TIMESHARE

A wise investment for companies in the hospitality industry?

Timeshare became a vacation growth phenomenon during the 1970s and continues to thrive to this day. Many of the largest hospitality brands widened their horizons from traditional lodging and rose to the challenge of satisfying the demand for 'vacation ownership'. Has it all been a happy holiday for those companies? Dr. Amy M. Gregory from UCF Rosen College of Hospitality Management and her collaborators have provided a robust insight into this particular diversification.

Timeshare, also referred to as 'vacation ownership', started to emerge in Europe in the 1960s, perhaps reflecting the growing confidence of building international relationships and commitments in the post-WW2 era.

Typically starting as a few families purchasing and having pre-agreed shared access to a holiday property, the concept rapidly blossomed and, in the process, began to evolve into a well-structured and legally defined form.

Instead of necessarily owning a percentage of the property, the 'vacation owner' would, instead, own a number of weeks of access to the property. Typically, a developer would build the resort or facility and then sell blocks, usually of two weeks, to individual buyers. In most cases, 50 weeks of the year would be sold, with two weeks reserved for maintenance and repair.

While in the early days, the timeshare owner would be restricted to their purchased weeks at the original resort, a change in the law regarding the status of their purchase meant that owners were now able to trade or exchange their share with others. In practice, this meant that the perceived benefit of 'ownership' no longer meant the owner had to go back to the same resort every year but could actually vary their vacation destination through this mechanism.

The timeshare concept, with this additional flexibility, led to a dramatic period of growth, especially in the United States during the early 1970s. That growth has been sustained and, with the very high earning potential evident in the early days, has attracted many of the world's largest hospitality companies to enter the market. Brands such as Disney, Marriott, Hilton, Four Seasons, Hyatt and Westin have all made significant investment. The entry of these major brands also brought some credibility back to the segment. A number of unscrupulous independent operators had started to give timeshares a reputation for the extreme 'hard sell'.

PERFECTLY COMPATIBLE?

Intuitively, there would seem to be strong parallels between the hotel and leisure industry – whether firms with origins in lodging, such as Marriott or Hilton, or those with origins in entertainment-based vacations, such as Disney – and the timeshare sector; all are targeting the vacation dollar as a substantial source of revenue.

So, by entering the timeshare market, are those major lodging brands simply recapturing those vacationers who now value the opportunity to own their vacation destination?

In part, but there are other factors to consider. There is, of course, no parallel or compatibility between business-related lodging and timeshare, and business accommodation and facilities are a large revenue source for most major hotel brands.

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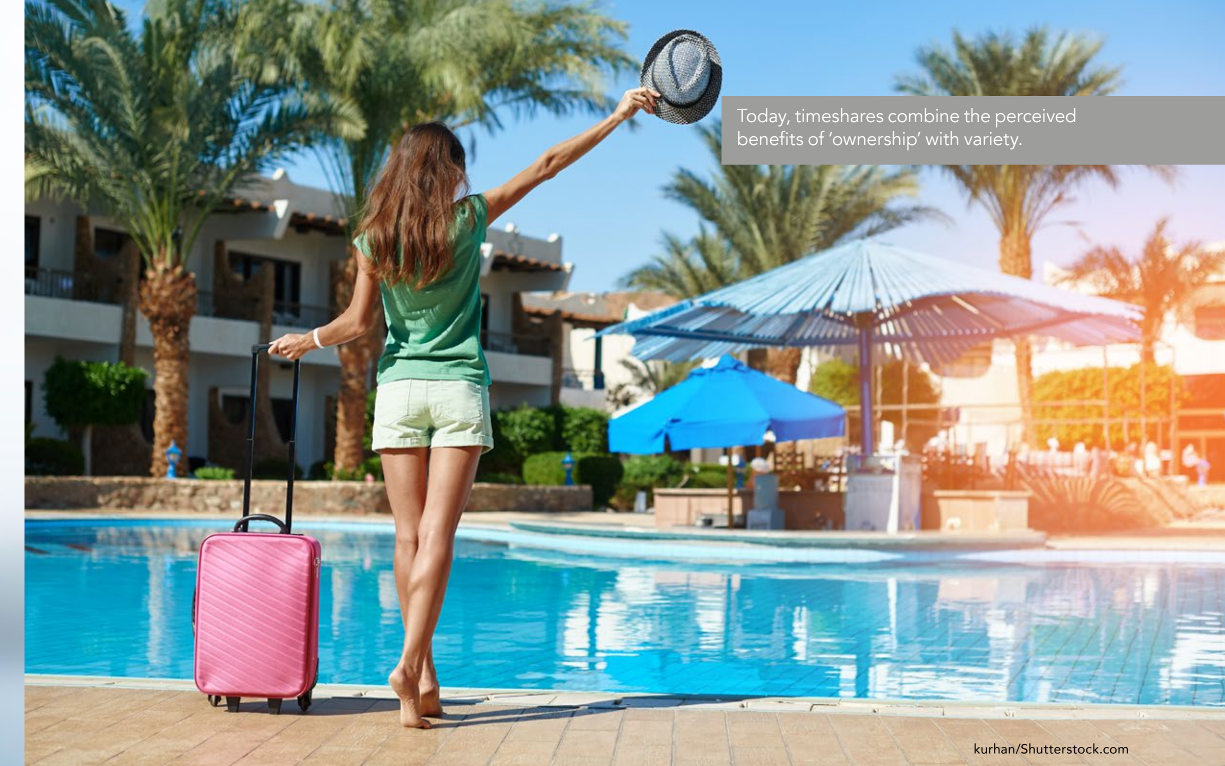

