CHAPTER 1

Evolution of the Timeshare Industry

Learning Objectives

After studying this chapter, you should be able to:

- understand what the concept of resort timesharing means.
- differentiate between the different timeshare products in terms of products and amenities offered.
- apply resort life-cycle theory to the timeshare industry.
- critically discuss factors that influence the growth of timesharing in an international market.

Introduction

Timesharing, a term that combines the words *time* and *share*, is simply that—the act of sharing vacation time at a luxurious resort facility in a geographical location of choice. As such, the timeshare sales representative promotes the timeshare product to interested consumers with the primary belief that the purchaser can achieve a higher level of intimacy by means of "sharing quality time" with people important in his or her life at a private resort that pampers consumers with recreational and leisure services that are unparalleled in quality.

The timeshare industry, otherwise known as vacation ownership, first appeared in Europe in the 1960s. One of the early entrants, a ski resort in France known as Superdevoluy, developed the first ownership program in the world. The purpose of the program was to give the owners of Superdevoluy a guaranteed opportunity to ski in the Alps (Baiman and Forbes, 1992). Not very long after the concept had taken hold in Europe the concept of sharing time at a resort was quickly adopted in the United States. The expansion was so pronounced that since the 1970s, the timeshare industry has recorded double-digit growth, which no other service sector has been able to do for this same period of time.

Many owners consider the timeshare industry to be a viable alternative vacation product to more traditional short-term and long-term lodging arrangements such as hotels, motels, bed & breakfasts, and condominiums (Upchurch and Gruber, 2002). Since the 1970s, the timeshare product has evolved in the metrics of sales volume, number of owners, and independent and brand-name developers that have entered the field. In addition, the range of product lines as well as the diversity of product designs has expanded over time.

A Short History of Timeshare

From a consumer perspective, purchasing a timeshare entails the purchase of access to a condominium style of accommodation for a designated period at a vacation resort that appeals to the purchaser's lifestyle and vacation interests. This type of purchase means that the timeshare consumer is granted exclusive occupancy rights to a vacation home type of experience in increments of a week or more (Upchurch and Gruber, 2002). Because the timeshare product is typically sold in week increments, the buyer is not burdened with the daily upkeep costs normally associated with full home ownership. As such, the timeshare owner is free from the daily maintenance concerns of the resort and is therefore able to maximize his or her recreational and leisure experiences while the developer or a property management group maintains daily operational functions.

Key Point 1.1

Timeshare is defined as the right to purchase a specific time period in which to use a property at a geographical location of choice.

Product Registration: From Fixed Weeks to Float Weeks to Vacation Clubs

Another way to define the industry is through the process of product registration. To the novice consumer, the timeshare product is sold in increments of weeks with individual access being granted to a specific villa at the resort with open access to the resort's common areas. This is true, but what exactly does the consumer own? The answer to this question depends on how the product is registered in the state in which the resort operates. In the 1960s, timeshare resorts were sold in "fixed-week" increments, which simply meant that the consumer was entitled to use the resort's facilities at a set week, each week, every year for the length of the agreement. This fixed-week structure still exists, but it is not as prevalent as in the 1970s. A fixed-week purchase works as follows: if a consumer purchases week 32 at resort "X," then this consumer is granted usage rights for week 32 for as long as the legally binding agreement remains valid.

Key Point 1.2

Timeshare developers have responded to consumer demands for product flexibility by changing the product offering to a more consumer friendly format. The product offering has progressed from a fixed week to a float week to a vacation club product that is sold based on points.

In the 1970s and 1980s, consumers began demanding more flexibility in how they could use their purchase, and the industry answered this concern with a "float week" offering. Simply put, a floating week offering means that the consumer is entitled to resort access rights within a specified range of weeks within a calendar year or as specified within the contract. The advantage of this format is that the consumer is offered more flexibility in product access versus that of a fixed-week structure. This flexibility in selecting a vacation week clearly is of benefit for the consumer who might be challenged in scheduling his or her annual vacation leave. Later in the 1970s to early 1980s, the timeshare consumer became more demanding in product use and access, which led to the creation of a float system (Upchurch and Gruber, 2002). Under a float system, the consumer had two options at her disposal depending on how the agreement was originally drafted. Under the week float option, the consumer was given use of a specific unit (also called a villa) while the week "floated" throughout the calendar year or within a given season. Under the unit float option, the consumer's interval (i.e., week) remained the same while her choice of unit (same type in terms of one-bedroom, two-bedroom, etc.) location varied as long as the unit type was the same as the one she had originally purchased. Clearly, either float schedule offered the consumer a higher degree of week or unit flexibility that heretofore did not exist under a fixed system (Trowbridge, 1981).

