

PRIVATE RECREATION ENTERPRISE ECONOMICS

by MALCOLM I. BEVINS, *Associate Resource Economist, Agricultural Experiment Station, University of Vermont, Burlington, Vt.*

ABSTRACT. Cash returns to recreation enterprise labor and management are low. Low returns are associated with poor location, small size, and short season. Land-value appreciation may offset low returns for some operators and explain why they stay in business. Profit maximization is not always the prime entrepreneurial goal: personal and noneconomic considerations or long-run capital gain may have an overriding effect. This situation could change if low returns were coupled with high property taxation over a prolonged period. Recreation researchers could add to existing knowledge by classifying all firms according to entrepreneurial goals.

PUBLIC LAW 88-29, passed by the U.S. Congress in 1963, called for a coordinated effort among all levels of government and private interests to assure adequate outdoor recreation resources for present and future generations. This law stimulated numerous studies of the economics of the private recreation firm. As a rule, these studies indicated relatively limited opportunity for financial success in the outdoor recreation business.

This report reviews a number of these studies and analyzes those factors associated with poor returns. Some of the goals of recreation entrepreneurs are reviewed, and the appropriateness of current financial-analysis techniques is evaluated.

PROFITABILITY OF THE RECREATION FIRM

Most economists agree on procedures for determining annual returns to labor and management. In simple terms, the commonly accepted procedure is to deduct actual cash expenses from gross income, and subtract from this amount an allow-

ance for depreciation and return on capital investment. The residual is the return to labor and management. Further deduction of an allowance for unpaid family labor yields a residual that is called "return to the operator for his labor and management."

In general, returns to labor and management have been extremely low for firms engaged in providing outdoor recreation. Addressing a recreation workshop in Pennsylvania, Johnson (1966) said, "Probably three out of five recreation enterprises will fail financially, or go out of business for some other reason, within 5 years after they start. And, probably not more than half of the remainder will ever be really financially successful."

In a study of rural recreation enterprises in New England, Moore (1964) found that low returns to labor and management characterized a wide variety of recreational firms. His report was based on detailed case studies of 30 operations. The specific findings shed important light on enterprise profitability.

In a study of the private campground industry in Vermont, I found that 47 per-

cent of the campground operators were operating at a loss. To make matters worse, they had no return on their equity (*Bevins 1967*). In another study of campground businesses in New York, Loomis and Wilkins (*1970*) concluded, "Incomes derived from the campground operations studied were extremely modest." Actually, net cash income less depreciation averaged only \$83 for the season (before any allowance was made for interest on investment). The authors suggested that many campground operators need to look for non-monetary returns to derive satisfaction from such operations.

Several factors are associated with income level in the outdoor recreation field. Among the more important are location of enterprise, scale of operation, business volume, length of season, and price level.

LOCATION OF ENTERPRISE

Johnson (*1962*) emphasized the importance of a good location: "Awesome scenery, salubrious climate, spectacular fishing, and other natural resources are economically sterile without the well-beaten path along which the necessary services can afford to cluster."

Location is critical when one is estimating demand for outdoor recreation. Any good text in business management stresses the importance of studying the business site in great detail before making a final selection. But many recreation entrepreneurs never take this critical step. They commonly start with a specific location and then attempt to select a recreation enterprise to fit it. In some cases, the property has been in the family for years. In other cases, it is purchased for personal pleasure rather than business potential. Quite possibly the owner has fond memories of the area as a boy and desires to "return home" to relive these memories. This is fine for personal satisfaction but makes poor business sense.

SCALE OF OPERATIONS AND BUSINESS VOLUME

Johnson (*1966*) concluded that two major causes for low returns from recreational ventures were small size of enterprise and

too few customers. Citing a report prepared for the Appalachian Regional Commission by Robert R. Nathan Associates, Johnson (*1968*) noted that fewer than 6 percent of all recreation enterprises employ five or more persons on a year-round basis. Even during the peak of the season, fewer than 16 percent have five or more employees.

According to Loomis and Wilkins (*1970*), "It is difficult to operate businesses profitably without sufficient volume over which to spread fixed costs." A campground swimming pool with the necessary filtration and cleaning equipment may cost \$6,000. The cost for providing this type of recreation service is excessive for the operator who is small or fails to reach fairly high occupancy rates. Loomis and Wilkins correlated campground size with net cash income less depreciation. They found that, for the campgrounds studied, those with fewer than 100 sites averaged a minus \$1,043; those with 100 to 199 sites, a minus \$451; and those with 200 or more sites, a plus \$1,818.

