

# AG Ventures

## Agriculture Business Profiles

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### Agri-tourism: Country Vacation Enterprise

The purpose of this factsheet is to profile accommodation and related activities as agri-tourism business options for farm and ranch families. This overview focuses on key management issues for farm and ranch families considering the development and operation of a country vacation enterprise in Alberta. The profile is intended to help managers make their own thorough assessment of the key factors that would influence the success of their venture.

#### 1. Industry Highlights

- Agri-tourism in Alberta is an emerging industry. It is responding to a growing demand for access to farm and ranch lifestyles and products from what is largely an urban audience.
- The Ontario Ministry of Agriculture, Food and Rural Affairs defines agri-tourism as the economic activity that occurs when people link travel with agricultural products, services or experiences.
- Farms and ranches that offer agri-tourism experiences to the travelling public have existed in Canada for over 20 years.
- Several Canadian provinces have recognized potential for agri-tourism and have prepared strategy-related documents about the industry. These include Newfoundland (1999), Saskatchewan (1998), Manitoba (1997), Ontario (1996) and Nova Scotia (1996) already have such documents.

**Table 1. Status of Canadian Agri-Tourism Industry**

Region	Working Farms/Ranches with Country Vacations	Per Cent of Farms/Ranches Featuring Country Vacations
Atlantic	175	25
Quebec	200	28
Ontario	175	25
Prairie Provinces	135	19
British Columbia	25	3
Canada	700	100

*Original Source: L. A. Deroi (1991) Canadian Country Vacations: The Farm and Rural Tourism in Canada; Presented in An Agri-Tourism Strategy for Nova Scotia, July, 1996.*

- There are two types of farms and ranches that have accommodations and recreation activities in Alberta. The first type is farm/ranch stay. These operations offer overnight accommodation in a family home, a cabin or a campsite. Breakfast is either provided or self-catered. The second is a farm/ranch vacation. These operations feature longer visits, averaging 3.5 days in length. Visitors stay in the family home, on-site cabins or cottages. Activities, both on and off-site, are included as part of a package. The farm/ranch also serves as a staging area for day excursions.

- A full range of other agri-tourism enterprises and activities also exist in Alberta. They include farm tours, festivals, rural petting zoos, bed and breakfasts, horseback riding, vegetable and fruit u-picks, fishing, wild boar hunting, rural tea houses, country stores and barn dances.
- Alberta country vacation operators offer a variety of opportunities. Some include horseback riding as a main attraction, while others feature a quiet relaxing farm experience away from the hustle and bustle of city life. Some enterprises stress proximity to large urban centres for a quick getaway. Others feature themes based around the traditional working ranch lifestyle.
- Agri-tourism ventures also are a venue for educating people about modern farm practices. These ventures provide an opportunity for farmers, market gardeners and ranchers to promote their lifestyle, rural community and homegrown products.
- The Alberta Country Vacations Association (ACVA) was established in 1971. It was one of the first organizations to help develop and promote farm/ranch experiences in Alberta.
- There are many reasons for the emerging popularity of agri-tourism experiences. The primary reasons include:
  - nostalgia – a desire to “go home”
  - a curiosity with rural lifestyles or reaffirming traditional values
  - learning vacations – learning to ride a horse or observing modern farm practices
  - health consciousness – a desire for homegrown food
  - close-to-home getaways – reasonable prices and good value
  - favourable exchange rates, hospitality and open space for international guests
- Many Alberta farm and ranch operators who enter the country vacation business look to it as a way to supplement their existing agricultural-related income. Some new entrants to the marketplace are from overseas and are motivated to establish country vacation businesses to accommodate an emerging European market. Others are seasoned operators who are striving to make their business a primary income source.

**Table 2. Distribution of Country Vacations in Alberta**

Alberta Regions	Farms/Ranches with Country Vacations*
South (of Calgary)	21
Central	9
North (of Edmonton)	7

\*Note: Other enterprises exist that are not members of ACVA, do not advertise in the *Alberta Accommodation Guide* and are 'non-working' commercial guest ranches.

Source: Compiled from a review of the 1999 *Alberta Accommodation Guide* and the 1999 *Alberta Country Vacations brochure*. The numbers represent country vacations on farms and ranches that are operated to contribute to the overall agricultural-based family income.

- In the United States, there were an estimated 2,000 farms offering vacation packages.<sup>1</sup> During the 1990s, rapid growth was experienced in the northwestern states.
- In Europe, agri-tourism is one of the most rapidly expanding tourism elements. Austria has a long tradition of offering farm vacations, going back to the 19th Century. Today, Austria provides the largest number of farm accommodations in Europe; a total of 21,000 farm homes, or 7.5 per cent of all farms.

## 2. Regulatory/Operational Basics

- The establishment and operation of a country vacation venture in Alberta is not regulated by a specific Government Act. Rather, there are a number of government departments and organizations that provide start up information, referrals and operational guidelines.
  - Alberta Agriculture, Food and Rural Development's (AAFRD) rural development specialists – business provide information and guidelines for developing market gardens, Farmers' Markets, food processing and related farm and ranch diversification options.
  - Alberta Economic Development's Tourism Development Branch (TDB) provides start up information, tourism statistics and market trends for country vacation operations.
  - The Prairie Farm Rehabilitation Administration (PFRA) has information about wetland management for improving wildlife and waterfowl habitat as a tourism resource, dugout construction, wells and the provision of trees for farms and ranches.

