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## Why consider...the Hospitality & Catering sector?

**Setting up a manufacturing business can require a particularly high level of investment. 'MoneySense for Business' looks in to what you should consider.**

### Introduction

Hospitality & Catering (H&C) is populated by small enterprises – for every large hotel chain or Michelin-starred restaurant there are hundreds more B&Bs and cafés. The sector has many attractions for self-starters, especially as a passion for food and entertaining can often be more important than previous business experience. A business such as a café, sandwich bar, hotel, or campsite can provide employment (and perhaps living accommodation) in a location with few other work opportunities, or in an area of outstanding natural beauty or historic interest. You can also benefit from the proximity of other businesses and customers, such as a nearby conference centre or office workers who want to buy a lunchtime sandwich.

Businesses in the H&C sector can be divided into two main categories: those that provide accommodation and those that provide food. There may be a crossover between business types, giving you further scope to increase your profits. Examples include restaurants and pubs that offer B&B facilities, and campsites that have a café.

Word-of-mouth recommendations and repeat bookings, teamed with good stock control, may be the difference between a successful enterprise and one that fails.

#### In brief

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### The pros and cons

As with any start-up, the positives and negatives of going it alone will depend on personal as well as business factors. Here are a few points to consider if you're thinking of launching in the H&C sector:

#### Pros

- ✦ Working in an area of personal job satisfaction, giving you the motivation to push your business, accept low earnings during the start-up phase and work the long hours necessary to establish your enterprise
- ✦ Independence – you will be your own boss
- ✦ Opportunities for business growth/expansion, such as expanding your lunchtime sandwich business with an office catering service
- ✦ Sociable – this is a sector for people who like to entertain and meet new people

**The key to a successful business in the H&C sector is providing excellent service while also minimising costs.**

- ⚡ May be able to combine work and home, such as living on your B&B premises
- ⚡ May provide additional revenue stream to an existing business, such as renting out a field as a campsite on a working farm.

### Cons

- ⚡ Long hours – the nature of the industry means that you will be working to provide entertainment for people on their time off or on holiday
- ⚡ Potentially modest profits, especially if you don't diversify or grow your business
- ⚡ High failure rates – this sector has the highest business death rates according to Government figures
- ⚡ Possibly high wage bill, especially in hotels and restaurants that need a range of staff and a high staff-to-client ratio
- ⚡ Strong competition from similar businesses, often making it hard to establish a USP
- ⚡ Seasonal business – a sandwich bar may get little business during the weekend, for example; and a hotel may struggle to fill rooms outside the holiday season.

## The statistics

According to latest figures from the Office for National Statistics, the H&C sector had the fourth highest rate of business births in 2008, with 22,000 hotel and catering start-ups. However, the sector also saw the highest percentage of failures, with another 22,000 business deaths. Only 34.2% of hotel and catering businesses started in 2003 had survived. There were 164,105 hotels and restaurants in the UK in 2008, 47,270 (28.8%) of which were run by sole proprietors or partnerships without additional staff; 73,370 (44.8%) had between one and four employees. Turnover (excluding VAT) for the sector was £75,526 million. Of this figure, enterprises with no additional employees accounted for £3,171 million (4.2%); those with between one and four employees produced a turnover of £11,922 million (15.8%).

The sector is currently experiencing mixed fortunes. While some businesses, such as boutique B&Bs are seeing an increase in demand, others, such as pubs, are finding trading more difficult – around 1,000 pubs opened in 2009, but 3,250 closed, according to the British Beer & Pub Association.

## Business models

The H&C sector offers a range of business models. For example, a publican might be a tenant or leaseholder, with certain obligations and fees to pay to a pub company or brewery, or else a freeholder who can operate an independent business. A sandwich bar owner might decide to start a business from scratch, purchase an existing business, or buy a franchise. The cost of your start-up may be an overriding concern when choosing a business model, but how you want to run your enterprise and the level of autonomy you require will also be essential factors.

### Buying an existing business

Whether it's a coffee shop, hotel, restaurant, or other business, you should have instant access to premises and/or equipment, established customers and a regular income. The price of the business will be based on its profitability, the value of the premises, and any equipment or stock that is included in the sale. It may be easier for you to obtain funding for an existing business than a start-up, as it will have a proven track record – most lenders will provide up to 70% of the cost of a restaurant or freehold pub, for example. You may also benefit from trained staff such as chefs, baristas and housekeepers.

You may need substantial resources to buy the business, make any necessary improvements and provide cashflow and working capital until you start generating profits. For example, it may take a lot of time and money to turn a large house into a B&B with en suite bathrooms, and you will not be able to book any guests until the work is complete. You will also need to pay for professional

services from accountants, surveyors, solicitors, etc. You may need to honour existing contracts with suppliers for food products or rented catering equipment. You will also have to consider the impact of your new ownership on any existing employees.

**A franchise offers a brand name, proven business model, and ongoing training and support.**

**The advantage of buying a going concern is that much of the groundwork will have been done for you.**

### **Starting your own business**

Despite the high failure rates of restaurants in particular, starting a business in the H&C sector remains a dream for many people, and our lifestyles increasingly create a demand for this type of business. Sandwich shops, cafés and even mobile coffee bars are growing presences on our streets, providing fast, convenient food and drink choices for everyone, from workers picking up their morning latte to families enjoying a snack at the café in their local park.

