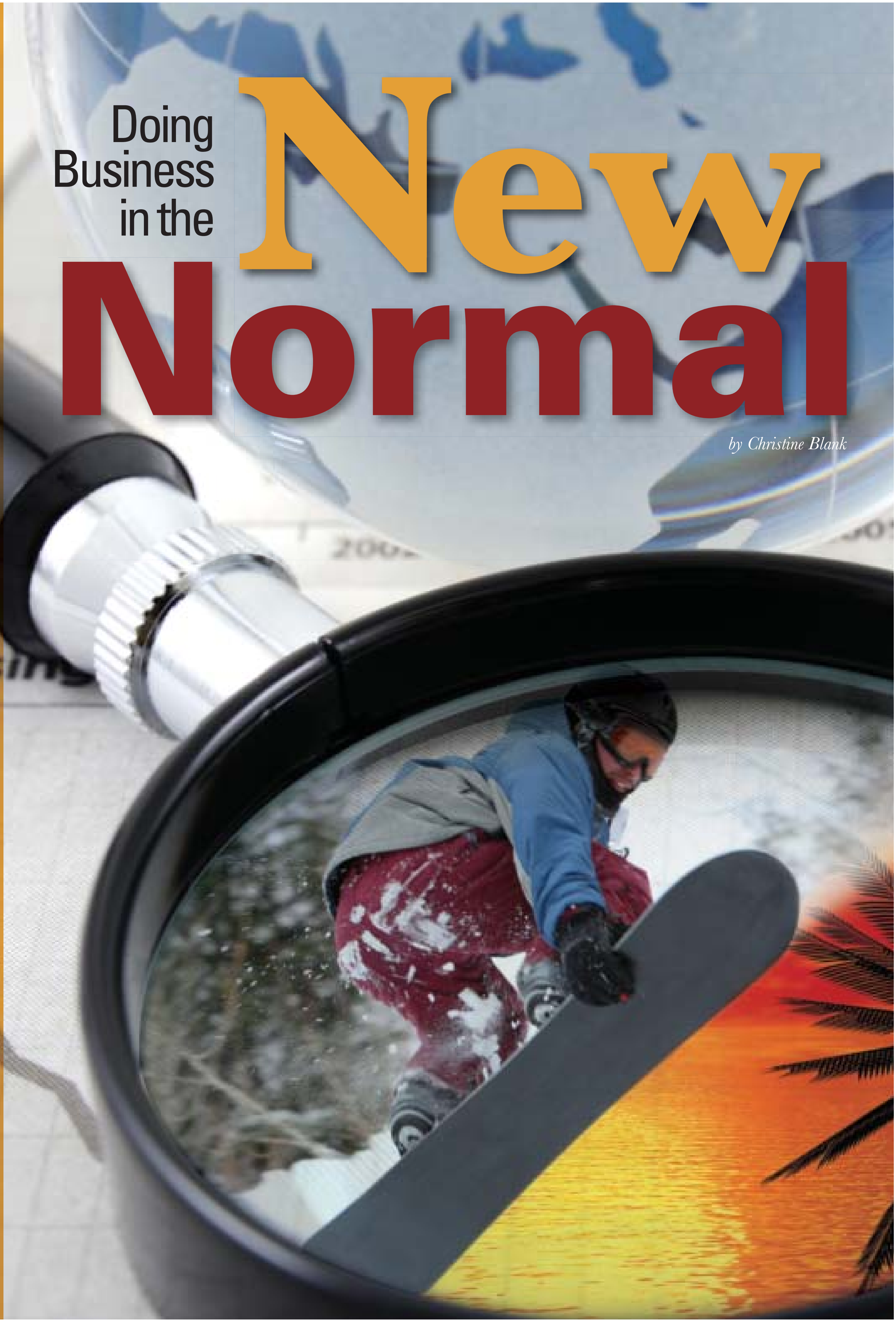
Doing Business in the New Normal

by Christine Blank



The year 2009 really will be all about "change," as vacation ownership companies look at new operating and marketing models in order to thrive in the challenging economy.

At the same time, industry leaders—including developers, financial firms, and others—believe the fundamentals of the timeshare industry remain strong in the near term. Consumers are still planning to travel throughout 2009 (the Travel Industry Association expects a "modest" decline in leisure travel by 1.3 percent), and current owners are using their product and referring others also to purchase. With 76 million baby boomers starting to retire, who are presently between ages 42 and 62, the marketplace for people wanting to own a small piece of vacation real estate that allows them to see the world is truly a compelling, ripe market for timeshare—and once they buy, they will buy more and travel more. People who timeshare still travel, regardless of economic environment.

"A lot of our members have already paid for the vacation in advance, and they are going to continue to vacation. In addition, gas prices are going to come down, and there is an indication that airfares also will come down," says James Lewis, president of Disney Vacation Club and ARDA chairman-elect.

