

Enterprise & Entrepreneurs

There are many who might well feel that to have set up, and subsequently sold off, two successful semiconductor businesses in California's Silicon Valley would be reason enough to sit back and enjoy one's retirement in America's Golden State.

But if you happen to be called Dan Floyd, and one of the companies you set up was VLSI Technology - sold off to Honeywell in 1978 - then the last thing you are likely to be ready for is living the passive life.

Although he officially retired in 1983, Dan has devoted his time since then to being a successful venture capitalist, putting his money into a number of companies ranging from educational video, to setting up a specialist insurance company dealing with long-term disability for police and fire-fighters. But the business he is most likely to be associated with is California's growing range of luxury Country Inns. The person he is most likely to be associated with in this venture is Suzie Lankes.

California has over 300 'Bed and Breakfasts' - a misnomer in British terms - which cater at the top end of the luxury hotel market; and Dan and Suzie have based their niche market around the picturesque coastline which stretches from Monterey up to Half Moon Bay, just 45 minutes drive from San Francisco.

'I was looking for a retail site for one of my businesses,' Dan recalls, 'and came across a run down old railroad depot at the coastal resort of Capitola-by-the-Sea. I knew it wouldn't make a very good retail site, but Suzie was looking for somewhere to start off a B&B. It was exactly the right type of property for what we wanted, and so we bought it. She runs it and I'm more into the financial end of things,' he adds in something of an understatement.

Worked

Suzie, a one-time insurance adjuster, had never worked in the hotel industry before, but knew that, not only was she 'good with people', but that she had an aptitude for understanding what customer service was all about. They went in to the venture 50/50 and spent 10 months and some two million dollars smartening up the former Southern Pacific depot into a Country Inn where absolutely nothing was left wanting.

'Although we spent only 10 months on the construction, it took another 14 months to get a permit from the City authorities to run a hotel,' she explains. 'It appears that they would rather have seen the building converted into yet another restaurant - although there were 22 in Capitola already -

Business opportunities despite an apparent mismatch of skills

or even a dress shop,' she chuckles in exasperation.

Dan normally looks for anything from between 15% and 50% returns on his investments, depending on what type of business he is getting into. His main criteria about whether to invest in an enterprise is whether he likes the people and if they have a reasonable business plan. 'Many people don't really know what they're doing when they start up in business. Often they get this great idea that they want to make or sell something, but they don't know whom they wish to aim it at. We try to put together a business plan with them and go on from there.'

Most of his investments are open-ended. But, as he explains, the reasons he sticks with any particular business is not just because of the returns he gets, but also to have some fun along the way. 'With hotels especially, if you have to borrow the finance, you can't make a lot of money or even make a very good living unless you have a minimum size of 10-12 rooms. On the other hand, if you go above 20 you lose the ambience of a small luxury establishment. The best way to make money in this business is to buy and renovate. Basically, if you finance it properly,

you can make around 15% in the hotel business. If you spend some time doing up the property you can increase the rates and can make a lot more.'

'But,' Suzie chimes in, 'it's very important to keep close ties with other businesses in the area. We keep one another alive. For instance, we recommend some of the local restaurants to our clients, and the keep tables free especially for them. That way we both win.'

At first sight, Dan and Suzie might appear to have an unusual way of doing business in that they specifically aim not to fill their Inns with visitors.

'We aim instead for an 85% occupancy rate,' Suzie continues. 'Certainly we would never want to go above 90% occupancy because there would be too much wear and tear on the buildings and furnishing. By setting our rates at such a level, we are then able to deep clean the rooms and take care of the property.'

Critical mass

They also aim for critical mass. Dan believes that you can make enormous savings on centralised maintenance, gardening, inventory and storage if you concentrate resources on one particular area.

'We're not sure yet what is the optimum number of properties in an area, but we're concentrating on a 20 mile radius and aiming for up to six properties around 12 rooms each.

'We're negotiating for a fourth Inn in Santa Cruz and if we get it we'll have 60% of the available rooms at this price bracket in the area, so that's pretty good critical mass, I reckon.'

He also runs a centralised reservation service for his Inns, moving people around if one property is full. His staff also take reservations for other people's properties, getting an income stream from them as well.

Although they advertise in many of the travel magazines that are widely read across the States, the Internet has become an important new source of bookings. 'Naturally we have Web pages for all our Inns,' Dan explains, 'and there are ties in to sites such as Sabre (American Airlines' Web site), as well as the local Chambers of Commerce. We're not getting some two dozen bookings every month on the Net although half of our business still comes from referrals.'

So what if Dan and Suzie had the chance to start again? Would they have gone into the luxury travel market as novices, knowing what they know now? 'Well,' begins Suzie, a contented smile playing across her face, 'I think you could put your money into stocks and get a better return; but it's not near as much fun reading the Wall Street Journal every day as it is actually living this business.'

Her customers would undoubtedly agree.