The Economic Importance and Marketing Strategies of Minnesota Bed and Breakfasts

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EXECUTIVE SUMMARY

Minnesota bed and breakfast (B&B) owners are optimistic about their business prospects, according to a University of Minnesota Tourism Center study that surveyed B&B operators in Minnesota. Most owners reported that good location, local support, and frequent guests were necessary for success. They also cited favorable customer reviews and a social media presence as important marketing strategies. Creating an environment for the success of B&Bs is key since these businesses are important taxpayers in local communities. The median value local tax paid by Minnesota bed and breakfast owners is $3,500 per year.

The industry, however, also faces significant challenges. Bed and breakfast owners reported difficulty developing marketing strategies, especially through online media. Occupancy rates in 2015 varied significantly between peak and off-peak seasons—the average occupancy rate in summer and fall was 52.7 percent but only 25.7 percent in spring and winter. As a result, owners showed interest in learning how to effectively market themselves during the off-peak season.

INTRODUCTION

B&Bs are a unique sector of the tourism and travel economy. These accommodations are typically commercially-licensed and owner-operated private residences that include breakfast with the cost of a room. Compared to traditional lodging options, B&Bs offer a more intimate setting for guests and generally have between 4 and 11 rooms, with 6 as the average.¹

Profiling the B&B industry, according to economic measures of any kind, is difficult. Data from the North American Industrial Classification System (NAICS) reports B&Bs in a separate and much smaller category than hotels and motels, and they are aggregated with other small lodging options (e.g., campgrounds, parks, RV sites²). Classification is further complicated since national and state data for all lodging industry categories are tabulated as wage and earnings information for businesses that have paid employees. (These employees are covered under state unemployment insurance laws). Single proprietor or family businesses with no covered employees do not report wage and earnings information.

Explore Minnesota Tourism lists 179 Minnesota B&Bs on its website, but 2015 Bureau of Labor Statistics data reports only 43. This difference suggests that approximately 75 percent of the 179 B&Bs do not employ staff covered by state unemployment insurance laws and are therefore proprietor/family operated businesses. Consequently, economic metrics reported by federal and state sources may reflect only 25 percent of all B&Bs in Minnesota.

Aggregated information about lodging as a part of Minnesota's tourism economy is readily available. In 2015, Explore Minnesota reported that lodging represented:

- Over 21 percent of traveler spending
- Over $2 billion in sales statewide

¹ www.paii.com
² NAICS code for the B&B industry is 721191.
Over 15 percent of all travel employment

Nearly 13 percent of local tax revenue generated

Given data limitations, little is known about the economic impact of B&Bs within the overall travel industry. Even less is known about customer and marketing trends for these establishments. This report attempts to address this gap in knowledge by providing a snapshot of the economic importance of B&Bs using available and illustrating customer and marketing trends within the industry. This was accomplished by surveying B&B operators in Minnesota.

Though the survey yielded an overall positive response rate, questions related to the economic importance of B&Bs elicited a low response rate. Due to the small number of responses, a regional breakdown of economic results was not possible. Instead, only aggregate measures are shown. The responses that were received, however, do provide a representative sample of the B&B industry as a whole in Minnesota.

METHODOLOGY

An email survey gathered data on three critical B&B study topics: business economics, marketing, and customer trends. Questions about business economics pertained to 2015 state and local taxes paid, annual sales and expenses, employment figures, and the number of rooms. Marketing questions related to the effectiveness of different marketing strategies and utilization of state and local business resources. Customer questions centered on distance traveled to the B&B, customer age groupings (generational), and occupancy rates. The survey began with general questions about the age of the B&B and its regional location. It contained 22 questions and took respondents an estimated 8 to 10 minutes to complete.

The survey was reviewed by two B&B owners and Explore Minnesota Tourism staff. It was sent to 161 unique Minnesota B&B email addresses provided by Explore Minnesota Tourism and the Minnesota Bed and Breakfast Association. The online survey site was open for approximately 35 days and yielded 28 completed surveys and 21 partially completed surveys for a total of 49 responses.

RESULTS

At least one complete survey response came from each of the five regions of Minnesota. The average length of B&B ownership was about 11 years. The maximum length of ownership was 31 years, and the minimum was less than one year (Figure 1).
Overall, B&B owners who responded to the survey felt optimistic about their business prospects. More than 81 percent of respondents indicated they feel very optimistic about their business success. Only one respondent felt pessimistic, or very pessimistic, about his or her business (Figure 2).

Planning for future property investments also serves as a measure of how owners feel about the health of the industry. Forty percent of respondents plan to make significant financial investments in their property within the next five years.

![FIG. 2: How respondents feel about their business success](image)

**Customer Trends**

Guests traveled varying distances to B&Bs. Forty percent of customers traveled between 51-150 miles. Slightly more than 25 percent of customers traveled 151-250 miles, and 20.6 percent traveled more than 250 miles. Twenty percent of B&B owners estimated that more than half of their guests are return customers.

Baby boomers (born between 1945 and 1964) comprise the majority of B&B customers. Of the 44 respondents to a question related to the frequency of guests from different generations, almost 70 percent of respondents ranked baby boomers as the generation most likely to stay at a B&B. About 45 percent of respondents ranked Gen X (born between 1965 and 1980) as the second most frequent generation of B&B visitors. Approximately a quarter of B&Bs owners ranked millennials (born between 1981 and 1997) as the second most frequent type of guests, and a little more than 45 percent ranked them as their third most frequent type of guests.