Today, timeshares combine the perceived benefits of 'ownership' with variety.

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A second factor is that the original dramatic growth of the timeshare industry happened in a pre-internet era; today, the online virtual marketplace has spawned the likes of Airbnb, offering yet another alternative to the leisure traveler and vacationer. With the market increasingly populated by 'digital-savvy' customers, and supported by ever more secure payment systems and robust quality assurance, will the attraction of vacation ownership continue to provide quality returns to the developers and managers of the resorts?

Ultimately, the question of compatibility between lodging and timeshare will be determined by the return on those investments a firm achieves.

SEGMENT REPORTING

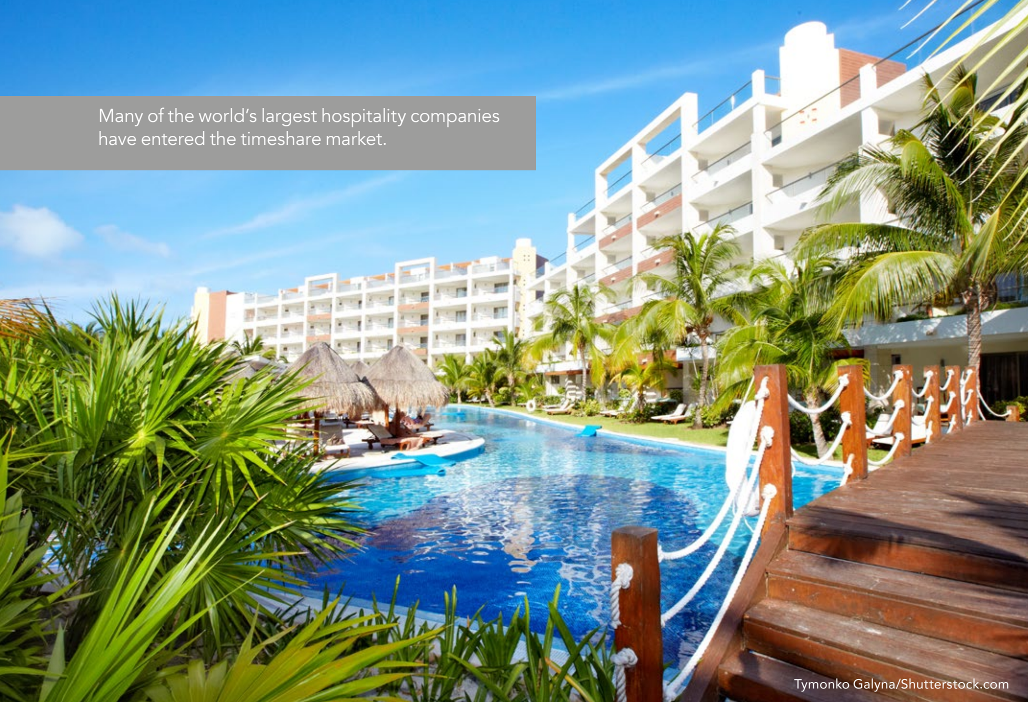
An important change in accounting practice, introduced in 1997, has begun to cast some light on the value of timeshare investment for businesses (like those already mentioned), whose major presence is in the lodging industry.

Prior to 1997, public companies were required to report their financial data on an *industry* basis; however, an industry can contain a variety of segments, each potentially having a similarly variable profile of risk and return. The lack of transparency and available data led to many investors being wary of highly segmented product portfolios.

The 'new' 1997 accounting standard, *SFAS No. 131 - Disclosure about Segments of an Enterprise and Related Information*, at last forced public companies to produce financial data that actually reflected how the business was managed.

Because timeshare is a significantly different beast to lodging, and managed separately, it falls very clearly into the definition of a separate segment and must be reported as such.

