

# The Hospitality Institute at Mattamuskeet Lodge: A case study of a social business proposal

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## Introduction

This case discusses the proposed development of a social business that includes the renovation of an old building and its surrounding site to create the Institute of Hospitality at Mattamuskeet Lodge in Hyde County, North Carolina. This hospitality institute, planned as part vocational school and part hotel business, would provide free vocational training to North Carolina residents in an economically disadvantaged, rural area while operating as a hotel and resort. Mattamuskeet Lodge would be funded by hotel operations and private donations and function as a viable hotel business operation unit. It would create jobs and offer opportunities to underprivileged young people in North Carolina by giving them, at no cost, the skills and education that would allow them to obtain gainful employment in a variety of hospitality operations throughout the state and nation, including hotels, resorts, casinos, and private clubs. If implemented, this proposal offers multiple benefits for the county where it is located, including permanent job creation, job training, sales tax benefits, and supplemental demand generation benefitting surrounding businesses. It could also contribute to tourism development in rural, eastern North Carolina. This case outlines the proposal for this project as a social business enterprise related to hospitality and tourism and raises issues about its feasibility as a social business plan.

## Background Information

### *Hospitality and Tourism*

The hospitality industry, which includes food services, accommodations, recreation, tourism, and entertainment, is one of the world's largest multi-billion dollar industries and is expected to account for 4% of the world's Gross Domestic Product (US \$1,850.0 billion) and employ over 3% of the world's eligible employees in 2021 (120,427,000 jobs), according to the World Travel and Tourism Council (2011). In the United States alone, 14.8 million jobs are related to travel expenditures (U.S. Travel Association (2014).) According to the United States Department of Labor (2014), the outlook for jobs in the hospitality and tourism industry is very positive and expected to outpace all other industry sectors in terms of wage and salary employment. In addition,

food and beverage operations provide many young people with their first jobs. For example in 2004 the sector employed more than 21 percent of 16 to 19 year-olds, five times the proportion of all other industries, and the sector makes up eight percent of all employment nationally (U.S. Department of Labor, 2014).

### *Sustainable Hospitality and Tourism*

In places that suffer from poverty, lack of education, and inadequate access to basic facilities, sustainable tourism may be used as a means to improve infrastructure and the welfare of the community by bolstering the economy and creating jobs to minimize negative economic, environmental, and social impacts (United Nations World Tourism Organization 2010). Sustainable development was a term first used by the United Nations Environmental Progress Stockholm Conference (Strong, 1973), and described for 25 years as, "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987). Sustainable hospitality and tourism meet the needs of the present without compromising the ability of future generations to meet their own needs (Weaver & Lawton, 2002). Often hospitality operations focus on environmental aspects of sustainability such as reducing their waste, conserving energy, and increasing their recycling efforts (Center for sustainable Tourism, 2014); however, corporate social responsibility (CSR) is practiced via donations of goods, services, and volunteer hours to address social sustainability (McGehee, et al., 2009). This approach considers natural ecology, sound economic practices, and the social values of local residents and global populations and is seen as a "way of traveling" rather than a destination (Harrison, 2000), and is the basis of this proposal for Mattamuskeet.

### *Hospitality and Tourism in North Carolina*

The hospitality and tourism sector employs many people in North Carolina. For example in 2013, restaurants alone employed 411,800 people, accounting for 10 percent of the state's employment (National Restaurant Association (2014). Tourism is vitally important to North Carolina's economy as the state ranks sixth in person-trip volume behind California, Florida, Texas, New York, and Pennsylvania (TNS Travels America, 2011). According to recent figures, the following statistics describe the impact of North Carolina's tourism:

- In 2010, domestic travelers spent \$17.0 billion across the state, a 9% increase from the previous year, and a record high visitor

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spending figure;

- Domestic tourism expenditures directly supported 185,500 jobs for North Carolina residents;
- The tourism industry contributed \$4.01 billion to the state's payroll in 2010;
- Traveler spending generated over \$2.73 billion in tax receipts;
- \$1.24 billion in federal taxes, and \$1.49 billion in state and local taxes; and
- \$947.2 million in state tax revenue and \$545.9 million in local tax revenue. (TNS Travels America, 2011).