**Economic Importance**

Twenty owners answered a series of questions pertaining to the economic importance of B&Bs. The questions asked for details about annual sales, cost of operations, state and local taxes for the 2015 tax year, and annual employment figures. Responses to questions related to taxes were variable and largely depended on the number of rooms at the B&B. For the 2015 tax year, respondents paid a median of $3,000 in local taxes and $3,500 in state taxes (Figure 3). Respondents employed an average of 1.5 full-time and 2.4 part-time employees in 2015.
In 2015, the average annual sales of B&Bs were $157,535. Median annual sales in 2015 were approximately $50,000. On average, B&Bs spent half of their annual sales on operating the business. Salaries comprised 9.6 percent of this cost, while the cost of goods comprised 19 percent (Table 4).

<table>
<thead>
<tr>
<th>Annual business economics</th>
<th># of respondents</th>
<th>Average</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales including lodging and retail</td>
<td>27</td>
<td>$157,535</td>
<td>-</td>
</tr>
<tr>
<td>Cost to run business</td>
<td>17</td>
<td>$79,627</td>
<td>50.5%</td>
</tr>
<tr>
<td>Salaries</td>
<td>10</td>
<td>$15,156</td>
<td>9.6%</td>
</tr>
<tr>
<td>Cost of goods</td>
<td>15</td>
<td>$29,855</td>
<td>19.0%</td>
</tr>
<tr>
<td>Other costs</td>
<td>15</td>
<td>$38,277</td>
<td>24.3%</td>
</tr>
</tbody>
</table>

The average number of guest/sleeping rooms per B&B was six. The fewest reported was one and the maximum was 39. On average, B&Bs accommodated nearly 13 guests at maximum occupancy, and guests stayed an average of 2.12 days.

There was a significant swing in occupancy rates between peak and off-peak seasons. B&Bs experienced the highest occupancy rate during the summer at nearly 60 percent. Fall occupancy levels averaged 47 percent. Spring and winter had the lowest occupancy rates at 30 percent and 22 percent, respectively. The average decline in occupancy rates between peak and off-peak seasons was 27 percent. Central Minnesota and the Metro area had the highest year-round occupancy rates, and Northwest Minnesota had the highest variation in occupancies (Figure 5).
Marketing Strategies

B&B owners reported excellent marketing success from soliciting and posting positive customer reviews on social media. The second best marketing strategy was having a presence on social media (e.g., Twitter, Facebook, and Instagram) and marketing to past customers based on guestbook entries. Direct marketing and print advertising were the least used marketing strategies.

Owners of B&Bs received business help from three different organizations. Within the last year, 82.2 percent of respondents worked with their local chamber or visitors and convention bureau, 77.8 percent worked with Explore Minnesota Tourism, and 55 percent worked with the Minnesota Bed and Breakfast Association.

Opportunities and challenges

B&B owners were also asked about incentives they received from local government or the benefits of operating in the community that kept them anchored in the area. The most common considerations mentioned were good location, guest relationships, local support, and the natural beauty of the area (Figure 6). Many owners cited the importance of referrals from local businesses and support from organizations like the chamber and convention and visitor’s bureau.

Several themes emerged from responses addressing the obstacles or challenges owners faced. The most common challenge was marketing, specifically online marketing. Business operations, including operation costs, access to financing, taxes and regulation, and difficulty finding staff were also major themes (Figure 7). Four owners were concerned that Airbnb and Vacation Rentals by Owner (VRBO) are not taxed and regulated in the same way as traditional B&Bs, potentially yielding unfair advantages to these online services.

<table>
<thead>
<tr>
<th>Opportunities</th>
<th># of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good location</td>
<td>8</td>
</tr>
<tr>
<td>Local support</td>
<td>6</td>
</tr>
<tr>
<td>Guests</td>
<td>5</td>
</tr>
<tr>
<td>Natural beauty</td>
<td>5</td>
</tr>
<tr>
<td>Local amenities</td>
<td>4</td>
</tr>
<tr>
<td>Personal fulfillment</td>
<td>3</td>
</tr>
<tr>
<td>Chamber/CVB</td>
<td>3</td>
</tr>
</tbody>
</table>

FIG. 6: Opportunities of Minnesota B&Bs
### Challenges of Minnesota B&Bs

<table>
<thead>
<tr>
<th>Challenges</th>
<th># of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>16</td>
</tr>
<tr>
<td>Online marketing</td>
<td>5</td>
</tr>
<tr>
<td>Increasing costs to operate</td>
<td>6</td>
</tr>
<tr>
<td>Access to financing</td>
<td>6</td>
</tr>
<tr>
<td>Staffing</td>
<td>6</td>
</tr>
<tr>
<td>Regulation/ taxes</td>
<td>5</td>
</tr>
<tr>
<td>AirBnB/ VRBO</td>
<td>4</td>
</tr>
</tbody>
</table>

**FIG. 7:** Challenges of Minnesota B&Bs

### CONCLUSION

This study provides insight into the economic, marketing, and customer trends of Minnesota’s B&B industry, based on available data and results from this survey. B&B owners who completed the entire survey (approximately 17 percent) were optimistic about their business prospects. Many attributed local support and repeat customers to their success. They also reported that baby boomers comprised the majority of their guests.

More in-depth research is needed to better understand the economic impact of B&Bs in their local communities, as well as Minnesota as a whole. While federal data includes information from businesses with paid employees, study results suggest the majority of B&Bs are family-run. As a result, they often do not hire outside employees and therefore do not contribute to national B&B data.

Future research providing a more comprehensive analysis on the economic impact of the B&B industry will also need to establish a much larger response rate than 17 percent. This will yield a more accurate representation of the B&B industry as a whole.
REFERENCES