In 1992, Disney was the first to roll out another legal format whereby consumers were not restricted to a fixed- or float-week structure; instead, consumers could purchase points within Disney's vacation club. Under this legal format, a timeshare product is registered under a vacation club structure, which means that the consumer purchases points instead of weekly increments. The purchased points, in turn, have a predetermined equivalent value of timeshare resort usage rights. Under this legal plan, the consumer has a greater degree of control over the type of product that best meets his or her needs. For instance, a vacation club owner could purchase enough points for a single-unit, a two-bedroom, or three-bedroom villa for X number of days. In addition, vacation clubs offer much more flexibility in the range of services consumed in that club membership is not restricted to villa usage rights. For instance, some vacation club plan offerings allow the consumer the option of purchasing cruise line experiences, hotel stays, golf packages, or other appealing recreational and leisure experiences using their point structure to do so (Baiman, 1992; Gruber, 1999a; ARDA, 1999b; Suchman, 1999). Under a vacation club points system, the consumer simply purchases enough points to satisfy his annual vacation needs. From the consumer perspective, this system is touted to offer the maximum amount of flexibility, while in contrast this system is quite complex for the developer to manage relative to inventory management purposes (Sherles and Marmorstone, 1994). From the developer perspective, a very robust reservation management system must be in place to track factors such as unit size, length of stay, location availability, seasonal issue, point allocation, and remaining point allocation. Basically, the point type of interval schedule, sometimes referred to as a vacation club, offers the consumer the highest degree of vacation options in contrast to either a fixed or a float type of interval arrangement (Burlingame, 1999 and 2001).

Reflective Practice

Survey current trade literature to determine who the major timeshare developers are in your region; include both branded and independent operators.

Basic Legal Forms of Conveyance

Another way to define the industry is to classify the timeshare product into the legal form under which it is sold. The three most common types of conveyance are (1) deeded interests, (2) right-to-use, and (3) leasehold agreements. Under the deeded interest method of conveyance, the purchaser receives title for the real property that is being purchased from the timeshare developer. If a consumer purchases a timeshare under a deeded arrangement, he or she has obtained legal ownership of the villa for a weekly interval that grants the owner the right to use the property for the week specified in the deed. Under this deeded type of conveyance, the purchaser has the legal right to: (a) use the real property (villa) in perpetuity, (b) will the real property to a family member, or (c) sell the real property at a point in which he or she no longer wants to use the property.

The right-to-use type of conveyance is not associated with deeding the underlying real property to the purchaser; instead, the individual is given contractual rights to use the timeshare facilities for a specified period of time. Upon expiration of this specified period (e.g., twenty years), the purchaser's rights of usage terminate unless he or she purchases additional time.

Key Point 1.3

The timeshare product is categorized into three basic legal modes of conveyance: (1) right-to-use, (2) deed, and (3) leasehold agreements.

The conveyance mode known as a leasehold agreement is similar to a right-to-use contract in that the purchaser holds a leasehold interest or other interest that is less than a full ownership interest. In practical terms, this means that the purchaser has the right to inhabit the timeshare unit for a specified period of time, and at the termination of the lease, the property reverts to the timeshare developer. One of the fundamental differences between a leasehold agreement and a right-to-use agreement is that the leasehold is of shorter duration than the right-to-use contract (Suchman, 1999; ARDA, 2002b).

In practical terms, the vacation ownership product comes in either a deeded or a nondeeded version (often referred to as a right-to-use arrangement). Under either arrangement, the consumer, also known as an owner, is given use at a

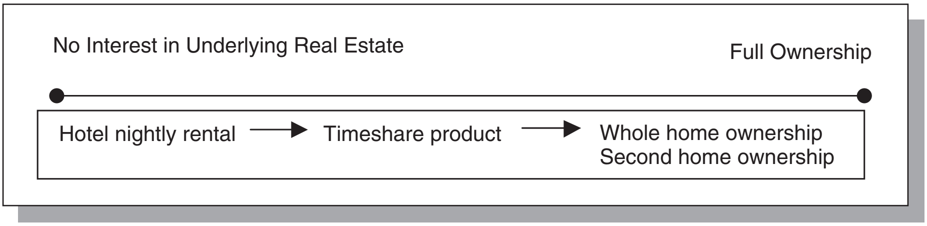

Figure 1.1 Product ownership continuum

specific resort, a specific unit, and exclusive occupancy for a specified period of time. In short, this means that a given developer can build and sell an individual unit for fifty-one or fifty-two weeks out of a year, depending on whether a week is held out for general maintenance purposes (Upchurch and Gruber, 2002).

From a product perspective, the vacation ownership concept holds a unique position within the leisure product continuum owing the fact that either via a deed or a contract the consumer owns the right to use a specific unit at a specific resort, at a specific period of time. In comparison, under a hotel arrangement the consumer is given the opportunity to rent a unit by the day without any kind of underlying deed or right-to-use/contractual arrangement, whereas whole ownership connotes a legally binding interest in the underlying real estate (see Figure 1.1).