Tourists to North Carolina are primarily from the southeastern United States, with 35% of overnight visitors coming from North Carolina itself, 10% from Virginia, 8% from South Carolina, 7% from Florida, 3% from Tennessee, and 1% from Alabama. Other out-of-state visitors include 4% from Pennsylvania, 4% from New York, 3% from Maryland, 2% from New Jersey, and 2% from Ohio (TNS Travels America, 2011). According to Travels America (2011), the source for the North Carolina Department of Commerce's tourism statistics, visitors to North Carolina have the following characteristics:

- Overnight visitors included approximately 82.5% who reported that they were visiting for leisure purposes in 2010;
- Business travelers accounted for 16.2% of overnight visitors in 2010 (business includes meetings and conventions);
- Approximately 1.2% reported "other purpose of trip" to the state in 2010;
- Approximately 42% of overnight visitors spent their nights in hotels and other lodging accommodations;
- Eighty-five percent of overnight visitors came by auto or recreational vehicle to the state;
- Thirteen percent came by plane;
- Overnight visitors from other states spent an average of 3.3 nights in the state, while residents spent 2.5 nights;
- The average party size of a 2009 NC overnight visitor party was 2.1 persons;
- Approximately 29% of parties included children;
- The average age of the 2010 visitor was 47 years; and
- Over 37% of overnight visitors had annual household incomes in excess of \$85,000, with 25% reporting annual household incomes of over \$100,000.

Overnight visitors to North Carolina engage in a variety of activities. Reported activities (including only those that might be offered at Mattamuskeet) and participation rates in 2010, as recorded by TNS Travels America (2011) included:

- Visiting relatives/family reunion 37.3%
- Wildlife viewing 5.8%
- Special events/festivals 2.6%
- Shopping 20.9%

- Old homes/mansions 4.7%
- Youth/amateur/college sports 2.4%
- Visiting friends 19.1%
- Fishing (fresh or saltwater) 4.2%
- Beach 17.9%
- Hiking/backpacking 3.9%
- Biking 2.0%
- Fine dining 13.7%
- Rural sightseeing 12.9%
- Rafting/kayaking/canoeing 1.7%
- State/National Park 8.6%
- Historic sites/churches 8.0%
- Bird watching 2.9%
- Nature travel/eco-touring 2.7%
- Camping 1.5%

### *Hyde County Information*

As noted, Hyde County, North Carolina is the home of Mattamuskeet Lodge. Currently, beautiful, well-known, historic, yet isolated Ocracoke Island on North Carolina's Outer Banks is arguably the center of tourism in Hyde County. Ferries from Swan Quarter, the country seat, take visitors to this island retreat, passing through rural mainland Hyde County. While Hyde County is one of the largest counties in acreage in the state, it has the smallest in population and is economically disadvantaged (Hyde County Health Department, 2009). The Hyde County (2012) tourism site offered the following as its tagline, "take the road less traveled to Hyde County." According to the U.S. Census Bureau (2012), Hyde County has the following characteristics:

- Population: 5,810;
- Per capita income \$14,992 (2010 dollars, the NC average is \$24,745);
- Median household income 2006-2010: \$38,265 (the NC average is \$45,570);
- Persons below poverty level, percent, 2006-2010: 20.4% (the NC average is 15.4%);
- High school graduates, percent of persons age 25+, 2006-2010: 76.7 % ( the NC average is 83.6%);
- Bachelor's degree or higher, pct. of persons age 25+, 2006-2010: 11.7% (the NC average is 26.1%);
- Private non-farm employment, percent change 2000-2009: -30.0% (the NC average is -0.9%);
- The population is diverse, with 32% of the population reporting as African-Americans and 7% identifying themselves as Latinos.

According to the Hyde County Health Department (2009), the county can be described by the following statistics:

- Unemployment rate of 8.8% in November of 2009.
- Retail sales dropped by \$6.7 million between 2007 and 2008.

- In 2009, the county reported no physicians, dentists, pharmacies, or stoplights.