Stephen Weisz, RRP, president of Marriott Vacation Club International, agrees. "Even in difficult times, timeshare resort occupancy rates remain high. The proposition of a prepaid vacation product continues to work well to help ensure that families can enjoy a vacation break, despite an economic downturn."

"Vacations are very important when things are going well, and they become even more important during turbulent economic times," says Franz Hanning, president and CEO of Wyndham Vacation Ownership, Inc.

Tough economic times may even boost business at drive-to vacation ownership resorts. "We are in the major vacation destinations like Hawaii, Las Vegas, and Orlando," says Hanning, "but we also have a large presence in places like Branson, Missouri, and Myrtle Beach, South Carolina, to which people can simply get in their cars and drive."

ARDA Chairman Jonathan Fredricks, RRP, president of Welk Resorts, also sees a higher use of drive-to timeshare resorts but is concerned about declining leisure travel overall.

"The combination of increasing unemployment, tightening credit conditions, high levels of consumer debt, declining housing wealth, and stagnant wages is resulting in significant headwinds for domestic travel," notes Fredricks. "Our retail shops, food and beverage outlets, and golf courses also are experiencing less demand as these economic challenges play out."

The "New Normal" of Vacation Ownership

Undeniably, leaders acknowledge that the industry's operating, lending, and marketing models will look different in 2009 to cope with the economic recession and credit crisis that led some banks to freeze lending late in 2008.

"There was so much fraud with sub-prime mortgages, and public company CEO compensation and rising unemployment have contributed to the lack of consumer confidence," says Robert Webb, RRP, senior hospitality partner at Baker Hostetler and ARDA treasurer. At the same time, the United States has been through financial crises before, and the industry should not panic.

As a result, the "new normal" for the industry will include the following: (1) more streamlined operations, (2) some further consolidation of vacation ownership companies, (3) a more strict review of prospective owners' credit, and (4) an increased marketing focus on value. All vacation ownership executives are examining every aspect of their operations to improve efficiencies during this difficult economic time.

ARDA president and CEO Howard Nusbaum, RRP, sees a renewed focus within the industry on improving efficiencies in operating, management, and marketing programs.

"You are going to see some companies shore up their management methods and development models," says Nusbaum. "People are looking for efficiencies in managing their own inventories and possibly managing other timeshare resorts' inventories."

In addition to developer belt-tightening, lenders will also be stricter about approving loans for new projects and expansions in 2009.

Ronald Goldberg, president of Wellington Financial, notes: "As a lender, we see the 'new normal' including more disciplined business execution, with the pendulum swinging toward bottom-line efficiencies, tighter underwriting standards, and an absolute focus on liquidity as the predominant determinant of both lender and borrower business models."

Even for efficient operations, lenders are going to keep a "cautious eye" on consumer spending and consumer default rates, adds Goldberg. In this difficult climate, it will be vital for timeshare developers to be transparent with lenders about their operating, management, and marketing programs, according to Nusbaum.

As a result of the credit crisis and an upward trend in consumer loan defaults, vacation ownership companies also plan to examine prospective owners' credit much more closely than in the past.

"The credit crisis is a lesson-learned for everyone. When you have a business model based on the credit market—borrowing against receivables—you have to pay attention to the credit-worthiness of the people you are bringing in," Hanning says. To that end, he notes, Wyndham has been working for the last two years to attract "higher profile customers," who can afford its product.

But the credit crisis and housing crisis will have an immediate impact on consumers' ability to buy timeshare, many leaders believe. "Buyers will have less cash for down payments and less of an ability to afford the monthly payments. This will generally extend the trend of a lower average timeshare sales price, which translates to smaller units, shorter lengths of stay, and fewer points purchased," says Fredricks.

While lenders' tightening of credit is expected to hamper industry growth, some vacation ownership companies handle lending in-house and are less concerned about owner defaults in the coming year.

"We don't rely on third-party lenders, so we are in a favorable position to accommodate purchasers with what works best," says Weisz.

Industry leaders anticipate consolidation of some vacation ownership companies in the year ahead, in order to improve efficiencies.

Nusbaum says, "The timeshare industry is nearly 40 years old and has walked across the bridge from niche real estate option to mainstream vacation lodging alternative—consolidation is a natural phase of this maturation. One only has to look at the consolidated airline and hotel industries, for example, to see this normal evolution in successful travel products."

