**PROJECT**

TEAM NAME

TEAM MEMBERS

At present India is one of the top tourist hotspots of the world and one of the up and coming economies. These factors make it one of the leading options when it comes to the hospitality business. India has great diversity in terms of its regions and cultures and there are plenty of man-made and natural resources.

Its cities, towns and hill stations are well connected in terms of transportation options and thus attract tourists from all over the world. This means that there are plenty of opportunities to achieve success as far as new hotels in India are concerned.

### Deciding the type and location of hotel

As in other businesses, the first step in starting a hotel is deciding what sort of an enterprise it is going to be. It could be a business hotel or one catering primarily to tourists. The owners also need to determine which location will work best for their hotel.

In India, the hill stations are among the most favourite tourist destinations along with locations such as Delhi, Mumbai, Rajasthan, Goa, and south India, especially Kerala. Mumbai is a remarkable location for any hotel as it is a tourist hub as well as commercial centre.

Location, location, location, it can make or break a restaurant. Finding the perfect location is a time‐consuming and tedious process, but it's essential that you give it all the attention it deserves. Do not rush this decision. It is the most important one that you will make. Wait until you have several prospective properties and then weigh your options carefully. Remember, once you sign the lease and opened your restaurant, the one thing that is almost impossible to change, is your location.

You need to consider the following factors when choosing a location:

•Visibility and passing traffic (Foot and car)

•Parking

•Demographics

•Potential for outdoor seating

•Zoning

•Refurbishment required

•Freehold or leasehold

•Competition

•Complementary businesses located close by

Don’t just get stats from the yellow pages or the last census. Pound the pavement, check pricing, service, style, when are the busy, when are they not? Are there enough potential customers in the specific segment you are targeting to ensure you get your own share?

Finally don’t be afraid to open right next door to your competitors. In most businesses it is best to stay as far away from your competitors as possible. But in the restaurant business it is often best to stay as close as possible to your competitors, as your potential customers may have already decided that they are coming to this part of town to eat.

### Logistics of the Hotel

Good logistics are an integral part of starting and operating a hotel properly. It is important that the hotel site is near important transit points such as railway stations and airports. Close proximity to entertainment destinations such as shopping malls and multiplexes is also desirable. If the hotel owner decides to opt for a location outside the city, then he or she should make sure that it is properly connected to the main city.

**The area required**

Before opening a hotel, the owners need to determine the area they will require for setting it up properly. Normally a facility with 70-120 rooms needs an approximate area ranging from 10 thousand to 60 thousand square feet. The area needed is also determined by the quality of the hotel.

In case it is a 5 star hotel with 100 rooms, the owner should acquire a maximum of 100,000 square feet, which means that every room will have an average of 220 to 280 square feet area.

**Planning the hotel layout**

The owners need to get professional assistance for planning the hotel’s layout. They can also consult interior designers for getting guidance regarding the various intricate details of hotel décor and the ways of drawing guests.

They can also go for a local builder who will be capable of designing and executing the planning layouts, interior decoration, and designs. The entrepreneurs can look up online websites and media advertisements for getting in touch with these professionals.

**Finances of the Hotel**

Before starting the hotel, the owners should make sure that the financial requirements are well satisfied. Ideally, they should be self-equipped to start the operations but otherwise, bank loans are a good option to get things going.

In India, business loans can be availed from both nationalized and private banks. Normally, the owners have to arrange 30 percent of the necessary capital on their own while the rest can be taken from the banks.

**Market surveys for the Hotel**

The owners should hire professional agencies to do a survey for finding out the business potential in a particular area. Ideally the whole exercise should be done in a radius of 2 to 10 kms. The agents can be asked to analyse the general market share in the specified area as well as the social lifestyle and overall trends prevalent in the expected customer group.

They should also focus on finding out the rates of their possible competitors in the immediate area. Ideally, the owners should look at lower rates with the same quality of services and facilities being offered by the other hotels. They can also do this survey on their own instead of relying on agencies.

**Getting licenses for the Hotel**

The licenses also need to be obtained before starting a hotel. Majority of these have to be renewed on a yearly basis and the most important among these are applicable for lodging, liquor, water and sewage, and food. The owners also need to procure licenses from the Pollution Control Board.

Separate licenses are required if the owners are planning to have live shows and events at their premises. They also need to get proper verification done by concerned officials regarding areas such as fire codes and operation of elevators.

