4-2010

Timeshare: Intervals vs. points

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Intervals vs. Points

by

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Bachelor of Science
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A professional paper submitted in partial fulfillment
of the requirements for the
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William F. Harrah College of Hotel Administration
Graduate College
University of Nevada, Las Vegas
April, 2010

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PART ONE

Introduction

The idea of Timeshare originated in Europe in the 1960's. A ski resort developer in the French Alps marketed his resort to guests by encouraging them to "stop renting a room" and instead "buy the hotel".

The basic concepts for vacation ownership hold true. An owner will have a "home resort" when they purchase. In the current environment they can choose each year to occupy at their home resort, exchange through an external exchange company, and list their unit for rent or with Marriott trade for Marriott Reward Points.

Marriott is in the process of changing the way they sell a traditional week of timeshare. In the summer of 2010 they will be converting to a Points based system. This system will put a value on each week at each resort that is participating in the new system and the owner will purchase points based on where they want to go and how points it takes to get them there.

This sounds relatively simple, however, existing owners (Week Owners) have to be taken into consideration when working through this process along with new technology that Marriott does not currently have in place.

Purpose of the Study

The purpose of this paper is to explore the different usage options associated with timeshare and why a company would choose to convert their current product form.

PART TWO

Introduction

This Literature Review covers the growth within the timeshare industry, how timeshare were previously sold (intervals), the most common way they are sold currently (points), the exchange option and my opinion of the points system.

Literature Review

Through the years the timeshare industry has seen tremendous growth. However, the overall market has yet to be saturated. In fact, according to Powanga and Powanga (2007) “The 2005 US sales at $8.5 billion were less than 3% of the potential timeshare vacation owners, leaving more than ample room for growth. The timeshare industry grew from $50 million in 1975 to $10 billion in 2006, fuelling a significant increase in the industry capacity.” “Within that timeframe 2004 sales grew by 21.4% over the previous year” (Anonymous, 2005). Therefore, while the industry has already experienced significant growth, the market has room for more growth in the future.

The manner in which units are sold in the timeshare/vacation ownership industry has changed dramatically over the years. According to Kaufman, Upchurch and Severt 2005, “During the 1970s and 1980s timeshares were sold primarily as either a fixed week, or a float-week fashion whereby the purchaser was limited to a certain degree to the exact week or time interval of their vacation.” A fixed week meant that the owner would visit the same facility, at the same time, and stay in the same unit each year. A floating week meant that the owner could vacation at any time within the vacation season in which they purchases; i.e. an owner who purchased a prime season vacation could use their timeshare within that window while one who purchased a low season timeshare could use theirs within that season. Hayden (not dated) describes a fixed week as follows: "In a fixed week arrangement, each owner owns one or more weeks (pieces) of the condominium, and receives a deed to that portion. The condominium is divided into week 1-52, so an owner of one week, would own 1/52 of the condo, with the common areas such as the pool and grounds, owned in common with all the owners." He goes on to describe a floating week in the following manner; "With a floating week, the number of total sales is restricted to no more than one owner per week, times the number of condos in the project. So a 200 unit project would be comprised of 52 times 200 = 10,400 "pieces" of ownership. These pieces in turn are usually allocated as a certain number allocated to different months of the year relating to the higher demand and lower demand times of the year."

Beginning in the 1990s potential timeshare buyers were looking for more travel flexibility. These potential buyers wanted to take vacations in pieces (e.g. long weekends) versus a week at a time. Passy (2004) says, "The concept has expanded to include points-based systems that allow buyers to divvy up their time into smaller segments, spread among choice resorts." Kaufman, Upchurch and Severt (2005) further elaborate, "In simple terms a timeshare vacation club affords the timeshare owner the maximum flexibility via a point allocation system that equates to a certain size of unit, time of year and length of stay or some other combination of leisure or vacation services such as tourist attractions, tourist excursions, restaurant allowances or other travel service (e.g. cruises)." Points can be exchanged for not only rooms but also meals, side-trips, airline travel and so on. As an example, a buyer could purchase the equivalent of a week but get 3 or 4 nights at a luxurious resort and have a couple of meals taken care of and enjoy an excursion.