## **Background on the Proposed Project**

### ***A Description of the Lodge***

Mattamuskeet Lodge was given to the state of North Carolina in 2006 by the United States Congress. The lodge was originally built as a pump station and converted to a hunting lodge in the 1930s. The North Carolina Wildlife Resources Commission and the Department of Cultural Resources have been in the process of renovating the building to restore it to its former glory, but that activity stalled due to state budgetary issues. The original lodge contained an observation tower, guest rooms, a kitchen, a restaurant, and a ballroom; it could also house a museum and additional space for operations such as boat rental facilities. The lodge is included in the National Historic Register and is located on the shore of Lake Mattamuskeet, in Hyde County, North Carolina, an area beloved by hunters, fishermen, birdwatchers, boaters, and historians (Mattamuskeet Lodge, 2012). The 14 guest rooms could offer overnight lodging in a unique, historic building along the shore of North Carolina's largest natural lake, an environment rich in biodiversity and history. The site could offer guests an opportunity to enjoy food and beverages in a rustic yet elegant setting; meet with clients, colleagues, family, and friends; and participate in numerous outdoor activities. Along with guest rooms and food and beverage outlets, the site offers opportunities to provide a variety of other guest services including venues for meeting and events, a retail operation offering groceries and gift items, and equipment rental and instruction in outdoor recreation and nature studies. These additional products and services provide guests with occasions to engage in memorable meetings and events, as well as to pursue outstanding outdoor recreation and environmental learning experiences.

As North Carolina's largest natural lake, measuring seven miles wide, 18 miles long, and 2 to 3 feet deep, Lake Mattamuskeet is a designated wildlife refuge and home to several endangered species, including bald eagles, peregrine falcons, and American alligators. In the winter, the lake serves as a haven for many migratory birds including ducks, Canadian geese, snow geese, and thousands of tundra swans. The lake also hosts largemouth bass, herring, sunfish, white perch, and blue crabs. Furthermore, the lake is bordered by hiking trails and winding roads (Mattamuskeet Lodge, 2012). Given the diversity of activities and attractions, the area could provide year-round tourism opportunities if marketed correctly and accompanied by an appropriate facility such as the lodge. Currently, Lake Mattamuskeet is a largely overlooked destination as most travelers to Hyde County arrive for the sole purpose of visiting Ocracoke Island, recently named a top beach destination in the nation (America's Best & Top Ten (2014) and the world (Listverse, 2012).

### ***Education and Training Opportunities at the Lodge***

As well as being a potential site for sustainable tourism, Mattamuskeet Lodge is an ideal setting for vocational training and for educating students in hospitality management practices. The operation of the lodge would provide students with experiences in all facets of the hospitality industry in one place; therefore, it offers a rare, unparalleled opportunity for education and training in the field of hospitality and tourism. In addition, the employment market for graduates of the institute is very positive, given the importance of hospitality and tourism globally.

The operation of the lodge as a training facility offers a wide array of products and services options for hospitality and tourism management in North Carolina and beyond. Not only would students of the institute receive training so they can progress to more lucrative positions within the broad hospitality industry, but the institute would also provide opportunities for the hospitality education program at a nearby university to provide internships, workshops, and field trips for university students, and opportunities for faculty members to enhance their teaching, research, and service. At the lodge, a variety of internships could provide university students with hands-on, real world experiences serving the public and assisting with the development of unique hospitality and tourism products and services. Among the opportunities potentially available are hospitality management internships in lodging, food and beverage, and meetings and events.; internships in, recreation and leisure management, including the management of camping facilities; and internships in hospitality and resort services, including work in visitor services, retailing, outdoor services (such as fishing and boating), marketing, and sustainability. Additional opportunities could be designed for student leadership experiences.

### ***Hospitality Student Selection, Roles, and Support***

Students participating with the Hospitality Institute would be residents of the local Hyde County area and they would receive balanced academic and experiential learning experiences at the Mattamuskeet Lodge, preparing them for careers in the hospitality industry. Because the lodge is a small hospitality operation, it would require only a few employees to perform all technical and managerial tasks. Consequently, it would be a natural training facility for people who want to be trained in hospitality operations and skills. Students would be selected based on aptitude and need, including those generally considered unemployable. They would participate in rotational training to include the kitchen, front office, restaurant, catering, housekeeping, tour guide program, engineering (electrical, plumbing, carpentry), and grounds maintenance. Students would also be exposed to leadership skills and team work and would receive a weekly stipend and uniforms. Students who complete the training would be provided with job placement assistance. To encourage students with varied backgrounds, levels of schooling, and abilities to persevere through the

program, the institute would offer flexible job options, tutorials, and mentors for students who might otherwise become discouraged.