On the basis of occupancy, the New York study indicated that those firms with less than 40 percent occupancy had a net return of minus \$2,273; those with 40 to 60 percent occupancy had a positive return of \$758; and those with occupancy exceeding 60 percent had a positive return averaging \$4,289.

LENGTH OF SEASON

The Bureau of Outdoor Recreation (*1966*) surveyed more than 2,000 financial institutions in a nationwide attitude study of lending practices. Bankers and lenders were asked if outdoor recreation enterprises were more risky than other business ventures and, if so, why. Nearly two-thirds of the respondents answered yes, and cited the limited length of season.

The major recreation market is the family unit. The family travels when children are on vacation from school, so most family recreation trips are limited to the summer months. One might legitimately question how a business firm can succeed when full-scale operations are restricted to 10 weeks of the year.

RECREATIONAL SERVICE PRICING

Loomis and Wilkins (1970) indicated that fees currently charged in New York campgrounds may be inadequate in terms of generating realistic levels of income. The entrepreneur who establishes price levels on the basis of operational cost is a rare person indeed. Observation indicates that pricing is more typically based on prevailing rates in the area than on operating costs.

Recreation is a service that the customer expects to receive at a minimal price. This attitude has been conditioned over the years where public facilities have been made available at less than full-cost pricing. At a recent congressional hearing to restore the Golden Eagle program (U.S. Congress 1970), testimony revealed that 73 percent of the respondents in a general population survey felt entrance fees at public areas should cover half or less of the total operational cost. Only 8 percent of the respondents felt that all costs should be borne by the recreationist.

Recreational services available at a subsidized rate impose serious restrictions on the private sector to price according to actual cost of operation. Recreation is a service for which the consumer will do comparison shopping if significant price differentials are apparent.

With low returns so prevalent in the outdoor recreation industry, we must question how the industry stays alive. The answer lies in an analysis of entrepreneurial goals.

ENTREPRENEURIAL FINANCIAL GOALS

Johnson (1968) classified recreation enterprises into three groups: the windfall or social operation, the supplemental operation, and the major enterprise.

He describes the windfall or social operation as a business in which the operator does not necessarily want to maximize cash returns from recreation. He will operate his facilities if returns cover cash costs because he believes in conservation, because members of the family want to partake in recreation, or because this is one way for a gregarious, retired person to keep active and have people around.

Johnson describes the supplemental enterprise as a business that provides work for unemployed or underemployed family labor. Cash returns usually are more important than in the first instance, but non-cash benefits still can be of major importance. Where recreation is a major enterprise, all cash costs and most fixed costs associated with the operation must be covered.

Few data are available to indicate the relative importance of each of these classes of recreation business. However, it is apparent, after reviewing studies of enterprise net returns, that many firms may not look upon profit maximization as the primary enterprise goal. This creates a real problem for the operator who is vitally concerned with maximum net returns. He cannot use economic logic to predict the action of his competitors—a far different situation than exists in other commercial areas.

Uvacek and Schmedemann (1968) noted a similar situation in an analysis of Texas cattle operations. They divide cattlemen into three categories—traditional, transitional, and contemporary.

The traditional cattleman receives most of his income from livestock production. His actions are based upon rational farm management thinking. He buys and sells according to market conditions. His primary goal is profit maximization.

The transitional cattleman is primarily a "land stocker." His primary goal is to hold land. Grazing is really a side consideration. Profits may not be large; but to this person a cattle operation provides an enjoyable use of free time and makes some contribution to total family income.

The third type, the contemporary cattleman, owns a ranch for many reasons—recreation, prestige, health, a basic desire for land ownership, land value appreciation, or tax benefits.

The Texas study concluded that most transitional cattlemen and practically all contemporary cattlemen fail to increase or decrease business operations in response to price changes. Paradoxically, these cattlemen have an important effect on cattle

prices, yet their buy-and-sell decisions are not greatly affected by price. The traditional cattleman who attempts to analyze local market conditions and follow rational economic thinking in predicting market changes is frustrated when faced with such competition.

In analyzing these three types of cattlemen, Uvacek and Schmedemann maintained that under these circumstances it is unreasonable to assess all land costs against the cattle operation. Some value must be placed on the indirect benefits associated with the operation. Only by some revision of management-analysis techniques can we realistically project future growth of these types of operations.

Traditional labor income analysis rarely considers changing land values. Increases in land values are apparent only through a year-by-year comparative balance sheet, and then only if land values are adjusted annually.

In the Northeast, values of land with high recreational attributes are increasing phenomenally. Sinclair (1969) reports more than a fivefold increase in the weighted average price per acre of unimproved land sold in 31 typical Vermont towns between 1958 and 1968. Such an appreciation in land value can offset many years of low labor returns whether it be from farming, recreation, or other activity.