1 Vogeler, 1977

- The Alberta Craft Council provides start up information, business planning and marketing advice for the production of rural craft. This can be a value-added opportunity for on-site country vacation sales.
- In addition, the following agencies and organizations should be contacted when determining the feasibility of operating an agri-tourism enterprise.
  - Alberta Bed and Breakfast Association (ABBA)
    - provides rural farm/ranch based bed and breakfasts with inspection criteria for membership (ABBA B&B Standards – 1995)
  - Alberta Country Vacation Association
    - provides guidelines and membership networking opportunities with its membership to ensure quality country vacation experiences
  - Alberta Health and Wellness – Regional Health Authorities
    - provides guidelines for ensuring sanitary conditions (potable water and hot tubs) and the preparation of food (meals, handling, conditions for use of farm raised products such as eggs and meat); Bed and Breakfast Health Standards (1997)
  - Alberta Hotel Association
    - establishes criteria in consideration of meeting acceptable inspection standards to participate in the Alberta Accommodation Guide
  - Alberta Infrastructure
    - provides information about signage for provincial highways
  - Alberta Labour
    - provides information about Bed and Breakfast Accommodation and the Alberta Building Code (1996)
  - Alberta Finance
    - provides the procedures for remitting the five per cent Alberta Hotel Tax for farm/ranch lodging over three rooms
  - Insurance companies
    - provide property and liability coverage for guests, including waiver conditions for participation in farm/ranch activities like canoeing, riding and cross-country skiing
  - Local municipal government office
    - answers inquires regarding land use bylaws, development permitting and signage for municipal roads
- Public Lands – Alberta Tourism Recreational Leasing Process (ATRLP)
  - handles applications for the use of public lands for tourism related use
- Revenue Canada
  - provides information on the tax implications associated with owning and operating a country vacation business. These might include the use of farm/ranch homes, cabins and lodging facilities for guests, the use of vehicles, equipment, utilities and professional services, and meals.

### 3. Marketing Basics

- Some of the key marketing issues that need to be considered by agri-tourism hosts are as follows:
  - Guests for Alberta’s farm/ranch accommodation and related recreational activities come from three points of origin: Alberta, other parts of Canada and international locations. The point of origin varies significantly for Alberta, in comparison to the other Prairie Provinces.

**Table 3. Origin of Guests**

Prairie Provinces	Per Cent from Own Province	Per Cent from Rest of Canada	Per Cent from International
Manitoba	60	20	20
Saskatchewan	41	76	24
Alberta	27	18*	51
			(44% from (Europe)

\*Note: The Alberta figures do not add to 100 per cent because there is an unknown per cent of guests from Saskatchewan and Alberta.

Source: Compiled from the Agri-Tourism Industry in Manitoba, A profile of Operations and Issues, 1997; The Alberta Country Vacation Association, personal communication with Margie Moore, President, February, 1999.

- According to the Alberta Country Vacations Association, the United States makes up only three per cent of its market. However, visitors from the United States are *very satisfied* with Alberta country vacation offerings. They particularly like the service component. Initially, American visitors appear unaware of the favourable exchange rate. This indicates latent demand potential.

- In anticipation of further demand from Europe (44 per cent of current market origin) and after studying the 1998 Taguchi and Iwai research about Austria (the largest supplier of European country vacations), Alberta operators should be aware that guests are now seeking a higher standard of accommodation. They are now putting more emphasis on the cleanliness of the homes, sanitary facilities, larger rooms and quality of furnishings.
- Alberta Country Vacation Association operators use numerous techniques to promote their businesses. Indications are that word of mouth advertising and referrals are still fundamental to a successful operation.

**Table 4. Alberta Country Vacations – Promotion Techniques**

Techniques Used	Per Cent Effective
Referral or Repeat (Word of Mouth)	38
Other	23
Internet Web Sites	20
Alberta Accommodation Guide	9
Travel Alberta Visitor Information Centres (9)	6
ACVA Brochure	4

*Source: Compiled from personal communication with Carol Ohler, Secretary, Alberta Country Vacation Association (ACVA), February 1999. Note that the "Other" category refers to promotional activities initiated by individual operators that are not co-ordinated by ACVA.*

- Alberta has a ready-made image of being unspoiled, uncrowded, safe and friendly. This established image can be capitalized upon by farm/ranch managers.
- For many operators marketing an agri-tourism enterprise requires switching hats. Farm managers need to focus on the fact that it is experiences, rather than commodities, that they are promoting. They can't deliver a country vacation experience to their local grain elevator or auction market.
- Marketing involves more than simply advertising and expecting people to arrive.

- A marketing strategy is needed. To develop a marketing strategy you need to consider the following basic marketing techniques.<sup>2</sup>
  - learn from your competition
  - define your product
  - target your customer
  - match capacity to demand
  - advertise and promote
  - walk in your customer's shoes
  - value your product and service
- Learning from your competition means exchanging ideas with farmers and ranchers already in business. Would-be agri-tourism operators often fail to take advantage of this opportunity to learn about the business. Visiting existing businesses allows you to:
  - learn about customer's point of view
  - observe hospitality
  - obtain guidance on business planning and marketing
  - learn about the lifestyle and family commitment that is required
  - build a network among like-minded operators
  - make decisions based on good information
  - discover benefits of co-operation with other operators
- Defining your product helps entrepreneurs avoid trying to be all things to all people in the initial planning stages. There is a tendency to over estimate one's strengths and in so doing dilute the end product. It is important to focus on those items that can be done well. Strengths can be identified by paying attention to the following:
  - Is your location more accessible or remote than others?
  - Is your planned type of "experience" new to the region?
  - Is your location ordinary or geographically scenic by western standards?
  - Do you have the required capacity to serve projected markets?
  - If offering accommodation, how unique is it?
  - What off-site attractions and activities (e.g. heritage sites, canoeing) can be utilized?
  - What marketing partnership possibilities are there?