The Hospitality Institute would be managed by professionals from a nearby university's hospitality leadership program, known for its knowledge of the industry and academic rigor, and also recognized as the largest hospitality management program in the state. Under the auspices of the university's hospitality program, fixed-term faculty members and supervisory coordinators at the lodge would guide experiential education and operate the lodge for the benefit of the state of North Carolina and all of Hyde County. In addition, student leaders from the university's hospitality program would serve as management interns at the Mattamuskeet Lodge, thereby leading selected training processes with the institute's student trainees.

## **Background on the Lodge as a Social Business**

### ***The Mattamuskeet Lodge as a Social Business***

The proposed Hospitality Institute of Mattamuskeet Lodge is an effort to create a social business to benefit the residents of North Carolina through, profit, training, and education. A social business sits in a space between the three traditional sectors of the economy: for-profit businesses, non-profit businesses, and government. According to Mohammad Yunus (2014), a "social business is a non-dividend business that seeks to solve a social problem through business methods. It is different from both a traditional personal profit-making business and a non-for-profit organization." The purpose of a social business is to ameliorate one or more problems such as poverty and the lack of education and while financial stability is a key to success, investors do not receive dividends. Therefore, when the amount of an investment is paid back, the company's profits remain with the organization for expansion and improvement. In addition, social businesses offer market wages with better working conditions and strive to be environmentally sustainable (Yunus, 2011). A social business attempts to make progress in solving community problems, as do non-profits and government, and seeks to do it in a way that is not dependent on tax payments or grant funding. Unlike traditional for-profit businesses, social businesses reinvest profits into the enterprise, enabling them to grow and sustain the business over time (University of North Carolina, 2012).

### ***Financial Details***

Based on a financial feasibility analysis of the proposed lodge, estimates of operating results have been forecast. An analysis of the site and region was conducted to review and assess the plausibility and financial feasibility of the proposed lodge. As noted, Hyde County is very sparsely populated and as such has a limited number of competitive lodges and or hotels. The proposed lodge would be positioned as a destination for travelers and a competitive set of lodging properties was selected to reflect this use. The set was chosen using the size of a property, similarity of target markets, and a comparison of facilities

and amenities as criteria. An analysis of the competition's occupancy, rates, and market mix quantified existing demand. Subsequently, demand for the market was forecasted from current market data through the first five years of operation of the lodge.

The next step was an assessment of the lodge's ability to capture market share or penetrate the market. This analysis was conducted using metrics (occupancy, rate, RevPAR) from the competitive set and a qualitative assessment of amenities, facilities, site, etc., as compared to the proposed lodge. Based on this analysis, it is estimated that projected room occupancies for the lodge's first five years of operation would be the following: 60.80%, 62.12%, 63.45%, 65.82%, and 66.27%.

Additionally, an analysis of daily rates in the competitive set and the region was conducted. Proposed daily rates for the lodge were estimated taking into consideration the type of room, segments served, and discounts offered (if any were offered). The average daily rate (ADR) for the Lodge was estimated to be \$104.99 (2012 dollars).

Finally, the annual operating room revenues were estimated using the forecasted 63.45% occupancy (year 3), \$104.99 ADR, and a RevPAR of \$66.62. The HOST Almanac (STR Analytics, 2013), a compilation of comparable industry figures, was used to estimate other revenue lines, plus departmental and undistributed expenses. An estimate of annual operating results for the lodge is included in Appendix 1, indicating a 16.8% income before other fixed charges.

### ***Competitive Properties***

Mattamuskeet Lodge has little direct competition. The town of Swan Quarter, approximately nine miles away, offers no major hotel chain in the vicinity. Instead, it offers two modest Bed & Breakfast properties—Knotts Landing Inn and the Tunnell Farmhouse—and one rustic motel, the Carawan Motel and Cabins, which is near the Swan Quarter ferry landing. Small communities on the lake, such as Fairfield and Engelhard, offer similar one to two-star properties, and although some do have direct lake access, such as Simmons Lakeside Lodge in Fairfield, none of these properties offer dining services or event and meeting spaces.