> "Lenders across the board are asking more questions about a developer's overhead."
>
> *– Robert Webb*

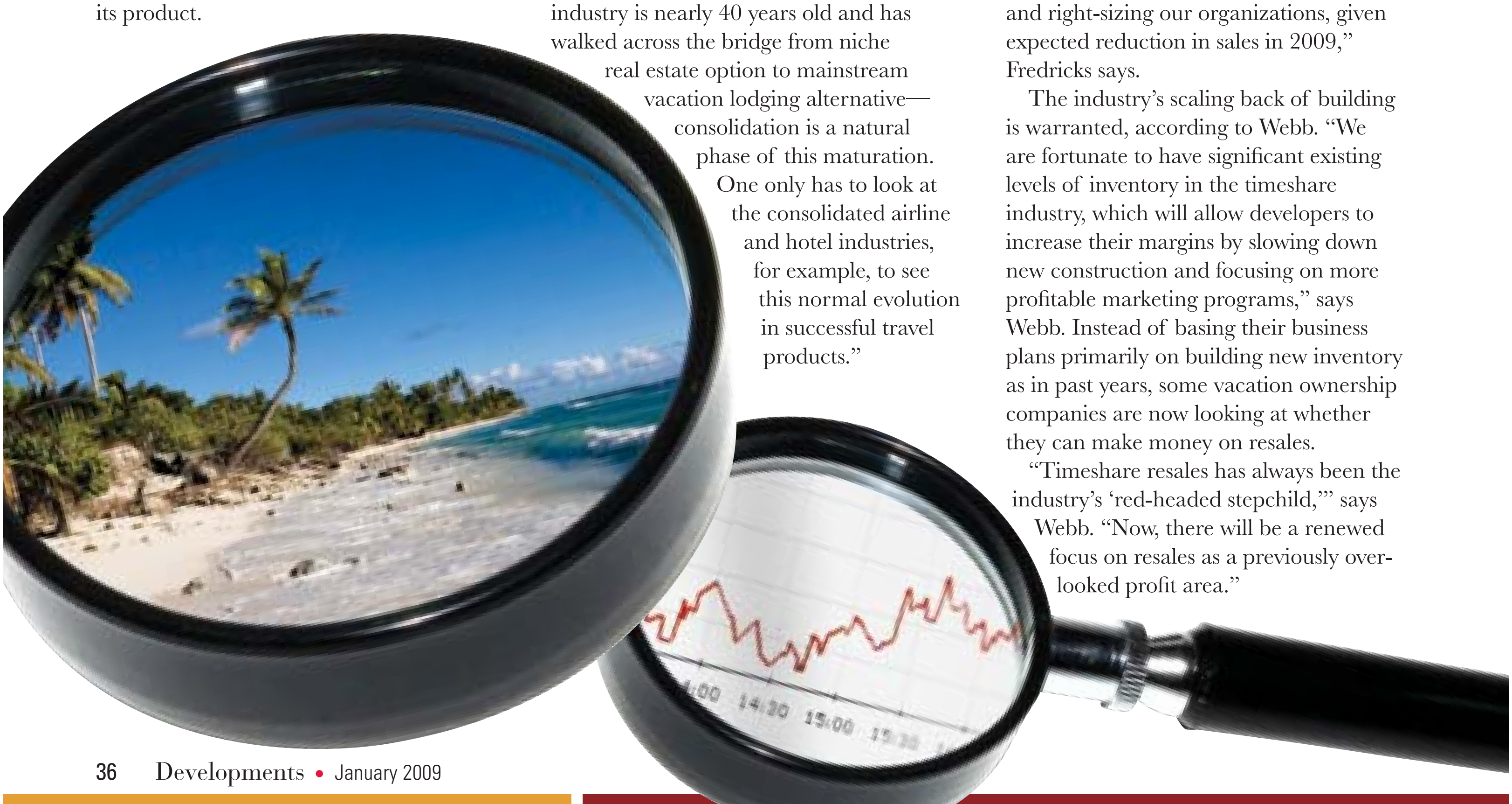
The new normal also includes a slower rate of expansion than developers had planned in the last couple of years. Some companies have already said they will focus more on their core properties and scale back on new builds.

"It is a global credit crisis. We have announced that we will be scaling back our growth and growing our bottom line and being more efficient," says Hanning. Wyndham has closed its least profitable sales offices already and eliminated marketing processes that were producing lower-credit-rating prospects, but still plans to continue with projects under development, such as Wyndham Vacation Resorts at National Harbor (D.C.) and expansion of Wyndham Bonnet Creek Resort (Orlando). Fredricks notes that Welk Resorts, too, is anticipating significant changes.

"We are building fewer units in upcoming phases, eliminating marginal marketing programs, improving the credit quality of tour guests and buyers, and right-sizing our organizations, given expected reduction in sales in 2009," Fredricks says.

The industry's scaling back of building is warranted, according to Webb. "We are fortunate to have significant existing levels of inventory in the timeshare industry, which will allow developers to increase their margins by slowing down new construction and focusing on more profitable marketing programs," says Webb. Instead of basing their business plans primarily on building new inventory as in past years, some vacation ownership companies are now looking at whether they can make money on resales.

