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Going into the Private Campground Business

Michigan State University

Cooperative Extension Service

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February 1973

12 pages

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# **Before Going Into The Private Campground Business.....**



## **A SELF-TEACHING WORKBOOK**



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LONG BEFORE YOU SPEND YOUR FIRST DOLLAR FOR  
LAND OR PLANNING FOR A CAMPGROUND, FIRST  
ASK YOURSELF THIS IMPORTANT QUESTION, AND  
DEMAND AN ANSWER FOR YOURSELF AND YOUR FAMILY

"IF I WERE TO TAKE THE SAME  
AMOUNT OF MONEY AND PLACE  
IT IN SAVINGS OR INVESTMENT  
WOULD IT EARN MORE, ABOUT THE SAME,  
OR LESS PROFIT THAN IF I  
SPEND IT ON A CAMPGROUND?"

THE PERFORMANCE OF MANY AVERAGE SIZED CAMPGROUNDS  
TENTATIVELY SUGGEST THAT SITE RENTALS ALONE ARE  
EARNING ABOUT 3% ON INVESTMENT WHEN A CHARGE IS  
MADE FOR THE FAMILY'S LABOR INPUTS AND DEPRECIATION.  
WHEN THESE TWO ITEMS ARE NOT CHARGED TO THE  
CAMPGROUND BUSINESS INCOME, THE RESULTS  
OFTEN REACH 6% TO 7% RETURN ON INVESTMENT.

BEST OPPORTUNITY FOR MAXIMUM PROFIT FROM THE  
CAMPGROUND INVESTMENT RESULTS FROM TIRELESS  
MANAGERIAL EFFORT TO GET HIGH OCCUPANCY RATES  
AND SALES OTHER THAN SITE RENTAL INCOME



# A

## BEFORE YOU SPEND YOUR MONEY

1. Contact local unit of government to determine whether land zoning and use ordinances will permit recreation and camping.
2. Determine whether existing or planned competition nearby would limit your opportunity or change your plans. Check also for public recreation facility plans.
3. Get acquainted with local or state Department of Health to determine if your ideas are acceptable for permit to construct.
4. Get acquainted with an engineer who can help you do the best possible job on a long range recreation plan.
5. Decide the rock bottom income you are willing to accept (1st year, 2nd year, etc.) from this new business venture.
6. Get some realistic estimates on:
  - a) the cost of going into business (land, buildings, electrical, water, etc.)
  - b) the income to expect from site rental; from other sales
  - c) how long it will take to get the investment back: What your return on investment will be
7. Who will be in charge of each part of the business - will you be the manager, will all members of the family be expected to work long hours?
8. Where will you get competent help? Who will train the hired help?
9. If borrowed financing is necessary, what will be the source?
10. Outline a complete plan at least in rough form before you do any developing.



# B

## SOME COSTS TO CONSIDER

(Dollars)

|  |       |
|--|-------|
| Land Value or market price   | _____ |
| Feasibility study if used  | _____ |
| Engineers or architect if used   | _____ |
| Bath house, showers, etc.  | _____ |
| Community building (pavillion)   | _____ |
| Water (well and lines)   | _____ |
| Electrical (main line hookup<br>and internal wiring)   | _____ |
| Waste system (dumping station,<br>pipelines, septic tank, etc.)  | _____ |
| Streets (grading, gravel, etc.)  | _____ |
| Tables and burners   | _____ |
| Phone and office equipment   | _____ |
| Advertising and signs  | _____ |
| Insurance and taxes  | _____ |
| Store Building*  | _____ |
| Site markers and parking barriers  | _____ |
| Landscaping (trees, shrubs, flowers<br>and grass)  | _____ |
| Or other sales supplies such as boats, bicycles, coin-<br>operated machines, laundry, etc. as per your plans |       |



