



Examining the Impact of Negative Attributes On Consumer Preference and Willingness to Pay in the Vacation Ownership Industry: A Conjoint Analysis

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Abstract

This study employs a conjoint analysis approach to examine consumer preference and willingness to pay for the vacation ownership (timeshare) product. The study focuses on attributes that have been classified as negative attributes during the sales process to determine if the anticipated effect of reductions in preference and willingness to pay are supported. With a sample size of 3,200 respondents familiar with the timeshare product, the findings challenge contemporary literature that suggests purchase incentives negatively impact consumer preference and willingness to pay.

Keywords

Conjoint analysis; Willingness to pay; Timeshare; Vacation ownership; Purchase incentives

Introduction

Mixed-use developments are an attractive alternative for real estate developers and lenders because the model allows the developer to generate cash up front and to create operational efficiencies through the use of shared amenities. Mixed-use developments combine hotel development with residential real estate development and retail outlets. New developments from the large hotel brands are incorporating the mixed use model of traditional hotel and vacation ownership products [1,2].

Vacation ownership products allow consumers to purchase, and own, their vacation accommodations in intervals that align with the amount of vacation time they intend to use [3]. An attractive feature of this type of development is that it allows real estate developers to transfer the ongoing maintenance to the purchasers of the timeshare intervals [1]. Further, the business model allows for multiple revenue streams related to the initial sale of the product, the consumer loan component, and the ongoing management fees. As a \$118 billion dollar industry worldwide, there are 5,325 vacation ownership resorts

in 106 countries accounting for \$14 billion in sales volumes and \$2.2 billion in rental revenues in 2010. In 2011, in the United States alone, the vacation ownership segment accounted for \$69 billion in economic output, \$23.4 billion in income, 493,000 jobs, and \$7.7 billion in taxes [4].

The timeshare segment has been recognized as the fastest growing segment of the travel industry [5-8]. The timeshare industry started in the 1960s with a concept borne by a French resort development company, wherein the developer guaranteed purchasers a ski vacation every year. The premise was based on the value proposition that it was cheaper to buy the hotel rather than rent the room every year. During the next decade, resort timesharing reached the United States with leasehold interests in Hawaii. Fueled by the condominium boom, resort timesharing also became popular in Florida during this time as developers "sold off" condominiums by the week rather than by the unit. This development gave rise to a business opportunity that would provide greater flexibility to both resort timeshare developers and buyers. In order to provide increased value for sellers and buyers of the vacation ownership product, an intermediary that facilitated the exchange of one owner's week in one destination for another owner's week in another owner's destination was necessary. An entrepreneurial business opportunity was created and a single organization answered the call. The first timeshare exchange company, Resort Condominiums International (RCI), was created in 1970. In the 1980s and 90s, resort timesharing was flourishing. Marriott International entered the industry through the acquisition of a small, timeshare resort development company in 1984. Soon after, other major lodging brands such as Hilton, Starwood, and Wyndham, as well as entertainment giant, Disney, ventured into timesharing either by acquisition or purpose-built timeshare resort development [9].

The timeshare industry has been evolving from single site developments of condominium conversions to purpose-built resorts and vacation exchange systems supported by elaborate points based systems that facilitate trade of a variety of travel related products [8]. Based on resort portfolios, total numbers of owners or annual sales volumes, four hotel brands are the most prominent within the timeshare industry: Wyndham, Hilton, Marriott, and Starwood (Table 1).

With the progression of the vacation ownership industry across continents, shady sales and marketing tactics have contributed to the industry's negative image [3]. Although the presence of large lodging brands in the vacation ownership industry has been credited with the growth of the segment, some have claimed that the sales and marketing tactics have neither changed nor improved, and that the ongoing negative image is largely due to those practices [10-14]. Common to the negativity are the sales tactics that encourage prospective buyers to make a purchase decision on the same day that they attend the sales presentation. It has been suggested that the practice of offering a purchase incentive induces pressure with the prospective buyer and may negatively impact the immediate buying experience and add to the overall negative image of the industry [12,14].

Despite the size and scope of the industry, existing research on vacation ownership is limited. Powanga and Powanga [15] provide

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Table 1: Key Players in the Timeshare Industry.

