

BENEFICIUM

THE FUTURE OF TIMESHARE RESORTS

TIMESHARE WHITE PAPER

Classic
Holidays



www.beneficium.com.au

ABOUT BENEFICIUM

Beneficium is Australasia's leading privately owned service provider in the hospitality, leisure and vacation ownership sectors. Built on 35 years of industry experience, Beneficium encompasses a group of complementary businesses that deliver the most advanced, responsive and customer-centric service, and is at the forefront of the evolving vacation ownership industry in the region and around the world..

Beneficium's wholly owned group companies each provide specialty professional expertise in key areas. Classic Holidays manages 33 resorts and clubs, services 65,000 members, and runs vacation ownership sales and marketing in 10 centres. DAE is the world's third largest worldwide vacation exchange organisation with over 1.5 million members. At Work International is a technology and software as a service provider for properties and management companies. In addition, Beneficium has ventures in property and investment, training, finance and lending, and membership services, and offers a standard of quality and depth of experience rivaled by no other corporation of its kind. Products are quality-assured and constantly updated to ensure they go beyond the expectations, standards and desires of the market they are intended for.

Beneficium is a global corporation run with the heart of a family business – putting people first.

BACKGROUND

Timeshare resorts built between the late '70s and early '90s were sold out by the developers to individual owners mostly as weeks entitlements.

Once sold out, the original developer left the operations of the property to a Board of Directors/Committee ('BOD'). Almost all resorts currently operate on a non-profit basis under the direction of the BOD. BOD's are generally made up of volunteers from the owner base who have varied backgrounds of experience and skills. At some properties, the Developer or BOD entered into an agreement with a professional resort management company for the day to day management of the resort and the members, reporting to the BOD. These resorts are often referred to as 'legacy' resorts.

In the first decade after being sold out, most members used their timeshare or exchanged it. Timeshare exchange companies provided great service and availability to

enhance the ownership, and excess weeks were offered to members at low rates.

Timeshare resorts offered a new proposition to the consumer—larger, self-contained units with resort facilities—compared with smaller hotel rooms. In this respect, timeshare had little or no competition in the early years. For alternative accommodation, the consumer had two choices:

- a Five star hotels (eg Hilton, Marriott etc)
- b Low end motels, camp grounds and cabins

Timeshare offered something different—a home away from home, with living and kitchen areas, in an affordable resort experience. Additionally, holiday patterns in those years were generally planned further in advance. The consumer tended to travel to drive-to destinations, and took week-long stays, often bringing the extended family.

WHAT'S CHANGED?

The consumer has aged.

The original owners are 30+ years older. An ageing owner base, combined with a gradual change in consumer demands, has put pressure on the timeshare resort model:

- Their family circumstances have changed – and so have their and their children's holiday patterns.
- Accommodation preferences have evolved – the need for larger units decreased as owners became empty-nesters.
- The evolution of technology has had a dramatic effect on consumer behaviour:
 - Electronic marketing (online, email, social media etc)
 - Search and book online in the comfort of their own home, at a time that suits them
 - Last minute, spontaneous bookings
 - The introduction of low cost air travel enabling short stay vacations at fly-to destinations
 - A greater variety of vacation opportunities (cruises, tours, eco-tourism etc)
 - Greater competition has led to lower pricing in real terms
 - The customer is now more in control
- Increased competition from managed apartment resorts which have grown rapidly in the last 15 years.
- As timeshare resorts have aged, they have required increased maintenance, resulting in escalating maintenance fees payable by the timeshare owners. Consequently, the costs for a week's stay for 2 people have become less competitive than before.
- Exchange companies have evolved into large publicly-listed corporations driven by quarterly earnings and yield management. Excess weeks have been rented out, not available exclusively to timeshare owners.
- The timeshare resort proposition is not appealing to the younger consumer (eg the timeshare owners' children and grandchildren). They are looking for more flexibility with varied experiences in different locations with newer facilities, and at competitive pricing.
- Many BOD's have left member communication to third parties (eg exchange companies) and have therefore lost their identity and their relationship with their owners.

THE CONSEQUENCE OF CHANGE

Many timeshare owners choose to quit their timeshare, primarily by:

- Listing and eventual sales through independent resale companies
- Private sales
- Trade-in as part of an upsell into points and travel clubs
- Owners' refusal to pay the fees and walking away – leaving bad debt/delinquency as a result

The consequence of this has been increasing pressure on the remaining timeshare owners as they have to cover the running costs of the resort. The ultimate financial burden and responsibility falls upon the BOD's, many of which are ill equipped to handle the situation.

- BOD's and many resort Management companies did not get involved in the resale of their Timeshare weeks
- Sales is not their expertise
- Resale timeshare weeks as a product do not compete well with the new, more flexible timeshare clubs which appeal to the new buyer
- The poor reputation of resale companies has only served to make the market even harder
- Rental of delinquent inventory has become a necessity for the resort to manage bad debts

WHERE TO FROM HERE?