## FACTORS RELATING TO FINANCIAL SUCCESS

1. It is necessary to rent an average of more than half of all sites in the campground each day of season before a profit can be realized. Modern sites have a high cost and they must have someone using them in order to repay the cost of construction and earn some profit.
2. Campgrounds must be easily accessible for large numbers of people. You can't maintain more than 50% rentals if there are not enough people within reasonable distance to use them.
3. In addition to rentals of the camping sites, most successful campground owners offer other sales items: boat rentals, gift sales, food sales, coin-operated machines, hobby supplies, light inventory of camping supplies and equipment, etc.
4. Good management practices with special skills in attracting enough customers to maintain more than 50% site rentals. Must understand the desires and needs of the campers and keep them happy while in the campground, as well as attracting repeat trade.
5. An aggressive but well planned advertising program which first determines the type of customer you want to serve and then advertises direct to this audience rather than "shotgunning" your ads all over the map. Where to advertise is equally as important as how to advertise. It does little good to advertise rustic campsites to coach type campers who want all conveniences nor will it help much to advertise complete hookups to tent campers.
6. Site rental fees as well as other charges should be determined by the quality you offer, the costs involved, and the competition rather than be based upon the fees charged by the publicly owned campground. Why? Because they are non-profit.
7. More and more customers expect convenience as well as quality. They are not reluctant to pay (within reason) for extra service and attention. If a bathroom floor goes unscrubbed, or if the cold pop machine isn't operating, it can cost you hard earned customers.
8. Your employees will normally have more direct contact with the campers than the owner. Help should be well enough paid to attract good workers, and trained to give the best possible consideration to the customers.
9. A simple record keeping system that will provide both the necessary income and expense information and analysis of different costs and returns is necessary if you are to improve the business over the long range. Manager must be ready to drop losing items and expand profitable items if the business is to improve.



# D

## BUDGET PLANNING METHOD FOR A 100 SITE CAMPGROUND

1

|                             | <u>Example</u> | <u>Your Plan</u> |
|-----------------------------|----------------|------------------|
| Costs involved in each site | \$ 1,200.00    | \$ _____         |
| Total costs                 | \$120,000.00   | _____            |
| Indebtedness                | \$ 60,000.00   | _____            |

2

### Annual expenses based on 100 day season

|   |              |       |
|---|--------------|-------|
| 12% charge on debt, interest<br>and principle | \$ 7,200.00  | _____ |
| Labor - 2 in family at \$3.50<br>(an hour)    | \$ 4,200.00  | _____ |
| 2 hired at \$2.50<br>(an hour)                | \$ 3,000.00  | _____ |
| Taxes, supplies, insurance,<br>etc.           | \$ 4,500.00  | _____ |
| Depreciation estimated                        | \$ 3,000.00  | _____ |
| Total annual expenses                         | \$ 21,900.00 | _____ |

3

### Annual Income

|  |              |       |
|--|--------------|-------|
| 100 sites, 90 day period, 70%<br>rental average & at \$4.00<br>per day | \$ 25,200.00 | _____ |
| Plus 20 day out of season at<br>60% use & \$4.00 per day               | \$ 4,800.00  | _____ |
| Total Income   | \$ 30,000.00 | _____ |

4

|                                  |             |       |
|----------------------------------|-------------|-------|
| Gross income less annual expense | \$ 8,100.00 | _____ |
|----------------------------------|-------------|-------|



Continued

5

## Effect of Rental Averages on your Income Plan

|   | <u>Example</u> | <u>Your Plan</u> |
|---|----------------|------------------|
| a) if 60% rather than 70% in regular      | \$ 21,600.00   | \$ _____         |
| and 50% rather than 60% <u>off</u> season | \$ 4,000.00    | _____            |
| Total Income                              | \$ 25,600.00   | _____            |
| Income less expenses                      | - \$ 3,700.00  | _____            |
| b) if 50% rental in regular season        | \$ 18,000.00   | _____            |
| if 40% in <u>off</u> season (20 days)     | \$ 3,200.00    | _____            |
| Total Income                              | \$ 21,200.00   | _____            |
| Income less expenses (red)                | - \$ 700.00    | _____            |
| c) if 40% rentals in regular season       | \$ 14,400.00   | _____            |
| if 30% rentals in <u>off</u> season       |                |                  |
| (20 days)                                 | \$ 2,400.00    | _____            |
| Total Income                              | \$ 16,800.00   | _____            |
| Income less expenses (red)                | - \$ 5,100.00  | _____            |

\* \* \* \* \*

- a) Please note that starting at the rental rate of 50% the income is less than the expenses.
- b) If you choose to discount the charge on family labor it will look like your profit is increased by \$4,200.00 per year.
- c) Opportunity for financial success in the campground industry is improved with the addition of sales items that will supplement the income from rental of sites. This example does not show other campground income.



# E

## EFFECT OF SITE FEE RATES UPON YOUR INCOME PLAN

The fee you charge for renting your campsites should be based upon your cost in developing the site, the quality that it offers, plus a reasonable margin of profit.

Consideration should be given to using different fees at different sites and at different times: sites near the waterfront should be priced at a premium, busy weekend and holidays might suggest premium pricing possibilities, one might offer seven days for the price of six days regular fee, etc.