Key to a successful start-up, whether it's a rural campsite or town-centre pub, is location – your premises must be in a place that attracts potential customers. However, a good location will mean that your premises will cost more than a less favourable situation. Outside catering companies can benefit from cheaper rents, as they don't rely on passing trade for their business, although they will need to be near good transport links.

### **Buying a franchise**

Fast-food franchises, such as burger restaurants and sandwich bars, are an increasing trend in the H&C sector. As well as your franchise fees, you will have to pay for your premises to be fitted out with the franchise's fixtures and fittings, plus ongoing fees such as a share of your profits and service charges.

### **Leasehold/tenancy**

(Other options are freeholds – where you effectively buy the business and operate independently – and franchises.) In a tenancy agreement, licensees sign up to run a pub for between three and five years. Tenancies are 'tied', meaning that the publican must buy beer and other drinks from the managing company.

Leaseholds are generally longer-term agreements, for between 10 and 25 years, although the lessee can sell the business on during that time. The lease can be tied or free, allowing you to buy drinks from suppliers chosen by you, although this will mean that the lease is more expensive in the first place.

**A tenancy or lease is the most common option for people wanting to run their own pub business.**

## **Money matters**

Start-up costs vary across the H&C sector. Opening up a field on your property as a campsite may demand the relatively low cost of building a shower block and listing your site in tourist guides. The cost of starting a B&B will include the price of a large property, with private living space as well as rooms for guests.

Property values vary around the country, but you should bear in mind that a popular area for visitors, either in an historic town such as Bath, or an area of outstanding natural beauty, like the Lake District or Cornish coast, will attract higher prices. En-suite bathrooms are generally expected these days, so you will

need to factor in the cost of installing these in your business plan. You will also need to provide fire precautions required by legislation. Income can be forecast by multiplying the number of rooms by average room rate and occupancy rate. For example, five rooms costing £40 per night to rent, occupied 250 times per year, would give a gross annual income of £50,000.

Entering the pub trade demands a higher outlay. A pub tenancy costs between £20,000 and £50,000, including fixtures, fittings and stock, plus annual rent on the premises of about 12% of turnover.

Franchise fees for opening a brand-name restaurant can cost from around £10,000 to £30,000, but additional fees and the cost of fitting out your premises may add around £100,000 or more to that amount. If you plan to start your own restaurant from scratch, costs will include rent or purchase of premises and fitting it out, plus hire or purchase of catering equipment, staff and stock. The average gross profit on each dish is around 60% of its menu price.

**A leasehold pub could cost between £30,000 and £150,000 for a tied lease.**

Whichever level of investment you choose, your [business plan](#) will need to include the ongoing costs of running your business, the amount of profit you expect to make and the sources of your income. For example, staff costs in businesses such as pubs and restaurants generally account for 25% of turnover (excluding VAT). See [Funding Your Start-up](#) for sources of finance.

## Common pitfalls

The H&C sector produces many successful businesses, but a large proportion also fail. These are the most common pitfalls you may encounter:

- ⚡ **Wastage** Restaurants, sandwich bars and cafes need to maximise the profit margins on the food they sell. Wastage, when too much fresh produce is bought and not enough sold, reduces profitability. You will still have to pay your suppliers, even if food doesn't sell.
- ⚡ **Poor forecasting** Many businesses in this sector are seasonal, relying on holidaymakers, weekday workers or weekend shoppers for the bulk of their takings. You'll need to know when you will be most busy and plan how you will deal with the quieter times. It may be cheaper to close your business (during the winter for hotels; at the weekend for city-centre cafes) than to operate it at a loss.
- ⚡ **Failure to diversify** Inability to follow market trends will reduce your profitability and cause you to lose customers. For example, beer sales are down in pubs while sales of non-alcoholic drinks, which have a higher profit margin, have increased. Failing to provide a good choice of soft drinks will reduce your profits. Similarly, one trend in B&Bs is to provide locally sourced or organic breakfasts. These can be provided at little extra cost, but are a good marketing tool for your business and will allow you to charge higher prices.

## Moneysense top five

- 1. Regularly appraise the cost of contracts with your suppliers to ensure you are getting a good deal. But don't buy just on price – you won't be able to justify the price of a gourmet sandwich or restaurant meal if the ingredients are poor quality.**
- 2. Consider your wage expenses. In a café, it may be worth employing someone just to cover the lunchtime rush. In a small hotel or B&B, you may be able to valet the rooms yourself, rather than employ a chambermaid.**
- 3. Research the local market. Look at similar establishments offering accommodation or food and price your services accordingly.**
- 4. Carefully monitor your stock to reduce wastage, and change food orders and menus accordingly.**
- 5. Maximise your profits with extended services outside of busy times.**

For example, a B&B might offer painting holidays in the winter season, or a café could provide office lunch delivery.

## How I did it

### **B&B: 'Converting my property'**

Louise Brickstock runs Fiftyeight, a B&B in Swanage.