A smaller, though significant, increase in land values was noted in the Bureau of Outdoor Recreation report, *Recreation Land Price Escalation (1967)*. This report showed that land values are rising from 5 to 10 percent per year throughout the Nation.

RESEARCH IMPLICATIONS

If entrepreneurial goals are distinctly different, then the researcher who groups all firms together in an analysis of business operations is presenting a confused picture. This problem goes back to the initial collection of research data. At that time, he must ask the right questions so that each firm can be properly classified according to the operator's true goals. Firms must be so classified in any descriptive analysis of

business operations if these analyses are to be meaningful. Following this procedure makes possible more realistic projections of recreational industry growth.

Negative returns to labor and management might be expected for the social entrepreneur (described by Johnson), or the contemporary entrepreneur (described by Uvacek and Schmedemann). A prolonged period of low returns might be possible where recreation is only a supplementary enterprise. Separation of these groups, in any analysis, permits a more direct focus on enterprises where recreation is the primary business activity or where profit maximization is the desired goal.

Extension workers and others who advise the recreation firm would benefit immeasurably from such a business analysis. Lenders would get a more realistic appraisal, and loan applications might be more favorably received. Lenders freely admit ignorance of the economics of the outdoor recreation enterprise (Bureau of Outdoor Recreation 1967). And this ignorance is magnified when researchers group firms with unlike goals together for analytical purposes.

And if we are to gain insight into the likely tenure of recreation business operations, we must look beyond returns to labor and management. We must build into our analytical framework consideration for increasing land values. This may have as much or more bearing on tenure than actual business profits.

IMPLICATIONS FOR EXTENSION WORK

The recreation firm adviser should first determine the true personal and business goals of the landowner before making specific recommendations. Johnson (1966) said, "If profits are not the major concern, we have no business trying to justify their success or flay their failure by use of economic measures."

Perhaps this means that we, as educators, should establish some values to reflect these noneconomic considerations and incorporate these values into formulas used to judge business decisions. Time-tested de-

cision-making procedures should not be dropped. Every business operator, regardless of his motivation, should at least be aware of how his operation deviates from the optimum situation dictated by rigid economic analysis. Ideas that might be discarded for the entrepreneur whose primary goal is profit maximization might not be discarded for the entrepreneur with other goals.

Consider, for example, the retired plumber who fondly remembers bobsledding as a boy and wishes to establish a commercial bobsled run on his property. His prime motivation is personal recreation. Perhaps he should not be discouraged from such an operation even though market analysis indicates that the odds for success are low. He must mentally equate his total personal gains and financial losses in arriving at a final decision.

All business operators should be made aware of the break-even concept and its application. Campground operators might use this tool to project cost-revenue data and to determine the occupancy level at which revenue from campsites will cover specific expenses. From such an analysis, proper decisions might be made concerning an economically sound rate structure. If an operator chooses to deviate from such a rate structure, he does so in full recognition of the economic consequences.

Capital budgeting should become common practice in evaluating alternatives. Recognition of the time value and opportunity cost of money must be impressed upon individuals making financial decisions, whether they be personal- or business-motivated. We should not fear the use of sophisticated and complex tools in educational programs even though some of our clients may hold other values higher than profit maximization.

Time and motion study and work simplification techniques are needed in the recreation field. Every effort should be made to reduce labor requirements associated with daily operations. This type of analysis would be appropriate for all classes of entrepreneurs, irrespective of motivation. No one likes to work harder than is absolutely

necessary. Substantial improvements in work methods have been accomplished through time and motion studies in agriculture and forestry. These same techniques need to be applied in the recreation field—in both public and private sectors.

PROPERTY TAXATION A MAJOR PROBLEM

In the Northeast, property taxation is a major emerging problem that could have a pronounced impact on all private recreation development. The problem is acute in areas where the fair market value of land is rising unchecked in response to an urban interest in a rural retreat.

In Vermont I studied taxation of youth camps and attitudes of operators (*Bevins 1970*). In 1966 only 15 percent of the youth-camp operators felt that they might be taxed out of business. By 1969 the number had risen to 38 percent. The youth-camp industry is a victim of circumstances. Land and water resources, which are absolutely necessary to effectively operate a youth camp, carry a high value for seasonal-home development. The camp operator will receive a significant capital gain if and when property is sold for seasonal homes. But some operators would prefer to continue a camp operation and would do so if property taxes were realistically aligned with camp revenue.

A parallel situation may be emerging with other recreational firms. It would indeed be unfortunate to see all types of private outdoor recreation resources sold for seasonal-home development. Yet such a situation could be triggered by unchecked increases in property taxation.

