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MOTORHOME PURCHASING: A BASIC UNDERSTANDING OF RECREATIONAL VEHICLE PRICING

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Abstract

The pricing of motorized recreational vehicles has been a combination of dynamic,value, and psychological based pricing. The pricing is seasonal providing a dynamic approach associated with demand as prices are higher prior to summer vacation time and lower after vacations. The consumer is looking for value while discount percentages are compared to a generally inflated MSRP. A psychological effect is provided by providing a significant discount off MSRP and tapping into the consumer's excitement of adventure. An unexpected validation of the RV pricing was just witnessed by the Covid-19 pandemic. A sudden surge in demand for RV's has increased pricing by as much as 35% or more. The increase in prices isdue to a higher demand and shortage of inventory. The MSRP for RV's is utilized as a base for the RV industry pricing. The base MSRP is used for consistency in insurance and financing. The base is required due to the dynamic pricing which changes due to the season.

Key Words: Motorhome, recreational vehicle, RV, pricing, purchasing, depreciation

Introduction

The pricing of recreational vehicles is not standardized on the actual purchase prices that buyers of homes and autos are accustomed to for comparison. Prices vary on an RV depending on how they are depreciated, timing of the purchase, vehicle location, and state of the economy(Jesse, 2020). The yearly depreciation percentages for RV's were found to be consistent over the years.Major pricing inconsistencies arise from published Manufacturer Suggested Retail Price(MSRP)compared to the averageactual purchase price of the RV. When discussing the MSRP with several RV dealers they concluded that the MSRP is an agreed upon advertised price by the manufacturer that is utilized by the financial intuitions for loans, insurance, and taxes. Utilizing the depreciation schedule on the actual purchase price and time of purchase provides a more accurate price. Depreciating from actual purchase price provides a better understanding of actual trade in value and private sale offers. The depreciation of an RV is real and does not compare to an automobile which can hold its value or real estate which appreciates in value.

RV History

The Recreational Vehicle industry has grown with the advancements fromboth the automotive and technology industries. Camping trailers started rolling off the assembly line in 1910 but was slowed with the 1929 depression. With a purchase price of only $500-$1,000, camping trailers became inexpensive homes for returning soldiers and young families(Morrison, 2010). The motorized recreation vehicleindustry is said to have developed around 1910 when the automobiles became more dependable. The more dependable automobile provided opportunities to customthe automobiles into small, motorized homeson wheels. As time progressed the customizing of automobiles led to customizing yachts and later busses into motorized RV's.

One of the first RVs was during the pre-World War II era called the “Touring Landau” built by Pace-Arrow Motor Companyfor a price of $8,000. The Touring Landau was equipped with a kitchen in a box, toilet, and a passenger area with seats that convertedinto a bedroom(Hesselbart, 2018). In the 1960’s and 70’s Travco was very popular, they utilized a Dodge chassis and their motorized RVsold for around $9,000. (Leah, 2020)In 1966Winnebago Industries introduced their first assembly line produced motorized recreation vehicleswhich sold for around $5,000 which was approximately fifty percent less than competitors. Winnebago then became synonymous for all motorized RVs. (White, 2001)

Motorized RV’s have continued to expand the individual luxury line and with the ability to provide whatever the buyer can affordwhether it is for full time living or just weekend getaways. Recreational vehicles continue to evolve as homes on wheels with the ability tohave a garage connected. The garage space expansion to the RV is called a toy hauler. An RV toy hauler provides both a living space and a separate space for toys like ATVs, motorcycles, or snowmobiles. (Contribution, 2019) The most expensivemotorized RV is the Marchi Mobile which sells for $3,000,000. (Diamond, 2017)