Users do not complain as much about high fees with quality as they do about low fees and poor quality.

\* \* \* \* \*

Assume a 100 site campground being used for a 110 day season, there are then a possible 11,000 use days in the season, observe what happens to income when occupancy goes downward, and the price (fee) changes.

\* \* \*

- a) Occupancy rate of 70% for season = 7,700 use/days
- |                |               |          |                               |
|----------------|---------------|----------|-------------------------------|
| 7,700 x \$4.50 | per day fee = | \$34,600 | site rental income for season |
| 7,700 x \$4.00 | per day fee = | \$30,800 | site rental income for season |
| 7,700 x \$3.50 | per day fee = | \$26,950 | site rental income for season |
| 7,700 x \$3.00 | per day fee = | \$23,100 | site rental income for season |

\*

- b) Occupancy rate of 60% for season - 6,600 use/days
- |                |               |          |                               |
|----------------|---------------|----------|-------------------------------|
| 6,600 x \$4.50 | per day fee = | \$29,700 | site rental income for season |
| 6,600 x \$4.00 | per day fee = | \$26,400 | site rental income for season |
| 6,600 x \$3.50 | per day fee = | \$23,100 | site rental income for season |
| 6,600 x \$3.00 | per day fee = | \$19,800 | site rental income for season |

\*

- c) Occupancy rate of 50% for season = 5,500 use/days
- |                |               |          |                               |
|----------------|---------------|----------|-------------------------------|
| 5,500 x \$4.50 | per day fee = | \$24,750 | site rental income for season |
| 5,500 x \$4.00 | per day fee = | \$22,000 | site rental income for season |
| 5,500 x \$3.50 | per day fee = | \$19,250 | site rental income for season |
| 5,500 x \$3.00 | per day fee = | \$16,500 | site rental income for season |



## E

Continued

Experienced campground owners have found that two things occur when they have for some reason raised the fees on their camping sites:

- a) they usually have fewer customers the next year
- b) they usually have a greater dollar income the next year

In other words, they would expect to loose a small percentage of their previous customers and still gain in the income. Some new customers come into the market without knowing prices were lower in previous years.

Entirely too many would be campground owners feel that they cannot ask a higher fee than is charged by a nearby city, state, or federal campground. This would only be true if the expectation of the private owner is that he is offering a place for those who cannot get into the public campground in which case there is little promise of developing a good business.

## F

### CREATING SOURCES OF SUPPLEMENTAL INCOME

Basically a campground functions as a place to assemble people. While assembled at the campground for a weekend, a week, or longer, the campers have "purchase needs" in addition to the rental of the site on which they park their auto and camping rig.

Purchase needs take on many forms. Some food and beverage products are needed to augment those packed at home. Some athletic equipment is needed both by active youngsters and exercising oldsters. The whole family likes to "take in" as many interesting sightseeing spots as possible. Horseback riding, boating, canoeing, crafts, games, gifts, laundry facilities all represent things that the camping family wants and needs depending upon how long they are staying.

