

# SO YOU'RE PLANNING AN OUTDOOR RECREATION BUSINESS

by

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There is little doubt that outdoor recreation as an income-producing enterprise is here to stay. Most national and state surveys substantiate the great and varied demands. Many organizations provide a a variety of technical services. Citizens of Idaho are constantly reminded of the economic value of tourism and recreation to the state.

Because of this flow of information many individuals are contemplating an outdoor recreation enterprise as either a supplemental or main source of income. As a result of increased interest and because Idaho is a state with large public land holdings that provide many recreation opportunities at a minimum cost, people seek guidelines for determining the feasibility of an outdoor recreation enterprise.

A recreation enterprise is essentially like any business. It has the normal requirements of land, buildings, equipment, operating capital and labor. These things and demand for types of recreational opportunities should be thoroughly evaluated before an individual develops an enterprise.

Basically and in the broadest sense, the feasibility determination attempts to answer four questions:

- 1. What do I have to sell?
- 2. To whom can I sell it?
- 3. Can I expect a reasonable profit from my investment and labor?
- 4. What particular traits, skills and training do I need to successfully manage an outdoor recreation enterprise?

#### FEASIBILITY DETERMINATION

The determination should begin with a brief statement of the intent and scope of the enterprise. The location of the proposed site and the names of the owners and developers should also be included. People who have assisted or may assist in the determination should also be identified. Information publications should be acquired as source material.

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## Inventory of Recreational Resources

The success of the enterprise depends in part upon the quality of what it has to sell.

#### 1. Natural Resource Inventory:

 Acreage. The area should be mapped, showing boundaries and access roads.

 Terrain. The general topography and drainage patterns should be mapped. Potential development locations should be identified.

c. Vegetation. Both ground cover and forest overstory should be described and mapped. In locations to be developed, individual trees by species, age, and size should be mapped to integrate actual development with minimal site destruction.

d. Waterways, lakes and ponds. Water is a necessity and a primary attraction. Water areas should be described and mapped. State or county officials should be contacted to determine if the water is suitable for consumption and swimming. If a body of water does not exist, consideration should be given to an impoundment.

e. Climate. The number of sunny and warm days should be noted. In locating a ski area, for example, climate is the ultimate controlling factor. Climatic records are available from the U.S. Weather Bureau, or in many cases, the National Forest Service.

f. Fish and Wildlife. For fishing and hunting, important species and their abundance should be recorded. Quality-opportunity of success should be indicated. For the camera enthusiast, common birds and animals should be listed.

g. Significant Features. Significant natural geologic formations (waterfalls, caves, semi-precious gem deposits) should be recorded along with their potential appeal to the recreationist. Any significant historical sites should also be noted.

#### 2. Personal Attributes:

The prospective outdoor recreation enterprise operator and his family must have particular interests, knowledge, and abilities if they are to have a successful enterprise. This is often the key to success or failure.

- Interests. People, entertainment, conversation, sports, nature study, hunting, fishing, domestic animals.
- b. Knowledge. Farming, fish and game management, domestic animal rearing and management, natural history, local customs and places, sports, instruction, maintenance and salesmanship.
- c. Abilities and Skills. Meeting and dealing with people, managing land, organizing and supervising other people, problem solving, food and lodging service skills, business sense, fishing, hunting, outdoor sports, and teaching are important.

Successful operators have to be neat, clean, friendly, patient, strong and have a great deal of stamina. These traits are perhaps more important if the enterprise is a supplementary source of income.

## Influence of Surrounding Area

The feasibility determination should include an appraisal of the influence of the surrounding area on the success of the enterprise.

- Roads: Condition (hard surface, all-weather, 2-lane, etc.), distance the recreationist must travel from a major access route, major potential market areas that roads link to site, number of highways feeding into general location of proposed enterprise, and local road improvements programmed for the general area.
- 2. Nearby Recreation Opportunities: Nearby recreation opportunities that either complement or compete with your proposed enterprise should receive serious consideration. The survey of nearby recreation opportunities should include:
  - a. Supply of Opportunities, Goods, and Services: Units of land and water managed by public agencies, public recreation facilities including annual visits, privately owned enterprises including what they are selling, how well they are doing, how well they are managed, what rates they charge, and their problems.
  - b. Geologic and Historic Attractions: Inventory all within an hour's drive of the proposed enterprise.
  - Fishing and Hunting Areas: Inventory species and populations.
  - d. Complementary Goods and Services: Enterprises that provide equipment, industry tours, and normal living goods and services should be inventoried. Potential customers are often concerned about medical service, churches, newspapers, etc.
- General Attractiveness of Locality: The surrounding area or quality of local environment should be described. Few people will want to travel through a barren, eroded, junky, or trashy area to get to a recreation site.
- 4. Community Attitudes: Where the customers more often than not visit the nearest community, the degree of friendliness and help by residents can be a definite asset or liability to a proposed enterprise.

