

## Case 6

# Jay's Travel Trailer Park

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Jay Fenton had just completed his first year in the travel trailer park business. The purchase of the park a year earlier was Jay's "retirement" investment. The \$300,000 purchase price seemed to be a way to invest some of his retirement funds in an area close to relatives but still provide an attractive annual income.

The thirty-nine-unit park was located off a main highway leading to a lake in one of the state's most beautiful and biggest resort areas. The park contained an office, swimming pool, laundry room, rest rooms, sanitary dump, and picnic areas. In addition, the park had the potential to add more trailer sites with water and electrical hookups. The park was located on the corner of a forty-acre plot, leaving plenty of room for expansion. Although there was no current access to a creek that bordered the property, there was potential for developing beach and boat access to the creek as well as other attractions.

The lackluster performance of the park caused Jay to consider other options. One possibility was to invest more money in park development and promotion to create a "destination park" rather than the current "pass-through" park orientation. Destination parks were developed with more amenities and guests averaged longer stays, while pass-through parks offered minimum amenities and were designed for guests en route to another destination. In searching for some answers, Jay obtained data on parks and camping from the state's tourism department.

### *Tourism and Recreation*

The state has developed and supported a great deal of tourist and recreationally oriented attractions during the past decade. The development of a lake and dam gave impetus to more rapid development of this area.

The northwest area is the second-ranked area in the state for overnight visitors. Of the total 24,107,500 overnight visitors to the state last year, about 22 percent were in the northwest area (see Table C6.1).

Smith County attracts the greatest number of overnight visitors. Although Washington County is far behind as a destination, it leads the entire region as the economic and population center. As such, Washington County could be a source of weekend business during the slow seasons.

### *Overnight Campers*

Overnight campers represent a specific segment of the tourism market. They accounted for about 7.2 percent of the state's overnight visitors last year (see Table C6.2).

More pertinent to this overnight segment is the number of group nights (shown in Table C6.3), which is the total number of parties (three to four people) times the number of nights' stay in a particular area. Table C6.3 shows the actual nights in total for the state and then estimated nights for the northwest area.

These two tables together show that last year, for example, 97,904 camping parties came to the area, stayed an average of 7.6 days, and

TABLE C6.1. Overnight Visitors in the Northwest Area

<b>County</b>	<b>Visitors</b>	<b>State share (in percent)</b>
Smith	2,543,340	10.55
Rankin	2,143,155	8.89
Simpson	26,515	0.11
Washington	605,100	2.51
<b>Totals</b>	<b>5,318,110</b>	<b>22.06</b>

TABLE C6.2. Camping Activity for the Past Three Years

	Two years ago	One year ago	Last year
Overnight campers	1,788,700	1,885,470	1,730,900
Parties	506,030	496,175	443,810
Average stay (nights)	7.4	6.8	7.6
Persons per party	3.6	3.8	3.9
Person-night	13,236,380	12,821,196	13,154,840
Spent per party-night	\$31.45	\$33.87	\$35.97
Annual economic impact	\$117,768,360	\$114,277,040	\$121,325,220
Percent by category			
Truck-camp	33.5%	32.0%	32.5%
RV-camp	49.6%	50.0%	49.0%
Tent-camp	16.9%	18.0%	18.5%
Total	100.0%	100.0%	100.0%
Trip nights	3,744,622	3,373,990	3,372,956

TABLE C6.3. Camper Party Nights: State and Northwest Region

	State			Northwest Region		
	Two years ago	One year ago	Last year	Two years ago	One year ago	Last year
Parties	506,030	496,175	443,810	103,129	109,010	97,904
Avg. stay	7.4	6.8	7.6	7.4	6.8	7.6
Group nights	3,744,622	3,373,990	3,372,956	763,155	741,268	744,070

used 3,641,594 RV campsites and 137,653 tent campsites. The area's share of campers is 63 percent of all overnight visitors, and that the percentage of campers by type is basically the same in the northwest area as for the state as a whole.

### *Competitive Analysis*

Jay found that three basic marketing strategies are used by private trailer park facilities. One strategy is aimed at the overnight or pass-through market. These parks are designed to appeal to travelers en route to some predetermined destination or those who are in a location for a short (one- to three-day) period. These parks are usually close to major highways and offer few amenities to guests.

A second strategy is aimed at those travelers who are planning an extended stay (four to seven days) in a particular area—usually a resort or other major tourist attraction. Although these trailer parks do not contain many amenities, they are located very close to if not adjacent to the attraction.