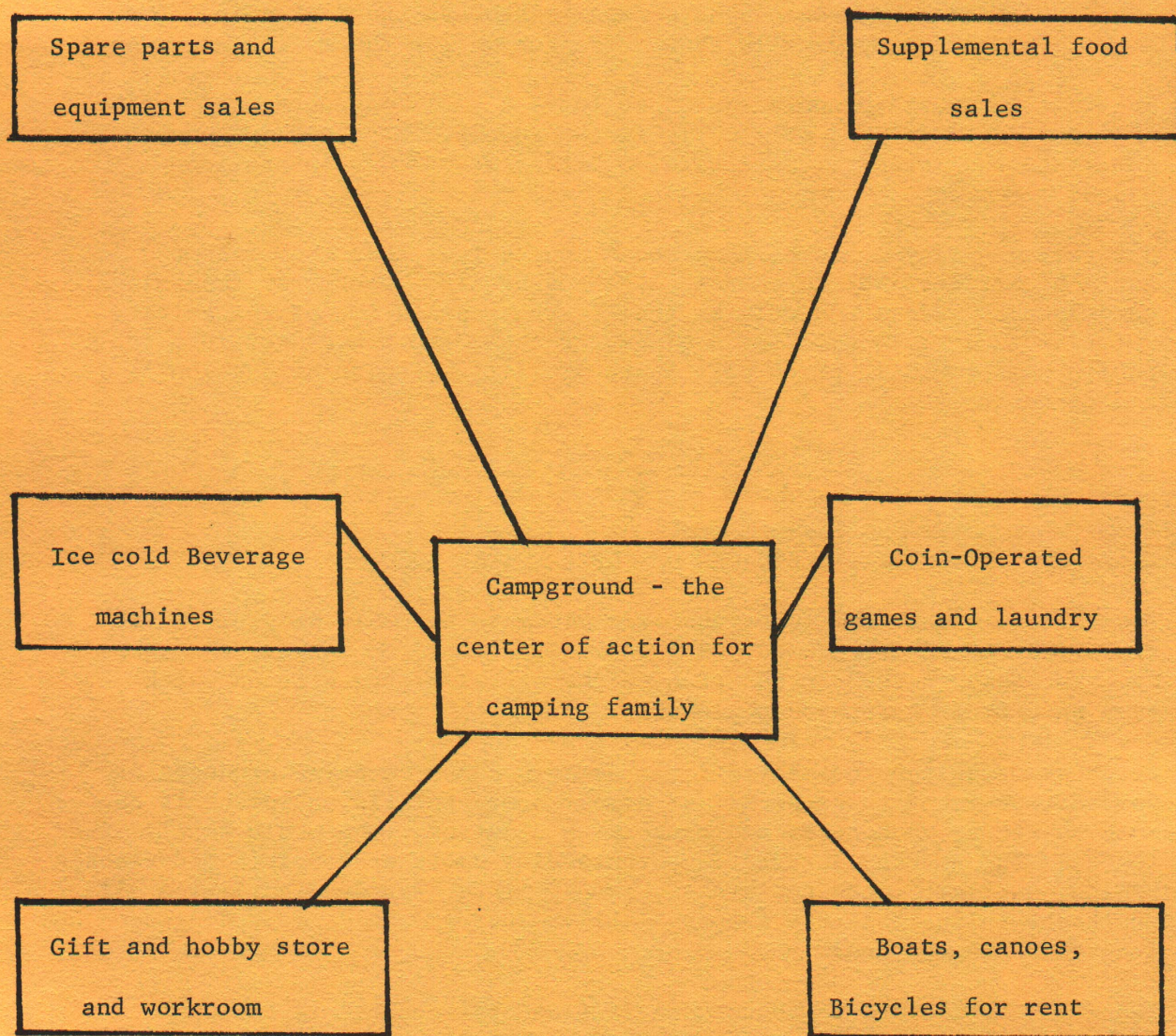
There are two points to focus upon if financial success is the GOAL of the campground business. One is that SITE RENTAL ALONE DOES NOT PROVIDE ENOUGH PROFIT MARGIN. Some would hurry to say that it would if you could maintain more than 75% occupancy all season. The other focal point is that you can build good returns from the NEEDS AND WANTS of campers by SUPPLEMENTAL SALES. If you do not offer the "needs" items the campers want they will purchase them somewhere else.



# F

Continued

Diagrammed, this concept would take on the following look:



Each of the areas of possible supplemental sales means an income source for the campground business.



## CAMPGROUND BUSINESS PROSPECTS

1. The number of privately operated campground has been increasing rapidly over the past ten years. Competition is growing in both size and number.
2. Overnight camping facilities adjacent to super highways show more rapid increases than destination campgrounds, but also less promise of long range success in some northern states. The focus should be upon destination campgrounds in this state.
3. Sales of Recreation Vehicles increasing. In a 1972 survey, 2/3 of the campers in privately owned campgrounds had purchased their camping rigs since 1969.
4. State, Federal, and local government camping sites are increasing. The policy in some state parks is to develop more rustic type campgrounds and less modern convenience ones.
5. Both investment and income is relatively low for primitive campgrounds. Both investment and income opportunity is greater in the modern convenience type campground.
6. Most campers are from urban or suburban homes and they look for more comfort and convenience in campgrounds.
7.
  - a) Privately operated campgrounds, to be successful businesses, should be well planned, well operated and modern, offering unique conveniences not available in public campgrounds.
  - b) Should offer for sale other goods and services in addition to site rentals.
  - c) Should offer longer seasons of usage, and greater use of midweek.
  - d) Should work toward ever improving quality in order to appeal to the upper ranges of the market.
  - e) Should be based upon sound business practices under good managership.
  - f) Should be flexible in order to adjust to changing trends in equipment and services.





Issued in furtherance of cooperative extension work in agriculture and home economics, acts of May 8, and June 30, 1914, in cooperation with the U.S. Department of Agriculture. G.S. McIntyre, Director, Cooperative Extension Service, Michigan State University, E. Lansing, Mich. 1P-2:73-SM-UP