THE SHORTER WORK WEEK A MAJOR OPPORTUNITY

On the brighter side of the picture, the recent movement toward the 10-hour work day and 4-day work week is encouraging for the outdoor recreation enterprise. If this transition should become widespread, recreation enterprises located relatively near Northeastern urban population centers might be greatly affected. The extra day off might provide a much-needed addi-

tion to weekday business volume—currently a severely limiting factor to business success. Moore (1964) noted that in New England, except for summer camps and vacation farms, weekend business accounted for 70 to 90 percent of total weekly receipts.

If the 10-hour day becomes acceptable, we might very logically move to a situation where each of two crews works 3 days a week, 10 hours a day. This would make economic sense, as industrial firms could use their equipment far more efficiently.

Consider the impact that this might have upon the recreation industry. What does this mean in terms of primary residence? Is it not conceivable that the seasonal home might become the permanent home if the urban apartment is needed only two nights a week? Recreation planners should seriously consider this possibility if urban pressures continue to increase and more industries reduce the length of the work week.

PROFITS TO THE INNOVATOR

The innovator in American industry is usually well rewarded. In the recreation field, this opportunity is not diminished in the least. An innovator must have imagination, a superior knowledge of people, their interests and attitudes, and a constant awareness of changing technology.

Accurate prediction of changing recreation interests is not easy. People change, and their interests change over time. Consider the gross inaccuracy had we projected 1930 recreation interests into the 1970's on the basis of population increases alone. Our failure to recognize man's increasing mobility would have led to the construction of an oversupply of large country inns, many of which would be abandoned today. A similar overbuilding would have occurred had we developed youth camps on the basis of population projections alone.

One cannot project recreation demand too far with any degree of reliability. Specific activity interest may come, go, and later return again. Witness the changing

interest in cross-country skiing. At one time this was a highly popular activity. Later it was overshadowed by downhill skiing, and now it is again an expanding activity.

The innovating entrepreneur is a gambler in a sense. He won't be satisfied adhering to the security of a currently acceptable recreation mode. He will question his customers thoroughly to determine their true recreation interests and their unsatisfied goals. He will critically observe their actions to determine how he might modify his operation to yield greater customer satisfaction. He will experiment with new ideas. Some of these ideas will prove worthless, but his ultimate success may hinge upon the early development of just one ingenious idea. The lightweight boat was developed in response to man's interest in mobility. The quick-release ski binding was the outcome of man's interest in increased safety.

The aggressive entrepreneur will study our mathematical projections of demographic data and apply his personal knowledge of people, their interests, and attitudes. He will conceive a development program that will yield far greater returns than the operation planned in accordance with a stereotyped set of recommendations. Entrepreneurial gain is still very much a matter of individual initiative and perseverance.

SUMMARY & DISCUSSION

As a rule the returns to the labor and management input in private outdoor recreation enterprises are low. Improper location is a major factor associated with low returns. Other factors include insufficient size of operation and too short a business season.

We cannot assume that these limiting factors and low returns will discourage landowners from entering and continuing in the private outdoor recreation field. In many instances the decision to operate an outdoor recreation enterprise is more related to personal and noneconomic con-

siderations than to profit maximization. If, however, low returns are coupled with high property taxation over a prolonged period, the ultimate effect may be an overbalancing of these personal and noneconomic considerations and an end to recreation business activities.

The traditional methods of measuring enterprise profitability are unrealistic unless we consider land-value appreciation. This factor may be a far greater determinant of enterprise tenure than actual cash returns to labor and management.

Any realistic projection of the role of private enterprise in outdoor recreation must consider (1) cash enterprise returns, (2) land value appreciation, (3) land taxation, and (4) noneconomic entrepreneurial goals. Failure to consider any one of these factors could lead to a grossly inaccurate projection.

Outdoor recreation researchers can clear some muddy waters if they will properly classify outdoor recreation enterprises according to entrepreneurial goals. Research

results so classified will be far more useful to field advisers, bankers, and others than any information now available. Recreation field advisers must tailor their advice to the product of rational economic analysis coupled with full consideration of personal landowner desires.

A major problem of the recreation firm is underutilization of facilities on weekdays. Improvement may be on the horizon if the 4-day work week should become common. At some point in the future, a 3-day work week with two crews may become common. Such action would have a profound impact on the outdoor recreation industry.

The private outdoor recreation firm has an important role to play in the years ahead. The highest degree of success will accrue to the entrepreneur who uses ingenuity and imagination and becomes an innovator among recreation firms. Researchers and field advisers are challenged to help guide the private sector to minimize mistakes in judgment and to maximize benefits, both monetary and nonmonetary.

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