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Strategies for Success: How a Small Business Competes in the Motorhome Industry in Ireland.

Niamh Lenihan and Catherine Kavanagh.

Abstract

The motorhome industry in the Irish economy has grown and transformed over the last 20 years with a rise in the number of motorhome companies and campsites around Ireland. This is a small competitive industry that has faced numerous economic challenges, in particular since the economic downturn in 2008. The failure of many firms' strategy can arise from the firm's inability to gain a competitive advantage (Porter, 2008). This study provides an analysis of how a small Irish motorhome company can achieve a competitive advantage to increase its business profitability, growth and performance.

The motorhome industry in Ireland has received little attention in the business literature. Therefore, the methodology of this study involved the collection of primary data from interviews held with a motorhome manufacturer and a motorhome company. Customer surveys were also randomly distributed to obtain information regarding the motorhome industry and motorhome company in question. This qualitative analysis is accompanied with Porter's Five Forces (1980) framework to analyse how a small business positions itself in the market to gain a competitive advantage.

Since the 2008 economic downturn, a complex and highly competitive marketplace confront many small businesses in Ireland. There is an increase in the intensity of rivalry as the motorhome industry is relatively small in Ireland with each dealer striving to increase its customer base. In 2012, the government introduced policies such as an introduction in Vehicle Registration Tax (VRT) on all new motorhomes purchased and a Value Added Tax (VAT) Margin Scheme which inhibited positive growth and performance in the motorhome industry. These constraints heighten the importance of a company to diversify its strategy. In the motorhome industry, the rental service provides the opportunity of increasing a company's profitability, customer base and business profile. A larger motorhome market exists in the UK which could potentially increase the performance of a company, however uncertainty is exposed in the British market due to Brexit.

The aim of the study is to provide context on the Irish motorhome industry, identify the position of a small motorhome company within the industry and provide suggestions to the company for future development.

Key Words: Motorhome, Small Business, Competitive Advantage, Growth, Profitability.

Introduction

A significant part of Ireland's income comes from the tourism industry, accounting for just over €8.3bn in 2016 (Fáilte Ireland, 2017). This sector employs approximately 220,000 people (Department of Transport, Tourism & Sport). Under the Tourist Traffic Acts 1939 – 2016, a caravan or camping site must be registered with Fáilte Ireland. "In 2011 there was 93 registered caravan and camping parks in Ireland, with a stock of approximately 5,400 pitches which translates to around 21,600 beds" (Fáilte Ireland, 2012). The Caravan and Camping product as a part of Irish tourism accommodation contributed €120m to the economy in 2011¹ (Fáilte Ireland, 2012). The Irish motorhome industry is a relatively new industry within the camping sector which not only represents an opportunity for tourism in Ireland but can add monetary value to the Irish economy: Camping and caravanning appear to be holding its share of the domestic holiday market, with 13% using this form of accommodation of the total Irish holiday bed nights in 2016 (Fáilte Ireland, 2017). The Irish motorhome industry comprises mainly of small businesses. According to the Small Firms Association (2017), "98% of all businesses in Ireland are small firms (less than 50 employees) accounting for one third of the value of the Irish economy and of business investment". Given the size of the Irish economy, the success of small business is vital for the sustainability and prosperity of economic growth.

The global financial crisis of 2008, created a complex and highly competitive marketplace that confronts many small businesses in Ireland. In 2009, one of the largest motorhome dealers 'Motorhome Ireland' was declared bankrupt which resulted in its' closure. In 2012, the government introduced policies such as an introduction in Vehicle Registration Tax (VRT) on all new motorhomes purchased and a Value Added Tax (VAT) Margin Scheme which inhibited positive growth and performance in the motorhome industry. This increased the level of competition in the motorhome industry.

The word 'motorhome' is typically the name used in Ireland and the UK. It is commonly known as a wohnmobil in Germany, camping cars in France, campervans in Australia and recreational vehicles in the US. A motorhome is a relatively new concept in Ireland with camping being modified from the traditional tenting option or caravan facility. A motorhome combines living accommodation and the vehicle engine in one unit. There are three types of motorhome categories; Alcove, Low Profile and A-Class. These motorhomes have different berths and various layouts depending on the manufacturers and customer preferences.

