need for you to *personally* do a complete inventory. If you don't the previous owner will simply take whatever's not listed.

### Side Bar

***Brian says... "We relied on the assets as reported in the audited balance sheet! The new or new-ish linen disappeared. So did the lawn mowers and the weed-eaters. And a rare tree orchid. And God knows what else."***

Next the Close Corporation or whatever structure the business is held in. Dump it. Buy the assets out of the business. Don't buy the structure. Undisclosed creditors and the plethora of opportunities for creative tax planning make buying a CC or whatever a risky proposition. The last thing you want is a VAT Inspector knocking on the door wanting to peruse the last 5 years' records and holding you accountable for anything he doesn't like. Ditto on the income tax side.



OK. Now what?

You need 3 things:

- 1.** The asset register spoken of earlier. Even if *you* have to create it and you're doing it from the point of view of developing a list of the things you want to buy. Negotiate any exclusions.
- 2.** You need to estimate the expense line. Be conservative. A good "estimator" is the wages bill. Multiply that by the number of rooms the place has.
- 3.** You need to get a handle on the number of enquiries that are coming in – either e-mails or phone calls. How many a month? How many a year? Is it seasonal? **And you want to see those e-mails so as you can do a random check to verify that those enquiries were authentic.**

Now be conservative. Assume that enquiries will convert into confirmed bookings 30% of the time. (You should do better than this. After all, if he or she is taking the trouble to phone or fill in the web site form, he or she is already half sold.) Now, given that the industry average booking is a couple on a 2 night stay, work out what the average value of a confirmed booking is going to be and you've got a good projection of turnover.

**Side Bar**

***Brian says... "E.G. If you average 80 enquiries per month, a 30% conversion rate will generate 24 confirmed bookings. If your per person per night sharing B & B rate is R500, a single booking is worth R2000 and your average monthly income will be R48000. Plus 40% for restaurant and bar sales."***

Does it make financial sense?

Is the turnover covering the expense line by enough to service any debt you might be thinking of taking on. And to fund those improvements that you just know you want to do.

**Side Bar**

***Brian says... "And if the web site has 'value', be sure to secure all rights to it. It's the difference between making money and going broke. It's THAT important."***



## 7. Differentiate

### What makes you special?

#### Side Bar

*Janette says...* "This is more difficult than it looks and with hindsight we should have latched onto this quicker. We thought we knew what people should want. We should have been listening to our customers and the things they raved about. And taken our direction from that.

*Now, for us, it's all about "farmhouse and homemade". In fact homemade anything ...the guests can't get enough of it. So we're remodeling all our marketing material around the "farmhouse and homemade" theme.*

*So what have we got?*

*Well, we already do quite a lot of homemade. Soaps, breads, biscuits, marmalade, scones, jams and preserves, muesli and organic veggies. A lot of the stuff we get from neighbouring "homemade" enthusiasts and country pantries. Bacon, yoghurt, honey, ice cream, free range eggs. But nothing beats "we make it".*

*So where are we going?*

*Building a chicken coop. We've made contact with a beekeeper. How do you feel about a fresh honeycomb on your homemade muesli, smothered with homemade peach yoghurt? What about expanding the homemade soap thing into shampoos, body lotions, body butters, bubble baths? What about goats' milk cheese? Smoking our own bacon?*

*So for us, homemade is how we differentiate."*

So what's going to make you special? Is it the view? The food? The things you can do in the area? Your décor? You've got to find something. Something other than price. You've got to give them a reason to pick you out of the crowd. The marketing fundis call it your "Unique Selling Proposition" (USP).

Oh, another thing. When you're developing your USP you need to keep your target market in mind. Younger or older; couples or families; budget or luxury?

#### Side Bar

*Janette says...* "We used to think that any customer was a good customer as long as they paid their bill – so we didn't have restrictions on kids. But most of our customers were couples looking for peace and quiet and young children didn't really fit with that. As soon as we sharpened our focus on our real target market, business improved.



## 8. Rules and the “System”

Nobody likes rules. So the general rule is the fewer the better. But you have to have some, just to define how far you're prepared to go. For example: are you prepared to do breakfast at 5 a.m.? Probably not – but you will be asked.

Check out times is another one. If you don't specify a time, you'll find some of the guests still hanging around in the afternoon. And you've still got to get that room stripped and prepared for the next guests. You need some rules to preserve the rhythm of the place. Some things need to get done at certain times or the quality of your overall service offering is compromised. You don't need to document your rules. There are tactful ways of drawing these lines.