ULTIMATELY, THE QUESTION OF COMPATIBILITY BETWEEN LODGING AND TIMESHARE WILL BE DETERMINED BY THE RETURN ON THOSE INVESTMENTS THAT A FIRM ACHIEVES.



Many of the world's largest hospitality companies have entered the timeshare market.

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SEIZING NEW RESEARCH OPPORTUNITY
The availability of this audited segmental data has allowed Dr. Gregory and her collaborators to research and explore the relationship between a company's commitment to the timeshare segment, and any measurable correlation with the company's overall financial performance – specifically accounting profit and firm value (the latter measured by the statistical tool, Tobin's Q, which considers future investments and expected cashflows).

INCREASING TIMESHARE INVESTMENT, AS AGAINST OVERALL LODGING INVESTMENT, MAY NOT BE PERCEIVED BY EXISTING AND POTENTIAL STOCKHOLDERS AS WISE INVESTMENT.

Previous studies had attempted to extrapolate contribution from the proportion of timeshare revenue to total revenue. But such a simplistic approach ignores a number of potentially significant variables.

To support a more rigorous research methodology, Dr. Gregory identified several additional factors likely to yield much more subtle insights.

The first variable is DIV (dividend payout), but with a control factor moderating the effect of dividend payout on perceptions of future value.

The second is EXPt (timeshare operational experience), which considers how the number of years of segment experience – in this case timeshare – may impact on performance. Factors such as availability of economies of scale, or high start-up costs, for example, may have specific performance implications.

A final additional factor is the degree of franchising (DOF), a business growth model that has become increasingly common in business and a common strategy in the lodging industry. DOF can have both positive and negative impacts on firm performance and Dr. Gregory has, therefore, introduced control measures for this factor as well.

THE BIG QUESTION
The researchers posed the question: *does an increase in the percentage of timeshare business affect firm value and accounting profitability?*

Dr. Gregory and her team hypothesized that there would be an inverted U-shaped relationship (also known as the Yerkes and Dodson law), between the variables; this is where there is an area of maximum benefit, preceded by an area of increasing benefit, but followed by diminishing benefits.

The percentage of timeshare business was compared to: firm value (as measured by Tobin's Q); accounting profitability (as measured by ROA – return on assets); and accounting profitability (as measured by ROE – return on stockholder equity).

ROS, or return on sales, was not used due to the influence of management performance rather than nature of investment.

U-SHAPED IMPACT OF INVESTMENT
The results supported the inverted U-shape relationship suggested in the hypothesis. In the case of the impact of investment in timeshare, relative to the overall performance of the firm's investment, the data identified an initially increasing positive impact, then a period of sustained maximum impact, followed by a lessening of impact in spite of continued investment in the segment.

According to Dr. Gregory, this supports the findings of current literature and studies in the field, which suggest that increasing timeshare investment, as against overall lodging investment, may not be perceived by existing and potential stockholders as wise investment – they might consider the firm to be 'becoming ill-diversified'.

In fact, the study shows that any publicly quoted hospitality firm entering the timeshare segment may experience adverse impact right from the beginning; this leads to an expectation that lodging firms with timeshare commitments will divest them, or spin them out as a separate and dedicated timeshare venture, and those without will be unlikely to enter the segment at all.

Dr. Gregory recognizes that there was a limited sample available to the study, together with the fact that some major timeshare segments are owned by private companies (not required to report the segment separately), or independent developers. The conclusions of the study can only, therefore, be generalized to public companies required to report timeshare segment financial detail. However, the study paves the way for broader research into the field in the future.

RESEARCHERS IN FOCUS

RESEARCH OBJECTIVES

Dr. Amy M. Gregory and her team investigate whether investing in timeshare offers financial dividends or negatively impacts hospitality companies.

REFERENCES

Penela, D. C. d. A., Morais, A. I. and Gregory, A. M. (2019). Is timeshare good for firm value and profitability? Evidence from segment reporting. *International Journal of Contemporary Hospitality Management*, 31(8), 3231-3248. Available at: https://doi.org/10.1108/IJCHM-07-2018-0557 [12 Nov 2020]

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PERSONAL RESPONSE

How can a company, using normal business metrics, anticipate when the upper boundary of benefit will be reached, therefore avoiding further investment in timeshare that would produce an inferior contribution?

"Companies should consider their individual positions and expectations of their stakeholders when determining an appropriate business strategy. This article is based on academic research and provides a limited view into publicly available data without input or advice from industry."

Dr. Amy M. Gregory

Dr. Amy M. Gregory, from UCF Rosen College of Hospitality Management, has more than 25 years of international sales, marketing and business development experience in the lodging and services industries. Her research focuses on consumer behavior in the lodging context, and is recognized with various awards for research excellence.

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Existing and potential stockholders may not perceive timeshare as wise investment.

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