Leisure Homes² is a small motorhome company with under 15 employees which has been in operation for over 28 years. The business repairs, services and sells motorhomes with stocking van conversions, family coach built motorhomes and elite motorhomes ranging from approximately €20,000 to €120,000. During the difficulties of the financial crisis, Leisure Homes resorted to expanding its business by renting motorhomes. This niche has since grown, with Leisure Homes increasing its stock of rental units and in 2016 it received a European franchise to hire motorhomes in Ireland. This has attracted a number of tourists into the Irish economy and is increasing Leisure Home's international recognition; however, the attractiveness of this market has caused an increase in competitors with new companies setting up in Ireland. Therefore, it is critical for Leisure Homes to focus on how to increase its competitive advantage. A competitive strategy can assist firms to achieve a competitive advantage within an industry (Porter, 2008).

The objective of this study is to provide an extensive analysis of the motorhome industry which has been overlooked in the Irish context. This is a small competitive industry in Ireland and the focus here is to examine how a small business positions itself in the market to gain a competitive advantage.

Methodology

A mixed research strategy is incorporated to examine the overarching framework which focuses on the operating and internal environment of the motorhome industry. The research conducted consisted of both face-to-face interviews and customer surveys. Primary data was obtained from a semi structured interview that was held online with Dethleffs, a German Motorhome manufacturer to discuss the Irish motorhome industry. Dethleffs have been exporting motorhomes into the Irish market since 2002 and have two main agents operating in the Irish economy. The interview provided context on the development of the Irish motorhome industry, the impact of the economic downturn and the motorhome feasible future.

There were two in-depth face-to-face interviews conducted with the Directors of Leisure Homes to gain a detailed perspective of the position of the company within the motorhome industry. These interviews provided an analysis on the company's operations, regulations, and the overall market.

A customer survey also provided key information on the operating and internal environments of Leisure Homes. The survey was completed by customers and potential (non-customers) customers of Leisure Homes. It randomly selected 30 respondents at the company's premises, which targeted both male and females. It included motorhome owners, motorhome renters and non-motorhome owners. The sample age ranged from 21 to over 61 years old. All statistical analysis was performed using SPSS statistical package (SPSS 22).

The findings of the surveys and interviews enabled us to examine the industry performance through the application of Porter's Five Forces (1980) analyses. This framework identifies five competitive forces that shape an industry and explains how firms' profitability is influenced by industry attractiveness. These include: competition in the industry; potential of new entrants into the industry; power of suppliers; power of customers; and threat of substitute products.

¹Up – to- date information is only available for 2011. This reinforces the need for more evidence and data on the industry.

²The company under investigation wishes to remain anonymous throughout this study and hence, will be known as Leisure Homes from here on in.

Findings from Survey and Interviews

The key findings from the survey are as follows:

- Leisure Home's age profile is largely weighted on the 51-60 years old age group.
- 80% of those surveyed were owners of a motorhome with 39% visiting Leisure Homes to purchase a motorhome (see Figure 1).
- The main purpose of visiting Leisure Homes was for sales (39%) and repairs (42%).
- 68% respondents indicated that word of mouth is the main source of advertising for Leisure Homes.
- Price and quality were the two main factors to consider before purchasing a motorhome (see Figure 2).
- The main change in regulation recommended was VRT, with 77% of respondents' highlighting that this change would enhance the use and reduce the cost of motorhomes in Ireland.