<sup>2</sup> Compiled with adjustments from *Assessing the Potential for Farm and Ranch Recreation*, Neil R. Rimy and Richard L. Gardner, 1992. University of Idaho, College of Agriculture, Cooperative Extension System, Bulletin No. 699.

- Networking is invaluable, but at times it is inconvenient or uncomfortable to discuss the pros and cons of a similar business with neighbouring operators. In these situations, contact with a related association, tourism organization or operators in another region or province is recommended.
- Targeting your customers is important, but sometimes difficult to do. Often markets are not as they were initially perceived. Local and regional markets may have valued traditions concerning where to vacation, while distant or long haul markets may be difficult to access. Some ideas for targeting customers are:
  - obtaining a profile (age, sex, lifestyle, family, couple, origin, length of stay) of current guests of similar establishments
  - considering proximity to large urban areas and international airports or, alternatively, decide what unique characteristic of your establishment may draw customers (e.g. isolation, nearby attractions, on the way to noted destination, theme, design or service component)
  - researching market and consumer trends to identify where to position your operation (e.g. a surge in interest in Farmers' Markets and u-pick operations may indicate a trend towards taking the next step – on-farm experiences)
  - studying the important role that nostalgia plays as people become further removed from their rural roots and wish to reaffirm traditional values through farm and ranch experiences (96 per cent of Canadians live in urban areas)
  - examining the demand for learning vacations by a generation of the urban based population that has little or no link to farm and ranch practices
  - promoting the value for the dollar benefits to markets in the United States and Europe (e.g. take advantage of the strength of the American dollar and Alberta's positive image for open space, unpopulated countryside, friendly people, vacation safety and western heritage theme with Europeans)
- Advertising and promotion can be effectively started after you have defined both your product and potential customer. The next step is to get the word out.

**Table 5. A Checklist of Promotional Vehicles for Event Organizers**

<b>Vehicle</b>	<b>Type of Audience</b>	<b>Who it Serves Best</b>	<b>Pro</b>	<b>Con</b>	<b>Price Range</b>
Internet web site	General to special interest	Distant travellers (US, overseas and other provinces)	Available 24 hrs. per day, 365 days of the year; easily updated	25% of population on-line	\$100 to \$1,000 to develop – annual hosting \$100 to \$500
Newspaper	General	Regional market	Possible free coverage for newsworthy item	Can have limited audience	\$250 to \$3,000 per ad
Radio	Household segments determined by programming	Local to regional exposure	Able to pinpoint target markets	Frequent use required; expensive	\$35 to \$120 for 30 seconds plus development costs
TV	Varies based on time of day	Special events, major attractions	Professional appearance; large audience	Expensive; needs repetition to be effective	One 30 second announcement \$200 to \$3,000 plus development costs
Magazine	General to special interest	Special events, attractions	Can penetrate special interest markets	Expensive; limited exposure	Classified ad \$85 plus; display \$1,000 to \$5,000
Brochure	Follow-up for initial inquiries	Small to – medium operator	Quick checklist of offerings	Needs annual updating	\$150 to \$10,000
Word of mouth	Specific	Special interest	Free; based on good performance and networking	Time required to build reputation	N/A
Direct mail	Targeted by interests/location	Follow-up with existing customers	Low cost; measurable	Confused with junk mail	Current postage rates
Coupons/gift certificates	Special interest	Attractions and events; current customers	Attracts new clients; repeat bookings	May be thrown away	\$100 to \$3,000
Trade shows	Targeted	Businesses with excellent presentation skills	Creates awareness; may lead to sales	Requires long-term presence	\$750 to \$1,500
Tourism assoc./org. marketing	Targeted	Co-operative approach	Can be cost-effective	Individual product profile diminished	Varies based on formula

Source: Format adapted from Market Planning Skills Program, Alberta Tourism, 1991; updated with revisions, additions and 1999 pricing by CANtravel.

- Walk in your customer’s shoes by anticipating how your product and service will be perceived before your guests arrive. As the saying goes, you never get a second chance to make a first impression. A checklist of marketing considerations when operating an agri-tourism business is as follows:
  - everything you do contributes to your business image
  - first impressions are important (your appearance, smile and attitude)
  - be courteous in taking reservations
  - establish a farm-gate entrance that is orderly and pleasing to the eye
  - provide good directions and post attractive and well positioned signage
  - promptly greet guests upon arrival and provide an orientation to your property
  - provide open and forthright directions about house rules (guest quarters, common areas, private or out-of-bounds facilities, activities and safety concerns)
  - be an ambassador for your community, region and industry (know the local attractions, history and services)
  - emphasize locally grown and processed food products (regional cuisine) as part of your menu
  - emphasize authentic rural craft, either as a display or as an item for sale
- Place value in your product and service as it is important to your business. The establishment and operation of an agri-tourism business is sometimes initiated for reasons other than profit. These reasons can include sociability, unused capacity and pride in ownership. However, farm and ranch operators are often looking to diversify their agricultural practices to supplement their income. Establishing a price for the experiences and services offered should take into account not only the time and effort of family members involved in the business, but also the value of the location/ setting of the country vacation.