A Macro View of the Timeshare Industry's Growth Cycle

A common question asked is, "Where did the concept of resort timesharing begin?" Many in the United States would trace the roots of timesharing to the most popular geographical destination market located within the U.S. borders: Orlando, Florida. Although the state of Florida has a rich history reaching back to the 1970s, it would be logical to conclude that it is the home of the first-ever timeshare development, but that would be an error of judgment. Actually, the site that originally spawned the growth of the timeshare resort concept is not within the United States at all. As noted earlier, the first timeshare resort was located in Europe. In 1964, a European developer known as Superdevoluy began offering timeshare intervals at a ski resort in the Alps for ski resort enthusiasts (Trowbridge, 1981). The basic concept proffered by Superdevoluy is not largely different from the core timeshare definition in that Superdevoluy sold individual units to multiple owners for a specified period of time. This vacation offering allowed the ski devotee who wanted to own real estate at a premium ski resort location a guaranteed right to vacation at that resort at an affordable price (Trowbridge, 1981).

In less than ten years, this concept of selling individual resort units (villas) to multiple owners gained momentum in the United States. Indeed, the first reports concerning timesharing began to appear in publications in the 1970s (Trowbridge, 1981). In the 1970s, the timeshare concept migrated to the United States. During this time it was not uncommon for a timeshare resort development to be nothing more than a converted hotel project. This approach failed because many of these converted hotel projects were distressed properties and therefore were also not successful as timeshare resorts. The net result was that the concept of timesharing in the United States had a very difficult startup process owing to high failure rates and the resultant negative press. Other negative influences during this time centered on inflation and the economic downturn of the U.S. economy.

One of the less glamorous outcomes of the 1970s was that a few unscrupulous developers took advantage of unknowing consumers by selling a product that did not exist. As a result of such dishonest actions, state lawmakers began to consider extensive product registration and licensing for timeshare enterprises. Many in the industry therefore refer to the 1970s as the birth of timeshare's negative image. It took years to counteract this bad image.

By the early 1980s, the practices of such unscrupulous developers were out of control. The net result was that Florida's state legislature passed the state's first timeshare law in 1983 that put an end to such unethical selling practices. This first timeshare law imposed strict restrictions on timeshare developers that in principle put the bad developers out of business. These initial regulatory actions saved the industry from an early demise. After the 1980s, the industry's image improved significantly owing to the fallout of these scam artists, the entrance of hotel brands, and implementation of quality control procedures (Gruber, 1999a, 1999b).

Key Point 1.4

The timeshare industry's image has been strongly influenced by consumer protection legislation and the entrance of hotel brands into the timeshare market.

The entry of major lodging companies into the timeshare industry during the 1980s and the 1990s exerted a strong influence on increased consumer acceptance of the timeshare product. What lodging companies were early entrants into the timeshare market? In 1984 Marriott entered first, followed by Disney and Hilton (in 1992). These developers brought considerable brand-name recognition and elevated consumer acceptance levels through strict standard operating procedures, organizational performance standards, organizational views toward civic responsibility, and adherence to strong business ethics. By the end of the century and continuing onward, other branded lodging companies followed Marriott, Disney, and Hilton's entrance into the realm of vacation ownership. For instance, Starwood purchased Vistana Resorts (1999), and in 2000 Cendant added Fairfield Communities (now called Fairfield Resorts) to their long list of hospitality-related companies. The entrance of these major developers demonstrate that timesharing had gained widespread acceptance in the hospitality arena (Pryce, 1999).

The 1990s also evidenced public trading of timeshare companies on the stock market. As of 2003, seventy-five companies were operating timeshare operations on the open market (Vacation Ownership World, 2003). Thus, the timeshare industry had become a viable and legitimate alternative to traditional resort vacationing. This sustained increase in the number of timeshare resorts is supported by a benchmark study conducted by Ragatz Associates in 2003. This report, titled "A Study of the Timeshare and Vacation Ownership Industry" conducted in 2003, reported that forty-seven states (U.S.) and ninety-five countries reflected this growing timeshare

Aggregate Resort Profile		Key European Locations		US State Profile	
Location	Frequency	Location	Frequency	Location	Frequency
Worldwide	**4,325**	**Europe**	**1,452**	**USA**	**1,590**
		Spain	512	Florida	366
		Italy	186		
		France	142	California	125
		UK	139	South Carolina	119
		Portugal	124	Colorado	75
		Austria	55		
		Greece	45	Hawaii	73
		Turkey	38	North Carolina	59
		Germany	38	Nevada	56
		Switzerland	37	Missouri	49
		Finland	31	Texas	49
		Malta	23		

Source: ARDA (2003) A Study of the Timeshare and Vacation Ownership Industry: 2003, American Resort Development Association, Washington, DC.

Table 1.1 2003 Timeshare Resort Profile

phenomenon (ARDA, 2003a and 2003b). Furthermore, these forty-seven states accounted for 1,590 timeshare resorts in the United States alone, while the worldwide number increased to 5,425 timeshare resorts (see Table 1.1 for details). According to Ragatz, the number of timeshare resorts in the United States has increased approximately 3 percent since 1994, and the total number of timeshare resorts since 1997 has grown 4.7 percent. These longitudinal statistics indicate that the timeshare industry has come of age.