**Recruitment for the Hotel**

While starting the hotel, the owners should also look to recruit with an emphasis on the following positions:

• Customer care executives

• Sweepers

• Managers

• Cleaners

• Housekeepers

• Washers

• Waiters

The owners can look up sites such as indiaedu.com for getting the latest information on the leading management schools in India for recruiting professionals in such positions.

Most of the top level staff like the hotel managers, customer care officials, and senior chefs is trained at the b-schools. The lower level employees such as housekeepers, waiters, and sweepers can be hired through job placement organizations or using local media for advertisements.

**Should you buy or lease a location?**

A key decision is whether to buy or rent property. For the new restaurant owner, the investment necessary to buy a property may be the deciding factor in this question.

Buying a location is a major and typically a long term commitment usually reserved for someone who has significant available capital.

The advantage to leasing is that it provides you with an opportunity to launch on a smaller budget. It may also offer an easier exit strategy if things don't work out.

The major advantage to owning a location is that you will not have to worry about a rent hike. In addition, as an owner you do not have to work within the parameters as set up by a landlord, giving you more freedom to do as you like with your property.

The final consideration when buying any real estate is the projected value of the property. Will the price of the property appreciate or depreciate in the coming years? While the goal of most restaurant owners is to build a successful eatery, in the past the acquisition of prime real estate made ownership very rewarding.

**Practicalities of renting a premises**

Before renting a location it is critical that you consult the property experts. A chartered surveyor will be able to advise you on the best sort of deal to suit your business needs and a solicitor will be able to advise you on legal points arising from the lease, the legal agreement between you and the landlord.

Think carefully before signing any agreement. Do not sign anything unless you completely understand it and agree with it.

Here are some of the things you will need to think about:

The rent‐Not only what it will be when the lease begins, but how much it could go up by.

The length of the lease ‐How long you want to commit yourself to renting the premises. Remember that unless your landlord agrees that you can give up your lease or transfer it to someone else, you will have to pay rent for the whole period of the lease, even if your income dries up. Leases typically have agreements of between one and 25 years. Don’t lock yourself into a long lease, at least not the first few years that you are in business. If your restaurant fails you don’t want to be locked into four more years of rent that you cannot pay.

Quitting‐How easily could you give up renting if you no longer need your premises or run into financial difficulties? Will you be able to transfer the premises to someone else? Will the landlord allow you to give up? Do you have the opportunity to ‘break’ (end the lease) at certain intervals –this would allow you to choose whether or not to continue renting the property;

Insurance‐The landlord may expect you to insure the premises yourself, or to pay for the insurance if the landlord takes it out.

Repairs‐Are building repairs included in the rent. If you make significant repairs to the plumbing or heating, then ask if they can be deducted from your regular rent. Most landlords would rather give free or reduced rent one month than shell out cash to make repairs.

Service charges‐On top of the rent, the landlord may charge more for services such as cleaning, heating and lighting. These may be more expensive than providing them yourself.

Guarantees‐The landlord may ask you for a financial guarantee, or may ask you to provide a guarantee or anyone who takes over your lease. If things go wrong, a personal guarantee could bankrupt you and make you homeless.

Protection when the lease ends ‐Will you have the right to renew the lease when it comes to an end?

Restrictions ‐Imposed by the local authority that may affect your business e.g. delivery or loading times rubbish disposal, parking, noise, lighting, litter. Also does the premises have an existing licence to sell alcohol?

The landlord ‐Is he or she someone you want to have a working relationship with?

The History of the property ‐Find out the history of the property and whether any other businesses have failed there and why. Was the property a restaurant before? Ask neighbouring tenants for their input.

Will the space work for a restaurant.–Is there suitable ventilation, services, power etc.? Finally before renting a property, make sure you can get planning permission to make any changes you need to the property.

**Section 4: Consolidation and Integration of these perspectives**

**Writing a Business Plan**

Trying to convince anyone, either a bank manager or venture capitalist, to lend you the money to embark on your scheme is going to take more than a hazy idea sketched on the back of a pub napkin.

You need to be prepared, with a business plan, a presentation of your idea of how the business will work, and a realistic breakdown of costs. Only then will any investor take you seriously.