The ultimate aim for any legacy resort is to have all its weeks owned by a maintenance fee paying owner.

In simple terms, this is achieved by either retaining the existing owners, or replacing them with new owners. Retention is more easily achieved through brand building and an increase in member benefits and services. Replacement can only be achieved through a sales program.

The following strategies, which help further develop the relationship with the member and the brand, should be considered:

Build a brand

A resort group under management should consider itself as one unit, its own 'club', to compete in today's marketplace. To achieve this it needs to build a 'brand relationship' with the members. In developing a 'brand', the group also needs to add value to the traditional (weeks) timeshare model or develop an overlay product.

Historically, members have identified their ownership with the large exchange companies (RCI, II) and not with their resort or management company. When asked where they own, many owners answer 'RCI'.

To overcome this, the management company needs to take control of member communication and develop brand loyalty. The objective should be to drive a member who wants to book a vacation to the resort manager as their first point of contact.

Some suggestions as a starting point:

- Roadshows and member meetings
- Mascots and kids club
- Central toll free number for reservations
- Membership cards for brand awareness
- Discounts at other group resorts for members

Take brand development a step further

Provide a "One Stop Shop" solution for members.

Timeshare owners are 'preyed' upon by various suppliers (resale, travel, cruise etc). A management company is the one true organisation which has the relationship with the member. It is appointed to manage their asset on their behalf and minimise bad debts.

Bonus Weeks

Under a white label/branded exchange platform, the club can offer its owners last minute domestic and international exchange inventory as discounted bonus weeks. This is a very popular program, adding additional value to the member's ownership and creating greater brand strength. A revenue share to the club also applies.

Exchange Services

Many timeshare owners find the traditional exchange value proposition expensive. They have typically been faced with annual membership fees, guest fees, high exchange fees, deposit first rules, trading values etc.

DAE is best known for its 'direct to consumer' model, offering free membership and low cost exchange fees on a request-first basis for over 1.5 million members worldwide.

Over half of these members are serviced under individual clubs' own brands via white label exchange services provided by DAE. These services enable owners to book internal and external exchanges around the world under the club's own brand, with the club enjoying a revenue share on the transactions.

This service is typically free of membership fees, and all members within the group are enrolled automatically. Exchange fees are based on a transaction basis, with a discounted internal exchange function – this serves to enhance the group's position and branding with its owners.

The exchange platform is seen by the members as being a 'club' product, but it is 'powered by' DAE, with a revenue share flowing back to the club.

Travel Services

Members who purchased Timeshare in legacy resorts in the '80s did so as it was their primary annual vacation. Many years on, these members are retiring, they have more free time and are looking at experiencing other vacation options, eg cruises, coach tours, international travel etc.

A management company needs to be able to position its brand as the single source for their members' vacation needs. When members think of vacations they need to think of their timeshare, and subliminally their management company. Management companies need to consider providing travel services either directly or in partnership under a white label brand.

Loyalty Programs

Loyalty programs are available to resort clubs which provide members with the opportunity to earn reward points (by paying maintenance fees on time, attending sales presentations, resort F&B, travel services, exchange etc) and being able to spend these earned points on other items. The development of a loyalty program increases member loyalty to the brand and enhances the value of their ownership.

'Overlay' Points Club

Over the last 10 years, there has been an increasing trend in the development of points based clubs, providing consumers with a flexible, modern travel and leisure product. Typically, such clubs are not based on one resort location in the way that traditional timeshare was sold. These clubs can be based on deeded ownership (backed by new resort inventory), timeshare weeks, or a term travel club with no ownership entitlements.

Subject to economies of scale, cost and legal justification, the development of an 'overlay' points club, backed by inventory in legacy resorts, is a key tool to helping the long term survival of timeshare clubs. The overlay club enables one single product to be sold at various resort locations and by off-site marketing agents with the inventory being derived from the various timeshare resorts within the club.

The development of such a club will provide features that compete with the next generation timeshare products:

- Points Based
- Variable usage and maintenance fees.
- Use of Points for accommodation, travel and leisure products
- Mixed inventory of traditional timeshare resorts and new properties
- Appeals to the needs of today's consumers

'OVERLAY' ADVANTAGES	'OVERLAY' CHALLENGES
<ul style="list-style-type: none">• Unfinancial or forfeited weeks from the resorts can be pulled into the club• Maintenance fees for these weeks are paid by the club• It provides a platform for tiers of membership and an upgrade path for members• The sales price and new fee structure allows for additional benefits to be built in for members• Lead generation for sales can involve rental of delinquent inventory to cover the maintenance fee	<ul style="list-style-type: none">• Reliance on a sales and marketing program• Sales and marketing expertise and experience, not normally contained within a resort management company, are required• Requires financial and 'cultural' commitment from the organization as a whole• The organization is now in the business of 'sales'• Outside expertise will generally need to be contracted• Sales and marketing division involved in the design process

Some or all of the above may apply. Proper analysis ensures an appropriate product is designed to suit an individual club's needs