After evaluating the surrounding area, the feasibility determination should indicate how the proposed enterprise will compete. The statement should include either singly or collectively some of the following:

- 1. How to provide the highest quality of facilities and services.
- 2. What variety of recreation opportunities will be offered.
- 3. What innovations will be offered in management.
- 4. Special needs.

It is emphasized at this point that the mere completion of such a statement does not guarantee success. There are still two major steps in the determination.

#### **Available Markets**

One of the most difficult parts of the analysis is identifying available markets, and predicting potential customers from these markets. One basic approach will be presented for the sake of clarity. Other approaches are available.

- Regardless of whether the enterprise is to provide day-use activities, overnight, weekend, or extended vacations, the determination should first consider three market zones:
  - **Zone 1.** Extending from the proposed enterprise up to 25 miles, **Zone 1** includes individuals who would participate in such day-use activities as picnicking, golfing, swimming, fishing, nature study, tennis, and horseback riding.
  - Zone 2. Zone 2 extends from the outer limits of Zone 1 to 125 miles from the proposed enterprise. Activities might include the day-use activities found in Zone 1 as well as lodge facilities or goods and services associated with extended day, or overnight, or weekend trips.
  - **Zone 3.** Zone 3 extends from the outer limits of Zone 2 up to 300 miles. Visitors from Zone 3 and sometimes beyond will usually be guests for weekends or extended vacation periods. Only enterprises with quality accommodations or significant features on a par with government developments can expect to draw upon this market zone.

Regardless of which zone an individual thinks his enterprise will serve, certain basic information should be gathered. This should include a general description of the demand for activities and facilities by numbers of age and income classes of people. It should also include how far people are willing to travel, how much time they will spend, and how much money they are willing to pay to participate in activities and use certain facilities. Consideration should be given to special interest groups that might provide a more stable market. A summary of this information will provide a guideline for determining what types of development should be undertaken at the proposed enterprise, determining the amount of potential use, and determining what to charge. A potential operator must be fully aware of how much of the market will be absorbed by his competition, both public and private.

#### **Enterprise Master Plan**

A completed feasibility determination should have detailed information on recreation opportunities and facilities to be provided. This includes quality and quantity of each along with their location on the site. Normally this information is presented in map or chart form and is referred to as the Master Plan.

Any plan should provide for orderly growth. Initial development, however, will depend upon what is economically feasible. The need for additional facilities can be adjusted to the rate of increase in business volume.

#### Cost-Return Analysis

To complete your feasibility determination, the final step is to project the net income that you might receive from your proposed operation. A cost-return analysis provides an estimate of income and expenses prior to any development decision.

It is emphasized that such an analysis should be based on the best

information available. Estimates of potential markets, potential use of facilities and detailed construction and development plans are essential.

The most efficient means of approaching the cost/return analysis is to project the following estimates:

- Cost of establishing or renovating facility and depreciation schedule.
- 2. Cost of equipment and depreciation.
- 3. Capital investment summary.
- 4. Annual operating expenses.
- 5. Annual operating costs and depreciation.
- 6. Revenues, operating costs, profit and labor income.

This information is illustrated by an example from How to Plan the Recreation Enterprise (Circular 396, Cooperative Extension Service, University of Maine, Orono, Maine) and setting it up on a standard Farmers Home Administration form for recreation facility analysis. The example is a campground of 100 sites. The same calculations can be made for any type of recreation enterprise.

# RECREATIONAL FACILITY ANALYSIS

Name	 County
Type of Facility	 

 Estimated cost of establishing or renovating facility and depreciation schedule. List project requirements such as: water supply, tables, fireplaces, docks, roads, playground equipment, sanitation facilities, safety equipment, ski lift, cabins, showers, toilets.