Company	Brands	Resorts	Locations	Market Share*	Owners
Wyndham	Wyndham Vacation Resorts; WorldMark by Wyndham	190	U.S., Caribbean, Mexico, Canada, South Pacific	25% \$1.7B	915,000
Hilton	Hilton Grande Vacations	59	Colorado, Florida, Nevada, New York, Hawaii, Egypt, England	10% \$690M	150,000
Marriott	Marriott Vacation Club	40	U.S., Caribbean, Spain, France, Thailand, Aruba, St Kitts	9% \$688M	370,000
Starwood	Starwood Vacation Ownership	19	U.S., Bahamas, Mexico	8% \$587M	130,000

Source: Company-specific annual reports

*Market share is calculated on annual sales volume

a summary of existing research highlighting the areas that have been studied: challenges facing the industry [14], Sparks' 2007 study on value evolution through ownership term; Sing & Horowitz's 2007 study on ownership associations, and Crofts and Ragatz's 2002 analysis of timeshare owners' satisfaction. This has been followed by an overview of future issues and opportunities for the industry [16]; a comparison of vacation ownership resort amenities and resort hotel amenities [17]; an economic analysis of vacation ownership [15]; and demographic study on satisfaction related to vacation ownership [18], and further investigation into consumer value related to the timeshare product [19,20].

Attention from the academic community has come to the vacation ownership industry primarily due to the unprecedented and continued growth of the segment; as is apparent in the introductory paragraphs of each publication. Although sales volumes are increasing, rising product costs and declining sales efficiencies experienced within the industry are squeezing profit margins creating opportunities for innovations in product offerings, business processes, and pricing methods that will not negatively impact prospective purchasers' intentions to buy [16].

Existing academic literature on vacation ownership reveals two primary areas of focus each with their related attributes: the purchase process [15,21,22], and the usage/experience process [15,22-25]. Considering the current published research, there is an opportunity to add to existing literature through a study that addresses the specific components of the sales process.

According to literature, the various dimensions and specific attributes related to the purchase process of the vacation ownership product include: a sales executive, a purchase incentive, and a financing component. Based on the complexity of the product and the nature of the sale, the industry uses personal selling techniques [25]. Incentives are used to make a purchase decision on the day of the sales presentation in order to improve sales efficiencies [21]. Due to the relatively high initial cash outlay, vacation ownership developers offer financing options to consumers to assist in the purchase process [15]. The dimensions identified in academic literature were examined and validated by industry to ensure that no items had been overlooked.

This study focuses on the purchase incentive component of the vacation ownership sales process, based on published literature attributing the negative imagery of the industry segment to this component. More specifically, this study aims to determine 1) if there is a difference in consumer preference for the product, and 2) if there is a difference in consumer willingness to pay based on the presence or absence of a purchase incentive.

In the case where researchers are interested in understanding the

effect of a single product attribute, a decompositional approach, such as conjoint analysis may be used. Products are rarely one-dimensional, yet researchers and practitioners may be interested in understanding the outcomes on consumer preference related to particular product components in order to vary product offerings, control costs, or to segment markets [26].

Conjoint analyses have been employed in a variety of industries to address a multitude of business issues. For example, Microsoft utilized conjoint analysis to conduct benefits research, improve job satisfaction and reduce turnover and hold down costs [27]. In his book, Orme [26] identifies a variety of industries using and applications for conjoint analysis. Marriott International employed conjoint analysis to identify what attributes business travelers valued most in hotels. Through this analysis, they developed and implemented their Courtyard hotel brand. Yale University conducted a study in cancer treatment wherein conjoint analysis was employed to determine the proper course of treatment based on consumer preference. General Electric has used conjoint analysis to better understand how top executives evaluate financial deals; thereby providing their sales team with tools that improve chances of getting deals approved. Garrow [28], in a study addressing airline travel, suggests that trade off analyses are an effective way to identify consumer preference for products including a variety of attributes. Kohli, and Mahajan, [29], reiterating the basis of consumer willingness to pay being grounded in utility theory that suggests that consumers will pay an equivalent value to the expected utility of a given product or service, propose a more precise way to determine consumer willingness to pay through attribute utilities derived from conjoint analysis. Consumer willingness to pay has been measured in a variety of ways from open ended stated values provided by the respondent or categorical choices of pre-established amounts.