### ***Supply and Demand: Marketing and Sales Strategies***

Mattamuskeet Lodge will be uniquely positioned to attract guests who are drawn to the wildlife, natural scenery, photography opportunities, kayaking and canoeing, and hunting, as well as those who might be fascinated by the social business and training aspect of the operation. Perhaps because of the unique training and education features of the project and the community engagement activities, the lodge will attract travelers interested in promoting responsible tourism. In addition, corporate groups may see value in holding meetings at a hotel practicing social responsibility, while building team morale in a beautiful environment. Varied outdoor activities will encourage lengthier stays, create unique guest experiences, and generate repeat visitation and viral marketing.

## Organization and Management

The lodge will be supervised by a general manager. The general manager would be appointed as a fixed-term faculty member on a two-year contract with a 12-month appointment in the hospitality program at the university nearby. The general manager would report to the Director of the School of Hospitality Leadership regarding the faculty appointment and to the North Carolina Wildlife Commission concerning operations of the lodge. A sales manager to promote the property as a meeting facility, wedding venue, etc. will also be needed. Student interns from the School of Hospitality Leadership will serve across all departments; one will serve as Assistant General Manager. Housing and meals for interns will be provided and their pay will account for these subsidies. All remaining staff positions will be filled by students enrolled in the Hospitality Institute of Mattamuskeet Lodge.

## Limitations

Although the lodge is expected to be profitable, guest participation and student training may be limited by the lodge's small scale. While there are no other tourism facilities of this kind in Hyde County, there are interesting tourism opportunities all over North Carolina and therefore, effective promotion and marketing will be keys to success and may at times be limited in scope due to the limited staff and committed resources. The information in the case provides evidence of the need for positive changes in Hyde County. Further opportunities for education, employment, and economic development are essential. Creative, innovative sustainable programs and the development of resources may help to provide such opportunities in these challenging times.

## Discussion Questions and Exercises

The details of this study present several issues that need to be considered in order to develop and promote the Hospitality Institute at Mattamuskeet Lodge as a viable social business and education and training facility. Assume that you, the reader, are one of the stakeholders in this proposed project by selecting a role as a potential manager at the property, a community organizer, an educator, a tourism planner, a university student, or a student trainee from the institute. Next review the proposal, evaluate the potential of this social business tourism opportunity, and consider the following questions that relate to several aspects of the proposed project:

### Discussion Questions

- What would be the potential advantages and disadvantages of making this proposal a reality?
- How could this type of project benefit tourism in a community?
- What other types of information do you need to determine the viability of this proposed project and why do you need them?
- What kinds of revenue could you potentially see from the rooms segment? Provide example scenarios.
- What possible sustainability practices could be applied in this

operation?

- What kind of additional development could you propose for the site (see Appendix 2 for a map of the area)?

## Exercises

After reading the case, consider the following exercises. Complete background research as needed for each point to justify your ideas.

- Provide a brief SWOT analysis of the lodge (a discussion of strengths, weaknesses, opportunities, and threats) as a possible lodging and education center with a social business focus.
- Consider the role that attractions play in terms of the suitability of the proposed use of the lodge and its environs.
- Describe the sorts of internships that you believe would be possible given this proposed plan. Be creative with your ideas for students.
- Consider the type and size of food and beverage operations you think would fit with this proposed property; describe each of them and determine if they would be leased or self-operated.
- Determine an organizational chart including the departments that you would have at the property and justify the need for each.
- Determine and justify the number of employees needed and in which capacities they would work.
- Determine the economic health of the market and consider how the proposed project might fit into the county's economic development. As part of this exercise, determine what primary and secondary data you would need to determine the economic health of the market.
- Describe the roles that transportation, competing lodging operations, and tourism would play in your determination of the feasibility of this property.
- Given the information here and your background research on the area, determine market penetration and performance.
- Determine what kinds of guest services and tourism-related business outlets would be operated at the lodge and which facilities would be operated as potential revenue sources and explain why these were selected.
- Design another type of potential social business in the hospitality and tourism sector.