Design Shifts and Developments

A quick review of the literature finds that the vacation ownership product has been impacted by consumer preferences, legal mandates, destination market factors, and industrywide product quality standards (McMullen, Zanini, Fugleberg, and Donovan, 2000). In particular, this group of industry consultants, architects, and interior designers showed that the industry is not truly a non-sought good by the mere fact that consumers had, and still are, exerting an influence upon how the vacation ownership product is designed, built, and tailored to their ever increasing demands. The following summarizes design changes that have occurred over the past twenty years as reported by McMullen, Zanini, Fugleberg, and Donovan, 2000).

Consumer-driven Influences

In the 1970s, timeshare developers typically catered to the family market, which influenced unit design in a variety of tourist destinations ranging from beachfront to mountain, ski, and entertainment areas. The campus-style resort at that time was designed as a two-bedroom, two-bath unit that gradually evolved into a two-master suite unit. In addition, during this period resorts were designed to appeal to the sports-minded enthusiast. In golf-oriented resorts, the product was commonly sold to foursomes. With so many occupants, the design necessitated the presence of two beds in each bedroom. In this type of market, the designer typically built the units with additional space to accommodate luggage, equipment, and other personal items. The standard configuration for these campus style structures was the two- to three-level condo-style structures with surrounding onsite recreational activities. In the twenty-first century this campus style of timeshare resort has gravitated toward townhouse and single-family units with individual pools. Timeshare resort projects of the 1970s were typified by a small number of units (e.g., 50 units), whereas projects of the twenty-first century are markedly larger in scale. For instance, projects with 900 or more units are not an anomaly in the present day, yet these mammoth projects are not without design and service challenges. In line with the construction of these multiphase timeshare projects, the developer builds each residential accommodation in stages whereby the next phase is started with each successive stage being sold out at a level of 50 percent or higher. The reason for this is to make sure that sufficient capital and demand are present before the next residential building is constructed. The residential units are built in phases because the sales pace often falls behind construction of the units. This rather challenging fact means that the developer must engage in a rental program to defray the costs associated with each additional building while waiting for sales activity to catch up with construction. The basic process is to use the initial building phases as long-term rentals, then to phase to short-term rentals of six months or less, and finally to convert the remaining inventory to timeshare units, after all residential phases are complete. Furthermore, the growth in the number of residential units coincides with the size of the individual unit from less than 100 square feet to over 2,000 square feet per unit/villa.

Key Point 1.5

Resort design has changed over the years to reflect the lifestyles and recreational preferences of the intended target market. This is reflective of an industry that actively uses segmentation theory and is in a growth mode.

During the 1980s timeshare resort units were commonly designed with two bedrooms and two full baths for a maximum bedroom capacity of six to eight people; urban resorts featured one-bedroom units that typically slept four or six people; and studio units accommodated two to four people. By and large, this capacity pattern per type of unit has changed very little over the years (Upchurch, 2002; ARDA 2003a and 2003b).

The international consumer has always been a preferred target market in tourist destinations such as Orlando, Florida. The unique factor relative to this market is that the length of stay pattern is longer (up to four weeks), therefore necessitating extra space for luggage and personal belongings. This market is always interested in onsite recreational services for the pleasure of the entire family ranging from golf to tennis, basketball, shuffleboard, and other activities.

A smaller but influential market segment that also began in the 1970s to the 1990s was the unmet need for timeshare units in urban locations. To satisfy this need, the developer entered this market by purchasing existing hotels or condominiums that were either in primary or secondary markets. The primary physical difference between urban timeshares and leisure destination timeshares is that the urban timeshares are configured as high-rise facilities with limited recreational amenities available to the owner.

Evolution of Industry Standards

The trade literature implies that the entrance of the branded hotel companies such as Marriott, Hilton, Hyatt, and Disney in the 1980s and 1990s immediately enhanced design standards and service standards. There is no doubt that these companies did bring standardization and credibility to the timeshare industry. But more importantly, the exchange companies implemented a resort rating system that placed all timeshare resorts on an equivalent measurement system. The two major exchange companies, Resort Condominiums International (RCI) and Interval International (II), have devised a rating system to gauge the "quality" of resort furnishing and service levels. These systems classify resorts based on particulars such as ease of guest flow, presence of private sleeping areas, bathrooms that are accessible without walking through the bedroom, kitchen amenities based on the size of the unit, and other amenities considered mandatory (e.g., partial or full kitchen, with a coffeemaker, small refrigerator, microwave, oven, and four-burner stove). Additional, particulars are wet bars, larger televisions, or VCRs, depending on the unit and market. The outcome of RCI's and II's rating system is that the higher the level of amenities and services offered, the higher the resort's quality rating will be. The benefits of these rating systems are numerous, ranging from elevated product quality to the most important being that consumers now had a means to learn what level of product and service quality existed at any number of resorts that they could potentially exchange. Hence, these ratings systems strongly influence the initial marketing encounter when a prospect is trying to determine the credibility and value of purchasing at a given site, and after-the-sale the newly minted owner has a means by which to gauge resort quality with a global perspective.