When considering consumers' willingness to pay, the generally agreed upon issue with many approaches is that stated preferences generally yield lower, and perhaps unrealistic amounts [30]. Orme [26] suggests that a more appropriate measure of willingness to pay is through price as a product attribute. Varying the price within reasonable limits for the consumer allows the researcher to determine the utility of the price attribute in conjunction with or related to the various other attributes being examined.

To investigate the relationship of the purchase incentive and consumer preference as well as willingness to pay for the vacation ownership product, the following hypotheses are offered. The hypotheses are presented in null form due to the lack of published literature offering direction of the relationship between the attributes specific to the vacation ownership context.

H1: There is no difference in consumer preference for a vacation ownership product based on the presence (or absence) of a purchase incentive.

H2: There is no difference in consumer willingness to pay for a vacation ownership product based on the presence (or absence) of a purchase incentive.

Materials and Methods

For the purposes of this research, a choice-based conjoint analysis approach was employed using Sawtooth Software version 7.0. Choice-based conjoint analysis presents the research participant with a finite number of product variations containing the attributes to be tested in order to eliminate respondent fatigue and is appropriate with large sample sizes [26]. In this study, the participant was shown a minimum of eight sets where purchase incentive, sales executive, and price were varied. Purchase incentive and sales executive variables were included in the design with two levels: present and not present. Price was included using four levels according to industry averages for the purchase price related to the companies assisting with the survey dissemination. Finally, the survey design included one “fixed choice set.” The “fixed choice set” allows the researcher to identify inconsistencies in respondents and can be used to test utilities of a particular attribute.

The sampling frame includes existing and prospective timeshare owners due to the complexity of the product, and in accordance with previous conjoint studies. To improve the response rate, the survey invitation was mailed from several timeshare companies located in the Orlando, Florida area. To address the external validity of the study, a question was added to the demographic/psychographic data collection portion of the survey. The particular question asked if the respondent owned vacation ownership with a company other than the one that provided the entry into the survey by asking them to report the number of weeks owned with vacation ownership companies other than the one that initiated the survey. Ownership with another vacation ownership company improves the generalizability of the results across the vacation ownership segment of the hospitality industry, thereby increasing the validity of the results.

Data was collected for the study using Sawtooth Software’s web survey application (SSI Web version 7.0). Statistical Package for Social Science (SPSS) software version 18.0 was used for analysis of descriptive data, for example, demographics.

Of the 3,231 completed surveys, respondents in this study were primarily male (62%); 38% of the study respondents were female. The large majority of the respondents were married (82%), with approximately 17% of the respondents being single, and another 1% classifying themselves as “other”. Nearly 62% of the respondents have children present in the home. The mean age of respondents was 59.7, with the largest percentage of respondents falling into the 55 to 64 years of age bracket. The mean household income of the respondents was \$170,630. The respondents in the study are educated with 59% having completed college and another 23% reporting completion of a post graduate degree. Finally, the majority of respondents (57.9%) own one or more weeks of timeshare with more than one company.

Further analysis of the study respondents reveals those that own the product own timeshare within the most dense timeshare destinations. Of the owner respondents, 27% of them own in the Caribbean, 23% in South Carolina, 15% in Florida, with Colorado,

Hawaii, and California rounding out the destinations owned by the respondents. As the ownership is dispersed geographically, so is the resident state of all of the respondents. The largest percentage of respondents in this study live in California (16.6%), followed by Florida (7.4%), Illinois (6.3%), New York (6.2%), New Jersey (5.9%), Pennsylvania (5.4%), and Massachusetts, Virginia, Ohio, and Texas (each at 4.4%).

The first hypothesis stated that there is no difference in consumer preference for a vacation ownership product based on the presence of a purchase incentive. To address this hypothesis, share of preference and chi square analyses were performed to determine attribute level preferences for the respondents included in the study. A conjoint counting analysis was used to determine the share of preference of the attribute; the percentage of times that a particular level (presence or absence, in the case of this study) was chosen in relation to the number of times that it appeared were performed. In addition a chi square analysis was performed to understand if the differences in the selections are significant. Results of the analysis show that respondents do have preferences for the purchase incentive attribute and that these preferences are statistically significant. Therefore, this research failed to support the hypothesis – “There is no difference in consumer preference for a vacation ownership product based on the presence of a purchase incentive” (Table 2).

