17 Timeshare Revenue Management

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Learning outcomes

After reading this chapter, you should be able to:

- Understand the concept of timeshare/vacation ownership and be able to discern between the timeshare product that is purchased and the timeshare product that is used, including the various usage options a timeshare owner may have.
- Be familiar with the inventory management techniques required to support owner usage of the timeshare product.
- Recognise why the available supply of timeshare inventory is more dynamic than traditional lodging products.
- Comprehend how the timeshare industry analyses customer data to generate the most cost-effective customers to generate the greatest long term revenues.
- Understand how inventory allocation among various customer segments may impact the ongoing profitability of a timeshare resort.
- Apply revenue management measures and terms specific to the timeshare industry.

Introduction

This chapter addresses revenue management within the timeshare industry with a focus on the unique aspects of forecasting demand, inventory allocation, and evaluation of revenue management efforts in an environment of dynamic supply. The chapter demonstrates how the timeshare industry is using revenue management techniques in their revenue and inventory management processes that go beyond traditional inventory management strategies by targeting, analysing and selecting the most profitable customers and allocating rooms' inventory according to anticipated returns from the particular market segment in order to generate the greatest long term profitability for the business.

Current literature suggests that the emphasis of revenue management practices is evolving. Traditional inventory-centric practices of revenue management concentrated on the inventory and its optimization. Recent thinking advocates that a more customer-centric view, one that focuses efforts on the analysis of customer data to yield insights into the most valuable customers to sell to, may result in greater profitability for business enterprises (Cross, Higbie and Cross, 2009). Unlike typical lodging products, the timeshare product is sold to consumers for their ongoing use, and a relatively small portion of the inventory is rented, as in a traditional lodging establishment. Nonetheless, inventory is managed and allocated according to market segment and the needs of the greater enterprise including use by the consumers who own the product, marketing for the purpose of selling the timeshare product, and rental to offset the cost of developer-owned or managed inventory.

The timeshare industry is a large, global industry with more than 5,300 resorts in over 100 countries; accounting for worldwide economic impacts exceeding $115 billion (USD) annually. While most consumers and students may be aware of the timeshare sales and marketing components of the industry, many are less aware of the unique operational aspects of timeshare resorts, including a rental component generating annual rental revenues in excess of $2 billion (USD) worldwide. These rental revenues account for approximately 15% of the annual revenues produced by the industry, and many expect these numbers to increase as the timeshare product continues to evolve (ARDA, 2012a).

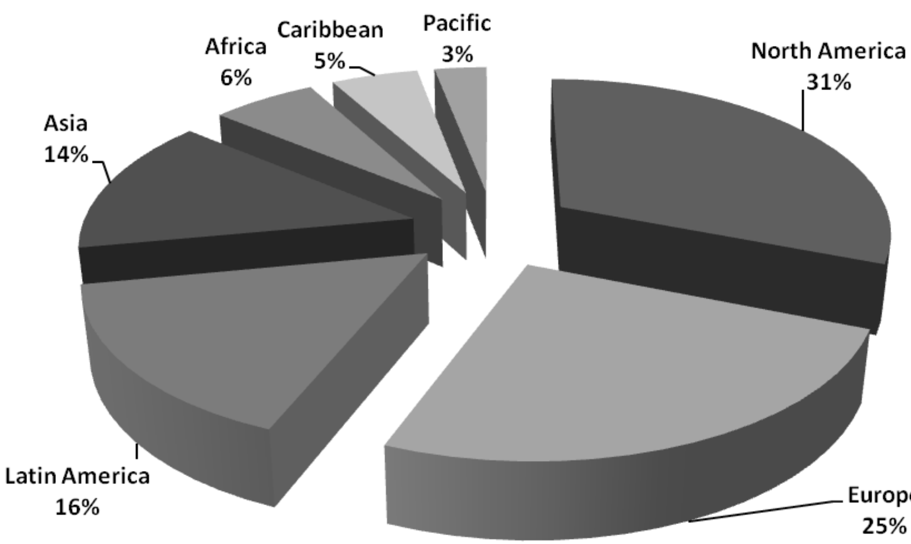

Figure 17.1: Worldwide Timeshare Resort Distribution. ARDA (2012b)

The business of timeshare companies

Many individuals believe that the timeshare industry is just about sales. In fact, the timeshare industry is established on three primary business components, with some of the larger companies including a fourth. You may hear the businesses of timeshare referred to as a 3-legged stool. Each of those legs is attributed to a component of the business: real estate development and sales; consumer financing and resort management; the larger timeshare companies may also have a fourth leg, a mortgage bank.

From its inception, the timeshare industry was about real estate development and sales. This component of the business includes resort feasibility, planning, construction, development, sales and marketing, as well as all of the components of a business to support that such as accounting, corporate finance, legal, human resources, etc. Think of this component of the business as everything that is involved in identifying a resort location, buying the land and/or existing infrastructure, defining what will be sold (intervals, points, fractions, etc.), getting all of the necessary funding to construct the inventory, hire staff and begin sales, preparing/filing legal documentation, marketing, sales, contract processing, etc. This is the first component of the timeshare business.

Once the timeshare resorts are built, someone has to manage them. A homeowners' association is formed to oversee the ongoing management, general upkeep and running of the resort. The association hires a management company that is responsible for the inventory management, including reservations systems, and property management for the resort. Unlike hotels, timeshare properties are sold off, generally in weekly intervals, to individual consumers who then collectively own the timeshare resort. Each owner pays dues to the homeowners' association which uses those funds to run the resort, i.e., pay the electricity and water bills, replace furnishings when things break or wear out, maintain the pool, grounds, and landscaping, staff the resort with a General Manager, front office staff, housekeepers, maintenance engineer. So, in addition to the general operations of the resort, much like a hotel is managed and operated, timeshare resorts must also maintain and manage a homeowners' association. This is the second component of the larger timeshare business. The third and fourth components of the industry are best described together. Both have to do with financing: consumer financing and investor financing. Most timeshare companies offer some form of consumer financing, the third leg of the stool. Because you cannot go to a bank and take out a loan for a timeshare, as you can for the purchase of a car or a home, timeshare companies offer financing to consumers. Many of the timeshare companies have expanded their business model by engaging investors through the sale and purchase of consumer loans originated within the timeshare