Figure 1: Purpose for Attending Leisure Homes

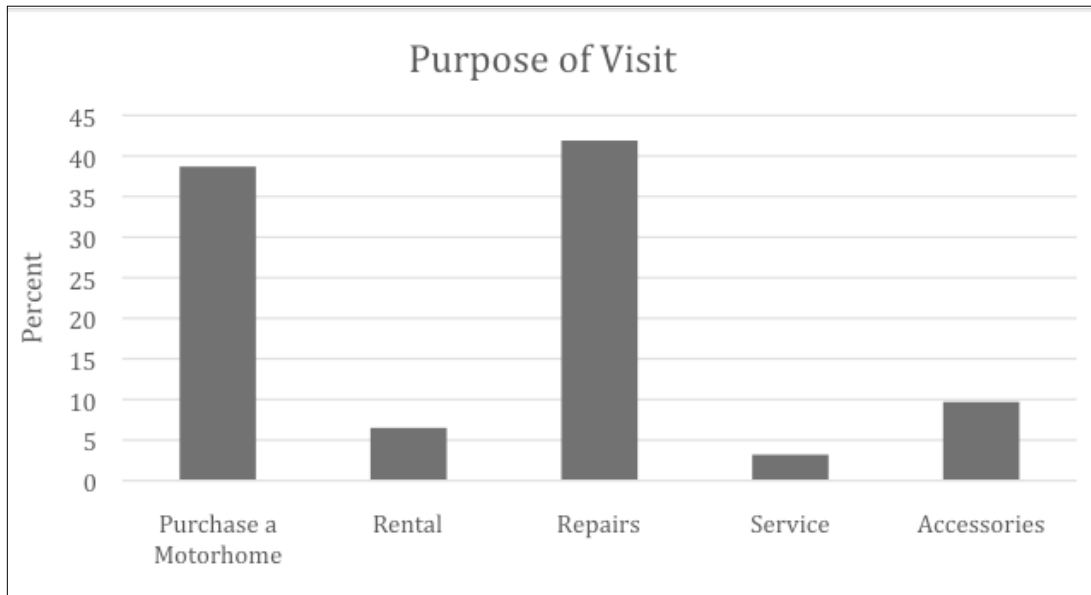
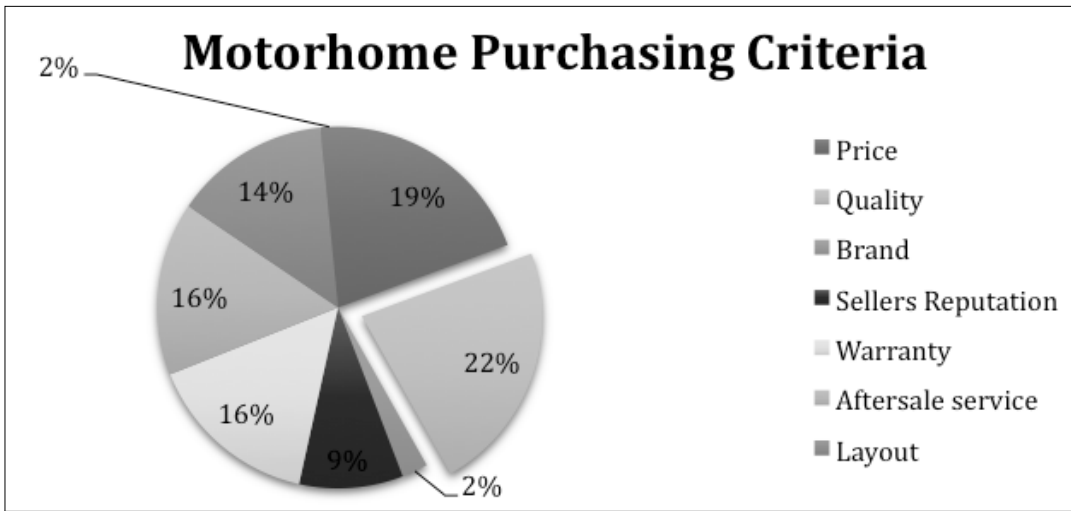


Figure 1: Purpose for Attending Leisure Homes



Source: Author's analysis

The key findings from the interviews are as follows:

1. The sale of family coach built motorhomes has declined due to credit constraint.
2. From 2013- 2014, Leisure Homes motorhome sales declined by 6%.
3. Regulation has increased; motorhomes over 4 years old are required to complete a DOE test.
4. VRT and the VAT margin scheme are constraining the growth of businesses and causing a reduction in motorhome sales.

The survey and interviews combined gave an in-depth analysis into the internal and operating environment of Leisure Homes and the motorhome industry.

Leisure Homes' survival over that last 28 years has been attributed to the reputation that it has built with its customers. From the survey findings, 68% of people heard of Leisure Homes via word of mouth. The main purpose of visit was for motorhome repairs (42%) and sales (39%). In purchasing a motorhome, the four main factors that were considered important, ranked in order, include: quality, price, aftersales service and warranty. People purchase motorhomes due to the freedom (94%) and the travelling (81%) experience associated with them; however 78% of respondents indicated that changes in VRT regulation would enhance the use of motorhomes in Ireland. For the prosperity of Leisure Homes, while 52% recommended no changes, 19% suggested an increase in adverting methods and 13% recommended improvements in their website. In such a relatively small market, the power of reputation is fundamental in gaining a competitive advantage and surviving in the motorhome industry. In addition, given the size of the Irish economy, the success of small businesses is vital for the sustainability and prosperity of economic growth, yet with the economic downturn in 2008,

three major challenges confronted small businesses: access to finance, regulatory burden, and the cost of undertaking business in Ireland. These have been similarly reflected in the motorhome industry.