"While most interval buyers own a specified amount of time in a single location, interval-exchange companies have made it possible for owners to vacation in various locations" according to Woods (2001). There are two exchange companies, Interval International and RCI that facilitate trade options for interval owners. Interval International has access to approximately 2500 resorts in more than 75 countries (www.intervalworld.com 2010). RCI has access to over 3700 resorts (RCI.com 2010). Ragatz (1999) states that "more than 80% of [timeshare] purchasers buy with the intention of using the exchange option." In addition, buyers who purchase with the intent on exchanging have certain criteria they are looking for when buying. According to Passy (2004), "The share buyers who with trading in mind look for low-priced places with just enough cachet so that they can be swapped for desirable destinations."

In recent years the industry has changed from its former fixed/float-week options to selling points which can be converted to use in reserving timeshares. According to the ARDA's (American Resort Development Association) website points are defined as, "A "currency" that represents timeshare ownership and is used to establish value for seasons, unit sizes, and resort locations. Points are used by some developers for both internal and external exchange." Companies such as Hilton Grand Vacations and Disney Vacation Club actively use a point's based system today. Using this model a buyer purchases participation points (normally just called "points") equivalent to one week's worth of vacation. He/she then converts these points to reserved time in a company property or trades them through one of the large exchange companies. Typically, those points can be used at any location in the company's timeshare system.

Conclusion

While the timeshare industry has experienced growth over the last 30-40 years a true penetration in the market has yet to be seen.

As with most industries timeshare companies have also had to make adjustments in the way they sell their product. It has gone from an industry that predominately sold week intervals to today an industry that predominately offers the option to buy into a points based system.

Both options have offered an alternative to exchange their week or points for different options within the system to make the opportunity more attractive. To remain competitive timeshare companies will have to continue to come up with more flexibility and more offerings to keep the attention of their buyers.

PART THREE

Introduction

The results of this paper are profound in the way that most timeshare companies have already chosen to convert their business to a points based system while Marriott has chosen to wait till 2010 to make the conversion. While it may seem like Marriott is late in this move that may not be the case.

Results

Because the timeshare industry has yet to be saturated and the way timeshare has evolved in terms of how it is sold there may be a lot of potential growth going into the future.

In the 1970's and 1980's timeshare was sold in intervals such as weeks at a time. They would purchase a fixed week, meaning they visit the same resort at the same time each year. They could also purchase floating week, which means they could stay at the resort they purchased during a period time within the season they purchased. This worked well for that period of time. These buyers started to seek some flexibility in the way they travel.

One way interval buyers were able to find flexibility was through exchange companies. They made it possible to stay over 6000 resorts in over 75 countries. This gave timeshare owners the option to take the week they owned in Florida and turn it in to a week in Aruba by paying a small exchange fee.

To meet the changing needs of travelers in the 1990's timeshare companies began to change the way they sell their product. As a result of the consumer's changes in behavior and other companies such as Hilton and Disney converting their interval systems into a Points based system Marriott has chosen to revise the way they sell their timeshare units to points as well. This will give their customers the same flexibility and cater to a more diverse group than the traditional week interval that has been sold for 25 years.

Conclusion

The timeshare industry has not seen its full potential in terms of growth and revenue. Therefore, timeshare companies have revised the way they offer their product to cater to an ever-changing consumer behavior. The industry has changed from offering their product in the form of weeks to now offering more flexibility in a points based system. This change was driven by consumer needs and changes in vacation behavior.

While Marriott has remained steadfast in selling intervals until now, the company is not perched on changing their sales system to one that is points based, as most of the other companies have already done. As a result of the Marriott switch and others who are introducing point's sales, as of 2010 most major timeshare companies will now operate on a point based system overall rather than interval weeks.

This change should provide a financial win for Marriott in the future. First, it will create more flexibility within the company to exchange to other Marriott resorts without having to pay exchange fees. In addition, it offers more price points and has potential to attract a consumer who may want to get into timeshare but is unsure of how it works. Once they become comfortable with the process they can purchase additional points without having to buy another week, so to speak. For example, someone may purchase with the intent of going to Branson, MO each year for vacation and they know it will take 5,000 points for a 1 bedroom (point values are hypothetical). After doing this for two years they decide they want to go to Hawaii. They do their research to find that they need 3,000 more points to make this vacation dream come true. They purchase the additional 3,000 points and book their vacation.

In addition, it gives existing owners the opportunity to convert their week into points for a year without committing to it long term. Overall, this conversion gives Marriott the opportunity to stay competitive among its largest competitors while maintaining relationships with existing owners and attracting a new demographic.

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