The Product Life Cycle and the Timeshare Product

The growing industry evolves from introduction of a concept to growth, maturity, and eventual decline. The initial stage of exploration is typified by a newly found curiosity in traveling to the area. The next stage reflects this newfound interest in traveling to the area in that services begin to be established that serve the needs of this traveling public. The third stage, the most robust in terms of physical development of the area, is typified by rapid product and service development. However, this rapid development becomes an issue to the residents and to policy agents relative to the impacts of tourism on the community. Hence, it is in the development phase that economic, sociological, cultural, and ecological impacts become an issue. In addition, this development phase is commonly associated with considerable advertising and promotional efforts aimed at attracting tourists and in maintaining a balance with available resources. The last phase is strongly impacted by positive or negative events that have occurred during the development phase. Hence, the final stage of decline is largely contingent on the tourist destination's ability to cope with the identified tourism impacts. If the issues are insurmountable, then decline follows with a concomitant drop in tourist arrivals to the area. However, if policies are enacted that sustain the balance between precious resources and tourist demands, then the probability of decline is averted.

Richard Butler is a noted expert that developed a life cycle model explaining tourism product development. In general terms, at the early stages of the development of tourism, the exploration stage and the involvement stage, minimal facilities are provided for the tourist and the region is visited by only a few tourists. During the development stage, infrastructure and services grow rapidly. In the consolidation and stagnation stages with high-class and abundant facilities, the main emphasis is on maintaining a targeted approach to tourist marketing in a highly competitive environment. It is this competitive environment in the stagnation phase that slows down product expansion rapidly (see Figure 1.2).

Following Butler's model, it can be ascertained that the vacation ownership industry is still entrenched in the development

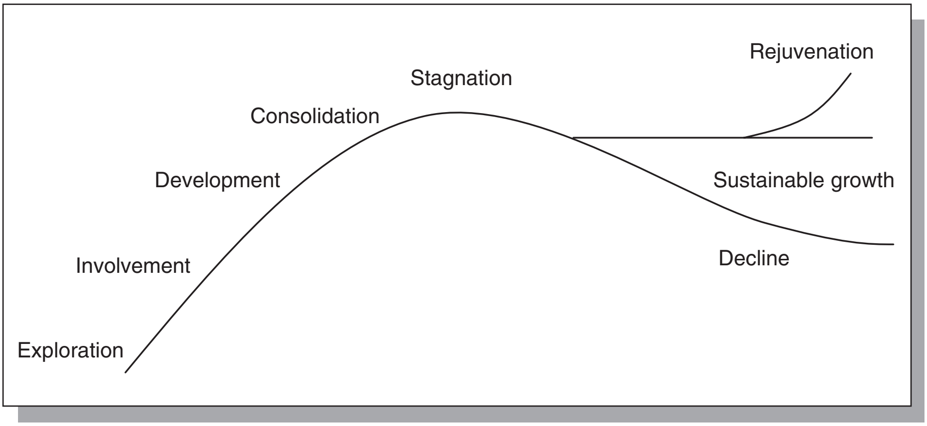

Figure 1.2 Butler's Product Life Cycle

phase of the tourism product life cycle (Butler, 1980). This is supported by the prevalence of timeshare resorts in commonly accepted tourist destinations such as Orlando and Las Vegas. According to ARDA, 24 percent of the timeshare industry is located in Florida, with Orlando being the most concentrated city. The breakdown of the timeshare industry in the United States is Florida (36%), California (12%), South Carolina (12%), Hawaii (7%), Colorado (7%), North Carolina (6%), Nevada (6%), Texas (5%), and Arizona (4%) (ARDA, 2003). The growth of vacation ownership resorts within these states and others is indicative of an industry that is deeply entrenched in the development phase. Therefore, an argument can be made that the industry is in the early stages of Butler's development phase for two reasons. First, there is evidence of economic, sociological, cultural, and ecological impacts of vacation ownership in the main media stream.

Applying Butler's Resort Life Cycle to Timesharing

Relative to Butler's product life-cycle theory, tourism progresses through the stages of exploration, involvement, development, consolidation, stagnation, and finally decline (Butler, 1980). The initial stage, *exploration*, is typified by a newly found curiosity in traveling to the area. In this phase, product branding and quality levels are established; pricing is set at a level that appeals to the consumer price point and therefore builds interest; distribution is selective by focusing on primary markets such as areas of high tourist flow; and promotional efforts center on those that fit the profile of early adopters.

Key Point 1.6

In the context of Butler's resort life-cycle theory, the timeshare industry has progressed out of the exploration phase into the early stages of development/growth.

The *involvement* stage reflects the developer's desire to refine its marketing and sales efforts to better attract potential consumers in the resort's geographical location. During this stage, the timeshare developer refines its marketing channels and engages in various onsite and offsite marketing programs that present messages appealing to individuals with a profile similar to that of the early adopters of the timeshare product.

