

Country Vacation Profit\$

Agdex 888-1

... profit planning tools in a start-up country vacation enterprise

Business Summary

This factsheet provides specialized business information on developing and operating a country vacation enterprise. This information was generated by a group of operators who arrived at a consensus of opinion concerning the investment, bookings, costs and revenues for a start-up, two-room enterprise.

The information is based on developing a two-room operation over a five-year period. It reflects a growth in bookings through an aggressive marketing program.

This information is intended as a business planning tool. Managers will have to assess all the key operating and financial variables that would influence the success of their enterprise.

Operating Targets

Guest Nights	
Year one	30
Year two	125
Year three	250
<i>Repeat guests 25%</i>	

In most cases, a farm or ranch is the primary enterprise and the country vacation enterprise is developed as an additional or supplemental enterprise. As well, the operator and family generally provide all the labour requirements.

Country vacation enterprises generally operate from May to October. However, those that can provide winter activities, such as cross-country skiing, are open for business year-round.

Financial Benchmarks

Gross Operating Profit	
Year 1	(\$13,250)
Year 2	(\$8,872)
Year 3	(\$902)
Year 4	\$5,474
Year 5	\$8,662

Capital Investment

The capital budget reflects the investment required to develop a two-room facility. These enterprises tend to be operated in conjunction with an existing farm or ranch operation. This reduces the capital investment required to start the operation and provides the rural experience necessary for the operation to gain guests.

	Cost	Share	Total Cost
Land			
Yard site (5 acres)	\$17,500	10%	\$1,750
Improvements			
Yard improvements	\$4,500	100%	\$4,500
Signs	\$1,000	100%	\$1,000
Utilities (farm share)	\$22,500	10%	\$2,250
Added costs associated with bringing two rooms up to standard	\$11,000	100%	\$11,000
Cost to develop hiking trails	\$7,500	100%	\$7,500
Cost to develop picnic sites	\$5,000	100%	\$5,000
Total Costs			\$31,250
Equipment			
Riding lawn mower	\$2,500	100%	\$2,500
Kitchen items, bedding	\$17,655	100%	\$17,655
Total Costs			\$20,155
Total Investment			\$57,905

Market Factors

Country vacation enterprises are distinct from "bed and breakfast operations" by providing guests with an agricultural experience in addition to overnight lodging.

Country vacation enterprises should be developed around an experience component or "draw" such as horseback riding or farm tours that give guests a reason for coming and staying at the operation.

Many country vacation enterprises have developed market niches such as serving European guests.

Cash Flow Projections – Country Vacation Enterprise

Cash flow must be looked at separately from revenue and expenses to assess the viability of the operation. This is due to the start up time required to achieve an acceptable level of bookings.

Conventional financing will likely be limited to home improvements. Equity capital will be needed to fund equipment and yard improvements.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Cash Outflows						
Total capital investment	\$57,905					
Total Cash Operating						
Expenses investment		\$10,133	\$16,348	\$24,628	\$31,252	\$34,564
Personal withdrawals		\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Debt payments		\$4,237	\$4,237	\$4,237	\$4,237	\$4,237
Total Cash Outflows		\$34,369	\$40,585	\$48,865	\$55,489	\$58,801
Cash Inflows						
Borrowed capital	\$17,372					
Equity capital invested	\$40,534					
Total Cash Revenues		\$5,700	\$23,750	\$47,500	\$66,500	\$76,000
Total Cash Inflows	\$57,905	\$5,700	\$23,750	\$47,500	\$66,500	\$76,000
Net cash revenues		(\$13,669)	(\$16,835)	(\$1,365)	\$11,011	\$17,199
Cumulative cash flows (operating)		(\$13,669)	(\$30,504)	(\$31,869)	(\$20,857)	(\$3,658)

Critical Operational Variable

The success of a country vacation operation depends on effectively marketing the accommodation and recreation activities.

Marketing Management

Three basic marketing objectives for country vacation operations are:

- define the service
- identify the target market
- achieve a presence with the market

Key marketing activities include:

- participating in industry marketing campaigns
- gaining a market presence through brochures and websites
- developing relationships with guests

The key marketing objective is to achieve acceptable guest nights and repeat guests.