In terms of access to finance, the Irish Small & Medium Enterprises Association (2017) stated that from a survey completed in December, “50% of businesses seeking credit from banks over the last three months had been refused”. This credit restriction impacts the growth and sustainability of small businesses. This is evident in the motorhome industry as Leisure Homes noted that “*credit restrictions have caused the sales of coach built motorhomes to decline, in particular for younger families*”. The difficulty that younger aged people have with accessing finance for investing in a motorhome has caused a change in the age profile of motorhome owners. Approximately 48% of customers surveyed fell between the age of 51- 60. This coupled with the current economic climate, and high unemployment has affected the sale of luxury products, such as motorhomes. Overall sales for Leisure Homes declined by 6% from 2013- 2014, hindering the growth and survival prospects of the company.

The sale prospects of motorhomes has also been impacted by the regulation burden which has fallen disproportionately on small businesses (Watt et al, 2007). From March 2012, a mandatory test on motorhomes was imposed by the Minister for Transport, Tourism and Sport which was cited by the European Communities Regulations 2012. This Commercial Vehicles Test (CVT) or more commonly known as the Department of Environment (DOE) test is a legal requirement that all motorhomes over four years old have to undertake once every two years and motorhomes over ten years old require a yearly DOE test. Leisure Homes indicated that “DOE tests on older motorhomes ensure customers that the motorhome is mechanically sound”. This regulation enforced by the Road Safety Authorities ensures the roadworthiness of motorhomes.

Further regulation was introduced in the 2012 Budget with the introduction of VRT on all new motorhomes purchased and increased the VAT rate to 23%. The VRT is based on 13.33% of the open market selling price of the motorhome which is determined by Revenue. The Director of Leisure Homes stated that “the sales of new motorhomes been affected due to the changes in legislation, such as the new VRT”. This VRT has increased the price of the product to an unaffordable rate for many customers, reduces sales for motorhome companies and reduced the number of motorhomes imported into Ireland. Dethleffs stated that “*because of the economic downturn in Ireland and the tax for motorhomes, the size of the market has fallen*”.

Applying Porter's Framework

The analysis on the operating and internal environment of the motorhome industry is further assessed using Porter's theory. Porter's Five Forces theory (1980) explains how firms' profitability is influenced by industry attractiveness. "The collective strength of these five competitive forces determines the ability of firms in an industry to earn, on average, rates of return on investment in excess of the cost of capital" (Porter, 1980:4). Porter's framework can demonstrate how the Irish motorhome industry is influenced by five competitive forces which include: threat to new entry; threat of substitution; buyer power; supplier power; and competitive rivalry, as seen in figure 3. This framework is supported by the findings from the interviews and surveys conducted for this study.

Figure 3: Porter's Five Forces Analysis



Source: Porter (1980)

³ Dethleffs is a German Motorhome manufacturer in operation for over 80 years. It is the largest manufacturer of motorhomes in Europe and has won a number of prestige award for its product. Leisure Homes started importing Dethleff motorhomes into Ireland in 2002 and remains the main agent for these motorhomes in the south of Ireland.

The motorhome industry has high barriers of entry and exit to the market. A new entrant would face high start-up costs in the form of premises, equipment and opening stock. The manufacturer of motorhomes will analyse the market and nominate particular dealers to represent their product. Leisure Homes has achieved agencies from three international motorhome manufacturers (Dethleffs, Sunlight and Rapido) becoming an importer and distributor of these motorhomes in Ireland since 2002. The cost of a new premises is high due to the size of motorhomes and space required to display the units. The high end luxury product can range from €50,000 upwards; therefore, for a retailer to have a minimum stock level of 20 motorhomes, can cost in excess of €1m. From a buyers' perspective, sellers must ensure a good price and a high quality service is offered. The bargaining power of customers on second hand motorhomes remains high as the price can vary significantly on the private market e.g. private sales on Done Deal (a classified ad website). This has resulted in the sale of motorhomes below market value. The private market impacts on the value of the second hand motorhomes as motorhome companies are competing with the low prices that the private market can afford to set.