A third strategy is geared toward the extended traveler, and includes all, or most, of the amenities in the park itself. Thus the park becomes the attraction and offers facilities and services geared to guests who will remain in the area for a few days.

Jay's research of competitors revealed that all three strategies existed in the northwest area of the state. The major competitors in the Washington-Smith County area are shown in Table C6.4. This table clearly demonstrates the differences in services offered in this area. Yogi Bear's Jellystone Park is by far the most complete—using the concept of a self-contained resort; it offers the full range of services. KOA and Safari basically use the same strategy but with fewer amenities. KOA's location on a major state highway also appeals to over-nighters. Safari is being expanded at the present time to offer more sites and amenities.

Jay's Travel Trailer Park uses the strategy of not providing amenities but locating close to them. It is within a mile of the Corps of Engineers Recreational Area. The park offers nothing more than a place to park a trailer; however, a grocery store, boats, bait, picnic tables, and other amenities are all close to the park. A couple of mobile home parks in the area offer overnight hookups but cater strictly to over-nighters and probably the overflow of other RV parks.

A new proposed park located only 100 yards off a major highway is planned and is awaiting a zoning decision. Judging from the location and amount of land used in development, it would appear to be aimed at the pass-through or short-stay market.

TABLE C6.4. RV Trailer Parks by Type of Amenities

RV trailer park	Coffee snack bar	Group shelter	Rest rooms	Laundry room	Swimming pool	Sanitary dump	Showers	Picnic tables	Rec room	Boats	Teen hut	Planned activities	All hookups	Tennis courts	Barbecue grill	Tent area	Playground	Number of units
KOA	X		X	X	X	X	X	X	X				X			X	X	60
Yogi Bear's Jellystone Park	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		60
Safari	X		X	X	X	X	X		X					X	X			24
Jay's Travel Trailer Park			X	X	X	X		X					X					39
Karl's Mobile Home Park					X			X										10

The real opportunities in the RV park business appear to be destination parks. These parks are close to major population centers (up to four hours driving time) and offer urban RV owners a chance for fun on weekends and vacations.

Destination parks require a major financial commitment because they offer many activities to keep guests busy. A typical list of activities and related facilities includes: swimming, fishing, and boating; golf (including miniature golf); children's playgrounds; horses; jet skis; waterskiing; separate recreational buildings for adults and youths; tennis; hayrides; picnic areas; Ping-Pong; shuffleboard; horseshoes; archery; hiking and bicycle trails; restaurants/bars; general store; laundries; movies; etc. Most important is a planned recreation program for children, teenagers, and adults. Such parks earn about half of their revenue from fees other than for space. The goal is fun, fun, fun for everybody, so that visitors stay longer and return frequently.

A second category of destination parks requires less investment in facilities but usually much higher costs for land. Located near a major attraction, such as Disney World, visitors to such parks are attracted by fun and sightseeing activities in the surrounding area.

RV park rates are rising rapidly, however, this has not affected RV travel; it is still more economical than other modes of travel.

Although the rate of return for a successful RV park investment is higher than for a mobile home park, the risk is much greater. Feasibility studies for RV parks are more subject to error; in contrast, such studies for mobile home parks are almost foolproof. One problem with RV park investments is that mortgage money is more difficult to obtain. The financial community is aware of the successful record for mobile home parks. RV parks are much newer and have no well-established financial record.

As Jay considered his options, he also reflected on the need for an effective marketing strategy. One consistent observation he made of private, nonfranchised trailer parks is that they lacked an effective marketing program. Thus, he realized that the marketing activities would be part of the overall effective management of the park.

## Target Market

Although Jay carefully identified several potential market segments, he was not sure which of these he should target. The segments included the following:

1. *Cross-country travelers* en route to a predetermined destination looking strictly for overnight hookups.
2. *Cross-country travelers* en route to a specific area of the country but with no definite destination in mind—looking for some overnight and some short-stay (two to four days) accommodations.
3. *Local area residents*, usually weekenders, on short trips with a predetermined destination—tourist attractions, horse shows, lake recreation area, etc. They mostly want overnight hookups but also need some short-stay accommodations.
4. *RV clubs, large multiunit family groups, sport spectators* may be local area residents and/or nonlocal residents, depending on the nature of the group involved. They may want only overnight accommodations for a short stay.