**Table 6. Country Vacation Pricing Guidelines – per Day**

Unit	Rates
Rural bed and breakfast	\$40 to \$75 per person
Farm/ranch stay – five days (all meals, lodging, riding; pack trips)	\$500 to \$750 per person
Non-riding lodging; farm activities, fishing and meal package per day	\$75 to \$90 per person
Housekeeping cabin/cottage per day	\$100 per couple
Various activity/lodging packages (fishing, canoeing, golfing, attractions tickets)	\$160 to \$250 per person

*Source: Compiled from the 1999 Alberta Country Vacation Association Guide with adjustments by CANtravel. Pricing guidelines do not take into account off-season, special group or package rates.*

- Country vacation experiences appeal to guests who are seeking a return to a lifestyle that is for many just a memory. It is a chance for guests to exchange views with rural families about current agricultural practices. For international visitors, Alberta farms and ranches are positioned for cultural exchanges and best practices comparisons.
  - Currently, the demand for country vacation experiences is primarily during the late May to September period. It is estimated that only 10 per cent of visits take place during the winter months. For a growing number of established operators, the June to August period is showing an 85 per cent occupancy rate. As operators make a greater commitment to marketing, it is expected that demand will extend more into non-traditional seasons.
- *The critical marketing issues* for country vacation operators are:
  - anticipating the changing trends in the industry
  - understanding the origin of visitors
  - developing a marketing plan to promote the business

#### **4. Operation Basics**

- While it may be possible to recommend the level of inputs that will grow a certain yield of canola per acre, there is not a predictable formula for growing a successful agri-tourism enterprise.
- Agri-tourism operators need to obtain the most up-to-date and detailed information available on operational and marketing techniques.
- Operators need to refine their product in the first few years of operation in order to determine the features and practices that give the best results for their particular situation.

- Before investing in resources, new entrants to an agri-tourism operation should be familiar with the following characteristics of tourism businesses.
  - The market for tourism facilities and services is difficult to define due to changing trends, global competition and influence of seasonal demand.
  - Customers have higher expectations for comfort, attractiveness and urban amenities.
  - Self-catering has potential for growth.
  - Inclusive tourism packages (one price for all services) are becoming popular.
  - Value-added experiences and products are in demand. Operators may bundle regional attractions, experiences and products as part of a country vacation offering.
  - Country vacation operations in Alberta range from add-ons to more primary agricultural pursuits to enterprises that are emerging as major revenue producers.
  - Country vacation enterprises are traditionally located in more remote locations that provide scenic appeal. The remote locations may also initially hinder market development.
  - Based on the key features of a country vacation location, markets may be very narrowly defined (e.g. fly fishing, wildlife photography, proximity to historic site). This requires a targeted marketing strategy.
  - Tourism businesses, including country vacations, are ideally based on reservations. Many operators do not wish casual drop in traffic.
  - Although domestic regional markets are emerging for country vacation experiences, long haul markets (Europe, Eastern Canada and the Eastern United States) have more immediate growth potential.
- From an overall operational perspective there are additional key items that need to be considered by operators prior to opening the gates for guests. These include:
  - upgrading the appearance of your property to reflect the expectations of guests
  - making improvements a few years ahead of the regular schedule (painting the barn, repairing fences, installing entrance signage with the new enterprise logo and planting flower gardens)
  - making sure there is sufficient parking for tour buses and guest cars, trash containers for litter and sanitary washroom facilities
  - adding a rider to the property owner's standard comprehensive liability insurance policy to cover claims arising from recreational use of farmland
- *The critical operational issues* that country vacation operators must address include:
  - developing a business that is suitable for the location and reflects anticipated demand
  - having a targeted marketing strategy
  - being able to refine the business within the first few years to entice visitors and remain cost competitive

## 5. Economic/Finance Basics

- A country vacation enterprise is a highly variable business. Accordingly, new entrants must be prepared to carefully assess both the profitability and cash flow implications of their proposed operation before investing.
- Cost information for operating a country vacation enterprise is difficult to obtain. In most cases operators have adapted existing farm and ranch facilities to specific client needs. They have modified facilities over a period of time or built new rooms as finances permitted.
- The following budget information is presented to illustrate the basic expenditures required to establish and operate a two-room facility, together with a recreational activity in Alberta. It is important to recognize that the following budgets are estimates and are included to provide operators with a framework that identifies the type of information required and the type of analysis they should undertake.
- Table 7 provides estimates of the capital investment required to establish a start-up operation with accommodations of two rooms and a recreation activity based on hiking trails.



**Table 7. Capital Investment Requirements for Accommodations (Two-Rooms)**

	Total Investment	Useful Life (years)	Depreciation \$/Year	Opportunity Cost/Year*
<b>Improvements and Facilities</b>				
Improvements to yard site	\$3,000	5	\$600	\$75
Signs	\$500	5	\$100	\$13
Utilities	\$2,000	20	\$100	\$50
Costs to develop rooms				
– 2 rooms (10 x 12)	\$9,600	20	\$480	\$240
– flooring	\$500	10	\$50	\$13
– paint	\$50	5	\$10	\$1
Cost to develop hiking trails	\$7,500	10	\$750	\$188
Cost to develop picnic sites	\$5,000	10	\$500	\$125
<b>Total</b>	<b>\$28,150</b>		<b>\$2,590</b>	<b>\$704</b>
<b>Equipment</b>				
Riding lawn mower (used)	\$3,000	5	\$600	\$75
Additional equipment for accommodations	\$9,560	5	\$1,912	\$239
Additional equipment for trail maintenance	\$5,000	5	\$1,000	\$125
<b>Total</b>	<b>\$17,560</b>		<b>\$3,512</b>	<b>\$439</b>
<b>Total Investment Costs</b>	<b>\$45,710</b>		<b>\$6,102</b>	<b>\$1,143</b>

\* Opportunity costs are the cost of using capital estimated at five per cent

- Country vacation operations differ from bed and breakfast operations in that they offer some recreational activity that gives guests a reason for coming and staying for extended periods of time.
- The recreation activity or rural experience offered by a country vacation operation is unique for every operation depending on location, the interests of the operators and market demand. Recreation activities for country vacation operations include horseback riding, hay rides, heritage education and fishing.
- Table 8 provides a detailed list of the equipment items that are likely to be required in the operation of the accommodations and the recreation activity.