In contrast, the bargaining power on new motorhomes tends to be low as the new motorhome is less varied in its retail price. The manufacturer has a fixed cost for the vehicle, where overheads (transport cost, VRT, VAT) will remain similar. From the survey, 81% of respondents indicated that the price of motorhomes was a main factor to consider before purchasing a motorhome. The bargaining power of buyers of second hand motorhomes is strong due to the customer having the option to purchase on the private market where the price can vary significantly. Leisure Homes stated that *"customers are determining the market price"*. Motorhome companies can reduce this power by increasing loyalty, increasing value added to ensure repeat business, provide an efficient service, good reputation and present high quality in its business. From the survey, it was indicated that quality (94%), warranty (65%) and aftersales service (65%) are essential to consider when purchasing a motorhome. Dethleffs offers a 2-years bumper-to-bumper and 6-year water ingress warranty on all new motorhomes. Due to the nature of the product, it can be some time before any issues arise for the customer and it is imperative that Leisure Homes offers a high quality after sales service. Leisure Homes stated that *"a strict trade in process with all motorhomes being thoroughly checked before the sale and price is agreed"*. Poor after sales service will likely hinder future repeat business.

There is a high concentration of direct and indirect competition in the industry. Porter (1980) argues that the higher the degree of competition, the more difficult it is for firms to exercise higher returns. Buyers have a choice in selecting a motorhome dealer. This increases the intensity of rivalry as the motorhome industry is relatively small in Ireland with each dealer striving to increase its customer base. Therefore, differentiating products via branding of motorhomes and avoiding price competition are generally expected to reduce the competitive rivalry between existing players.

Indirectly, the internet provides readily available information on motorhomes in European markets to the public. As there is an increasing acceptance for people to purchase left-hand drive vehicles, these markets are very much a threat to motorhome businesses. Left hand drive motorhomes have a lower cost price than right hand drive. This coupled with a lower VAT rate in European markets (i.e Germany VAT is 19%), and the absence of transport costs, has resulted in left-hand drive vehicles being advertised for sale at greatly reduced prices. This heightens the importance of advertising for Leisure Homes to increase consumer

awareness in the market.

When exiting the industry, the business premises can generally be sold and converted to another use but reducing stock levels is the main concern due to part exchange (trade-in) vehicles. As vehicles are initially expensive, it is not unusual to experience 2, 3, 4, part exchange vehicles associated with the sale of one new vehicle. For example, customer A decides to buy a new motorhome worth €100,000. They may have a part exchange vehicle with a trade in value of €80,000. Customer B then comes to buy customer's A vehicle with a trade in vehicle of €60,000. This may continue on until a suitable customer arrives without any part exchange and has the funding to purchase a motorhome. A motorhome dealer can decide to choose any of the three options to exit the industry: sell the business as a going concern, trading away out of the business (slow process) and auction (fast process). These high barriers to exit can make the industry less attractive.

Discussion

Based on the original data and evidence collected from the customer surveys and interviews, this study shows how a company positions itself in the Irish motorhome industry. It examined the internal and operating environment and applied Porter's Five Forces theory to assess the market further. There is an intense level of competition in the motorhome industry which heightens the importance of motorhome companies gaining a competitive advantage to increase its business profile.

When the sale of motorhomes fell, Leisure Homes accessed a niche in the market, focusing on the rental of motorhomes. Leisure Homes began renting motorhomes in 2009 with 3 vehicles. The number of motorhome rentals has increased by 49% from 2013- 2014 and by 32% from 2014 – 2015. Due to the increase in demand, Leisure Homes' rental stock increased to over 10 units. These rentals increased the cash flow in the business. In 2016, Leisure Homes was granted a European franchise to hire motorhomes, which is a significant advantage. The franchise has provided Leisure Homes with an extensive online booking system where customers now have the opportunity to check availability, cost and book a motorhome rental. This service has started to heighten the company's international recognition, with a rise in the number of German and French nationalities, in particular, visiting Ireland. Leisure Homes should continue pursuing a differentiation based strategy to gain a competitive advantage.