Jay knew that the marketing mix (consisting of location, amenities, price, and promotion) should be put together with a specific group in mind. For example, a strictly overnight park would be located close to a major highway, offer few amenities, and not require a park theme. Figure C6.1 shows some of the possible positions available for a new or redesigned park attempting to “fit in” with existing offerings.

The current trend in travel trailer parks is in the direction of the high amenity concept such as Yogi Bear's Jellystone Park. These parks appeal to the extended-stay market (five to seven days) with a complete array of amenities from laundry rooms to planned activities for children. At the other end of the scale are mobile home parks, which have a few sites for travel trailers and offer no specific amenities.

Low Amenities		High Amenities		
Karl's Mobile Home Park	Jay's Travel Trailer Park	KOA	Safari	Yogi Bear's Jellystone Park

FIGURE C6.1. Positioning a Trailer Park

## Price

The prices charged by different trailer parks reflect three things: (1) competition, (2) amenities offered, and (3) usage or costs associated with serving guests. More amenities mean a higher price. Typical prices for RV parks reflect these factors and are shown in Table C6.5.

This price structure reflects current competitive prices for a park with several amenities. Jay's Travel Trailer Park currently offers few amenities and charges a flat rate of \$10.50 per night.

Using current revenue and expense data, Jay knew he could estimate revenue and expenses for expansion to a 100-site destination-type park for average occupancy levels. The park had a 45 percent occupancy rate last year, and Jay felt that repositioning the park as a 100-site destination park would increase occupancy rates to at least 65 percent. If expansion was feasible, Jay knew he would still need an effective marketing plan to increase occupancy.

Jay estimated that an additional \$1,110,000 would be needed for expansion of the park and to reposition it close to the Yogi Bear's Jellystone Park. This included sixty-one more sites, additional pools, a water slide, access to the river, a canoe rental shop, a riding stable, driving range, and other amenities needed to reposition the park as a destination park. (See Table C6.6 for income statement information.)

A less aggressive strategy would be to add some amenities and position the park close to the KOA-Safari position. Jay felt that this would result in a 55 percent occupancy rate and would require an investment of \$500,000. Table C6.7 offers a breakdown of the cost estimates for adding additional amenities.

Jay was still undecided about what he should do next. He knew he could not continue the current losses but wondered if a more effective promotional campaign might increase occupancy without any additional capital investment.

TABLE C6.5. Typical RV Park's Services and Rates

<b>Amenities</b>	<b>Price per night</b>
All hookups (two people)	\$19.95
Water or electricity only	\$15.50
No hookups	\$10.50
Charge for each additional person	\$1.00
Air conditioner or heater surcharge	\$5.00



Table C6.6. Last Year's Income Statement

<b>Income and expenses</b>	<b>Income</b>
Occupancy, based on seven-month season (210 days)	<u>45%</u>
No. of spaces rented	3,686
Gross income	\$38,703
Extra occupancy	2,126
Vending machines, laundry	2,835
Store sales	28,350
Total Income	<u>\$72,014</u>
Less cost of goods sold	27,010
Gross profit	<u>\$45,004</u>
Less expenses	
Salaries	\$10,500
Payroll taxes	1,994
Property taxes	2,723
Insurance	2,160
Advertising and signs	3,000
Office expense and supplies	300
Telephone	600
Electricity	3,835
Water	1,834
Maintenance—bldg and ground, trash	200
Maintenance—pool	1,000
Maintenance—roads	300
Depreciation	9,226
All other expenses	2,500
Total expenses	<u>\$40,172</u>
Income before debt service and taxes	<u>\$4,832</u>
Interest expense	12,000
Taxes	0
Profit	<u>(\$7,168)</u>

TABLE C6.7. Amenity Cost Estimates

<b>Amenity</b>	<b>Cost</b>
Land preparation/landscaping	\$180,000
Site preparation (61)	61,000
Paving roads	250,000
Drainage/sewage	75,000
Large pool (40' x 80')	38,000
Small pool (25' x 60')	33,000
Recreation building (adult)	125,000
Recreation building (youth)	112,000
Water slide	30,000
River access	25,000
Canoes/rental building	15,000
Concession stands (2)	6,000
Stable and horses	15,000
Driving range	25,000
Miniature golf range	25,000
Equipment	30,000
Miscellaneous supplies	15,000
Additional working capital	50,000
<b>Total additional capital</b>	<b>\$1,110,000</b>