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| <b>Appendix 1: STATEMENT OF ESTIMATED ANNUAL OPERATING RESULTS</b> |   |   |                  |               |
|--|---|---|------------------|---------------|
| <b>BASED ON</b>  | <b>14 Rooms</b>                           |   |                  |               |
| <b>PERCENTAGE OF OCCUPANCY</b>                                     | 63.45%                                    |   |                  |               |
| <b>AND AVERAGE DAILY ROOM RATE</b>                                 |   |   | <b>\$104.99</b>  |               |
| <b>REVPAR</b>  | <b>\$66.62</b>                            |   |                  |               |
|  |   |   | <b>AMOUNT</b>    | <b>RATIO</b>  |
| <b>REVENUES</b>  |   |   |                  |               |
|  | <b>ROOMS</b>                              |   | <b>\$340,409</b> | <b>55.90%</b> |
|  | <b>FOOD</b>                               |   | <b>\$165,576</b> | <b>27.19%</b> |
|  | <b>BEVERAGE</b>                           |   | <b>\$32,823</b>  | <b>5.39%</b>  |
|  | <b>OTHER F&amp;B</b>                      |   | <b>\$33,067</b>  | <b>5.43%</b>  |
|  | <b>TEL. COMMUNICATIONS</b>                |   | <b>\$20,339</b>  | <b>3.34%</b>  |
|  | <b>RENTALS AND OTHER INCOME</b>           |   | <b>\$16,746</b>  | <b>2.75%</b>  |
|  |   | <b>TOTAL REVENUES</b>                         | <b>\$608,960</b> | <b>100%</b>   |
| <b>DEPARTMENTAL EXPENSES</b>                                       |   |   |                  |               |
|  | <b>ROOMS</b>                              |   | <b>\$82,753</b>  | <b>24.31%</b> |
|  | <b>FOOD AND BEVERAGE</b>                  |   | <b>\$174,988</b> | <b>75.60%</b> |
|  | <b>TELEPHONE</b>                          |   | <b>\$9,458</b>   | <b>46.50%</b> |
|  | <b>OTHER OPERATED DEPARTMENTS</b>         |   | <b>\$402</b>     | <b>2.40%</b>  |
|  |   | <b>TOTAL DEPARTMENTAL EXPENSES</b>            | <b>\$267,601</b> | <b>44%</b>    |
|  |   | <b>TOTAL OPERATED DEPARTMENTAL INCOME</b>     | <b>\$341,359</b> | <b>56%</b>    |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>                            |   |   |                  |               |
|  | <b>ADMINISTRATIVE AND GENERAL</b>         |   | <b>\$50,544</b>  | <b>8.30%</b>  |
|  | <b>MARKETING</b>                          |   | <b>\$34,711</b>  | <b>5.70%</b>  |
|  | <b>PROPERTY OPERATION AND MAINTENANCE</b> |   | <b>\$28,621</b>  | <b>4.70%</b>  |
|  | <b>ENERGY</b>                             |   | <b>\$20,096</b>  | <b>3.30%</b>  |
|  |   | <b>TOTAL UNDISTRIBUTED OPERATING EXPENSES</b> | <b>\$133,971</b> | <b>22.00%</b> |
|  |   | <b>INCOME BEFORE FIXED CHARGES</b>            | <b>\$207,388</b> | <b>34.06%</b> |
| <b>FIXED CHARGES</b>   |   |   |                  |               |
|  | <b>REAL ESTATE AND PROPERTY TAXES</b>     |   | <b>\$17,660</b>  | <b>2.90%</b>  |
|  | <b>BUILDING AND CONTENTS INSURANCE</b>    |   | <b>\$2,436</b>   | <b>0.40%</b>  |
|  |   | <b>TOTAL FIXED CHARGES</b>                    | <b>\$20,096</b>  | <b>3.30%</b>  |
|  |   | <b>INCOME BEFORE RESERVE</b>                  | <b>\$113,875</b> | <b>31.08%</b> |
|  | <b>RESERVE FOR REPLACEMENT</b>            |   | <b>\$11,570</b>  | <b>1.90%</b>  |
|  |   | <b>INCOME BEFORE OTHER FIXED CHARGES</b>      | <b>\$102,305</b> | <b>16.80%</b> |

Appendix 2

# Map of Hyde County, North Carolina

Source: Familypedia (2014).