**Table 8. Detailed Listing of Equipment (Two Room Operation)**

	Quantity	\$/Unit	Total
<b>Equipment Required for Accommodations</b>			
Smoke detectors			
– one for each room	2	\$20	\$40
– one in the hallway	1	\$20	\$20
Fire extinguishers	3	\$50	\$150
Fax machine	1	\$400	\$400
Individual drinking glasses (set of 8)	1	\$100	\$100
Coffee mugs (set of 8)	1	\$50	\$50
Set of dinner plates (for 8)	1	\$100	\$100
Kitchen utensils (for 8)	1	\$100	\$100
Pots and pans	1	\$250	\$250
Waste baskets for each room	2	\$10	\$20
Beds (frames)	2	\$100	\$200
Mattresses	2	\$300	\$600
Mattress protector	2	\$25	\$50
Bedding	2	\$100	\$200
Currents	2	\$30	\$60
Bureaus with mirrors	2	\$200	\$400
Bedside lamps	4	\$50	\$200
Night stands	4	\$40	\$160
Clothing racks	2	\$40	\$80
Towels and wash cloths	40	\$2	\$80
Outdoor furniture	6	\$30	\$180
paper towel dispensers	2	\$10	\$20
Washer and dryer	1	\$1,000	\$1,000
<b>Kitchen improvements</b>			
– a range hood	1	\$300	\$300
– dishwasher with a sani-cycle	1	\$600	\$600
– 3 compartment sink	1	\$200	\$200
– fridge	1	\$1,000	\$1,000
– freezer	1	\$700	\$700
– stove	1	\$1,000	\$1,000
<b>Dining room</b>			
– large table	1	\$500	\$500
– more chairs	8	\$100	\$800
<b>Total</b>			<b>\$9,560</b>
<b>Equipment Required for Recreation Activity</b>			
Used quad	1	\$3,500	\$3,500
Chain saw	1	\$600	\$600
Outdoor toilets	2	\$300	\$600
Hand tools			\$300
<b>Total</b>			<b>\$5,000</b>

- Financing a country vacation operation is a separate but related issue. Conventional lenders such as banks are likely to see these enterprises as high-risk ventures. In order to acquire the capital needed to develop an enterprise, individual managers will be required to:
  - have a solid business plan
  - have high levels of equity capital to put into the venture
  - have access to capital from private sources such as family and friends
  - have a sound marketing program in place
- Access to conventional financing for a country vacation enterprise will most likely be limited to home improvements. Expenditures for equipment will require either equity capital or private financing.
- Table 9 presents the key operating parameters for the proposed start-up operation. These parameters are based on estimates for revenues and operating costs that are felt to be typical of an Alberta enterprise. However, individuals considering developing a country vacation enterprise need to determine the specific costs for the operation they are planning.
- Table 10 presents complete revenue and expense projections for the start-up enterprise over a five-year period. Guest nights refers to the number of guests regardless of the number of rooms they occupy.

**Table 9. Key Operating Revenues and Expenses**

Revenues	Expenses	
Room rate	ACVA membership	\$400/year
\$100 per guest	Local tourist bureau	\$150/year
per night	Alberta Accommodation Guide	\$200/year
	Individual brochure	\$400/year
	Other advertising	\$10/guest
	Phone costs	
	(marketing the business)	\$2/guest
	Breakfast	\$3 each
	Lunch	\$5 each
	Supper	\$7.50 each
	Food safety course	\$75 (first year only)
	Cleaning, maintenance and	
	consumables	\$4/guest
	Power and gas	\$1/guest
	Trail development and	
	maintenance	\$10/guest

**Table 10. Projected Revenues and Expenses for Start-up Enterprise**

	(per guest)	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Revenues</b>						
Price per night	\$100					
Guest nights		30	125	250	350	400
<b>Total Revenues</b>		<b>\$3,000</b>	<b>\$12,500</b>	<b>\$25,000</b>	<b>\$35,000</b>	<b>\$40,000</b>
<b>Operating Expenses</b>						
Total marketing costs		\$1,482	\$2,531	\$3,913	\$5,018	\$5,570
Total food related costs		\$540	\$1,938	\$3,875	\$5,425	\$6,200
Facility use		\$90	\$375	\$750	\$1,050	\$1,200
Total utility costs		\$180	\$275	\$400	\$500	\$550
Trail maintenance/development costs		\$300	\$1,250	\$2,500	\$3,500	\$4,000
Insurance		\$300	\$300	\$300	\$300	\$300
Travel costs (including fuel)		\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
Business licence		\$25	\$25	\$25	\$25	\$25
Office expenses		\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Professional fees		\$500	\$500	\$500	\$500	\$500
Interest on operating		\$200	\$200	\$200	\$200	\$200
<b>Total Operating Costs</b>		<b>\$7,117</b>	<b>\$10,894</b>	<b>\$15,963</b>	<b>\$20,018</b>	<b>\$22,045</b>
<b>Fixed Costs</b>						
Depreciation		\$6,102	\$6,102	\$6,102	\$6,102	\$6,102
Opportunity cost of investment		\$1,143	\$1,143	\$1,143	\$1,143	\$1,143
<b>Total Fixed Costs</b>		<b>\$14,361</b>	<b>\$18,139</b>	<b>\$23,207</b>	<b>\$27,262</b>	<b>\$29,290</b>
<b>Net Operating Income</b>		<b>(\$11,361)</b>	<b>(\$5,639)</b>	<b>\$1,793</b>	<b>\$7,738</b>	<b>\$10,710</b>
<b>Cumulative Net Income</b>		<b>(\$11,361)</b>	<b>(\$17,000)</b>	<b>(\$15,207)</b>	<b>(\$7,469)</b>	<b>\$3,241</b>