"Timeshare resales has always been the industry's 'red-headed stepchild,'" says Webb. "Now, there will be a renewed focus on resales as a previously over-looked profit area."



Marketing Value

"One of the things that is going to hold the industry up is the message of how you can save money on timeshare. The value message is going to be said even louder and more clearly than before," says Lewis.

By value, Lewis and other leaders said they are referring to the value proposition that owners get for their money by vacationing at timeshare resorts.

"Timeshare is a more spacious, ideal way to spend time with your family. And, you can pay member dues to buy a large number of vacations at different locations," says Lewis.

"We have to do a better job of educating people about the value proposition that we have, the importance of vacations to people, and how the economics work," says Hanning.

At the same time, promoting the great vacations owners get for their money does not mean the industry will focus any less on the quality of its resorts and the unique experiences they provide.

"Consumers do not buy strictly on price, and they believe that a lower priced product often means lower quality," says Lewis.

Instead, the industry's unique position as a better way for consumers to spend time with their family and friends than traditional vacations is a message that will still ring true in 2009.

"Consumers may respond better to mini-vacation and premium offers in this environment, as everyone is looking for real value," says Fredricks.

Vacation ownership companies will also heighten their focus on targeted, life-cycle marketing in the coming year. While many developers had already begun marketing messages toward prospects and current owners at the right time in their lives, the economic realities force even more concise, targeted marketing. "In our industry, one can never bank on using the same tour sources, regardless of the state of the economy," says Don Harrill, RRP, ARDA Member Services Council Chair and President and Chief Executive Officer of Orange Lake Resorts. "We are bringing a brand new marketing tour source into our company, one that's always been a part of our history." The common founder of Orange Lake and Holiday Inn®, Kemmons Wilson, has brought the two brands back together, offering Orange Lake Resorts significant marketing opportunities to members of Holiday Inn's Priority Rewards Club (PCR) program, the world's largest loyalty program.

"The efficiencies of how marketing dollars are spent will be critical. To make it compelling for consumers to respond, tailored offerings for their lifestyles will be important versus broad messages and promotions for the masses," says Weisz.

Marketing programs in the new economy will highlight those that have a shorter return on investment, according to industry leaders.

"Vacation ownership companies will focus on marketing tactics that have a good return within the year, more so than marketing that has been done in the past to build awareness," says Lewis. Marketing programs that focus on referrals from existing owners will also be emphasized more as a way to take advantage of low-hanging fruit.

"Our best new customers come from the referrals of our existing ones—accounting for over 50 percent of our business currently—so we'll continue to stay focused on high owner satisfaction ratings to gain even more sales," says Weisz.

A Bright Forecast

Vacation ownership fundamentals will remain strong in the next few years, as new travelers both here and abroad learn about the industry.

While the lending environment will not be "easy" and leisure travel will be down compared to previous years, Lewis strongly believes that the industry will thrive.

"The future of the industry continues to remain very, very bright. I see this as a bump in the road. We will get through this as consumer confidence gets back to historical levels," says Lewis.

"'This, too, shall pass,'" notes Hanning. "In a crisis, people tend to focus on what is important, which is spending time with their families and enjoying life. We offer that at a great value."

Wellington Financial's Goldberg agrees. "Consumers continue to buy timeshare and pay their owner fees. While the bottom-line numbers may dip (lower closing rates and higher default rates) in this tougher economic climate, the business model is valid," he said.

In addition, there is still a broad untapped prospect base in the United

States. "Less than 7 percent of income-qualified households in the United States are owners," says Lewis.

Foreign travelers and foreign locales for U.S. timeshare developers also present potentially lucrative opportunities for timeshare firms. "The international marketplace is starting to open up. We will see developers focus more overseas as a way to diversify their business," says Lewis.

Depending on the strength of the U.S. dollar, travel from Europe, Asia, and other areas may pick up in 2009.

Final Definition

So, what does the new normal mean? Today's environment is humbling for the timeshare industry. For 20 years, vacation ownership has enjoyed annualized growth in the double digits. Timeshare has been the "little engine that could" even in previous downturns; however, the tight or frozen credit markets have diverted the timeshare train to a slower track.

"But at the end of the day, never underestimate the entrepreneurial nature of the timeshare developer," concludes Nusbaum. "As an industry, we have a rich history of developing new improved business models when there is a bump in the economic road. We survived the birth of 'Do Not Call' and hurricanes like Katrina. We've maneuvered through downturns, wars, oil crises, and more. Timeshare is a better way to travel, and Americans are hungry for vacations. We will get through this and come out stronger." D

Christine Blank is a freelance editor and writer in Orlando, specializing in the hotel and timeshare industries. Her e-mail is ***editorsandwriters@gmail.com.***