The *development stage* is the most robust in terms of physical development of the area and is typified by rapid product and service development. The resort product quality is maintained and improved upon, and other features and support services are added to the offerings. Along with these quality enhancements the developer is driving consumer demand, with the result that the price points begin to move upward. The marketing and sales engine during this phase is robust owing to further refinement of marketing strategies that differentiate the lifestyle needs of existing and potential consumers for existing consumers. This phase is often marked by the creation of differing resort products, thus being representative of differing market segments. However, this rapid development becomes an issue to the residents and to policy agents relative to the impacts that tourism is having on the community. The development phase (also known as the growth phase) is where the economic, sociological, cultural, and ecological impacts become an issue. This development phase is commonly associated with considerable advertising and promotional efforts aimed at attracting tourists and at maintaining a balance with available resources. Therefore, the development stage is representative of a rapid increase in both sales and profits and is a time when the developer focuses on market share via market penetration strategies. By this stage, the timeshare developer is leveraging sophisticated market segmentation strategies and clearly knows which channels of distribution yield the highest rate of return. In doing so, the developer is leveraging multiple channels for specific target markets. Hence, competition during this phase is very intense industrywide.

The growth stage is closely followed by the *consolidation* (alias the maturity) stage and is the natural progression of a market that has matured in terms of competition and consumer demand. In this phase, industry competition intensifies, and therefore marketing becomes the key to the timeshare developer's success. This stage is marked by defense of market share while maximizing profits; addition of product features that differentiate the developer's product from that of the competition; and stagnant or lower pricing due to competition. In addition, existing marketing channels are already refined, which means that developers begin to offer incentives to stay competitive; all promotional activities stress product and service differentiation over that of the competition.

Stagnation is the phase between maturity and decline that is characterized by very low cost of product delivery, sales have peaked and profits are beginning to level off.

The *decline* phase, the final stage in the life cycle, is strongly impacted by positive or negative outcomes of the intensive competition of the previous stage. This does not necessarily mean that the developer should now abandon the product altogether, but rather that the introduction of new strategies might be in order. These could include new versions, new distribution methods, or price reductions—in short, anything that will inject a little life into the cycle. If the issues are insurmountable, then decline follows with a concomitant drop in tourist arrivals to the area. However, if policies are enacted that sustain the balance between precious resources and tourist demands, then the probability of decline is averted. Another option during this phase is for the developer to rejuvenate his product offerings by adding uniquely different resorts or resorts with new and appealing features. Of course, some developers may decide to engage in niche marketing by catering to a very specific target market. The last viable option is to consolidate resources by liquidating remaining inventory to other industry development.

Applying Butler's Theory to the Timeshare Industry

In applying Butler's resort life-cycle theory, it can be ascertained that the timeshare industry is still entrenched in the development phase of the tourism product life cycle. This is supported by the prevalence of timeshare resorts in commonly accepted tourist destinations such as Orlando and Las Vegas. When you reflect on the proliferation of trade and academic literature that focuses on topics relating to timesharing it is easy to recognize that the advancement of timeshare resort development within the United States and Europe is in strong evidence. Such publications include *Vacation Industry Review* (produced by Interval International), *Ventures* (produced by Resort Condominium International), *Developments* (produced by American Resort Development Association), *Vacation Ownership World* (private trade publication), *The Timeshare Industry Resource Manual* (produced by the American Resort Development Association), industry reports by various consulting groups (Ex. Interval International and RCI Consulting, the *International Journal of Hospitality Management*, *Journal of Retail and Leisure Property*, *Tourism Analysis,* and the *Cornell Hotel and Restaurant Administration Quarterly,* and the *Journal of Hospitality and Tourism Research.* The topics covered in these publications include property management, owner services, legal issues, product design and proliferation, sales and marketing strategies, consumer acceptance, financial impacts, economic impacts, increased competition, and a host of ancillary topics that highlight the sustained growth of the timeshare industry.

Key Point 1.7

The indicators of number of owners, growth in resorts, sales volume increases, increased competition, and refinement of marketing strategies indicate that the timeshare industry as a whole is in the early phases of Butler's development stage.

Growth Phase—Marketing Tactic Refinement

The second means of documenting that the vacation ownership industry is in the development phase is attributed to the plethora of marketing and sales programs that are devoted to either "pushing" or "pulling" the prospective consumer to purchase the timeshare product. This is a logical finding because the timeshare product is still not a sought-after good. Therefore, the developer expends considerable sales and marketing resources in an effort to place the vacation ownership product before potential timeshare consumers. In fact, the sales and marketing costs account for 40 to 60 percent of the initial product cost. Still, the use of various sales and marketing distribution channels alludes to the maturation of the vacation ownership industry. Instead of relying on face-to-face personal selling as the sole means of reaching the consumer, the timeshare industry is actively employing advanced strategies to promote its products. For instance, Fairfield Communities entered into a cooperative marketing agreement with Taylor Made golf products to cooperatively advertise their products. This transaction has enabled Fairfield Communities and Taylor Made to reduce their individual marketing costs while increasing their exposure to a wider consuming audience. This is not an uncommon practice within the industry as a whole, and in turn these activities are indicative of a maturing industry. Furthermore, the sustained double-digit growth as reported by ARDA gives testament to an industry that is in the early stages of growth. These growth figures, in combination with the fact that many branded hotel companies entered the timeshare market as early as 1984 and throughout the 1990s, indicate that the market is expanding nationally and internationally, thus representing the growth cycle as noted by Butler.