You don't only need rules for guests. You've got to track your staff. Who fetches the eggs? Who bakes the biscuits? Who weeds the veggie garden? Who turns on the borehole pump to fill the tanks? I could go on forever. But you get the picture. Who does what, when. And it's a lot. And who checks that whoever is supposed to have done what, when, actually did it?

You do.



## 9. Gradings

The Tourism Grading Council of South Africa (TGCSA) looks set to become the sole grading benchmark. Good. If you go to [www.tourismgrading.co.za](http://www.tourismgrading.co.za) you can download the grading criteria that applies to you (B & B, Country House, Caravan Park or whatever). You'll get 30 or 40 closely written pages jam-packed with scorecards. Assessors are independent and you have to be re-assessed annually. It's rigorous. And affordable.

### Side Bar

***Janette says...*** "Being graded shows you're prepared to be measured against pre-set standards and gives the customers a "comeback" in the event that their experience disappoints. It builds confidence."



## **10. What Are They Going To Do When They Get Here?**

They're not buying a bed. They're buying an experience. You need to see to it that they enjoy themselves. So you've got to probe. See what resonates with them. And then using your (necessarily) intimate knowledge of the area, steer them in the right direction. With a surfeit of things that excite and delight them. Too many for them to do this trip. So they'll have to think about coming back.

This "intimate knowledge" is not assembled from brochures and web sites. There's no beating personal experience. It's an important investment in your guests' pleasure and enjoyment.

So get out and about. The golf swing can wait.



## **11. Odds & Sods**

Here's an unstructured list of other things you might like to factor into your thinking. None of them warranted inclusion as a "Tip" on their own but I just thought I'd mention them.

### **Training**

You need a couple of days training before you take over, to learn the "rhythm" of the place. It may not be perfect, but it has been pared down over time and there's no point in re-inventing the wheel.

You also want to be introduced to all current suppliers and to know who the alternatives are. Who's been tried and rejected and why. Getting supplies is a big part of the business and you don't want to waste time finding out who's who and who you can rely on.

### **Insurance**

Don't forget insurance. You are responsible for your guests' safety and well being. What can go wrong? Hundreds of things: one of your old trees might fall on his / her car or he / she might have a heart attack. There are quite a few things you need to be prepared for.

### **Self Test**

Self test. Sleep in every room by rotation. Feel what the guests feel.

### **Tourism Promotion**

Join your local tourism promotion organization. If there isn't one start one. It's in your own interests to promote tourism into the area you've chosen to live in. Also there are some things for which you need a "lobby" if you're going to have any influence...like getting the potholes in the road fixed.



### **Set Up From Scratch or Buy a “Going Concern”?**

It depends. On two questions. Are you completely new to the hospitality industry? How complicated is the operating model you’ve chosen?

If the answers are “new” and “complicated”, then buy a going concern. Go and stay in the place for a couple of days. Is there a rhythm? A system? What happens when? How long has the staff been there? You want an operating business you can tinker with. Gently.

If you’ve done this before, set up from scratch. Provided you know exactly what your “rhythm” and “system” is going to look like. And provided you’re up for writing detailed check lists. And provided you’re up for doing intensive training. You’re dealing with untrained and unskilled people. You won’t be hiring anybody out of hotel school. But if you can do it yourself, why pay for it?

### **Still Keen?**

# **Just Do It**





## 12. Who Are We?

**Janette Loves:** "I love cooking, anything organic, dogs, birding and Tolkein. I love my garden and my birds. I love the fact that I haven't washed a dish or ironed anything for 6 years. And I love our new "homemade everything" philosophy – jams, preserves, breads, cosmetics, eggs, honey and organic veggies. It fits with my Afrikaans tradition.



**Janette Hates:** "I hate the drudgery of shopping for supplies. It means I'm getting into the car every few days for a couple of hours. I have to do it though. Some things I've just got to have fresh and I'm very fussy about quality. I can't delegate this."

**Brian Loves:** "The quiet. Every 3 or 4 days I hear a new bird call – it might be a migrant in transit or it might be coming to stay for a while. I enjoy the freedom of being able to play golf or go fly fishing any day of my life. I enjoy the guests. And I get a lot of satisfaction from the fact that they seem to enjoy us. **Brian Hates:** "The maintenance. I get stressed when something goes wrong and I'm right out of my comfort zone."

**George & Emma:** "We're farmhouse dogs. Which means we're usually a bit boisterous, and a bit dirty. Love the space, the wetland, chasing rabbits, and a continuous supply of new people to talk to. We might knock you down and lick you to death, but we won't bite you. And the titbits! When this place is pumping, the fridges are overflowing with oxtail and lamb bones."