Item	No. Units	Unit Cost	Total Cost	Est. Life (yrs.)	Annual De- preciation
Road devel. and constr.		2000	\$ 2,150.00	****	ini
Clearing tent sites	100	\$ 20.00	2,000.00	****	****
Drill well, pipes, faucets	****	2418	2,100 00	15	\$ 140.00
Central flush and washroom	1	8,000.00	8,000.00	15	533.00
Privies (supplement)	7	750.00	5,250.00	10	525.00
Tables	100	23.00	2,300.00	5	460.00
Garbage Cans	100	4.00	400.00	3	133.00
Entrance Signs			100.00	5	20.00
Direction Signs		****	50.00	5	10.00
Swimming float & div. bd.	****	***	175.00	10	17.00
Playground Equipment	****		250.00	3	83.00
Office & Camp Store Eqpt.	++++	****	2,700.00	20	135.00
Storage Shed	See		1,000.00	15	66.00
Fireplaces	100	12.00	1,200.00	10	120.00
Total Cost			\$27,675.00		

Estimated cost of equipment and depreciation. List all equipment such as truck, 1-ton up, pick-up, tractor, mower, store and camp equipment, tools, etc., necessary to the operation of the project.

Estimated

Annual

Item		1715	Cost		Depreciation			
Pick-up truck (used)			\$	1,200.00	5	\$	240.00	
Γr	acto	or and trailer (used)		1,700.00	10	NO	170.00	
Го	ols	& misc. equipment	A MARIL	1,200.00	5		240.00	
		Total Cost	\$	4,100.00			Marya	
	3.	Estimated Capital Investm	ent Sum	mary.				
		Cost of facilities			\$ 27	7,675	.00	
		Operating equipment						
		Land 60 acres @ \$70.00 p			1,200	.00		
		Total			5,975	.00		
	4.	Estimated Annual Operat	ing Expe	enses.				
		Labor, 100 days @ \$10.00	per day				3 1.000.00	
		Insurance	p,				450.00	
		Advertising					200.00	
		Taxes					250.00	
		Licenses					25.00	
		Supplies, repairs					500.00	
		Miscellaneous items					575.00	
		Total					3,000.00	
	5.	Total Annual Operating C	Costs and	Depre	ciation.			
		Depreciation of Installatio					\$ 2,240.00	
		Depreciation of Operating	Equipn	nent (2.)	)		650.00	
		<sup>1</sup> Interest on Investment (3	3.)				2,338.38	
		Annual Operating Expens	ses (4.) _				3,000.00	
		Total					8 8,228.38	
	6.	Estimated Revenues, Operand Labor Income	rating C	osts, Pro	ofit			
		Revenues Campground fe	ees 2				\$13,750.00	
		Profit from car	mp store				1,500.00	
		Gross Income					\$15,250.00	
		Less Annual Opera	ting Cos	ts (5.) _			8,228.38	
		Profit and Return	to Labor				\$ 7,021.62	
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In the illustration, net income amounts to \$7,021.62 and represents returns to the operator's labor, management and investment. The return on the operator's investment is 19.5% (\$7,021.62 divided by \$35,975.00).

Computations in this illustration are based on a hypothetical campground of 100 sites. The basic assumptions are that construction will be contracted and that the enterprise will occupy the operator, his family and one hired hand for the season. In a situation where this

<sup>&</sup>lt;sup>1</sup> Calculated on an interest rate of 6½ percent x capital investment. This value would be lower if the land did not have to be purchased.

<sup>2 100</sup> sites x 55 percent x 100 days x \$2.50 per site per day.

or any other type of enterprise represents supplementary income, various combinations of items are possible in developing and operating the enterprise. Whatever the alternative, it can only be evaluated by making appropriate changes in a basic budget for a new dollar estimate.

It should also be noted that this technique is desirable in helping to decide between two entirely different recreation enterprises. By completing a budget for each enterprise, a clearer picture of which would derive the greatest profit and return on investment can be obtained.

#### Sources of Information and Assistance to Complete a Feasibility Study

1. Government Agencies: Agencies are involved in a variety of ways, and can provide most information necessary for such a study. In Idaho the following agencies can contribute information: University of Idaho College of Agriculture, including county agricultural extension agents; state subject matter specialists, and teaching and research personnel; College of Forestry, Wildlife, and Range Sciences, Idaho Fish and Game Department, Idaho Department of Parks, Idaho Department of Lands, Idaho Highway Department, Farmers Home Administration, Soil Conservation Service, National Park Service, U.S. Forest Service and U.S. Bureau of Land Management. The Chamber of Commerce and civic organizations can be helpful

#### SUMMARY

It is obvious that to make a recreation enterprise a paying venture in Idaho, a great deal of effort must be put into the feasibility study. The success of such an enterprise can be directly proportional to the energy and detail in preparing the study. Where a reasonable amount of land, labor and capital are necessary to any recreation enterprise, a thorough and detailed feasibility study will undoubtedly pay greater dividends than any other single activity of the planning phase.

While potential developers vary in their need for assistance, the guidelines provided in this paper, supplemented by informed assistance, will give the basis for a realistic decision.



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