The business plan will include:

•Start-up costs

•Fixed and variable operating costs (Rent is fixed, Staff costs are variable)

•Forecasted number of covers and average spend. (Best and worst case scenario)

•Analysis of the likely gross profit on food and wine

•Analysis of your likely breakeven point

•A marketing and sales plan

•A plan of source of funding

•A budgeted monthly P+L and forecasted cash flow analysis.

A business plan is also vital in securing enterprise grants, investments and loans, which you will need when starting your business.

Compiling your business plan can seem like the most difficult and the least exciting part of starting a new business, but it really is the most important.

**Deciding on a legal structure for your Restaurant**

There are three types of business that you need to be concerned with: Sole Trader, Partnership and Limited Company.

A sole trader operates exactly as the name suggests. You are actually trading in your own name. Even though you might call the business something completely different to your own name, your name will be on all official documentation.

A partnership has the same set up as a sole trader, except that you have equal responsibility for the business with your partner or partners. If you are in a Partnership it is wise to draw up a legal Partnership Agreement, to ensure that all partners know where they stand. This is also very useful if you close the business down.

Many businesses decide to register as a Limited Company once they reach a certain level of turnover to take advantage of limited liability status. This is because the major drawback of being a Sole Trader or Partnership is that you are personally responsible for any business debts if the company closes down. These debts are treated as the same as your personal debts, and any personal assets (such as your house) could be claimed to use for repayment.

Limited Companies have directors and shareholders. There must be a minimum of 2 directors, and one company secretary (who can also be a director) who is responsible for submitting the company accounts to Companies House. However a limited company is separate from the directors and shareholders who may not be held personally responsible for any debts if the company becomes insolvent. Unlike with sole trader status where your income is effectively the same as your salary, as a director you need to pay yourself a salary from the turnover of the business, and use PAYE to arrange income tax and National Insurance. As a company director you also need to complete a self‐assessment tax return each year to declare your salary and any benefits or additional earnings. In addition to paying income tax on any salary you draw, you must also pay corporation tax on any profit. For profits between £1 and £300,000 the tax rate is 20%.

As a limited company there are many and varied legal requirements you must adhere to, for which a fine is payable if they are not complied with. These include employment laws –look out for Working Tax Credit, Maternity Leave, and Statutory Sick Pay & Employer’s Liability Insurance –tax laws, health and safety laws etc. As you will see by now there is much more administration work involved with running a Limited Company than as a sole trader or partnership. If you are not sure which legal structure would best suit your business, you can get advice from an accountant or solicitor.

**Registering your Business with the Environmental Health Service**

You must register your premises with the environmental health service at your local authority at least 28 days before opening –registration is free.

Registration applies to most types of food business, including catering businesses run from home and mobile or temporary premises, such as stalls and vans. If you use two or more premises, you will need to register all of them.

If food premises are used by several catering businesses (for example, a village hall or conference centre), the person who allows the premises to be used for this purpose is responsible for registering them.

Registration is simple. You can download a registration application form from some local authority websites, which can be completed and emailed, faxed or posted to the food team in the environmental health department. Other local authorities offer online registration, where an electronic form can be completed and submitted online.

Contact your local authority to find out how you can register.

Finally remember if you want to make changes to your premises, remember that you should tell the environmental health service at your local authority and you might need planning permission.

**What other paperwork is involved?**

Before opening, get in touch with your local authority to plan your business, organize waste and recycling collection and get appropriate training and tools –it could cost you more money if you don’t.

You will also need a specific license if you want to do the following things:

•Sell or supply alcohol

•Sell hot food between 11pm and 5am

•Provide entertainment, such as theatre, cinema or live music

•Sell food from a stall or van on the street

Businesses should contact their local authority for information on all of these licenses.

Music Licenses

While you're thinking about licences, you'll also need two licences if you play music in public ‐one from the Performing Right Society www.prs.co.ukand the other from Phonographic Performance www.ppluk.com. Expect to pay about £90 for the former and £42 for the latter.

Trademarks

If you’ve created a specific, unique image for your business you can register for a trademark to protect it from being used by competitors and other interested parties.

A trademark can protect your business’s name, slogan, domain name, logo, colour or sound, but only if it is distinctive for that business within its class (i.e. industry type specified by the IPO).

You don’t have to register your trademark, however it is wise to do so to ensure no‐one else can copy it or use it for their own gain. It costs ₹17K to apply for trademark in one class of goods or services, and ₹4.2K for each additional class.