Industry Today

More than 25 million Americans go RVing each year. (RVIA, 2019)Thanks to affordable gas prices and the ease with which potential buyers could qualify for a loan, RV buyers have historically made up the bulk of our industry’s consumers; but with the growth of RV rentals, two new consumer segments - the renter and the renter who buys - have emerged, each playing a key role in the industry’s future. (Valdes-Dapena, 2017) The motorized RVs are 12% (towable 88%) of the $114 billion in annual economic impact. RV Manufactures and suppliers provide the largest impact of $68 billion, with RV campgrounds and travel accounting for 25.6 billion, andRV sales and service 20.1 billion. The Outdoor Recreation Business accounts for 2.2% of the US GDP with the RV industry contributing $12.2 billion in taxes. (RVIA, 2019)

Why RVing?
66% The freedom to travel anywhere & have a place to sleep.
49% Experience new things & take an adventure.
48% ensure they can travel with pets.
47% looking for an affordable way to travel.
46% experience nature and outdoor activities
21% plan to use for sporting events.
18% Are going to music festivals.
(RV Trader Consumer Survey 2018)

Who is renting RV’s?
63% millennials
59% 3 or more people in household
74% are employed.
66% make between $50k - $100k.
65% are married.
(RV Trader, 2018)

Who is buying RV’s?
47% Baby Boomers
51% only 2 in household
44% are employed.
65% make less than $100k annually.
79% married.
(RV Trader, 2018)

Who are the renters that buy RV’s?
59% Millennials
56% 3 or more people in household
74% are employed.
48% make less than $100k annually.
66% are married.
(RV Trader, 2018)

Why Consumer’s don’t buy RV’s.
36% Feel it is too expensive.
29% have concerns about financing.
19% are concerned about driving/towing.
19% feel there are not options that fit their needs.
(RV Trader, 2018)

Pricing

Recreational vehicles are regularly compared to purchasing an automobile or a homebecause most buyers can relate to purchasing one or both. An issue with RV pricing is that it is not like purchasing a car or a home. The RV is a drivable, depreciating home, that spends a lot of time in paid storage.

Real estate is appreciating, and pricing is very standardized utilizing comparable properties in market area that have recently sold. The pricing stays consistent with the actual price paid for the comparable real estate. Interest rates also factor into real estate demand.

The automotive industry has standardized pricing with the Kelly Blue Book. The MSRP is in alignment with theinvoice pricing. Auto price guides analyze a vast amount of actual used car sales data to arrive at book prices.

Automotive sales focus on promotions such as cash back for down payment, lower interest rates, or expanding the length of financing rather than discount pricing. The promotions for new automobile purchases run year-round with specials during holiday times. The most recent successful promotion for the automotive industry has been extended financing with options to finance for up to 7 years.

RV Pricing

Published guide prices for used RVs are mostly determined by taking a percent of the manufacturer's suggested retail price MSRP. This questions the guidesaccuracy because MSRP within the RV industry is not the selling price. Careful consideration needs to be taken if using theses guides as many standard options can be double counted inflating manufacturer's suggested retail price. RV Sales and Consignment dealers do not recommend relying solely on book values because theycan be difficult to use and not very accurate. Appraisals by dealers or RV inspectors that arebased on actual local market prices and current demand will be more accurate.

Most new motorized RV's will have an inflated MSRP on the average of 10% - 40% over actual dealers invoice price. The inflated MSRPprovides dealerships the opportunity to show large discounts as sales pricing rather than invoice pricing. A fewused RVadvertised by private sellerstend to price according to the inflated MSRP rather than the actual purchase price. Not realizing the percentage discount off MSRP for a new RV is standardwith the25% -35% depreciation over the first 2 yearscalculated on purchase price not MSRP.

For this paper, the pricing focusisnarrowed down to a very popular 2-year-old entry level motorized Class A RV. The actualselling price for this RV when new was between 25% and 30% off the listedMSRP for an average discount of 27.5%. JD Power NADA RV Guide is the only guide posting RV values. (Power, 2020)This guide utilized the inflated MSRP prices in calculating used RV values. The guide showed the MSRP of$130,652providing an average retail price of $78,174 which shows a 40% discount. The list price of RV without negotiation shows at $92,000 which would show current retail price as $70,840 a 23% discount from purchase price and $7,334 difference from listed MSRP.