Snapshot Annual Enterprise Budget Country Vacation Enterprise (Two-room) – Year 3

Projected Revenues	Revenues	Your Snapshot
Guest nights	250	_____
Price per night	\$190	_____
Total Projected Revenues	\$47,500	_____
Projected Direct Costs		
<i>Marketing Costs</i>		
Alberta Country Vacation Association membership	\$400	_____
Local tourist bureau	\$350	_____
Alberta accommodation guide	\$200	_____
Individual brochure	\$750	_____
Other advertising	\$3,250	_____
Marketing phone calls	\$1,250	_____
<i>Food Related Costs</i> \$/meal		
Breakfast	\$4.00	_____
Lunch	\$7.00	_____
Supper	\$12.00	_____
Facility use	\$1,250	_____
Trail maintenance	\$3,750	_____
Septic	\$170	_____
Power and gas	\$750	_____
<i>Overhead Costs</i>		
Insurance	\$1,000	_____
Travel costs	\$3,375	_____
Business license	\$50	_____
Office expenses	\$750	_____
Professional fees	\$750	_____
Interest on operating	\$833	_____
Total Overhead Costs	\$6,758	_____
Total Projected Direct Costs	\$24,628	_____
Projected Indirect Costs		
Operator labour (750 hours @ \$20/hour)	\$15,000	_____
Depreciation – improvements	\$2,783	_____
Depreciation – equipment	\$4,234	_____
Total Projected Indirect Costs	\$22,017	_____
Total Projected Direct and Indirect Costs	\$46,645	_____
Gross Operating Profit	\$855	_____
Interest on Investment		
Facilities and improvements	\$920	_____
Equipment	\$733	_____
Land	\$103	_____
Total interest on investment	\$1,757	_____
Total projected economic costs	\$48,402	_____
Return to management	(\$902)	_____

Sensitivity Analysis

The number of guest nights and repeat guests will affect the profitability of most country vacation operations.

The table below shows the effect on return over direct costs in the third year with changes in prices per night and guest nights.

Price (per night)	Guest Nights					
	150	200	250	300	350	400
\$80	(\$12,628)	(\$8,628)	(\$4,628)	(\$628)	\$3,372	\$7,372
\$90	(\$11,128)	(\$6,628)	(\$2,128)	\$2,372	\$6,872	\$11,372
\$100	(\$9,628)	(\$4,628)	\$372	\$5,372	\$10,372	\$15,372
\$110	(\$8,128)	(\$2,628)	\$2,872	\$8,372	\$13,872	\$19,372
\$120	(\$6,628)	(\$628)	\$5,372	\$11,372	\$17,372	\$23,372
\$130	(\$5,128)	\$1,372	\$7,872	\$14,372	\$20,872	\$27,372

Risk Factors

Individual operators must address the following risk factors:

- variable guest nights
- government regulations
- a high workload
- significant time to develop a market presence

Management Strategies

Key management strategies that will contribute to economic performance:

- achieving a desired experience for a particular client group
- growing the client group and achieving return clients through effective marketing activities
- keeping capital costs down by basing a country vacation operation on what is already in place on the farm
- controlling operating costs through effective financial management
- planning for additional rooms by accessing new markets (groups, retreats, families, etc.)

Resources

Websites

Alberta Agriculture, Food and Rural Development –
Ag Tourism Initiative
<http://www.agtourism.ca>

Publications

Cultivating Agritourism: Tools and Techniques for Building Success, Canadian Farm Business Management Council. Available for purchase at <http://www.farmcentre.com> for \$29.00

Country Vacation Enterprise Ag-Venture profile, Alberta Agriculture, Food and Rural Development, 2001

For more information contact:

Alberta Country Vacation Association
Roberta Macleod, Executive Director
P.O. Box 5245
High River, Alberta T1V 1M4
Phone: 1-866-217-2282
Website: <http://albertacountryvacation.com/>

Alberta Agriculture, Food and Rural Development
New Ventures Specialists
Ag Info Centre
1-866-883-7677

Ag Tourism Initiative
Bill Reynolds
Phone (780) 427-4424
Fax (780) 422-7755
E-mail: bill.reynolds@gov.ab.ca

Sharon Stollery
Phone (780) 968-3514
Fax (780) 968-4709
E-mail: sharon.stollery@gov.ab.ca

Definitions

- Gross operating profit: The amount remaining after direct and indirect expenses have been paid.
- Cash operating expenses: Direct costs + taxes, licenses and insurance
- Operator labour: Labour contributed by the owner/operator, valued at \$20 per hour. Not a cash cost.
- Depreciation: The reduction in the value of an asset over its lifetime.
- Interest on investment: The cost of investing in capital assets rather than in a financial investment. Valued at 5.85% on all asset categories.
- Return to Management: An amount left to compensate the owner/operator for risk and management.

Prepared by:

Dean Dyck, P. Ag. – Financial Business Analyst
Alberta Agriculture, Food and Rural Development