**Insurance**

When starting a restaurant, insurance is the one of the easiest things to forget. Here is a quick review of the essential and optional insurance that you will need to consider.

Public liability insurance ‐will cover the cost of a claim if a customer in your restaurant or cafe is injured or killed, or if their property is damaged while on your property.

Buildings insurance ‐If you own the building of your restaurant, it's essential to have business buildings insurance cover.

Employers’ liability insurance ‐You are required by law to take out employers’ liability cover if you have employees. It will pay the cost of a claim from an employee who has been injured at work, or who has become seriously ill as a result of working for you. Employer’s liability insurance may seem like a nuisance and unnecessary extra expense but the law is there to protect you and your business. If an employee is injured or becomes ill in the course of their work, and it can be proven as your fault, you could face a claim for compensation. This policy will ensure that your business is protected from this cost. Another good reason for making sure you comply with this law is that there is a ₹213.6K fine for each day you are in business without cover.

Contents cover ‐Contents insurance covers you against a wide range of perils and disasters such as fire, theft, water and more.

Business interruption ‐This cover compensates your business for lost income when your business is forced to close due to an event that is stated in your policy. It could be for an incident as small as a power outage lasting a couple of days that prevents your shop from opening, or one as big as a fire on your premises which could prevent your business from opening for weeks or months.

Thanks to the internet, it is now possible to compare multiple policies and providers of public liability cover in a similar way to car and home insurance. Although the choice of companies is much more limited, online business insurance comparison sites offer price and policy comparison services for most types and size of business.

**What Tax will you need to pay?**

Over a year, a business owner has to make certain reports (returns) and payments to various government bodies.

VAT

Value Added Tax (VAT) is a tax businesses charge when they supply their goods and services in the United Kingdom.

Normally you will pay the standard rate of VAT which is 17.5% (rising to 20% in January 2011) on the value of your takings. However cold take‐away food and is charged at 0% on the value of your gross sales for these items, provided it is not of a type that is already standard rated, e.g. crisps and prepared drinks.

Calculating VAT can be a little confusing. So here is a simple explanation.

Take your sales, i.e. in this case £100,000 and divide them by 1.175 (1.20 after January 2011) to get your sales before VAT. In the above example this amount is £85,106. The difference between these two figures is you’re VAT.

It is obligatory to register for VAT, if your business has a VAT applicable turnover of more than £70,000 (as of April 2010). As a member of catering mentor you can also download our VAT calculator.

Business Rates

You will also need to pay business rates on most premises. Normally around March of each year and to coincide with the start of the financial year your local council will send out it annual business rate bills.

Most councils ask you to pay in ten equal monthly instalments. You may be able to pay your bill online if your local council provides this facility.

The rateable value is based on the likely annual open market rent for the premises at a particular date. To find out what the rateable value of a property visit the website of the Valuation Office Agency an agency of HM Revenue & Customs www.voa.gov.uk

The business rates you are charged are calculated using the rateable value and the multiplier set by the government. In England, the standard multiplier for the financial year 2010‐11 is 41.4 pence. For example, a property with a rateable value of £10,000 is normally charged £4,140.

There are also several rate relief schemes available. You may be eligible for small business rate relief if your rateable value is below a certain level. The amount of relief depends on the rateable value of the property and is given in the form of a sliding scale

Between 1 October 2010 and 30 September 2011, eligible ratepayers will receive small business rate relief at 100 per cent on properties up to £6,000. Business rates don't cover commercial refuse collection and water charges.

Paying employees

If you are employing other people, you will need to work out, and pay, your employees’ tax and National Insurance contributions. These come out of the wages you pay them. Remember, you need to keep a record of everything you pay your employees, including wages, payments and benefits. You also need to make sure that you keep to employment law on issues such as employee rights, working hours, minimum wages and equal opportunities

PAYE (Pay As You Earn) is the system that HM Revenue & Customs uses to collect Income Tax and National Insurance contributions from employees' pay as they earn it. As an employer, you'll have to deduct tax and NICs from your employees' pay each pay period and pay Employer's Class 1 NICs if they earn above a certain threshold. You pay these amounts to HMRC monthly or quarterly.

Tax Allowance

As a business you can claim tax allowances, called capital allowances, on certain purchases or investments. This means you can deduct a proportion of these costs from your taxable profits and reduce your tax bill.