From the surveys, the main purpose for visiting Leisure Homes was for repairs. This reflects the importance of gaining a strong reputation for motorhome companies due to the intensity of competition in the industry. Reputation is key to promoting the brand and the survival of Leisure Homes as 68% heard of the company via word of mouth. It is necessary for motorhome companies to establish strong positive relationships to enhance the potential for repeat business. Extended periods of business existence often serve as an underlying signal of high quality. Following Porter (1985), one of the critical platforms for effective differentiation is to provide superior service on criteria valued highly by customers. This study shows that motorhome companies have high levels of personal contact with customers and experience repeat custom.

In terms of Porter's Five Forces industry analysis, unlike the car industry, where car dealerships have ongoing support from the Society of the Irish Motor Industry (SIMI), there is no such body to offer support or guidance for motorhome dealers. Furthermore, recent changes have made it more difficult for the motorhome industry with the introduction of new regulation (VRT and VAT Margin Scheme). This is impacting largely on the daily operations of motorhome companies and these new regulations have tightened companies' cash flow. Further operating costs are also hindering the survival of small businesses.

Given the size of the Irish market, an alternative market for expansion would be the UK. The UK has a population of 65.6m in 2016 in contrast to Ireland with a population of 4.7m, which identifies a larger consumer market in the UK. According to the National Council Caravan (2017), there is an estimated 225,000 motorhomes in current use in the UK. This indicates that there is a potentially vibrant market for new motorhomes in the UK which Leisure Homes could consider for future expansion growth. However, the economic environment could potentially propose further challenges given the uncertainty surrounding Brexit, the UK's announcement to leave the EU by March 2019. It is still unclear what the effects of Brexit on the Irish economy, Britain's trade agreement with the EU and in particular, the effects it could have on the Irish motorhome industry.

One implication for the motorhome industry is that 51% of people indicated that a disadvantage of holidaying in Ireland was due to the condition of the camping facilities. This concern was also echoed in the interviews held with Leisure Homes as they suggested that *"the Tourism Board could try to promote motorhomes in Ireland by providing more camping facilities, parks, lay by areas, and larger spaces in public car parks to make it easier for motorhoming"*. This is a concern given the importance of the camping facilities to support the use of motorhomes and attract motorhome tourists to the Irish economy.

Conclusion

The study focuses on the Irish motorhome industry and the position of Leisure Homes in the market. The motorhome industry comprises of a number of small firms in Ireland. While the industry is relatively small in Ireland, it plays a role in contributing to tourism. The tourism sector is a large employer and revenue stream to the economy. Therefore, there is an onus on the Department of Transport, Tourism and Sport to continue supporting, funding and investing in tourism and in particular, to focus on the relatively new motorhome industry. A key conclusion from the research, is that both consumers and dealers alike of the motorhome industry welcome more development and support from the tourism board to ensure the growth of a vibrant and sustainable market.

While the motorhome industry has grown over the last number of years, the research shows that there is an increase in the intensity of competition. Since the economic downturn in 2008, three major challenges confronted many small businesses: access to finance, regulatory burden, and the cost of undertaking business in Ireland. This was reflected in the motorhome industry which experienced changes in the industry, changing consumer profiles and demands. The target customer for a motorhome due to its luxury nature and expensive price, consists of an age profile between 51-60 years. The statistical analysis indicates that there was a strong positive relationship between age and the ownership of a motorhome. The

analysis shows that the sale of motorhomes has declined for many motorhome companies. Leisure Homes experienced negative growth (-6%) in sales from 2013 – 2014. For businesses attempting to achieve a cost leadership strategy, this may prove challenging when faced with competition from the internet and the private market.

In response, Leisure Homes diversified its strategy by expanding its business into the rental of motorhomes. This has enhanced the company's competitiveness by increasing its profitability; increased its customer base, and the company's public profile. This service ensures the promotion of the company brand as the motorhomes are exposed while traveling around Ireland. Its new European franchise will also heighten international recognition and is attracting tourists to holiday in Ireland.

As highlighted above there are opportunities for the growth and evolution of the business through the rental market, increase in ancillary services and potential expansion in the UK market. These opportunities are reliant on specific factors occurring and the outcomes from the Brexit agreement. The business promoters have important decisions to make in order to formalise appropriate short and long term strategies if the business is to maintain its present position or future growth.

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