"We opened our B&B in June 2009. My husband and I bought this property with the money from the sale of our former home, so we didn't need to find additional funding to start the business. Our main expense during the conversion was having a hot water cylinder fitted, as we did most of the other work ourselves. We only have two guest rooms, so we didn't need to make a planning application for change of use on the property, although our home insurance now includes liability. Our utility bills have risen by a third, and the other big ongoing expenses are our credit card machine and registration with the VisitBritain scheme, which costs around £400 per year. Most of our business comes from referrals via the Swanage Hospitality Association, from other B&Bs that are full. But we're now starting to see our first repeat bookings."

**I formed a limited company, which cost about £250, and took over in April 2007.**

### **Publican: 'Choosing a managed pub'**

Alex Dal-Santo runs the Shakespeare's Head pub in Brighton.

"This is a managed house, which means that the pub company owns the pub premises but I run it as my business. This has been a great option for me as I didn't have to put up any money and I'm on a fixed percentage of the takings – as the pub was already profitable, it meant I made money from day one. The company takes care of buying stock and maintaining the building, and I pay for staff and public liability insurance, so the business is relatively stress free. Obviously, the more successful the pub is, the more money I earn. But I have had great support from the company if I've ever needed guidance."

**We also discovered how Business Link could help when we were looking for training opportunities to develop staff skills, and support to expand the bakery.**

### **Bakery: 'Increasing profits'**

Rob Clarke and Nigel Holmes are the owners of Kemps Bakery and shop in Eckington.

"We bought Kemps five years ago. The initial thought was to let out the premises to a craft baker or convert the property to another use. It didn't take us long to realise what a following Kemps had and that it was potentially a little goldmine. We doubled our takings in the first year purely by expanding the range of choice we offered, introducing new and improved products, changing opening times and listening to our staff and customers."

His business has about £80,000-worth of stock in-house. The table centres, usually made from acrylic or wood are expensive to produce, so Gary has to ensure he doesn't run into cashflow problems. "The client tends to pay 50% upfront, which is useful for cashflow purposes, as it covers most of the manufacturing costs. Once you're established, it's easier to reject business if they won't adhere to your payment plans."

### **Sandwich bar: 'Reducing wastage and maximising profits'**

Richard and Jill Willis run Taste, a sandwich bar and café in Romford that won Best Independent Sandwich Bar in Britain in 2009.

"We didn't have any catering experience before opening Taste, although we both have an interest in food and healthy eating. We chose to open a sandwich bar because of the business model – upfront costs are relatively low and cashflow doesn't tend to be an issue, because you buy food fresh and sell it quickly. We funded our start-up with a mix of savings, private loans and a bank overdraft."

"Wastage is the big killer in the food industry – you have to monitor everything you buy and sell. We know roughly how many of each type of sandwich we sell each day, so we can purchase stock accordingly. We're also prepared to sell out of a sandwich filling occasionally, rather than see food go to waste. For any sandwich bar owner, gross profit margin should be between 60% and 70%. Any sandwich business should be busy between 12pm and 2pm, but to increase your

**On average, a sandwich bar costs around £30,000 to fit out, including equipment and stock.**

profits you need to look at how you can use your other business hours effectively. We offer sandwich delivery rounds and sandwich platters for meetings, which increase our turnover."

## Green Issues

Organic and locally sourced food is a strong trend in the H&C sector – even if an enterprise is not wholly organic, using locally produced or a percentage of organic ingredients is becoming increasingly common and can create an important USP for your business – a B&B providing breakfast made with food from a nearby farm, or cafés using only organic eggs or locally reared meat.

A number of bodies provide organic accreditation, the largest of which is the Soil Association. This can cost from £475 per year, plus VAT. Another option is the Soil Association Food for Life Catering Mark: £495 per year, plus VAT. This has three awards – Bronze, Silver and Gold – that indicate differing levels of sustainable, organic and locally sourced ingredients, which may be easier for your business to meet.

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## Useful contacts

[MoneySense for Business](#) is about helping you understand and manage your business finances. If you're thinking of starting out on your own, or already have a small business, [MoneySense for Business](#) provides helpful guides and information on managing the financial side of your business, plus useful links and tips to give you the guidance you need.

### Links: Hospitality & Catering

[British Beer & Pub Association](#)

[How to Run a B&B](#)

[British Institute of Innkeepers](#)

[The Soil Association](#)

[Taste](#)

[Hotel Marketing Association](#)

[National Caravan Council](#)

[The British Sandwich Association](#)

### Links: Business

[Business Link](#)

[Department for Business, Innovation & Skills](#)

[Office for National Statistics](#)

[SkillsActive](#)

### Sources

Business Demography 2008, Office for National Statistics

SME Statistics for the UK and Regions 2008, Department for Business Innovation & Skills

Gareth Barrett, British Beer & Pub Association, 0207 627 9154,

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[Start-ups: Starting and Running a Pub](#)

[McDonald's franchising](#)

[O'Briens franchising](#)

[How to Buy or Lease a Pub, The Publican](#)

[Starting and Running a Catering Business](#)

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