- In Table 11, the annual net operating income measures the returns to labour and management provided by the owner/operator. Most two-room operations rely solely on family labour. The projections suggest the operation will be able to cover all operating costs, as well as the opportunity cost of invested capital at the end of five years.
- The modest level of projected returns for the proposed operation tend to reflect reality for many operators of country vacation enterprises.
- The key factors influencing the profitability of a country vacation enterprise are the bookings generated through the marketing activities and the prices received for bookings. Interested operators should examine expected profit under a range of price and booking scenarios. This will allow operators to better assess the situation they might be entering into.
- Table 11 provides a sensitivity analysis, showing the impact on annual net operating income for a range of prices (per guest night) and a range of bookings (number of guest nights).

**Table 11. Annual Net Operating Income for Various Prices and Bookings**

Guest Nights \$/Guest Night	50	100	200	250	300	350
\$80	(\$11,172)	(\$9,200)	(\$5,255)	(\$3,282)	(\$1,310)	\$663
\$90	(\$10,672)	(\$8,200)	(\$3,255)	(\$782)	\$1,690	\$4,163
\$100	(\$10,172)	(\$7,200)	(\$1,255)	\$1,718	\$4,690	\$7,663
\$110	(\$9,672)	(\$6,200)	\$745	\$4,218	\$7,690	\$11,163
\$120	(\$9,172)	(\$5,200)	\$2,745	\$6,718	\$10,690	\$14,663

- After a few seasons, operators will know whether they can attract guests and whether this is a suitable business for their particular situation. If an operation can attract guests and show the potential to be profitable, operators often invest in additional facilities to expand the business. Operators who are not able to develop a market often choose to leave the industry.
- Table 12 shows the additional capital invested in the projected operation to develop two more rooms and a guest bathroom after the third season.

**Table 12. Total Capital Investment After Expansion in Third Year**

	Total Investment	Useful Life (years)	Depreciation \$/year	Opportunity Cost/year
<b>Improvements and Facilities</b>				
Cost to develop two additional guest rooms	\$10,000	20	\$500	\$250
Cost to develop guest bathroom	\$6,000	20	\$300	\$150
Additional equipment for accommodations	\$1,000	10	\$100	\$25
<b>Total New Capital</b>	<b>\$17,000</b>		<b>\$900</b>	<b>\$425</b>
<b>Total Investment (after 3rd year)</b>	<b>\$62,710</b>		<b>\$7,002</b>	<b>\$1,568</b>

Opportunity costs are the cost of using capital estimated at five per cent

- Table 13 presents revenue and cost projections following the additional capital investment to expand the operation. Additional costs for hired labor are included as larger operations often require hired labor in addition to family labor.
- Also of note is that the Alberta Hotel Tax of five per cent applies to all operations of four or more rooms. Since this tax is collected separately from revenue, then submitted, it is not included in the following income projections.

**Table 13. Projected Revenues and Expenses for Expanded (Four-Room) Operation**

<b>Revenues</b>	<b>(per guest)</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>
Price per night	\$100			
Guest nights		550	600	650
<b>Total Revenues</b>		<b>\$55,000</b>	<b>\$60,000</b>	<b>\$65,000</b>
<b>Operating Expenses</b>				
Total marketing costs		\$7,228	\$7,780	\$8,333
Food safety course				
Total food related costs		\$8,525	\$9,300	\$10,075
Facility use		\$1,650	\$1,800	\$1,950
Total utility costs		\$700	\$750	\$801
Trail maintenance and clean up costs		\$5,500	\$6,000	\$6,500
Hired labour		\$6,600	\$7,200	\$7,800
<b>Total Operating Costs</b>		<b>\$30,203</b>	<b>\$32,830</b>	<b>\$35,459</b>
<b>Overhead Costs</b>				
Insurance		\$300	\$300	\$300
Travel costs (including fuel)		\$2,500	\$2,500	\$2,500
Business licence		\$25	\$25	\$25
Office expenses		\$1,000	\$1,000	\$1,000
Professional fees		\$500	\$500	\$500
Interest on operating		\$200	\$200	\$200
<b>Total Overhead Costs</b>		<b>\$4,525</b>	<b>\$4,525</b>	<b>\$4,525</b>
<b>Fixed Costs</b>				
Depreciation		\$7,002	\$7,002	\$7,002
Opportunity cost of investment		\$1,568	\$1,568	\$1,568
<b>Total Operating Costs</b>		<b>\$43,297</b>	<b>\$45,925</b>	<b>\$48,553</b>
<b>Net Operating Income</b>		<b>\$11,703</b>	<b>\$14,075</b>	<b>\$16,447</b>
<b>Cumulative Net Income</b>		<b>(\$3,504)</b>	<b>\$10,571</b>	<b>\$27,018</b>

- Table 13 indicates that the four-room operation will cover all costs and provide some returns to the owner/operator for labour and management contributions.
- Cash flow performance is also a significant factor to consider when assessing the economic performance of a country vacation enterprise. The key issue in assessing cash flow performance is

whether the operation generates sufficient cash inflows to meet the cash outflows required for living expenses, debt repayment, operating expenses and capital expenditures.