RV Trader is a popular site for RV listings. They provided 5 listings of the very popular 2-year-old entry level Class A RV with the Highest at $89,995, the Lowest $79,000, with an average of $83,429(Database, 2020). The prices were derived by the current available listings in RV Trader. They do not use the actual selling price or provide previous list prices. The prices again are an inflated value because they are what have not sold;not considering the actual selling price of the correctlypriced RV's that sold quickly. Many of the RV's used for price comparisons were listed for months due to improper pricing.

RV Pricing Strategy

The RV industry seems to utilize a mixture of at least three types of pricing strategies;dynamic,value based, and psychological pricing. The RV pricing changes during different seasons providing a dynamic approach associated with demand. Value based by trying to maximize what the customer is willing to pay with a psychological effect of providing a significant discount off MSRP.

While analyzing the prices of both new and used Class A RV's the MSRP is generally shown with the discounted percentage to the asking price. For example, a new RV invoice price on average is roughly 33% off the shown MSRP (Smith, 2020). The invoice price is the starting price for negotiations rather than an out the door price. Plus, they may providefinance options, service, insurance for an additional cost.

Listings for the selected Class A RV were viewed via multiple online resources such as RV Trader rvtrader.com, Motor Home Specialist mhsrv.com, rvt.com, along with multiple dealer sites. The listings show how long the RV has been posted along with any price reductions. Listings that have been posted for months were priced 20-30% higher than the RV listings that were priced lower and sold quickly. After 30 plus days higher priced used Class A RV'stend to adjust price by lowering $5,000 and adding "make an offer" The Class A RV that used actual purchase price were listed for 20-30% less in price and were purchased within a few days. The final negotiated price of the other RV's is not available to determine if buyer was able to gain a 30% discount on asking price.

Two recent studiesthe Camper Report followed 82 RV's and the Harmer Study followed 51 RV's to get an idea on the pricing disparity and depreciation. It was shown that 85% of RV buyers overpaid by $5,000 or more compared to other buyers for the exact same RV (Harmer, 2020)

Depreciation on a Class A Motorhome

The key to motorized RV pricing is understanding the actual purchase prices while utilizing the proper depreciation schedule. Determining the depreciation is not simple. The percentage discount for year one is subject to when the unit was purchased such as a 2019 RV can be more than 12 months old in 2019 if originally purchased in 2018. The following depreciation percentage was determined by averaging the depreciation results from 4 different studies conducted by (Harmer, 2020) (Report, 2020) (Jesse, 2020) (Smith, 2020)

The following is the average depreciation schedule determined for Class A motorhomes by purchase price not MSRP.

Motorized Recreation Vehicle
Depreciation Schedule

Year 1	20.00%
Year 2	22.88%
Year 3	27.25%
Year 4	31.02%
Year 5	36.93%
Year 6	40.27%
Year 7	42.33%
Year 8	45.06%
Year 9	49.55%
Year 10	58.32%

(Harmer, 2020) (Report, 2020) (Jesse, 2020) (Smith, 2020)

Conclusion

RV pricing has many factors to be aware of. They change during different seasons associated with demand, discounts from MSRP to show exceptional value, and the idea of the freedom to travel anywhere, anytime. The one factor that is consistent is consumers do not pay MSRP and used RV pricing cannot be determined by the inflated MSRP. The MSRP provides a constant for insurance and financing but not in pricing. Before determining what to offer for a new RV, it must be understood that the current sale price is the invoice price for negotiation. MSRP is for banks, insurance companies, and to make the purchaser feel good. Purchasing a used motorized RV would require knowing the actual RV purchased date and purchased price or knowledge of actual average purchase prices. Once an age and price have been determined the proper depreciation can be utilized and a fair price can be achieved.

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