The sales and marketing costs account for 40 to 60 percent of the initial product cost (ARDA, 1999b). Still, the use of various sales and marketing distribution channels reveals the maturation of the vacation ownership industry. Instead of relying on face-to-face personal selling as the sole means of reaching the consumer, the timeshare industry is actively employing advanced strategies to promote its products.

Growth Phase—Product Design Advances

As the industry has matured in the number of resorts and geographical locations, so has the physical design of the resort. The observation that the timeshare product has been differentiated in product type is supported by a tiered classification system proposed by McMullen and Crawford-Welch (1999). In this system, there are five levels of timeshare products available in the marketplace: luxury, up-market, quality, value, and economy. The *luxury* market provides a product in the $20,000 range per interval that is commonly found in tourist destinations, and it offers a wide array of services and amenities. The luxury timeshare product is often a penthouse style of construction with about 1,500 square feet or more of unit space. The *up-market* is priced a little lower at $15,000 to $25,000; it is also a destination resort with approximately 1,000 square feet of space for a one-room unit and 1,800 square feet for a two-bedroom unit. The *quality* level is priced at $9,000 to $17,000 and is located in a destination area, with an average square footage of 800 for a one-room unit or 1,400 for a two-bedroom unit. The *value* level is often considered a regional resort/facility that is priced in the $7,000 to $10,000 range. The one-bedroom unit in this type of facility has about 800 square feet of space, whereas the two-bedroom unit has 1,000 square feet of unit space. The *economy* level also is found in regional markets, is priced from $5,000 to $8,000, has 600 square feet for a studio unit, and is approximately 900 square feet for a one-bedroom unit (McMullen and Crawford-Welch, 1999; Upchurch, 2002).

The price per weekly interval has generally increased since 1999 as reflected in the 2002 Financial Performance study conducted by ARDA. This national study found that the weighted average price of a timeshare week sold in 2001 was $15,571, which is an increase of 7 percent over figures reported in 2000 (ARDA, 2002a and b). In the 2004 Financial Performance Study of the Timeshare Industry conducted by PriceWater-HouseCoopers on behalf of the American Resort Development Association, the price for a week interval ranged from $13,950 to $15,055 with the weighted average being $14,652 (ARDA, 2004a). This latter study from an aggregate perspective indicates that the price per week remains relatively stable for the last couple of years, with the differentiating factor being that total sales increased by 11.2 percent in 2002 from 2001. This finding indicates that consumer acceptance is continuing to increase from a worldwide perspective.

Growth Phase—Sustained Acceptance of Timeshare Product

The American Resort Development Association (ARDA) is a not-for-profit professional trade association representing the vacation ownership and resort development industries. Established in 1969 and based in Washington, D.C., ARDA is the only international trade association that represents all facets of the vacation ownership resort industry. It has reported double-digit growth in the industry over the past twenty years, 6.7 million owners worldwide, and significant economic impacts as indicated by sales volume noted in Figure 1.3. All of these indicators signify that the acceptance of the vacation ownership product is on the rise. The assumption is that all the aforementioned factors have contributed to the stature and acceptance of this industry as a whole (ARDA, 2003). Clearly, an industry that has sustained

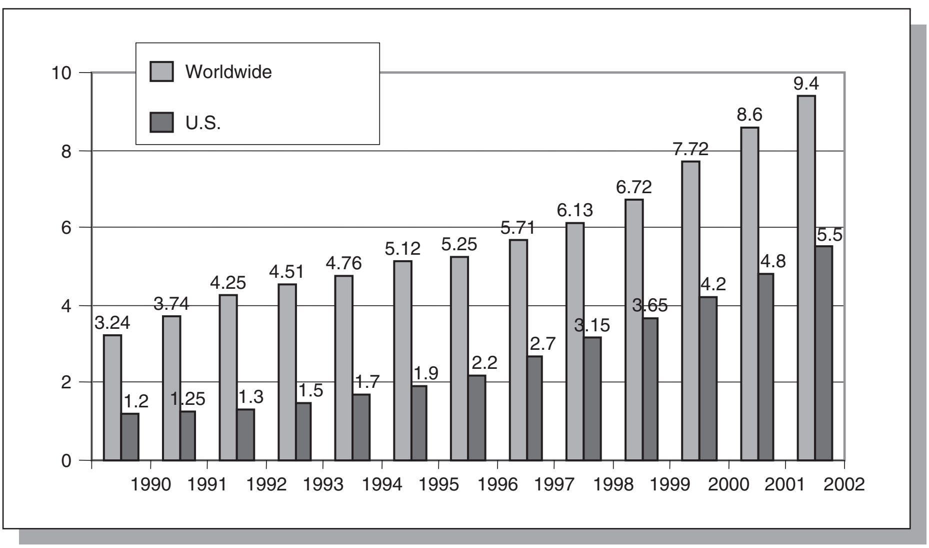

Figure 1.3 Worldwide and U.S. sales volume (in billions)

double-digit growth over the past twenty years in combination with an 80 to 90 percent owner satisfaction rating is very admirable indeed.