- Table 14 presents cash flow forecasts for the proposed country vacation operation.

**Table 14. Projected Cash Flows (Years 1 to 3 – Two Rooms; Years 4 to 6 – Four Rooms)**

	Two Room Enterprise			Four Room Enterprise		
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
<b>Cash Outflows</b>						
Capital investment						
Facilities and improvements	\$28,150					
Equipment	\$17,560					
New capital invested			\$17,000			
<b>Total Capital Investment</b>	<b>\$45,710</b>	<b>\$0</b>	<b>\$17,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Operating Costs</b>						
Total marketing costs	\$1,482	\$2,531	\$3,913	\$7,228	\$7,780	\$8,333
Total food related costs	\$540	\$1,938	\$3,875	\$8,525	\$9,300	\$10,075
Total facility costs	\$90	\$375	\$750	\$1,650	\$1,800	\$1,950
Total utility costs	\$180	\$275	\$400	\$700	\$750	\$801
Trail maintenance and development	\$300	\$1,250	\$2,500	\$5,500	\$6,000	\$6,500
Labour costs				\$6,600	\$7,200	\$7,800
<b>Total Overhead Costs</b>	<b>\$4,525</b>	<b>\$4,525</b>	<b>\$4,525</b>	<b>\$4,525</b>	<b>\$4,525</b>	<b>\$4,525</b>
<b>Total Cash Operating Costs</b>	<b>\$7,117</b>	<b>\$10,894</b>	<b>\$15,963</b>	<b>\$34,728</b>	<b>\$37,355</b>	<b>\$39,984</b>
Cash withdrawals (personal)				\$5,000	\$5,000	\$5,000
Debt payments	\$4,039	\$4,039	\$4,039	\$4,039	\$4,039	\$4,039
<b>Total Cash Outflows</b>	<b>\$56,865</b>	<b>\$14,933</b>	<b>\$37,001</b>	<b>\$43,766</b>	<b>\$46,394</b>	<b>\$49,022</b>
<b>Cash Inflows</b>						
Revenues	\$3,000	\$12,500	\$25,000	\$55,000	\$60,000	\$65,000
Sources of capital						
Equity capital invested	\$30,000		\$17,000			
Debt capital invested	\$15,710					
<b>Total Inflows</b>	<b>\$48,710</b>	<b>\$12,500</b>	<b>\$42,000</b>	<b>\$55,000</b>	<b>\$60,000</b>	<b>\$65,000</b>
<b>Net Cash Flows (operating)</b>	<b>-\$8,155</b>	<b>-\$2,433</b>	<b>\$4,999</b>	<b>\$11,234</b>	<b>\$13,606</b>	<b>\$15,978</b>
<b>Cumulative Cash Flows (operating)</b>	<b>-\$8,155</b>	<b>-\$10,588</b>	<b>-\$5,589</b>	<b>\$5,644</b>	<b>\$19,250</b>	<b>\$35,228</b>

- The cumulative cash flows presented in Table 14 indicate that this enterprise requires operating capital for the first three years. However, at the end of the six-year operating period all cash outflows will be covered and a cumulative cash surplus of \$35,228 will be available to the operator. The key element in this cash flow projection is the significant level of equity capital (\$47,000) invested in the operation. Debt capital from conventional lenders is most often limited to home improvements.
- *The critical economic issue* for country vacation operators is being careful to evaluate the economic performance of a proposed operation before investing in facilities and development. Individual operators need to achieve all of the following factors for their enterprise to be viable. Operators need to:
  - have the accommodations and recreation activity to meet market demands
  - effectively market the accommodations and recreation activities
  - achieve a good market price for their service/product
  - provide the lodging and activities at cost that is below the market price for their product

## 6. Resources

### Industry Associations

Alberta Country Vacations Association (ACVA)  
 Carol Ohler – Secretary  
 Box 396  
 Sangudo, Alberta TOE 2A0  
 Phone: (780) 785-3700  
 E-mail: dohler@telusplanet.net

Alberta Bed and Breakfast Association (ABBA)  
 Elsa Peterson – President  
 Box 8, Site 11, RR1  
 Cochrane, Alberta TOL OWO  
 Phone: (403) 932-3945  
 E-mail: dickens@nucleus.com

### Publications/Web Sites

Travel Alberta – [www.tourismtogether.com](http://www.tourismtogether.com)  
 This is a place for industry to go for information on tourism product development, market planning and communications.

Alberta Agriculture, Food and Rural Development – [www.agric.gov.ab.ca/diversify](http://www.agric.gov.ab.ca/diversify)  
 This site supplies additional information on agri-tourism.