Growth Phase—Sustained Industry Volume and Growth

In support of this sustained growth, Figure 1.4 reported in an industry publication titled *Vacation Ownership World*, shows sustained vibrancy of the vacation ownership industry. Interestingly, the timesharing industry reported its first member of the $500-million-a-year club—the Marriott Vacation Club International (MVCI)—in 1999. MVCI amassed $540 million in sales in that year, followed by sales of $900 million in 2002 and $1,050 billion in 2003. This is phenomenal growth by one single developer. Yet, MVCI is just one developer in this global timeshare market. To gain a better understanding of the industry's overall magnitude, we should note that in 2003 thirty-four timeshare developers reported $20 million or more in timeshare or fractional sales (*Vacation Ownership,* 2004: 8–9).

The impact of branding, whether by corporate expansion or acquisition, accounts for rapid consumer acceptance. It is estimated that 60 to 70 percent of the general public gains a

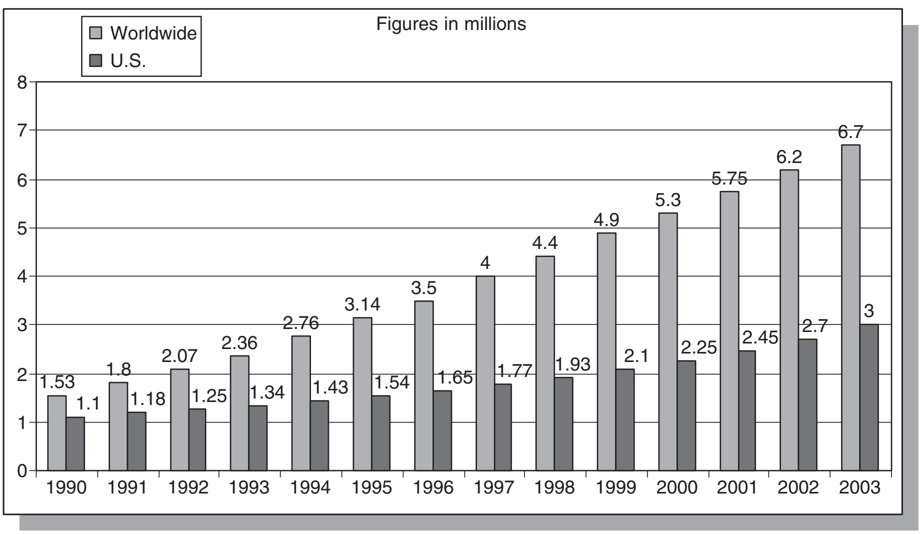

Figure 1.4 Worldwide and U.S. number of owners

measure of comfort when purchasing products from recognized names (*Vacation Ownership World*, 2000). Additional advantages of branding are the association of quality with name recognition, exploitation of database lists, branch networks, and reservation systems. It is clear that the brands are making a major impact in the timeshare industry. In fact, the top ten companies in vacation ownership, in terms of sales volume, are either associated with brands or are rapidly attempting to establish a brand. It is not a foregone conclusion that timesharing will draw the attention of additional "traditional" lodging corporations owing to its profitability and attractive client base.

Reflective Practice

Read current trade publications for information that would confirm that the timeshare industry is in the development phase of Butler's model. You should seek out performance metrics as described in this chapter, expansion into existing or new markets, product proliferation, and marketing programs that indicate further refinement of existing market segments.

Conclusion

The timeshare resort industry has evolved since the 1970s in sheer number of owners, number of resorts, increased sales volume, design and layout, and national and international locations. Few hospitality and tourism industries can boast sustained double-digit percentage growth in a period when worldwide economic conditions have moved up and down. Perhaps more importantly, this same time period saw the entrance of Disney, Hilton, Hyatt, Marriott, Starwood, and Wyndham into the business of selling timeshare intervals. Representing a radical departure from what these hotel companies did as their main strategic business unit, their industry move was therefore considered risky. Conversely, the brands have brought their philosophy of quality control and their strong ethical code to the timeshare industry, which has almost elevated the credibility of the timeshare product in the eyes of the general public.

The application of Butler's resort life-cycle model is particularly appropriate for the timeshare industry given the theory's ability to predict the stage in which an industry is in at any given point in time. Basically, Butler's model provides a rubric by which a developer can analyze its current position in the marketplace and, if needed, adjust the company's product offerings, promotional strategies, pricing tactics, deployment of human resources, and geographical dispersion of resorts.

In closing, today's timeshare product is an intriguing vacation accommodation alternative as compared to the traditional vacation resort, offering the consumer the option of owning (or at least experiencing for a lengthy amount of time via a right-to-use agreement) a private resort environment that is designed to fulfill a lifetime of dream vacations. Given the sustained development patterns being reported (ARDA, 1999a and b, ARDA, 2003; Pryce, 1999; Interval International, 2001), it is clear that consumer interest is on the rise.