*An Agri-Tourism Strategy, for Nova Scotia, 1996*  
 Published by: Nova Scotia Department of Agriculture and Marketing  
 P.O. Box 190  
 7th Floor, Joseph Howe Building  
 Halifax, Nova Scotia B3J 2M4  
 Phone: (902) 424-6734  
 E-mail: godlielm@gov.ns.ca

*Agri-Tourism: Looking at New Horizons, 1996*  
 Published by: Ontario Agricultural Training Institute (OATI)  
 405-491 Eglinton Avenue, West  
 Toronto, Ontario M5N 1A8  
 Phone: (416) 485-3677  
 E-mail: infooati@oati.com

*A Study of Agri-tourism in Newfoundland and Labrador*  
 Prepared for: Government of Newfoundland and Labrador  
 Department of Forest Resources and Agrifoods  
 March, 1999  
 PO Box 8700  
 St. John's, Newfoundland A1B 4J6  
 Phone: (709) 729-6645  
 E-mail: cmcdonal@agric.dffa.gov.nf.ca

*Agri-tourism in Austria and its Implications for Japanese Rural Tourism*  
 Published in Rural Tourism Management, Sustainable Options  
 International Conference, September, 1988  
 Published by: The Scottish Agricultural College (SAC)  
 Auchincruive, Ayr, Scotland UK KA6 5HW  
 Phone: 44 1292 525056  
 E-mail: leisure@au.sac.ac.uk

*Assessing the Potential for Farm & Ranch Recreation;*  
 Bulletin No. 699  
 Published by: University of Idaho, College of Agriculture, Cooperative, Extension System Moscow, Idaho 83843  
 Phone: (208) 885-7911

*Farm and Ranch Vacationing, Vogeler, 1977* in Journal of Leisure Research 9 (4):291-300 as cited in *Recreation on Agricultural Land in Alberta*  
 Published by: Environment Council of Alberta  
 Edmonton, Alberta

*Farmers' Markets in Alberta: A Direct Channel of Distribution, January, 1998*  
 Alberta Agriculture, Food and Rural Development and the University of Alberta, Department of Human Ecology  
 AARI Report – Project #95CR16



*Guidelines for Alberta Country Vacations Association, adapted from Travel Alberta's Minimum Standards for Approved Guest Ranches and Country Vacations, November, 1997*

Published by: Alberta Country Vacations Association  
Box 396

Sangudo, Alberta TOE 2A0

Phone: (780) 785-3700

E-mail: dohler@telusplanet.net

*Recreation on Agricultural Land in Alberta, Chapter V, Farm-Based Recreation and Tourism Enterprises, 1982*

Published by: Environment Council of Alberta  
Edmonton, Alberta

*Saskatchewan Agritourism Strategy, 1998*

Published by: Saskatchewan Wheat Pool

2625 Victoria Ave

Regina, Saskatchewan, S4T 7T9

Phone: (306) 569-4411

*Small Farm News, Small Farm Center, Cooperative*

Extension, University of California

Agricultural Tourism: Emerging Opportunity

Published by: Small Farm Center

University of California

One Shields Avenue, Davis, CA.

Phone: (530) 752-8136

E-mail: sfcenter@ucdavis.edu

*The Agri-Tourism Industry in Manitoba: A Profile of Operations and Issues, 1997*

Published by: Rural Development Institute,

Brandon University

270 - 18th Street

Brandon, Manitoba R7A 6A9

### **Alberta Government Departments**

Alberta Agriculture, Food and Rural Development

Rural Development Specialists – Business

Phone toll free by dialing 310-0000 and then specialist's phone number

Alberta Economic Development

Tourism Development Branch

Bill Reynolds

10155 - 102 Street, Commerce Place

Edmonton, Alberta T5J 4L6

Toll Free: 310-0000

E-mail: bill.reynolds@gov.ab.ca

## **7. Key Management Issues**

- Key management issues for an agri-tourism enterprise include determining the type of operation to run, the resource required and whether goals are long-term or aimed at a quick fix. You also have to decide whether or not to acquire livestock, upgrade/build facilities, hone people skills and develop a marketing strategy.
- If you are a full-time farmer or rancher, managing an additional tourism enterprise may be difficult. Many Alberta landowners that engage in agri-tourism involve family members in the operation, along with pinch-hitters – people who will come in on short notice for the period of time they are needed. Other operators hire high school or college students to work during the summer or for special occasions.
- Agri-tourism visitors will want to ask questions. The questions may be invasive (personal questions) or they may be challenging (concerning animal welfare, chemical use, feedlot practices or logging plans). Some guests may be unaware of farm and ranch lifestyles and how a livelihood is fashioned. They may also complain about normal farm smells and dust. Therefore, operators must be willing and able to deal with all types of people in a friendly, welcoming manner.
- Labour is often a limiting factor in farming/ranching and the same holds true for agri-tourism enterprises. At peak times it is not unusual to spend 70 to 75 hours per week working on preparation and customer relations.
- If you continue to investigate an agri-tourism enterprise as a business opportunity, it's essential that you are able to answer a number of questions concerning management, marketing and presentation of your product/service. These include:
  - Are you prepared to learn all you can about agri-tourism by visiting existing operations, joining industry organizations, attending workshops and reading all you can about providing the experience and marketing?
  - Have you clearly defined the market(s) and customers that you will be marketing to? Have you clearly defined the operational practices you need to implement in order to produce the quality of product required by your markets?
  - Have you clearly defined the marketing activities that you should perform in order to access the specific segments that you have identified?

- Are you aware of the amount of time you have to devote to continuously marketing your product and improving your production performance?
- Are you aware of the resources required to establish a farm/ranch country vacation enterprise and the returns that can be expected?
- Are you prepared to manage the risks associated with agri-tourism?

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