The second hypothesis stated that there is no difference in consumer willingness to pay for a vacation ownership product based on the presence of a purchase incentive. Table 3 shows the share of respondent choice for the each of the product concept combinations with a breakdown for the various price points. Although the majority of respondents (43%, 65%, and 46%, for each of the three concepts presented), chose the lower price point (\$20,000), the data and chi square tests reveal there is a significant difference in willingness to pay (price indicated) based on the variations in the purchase incentive attribute within each concept. Further, the variation in share of preference within the concepts varies at the different price points among the choice sets presented. Therefore, this study fails to support the research hypothesis that “there is no difference in consumer willingness to pay for a vacation ownership product based on the presence of a purchase incentive.”

Discussion and Implications

The results of this study indicate that the industry practice of providing purchase incentives may not be a negative for current owners and prospective buyers. In fact, what is of essential interest here is that nearly 40% of the share of preference occurs when a purchase incentive is available. Further, the share is reduced when a purchase incentive is not offered. This finding may be related to the awareness of current owners and prospective buyers and may suggest

Table 2: Share of Preference.

Purchase Incentive	
Total Respondents	3231
Purchase Incentive Yes	0.38
Purchase Incentive No	0.28
Within Att. Chi-Square	191.91
D.F.	1
Significance	p < .01

Table 3: Conjoint Analysis Share of Preference on Price.

	Total	Concept 1 No Sales Executive or Purchase Incentive	Concept 2 No Sales Executive; but Purchase Incentive	Concept 3 Sales Executive and Purchase Incentive
Total Respondents	3231	2162	908	1696
\$20,000	0.48	0.43	0.65	0.46
\$22,000	0.32	0.32	0.44	0.40
\$24,000	0.25	0.30	0.19	0.25
\$26,000	0.16	0.28	0.08	0.19
Within Att. Chi-Square	1112.26	86.58	620.20	673.25
D.F.	3	3	3	3
Significance	p < .01	p < .01	p < .01	p < .01
Between Group Chi-Square	286.19			
D.F.	6			
Significance	p < .01			

that consumers may be conditioned to the presence of a purchase incentive since it is industry practice to provide incentives for all purchasers, not just first time buyers. Alternatively, the longer term of ownership or multiple week ownership represented in this study, as well as the high average income (\$170,000) may be an influencer in the respondents' answers. However, if nearly 30% of the respondents in this survey do not require a purchase incentive, individual companies and perhaps the industry may be able to move off this practice over time, thereby shedding one of the more negative aspects of the product as reported widely in the media and as perceived by consumers in general. It would be important for practitioners to understand which consumers do not require a purchase incentive and to ensure that elimination or restructuring of this component of the sales process does not negatively impact sales efficiencies.

Finally, regarding pricing and the various attributes included with the product purchase, respondents in this survey varied according to the price they would be willing to pay for the product. This suggests that there are segments of owners who value various components of the product differently. While a trend is visible related to the presence of attributes and a higher price, 28% of the respondents may be willing to pay a higher price when not all of the attributes were available within a given product offering. Additional research should be done in this area either as individual companies or collectively as an industry to determine the characteristics of buyers who are willing to pay a higher price based on the presence or absence of certain attributes. Identifying where consumers place value will allow the industry to either target certain consumers with a greater willingness to pay or to adapt a variable pricing structure that considers modified product offerings or segmenting in order to improve the overall profitability of the particular company.

Although the companies providing the respondents are among the largest for number of owners, operating units, and annual sales volumes, it is possible that participants' responses could be affected by the characteristics of the companies, and perhaps the experience of the products offered by those companies. However, this effect is perhaps minimized due to the representation of respondents who

own one or more weeks of vacation ownership with a company other than the one introducing the respondent to the survey.

Due to the intended comprehensive nature of the study, the research was gathered by asking participants to recall information from previous vacation ownership purchase and usage processes. It is possible then that recall may be impacted by uncontrollable factors.

For the aforementioned reasons, the findings of this study should be generalized with care. Replication of the study to uncover excluded attributes and to validate the findings would address the limitations identified.

This research study aimed at categorizing and understanding if differences in consumer preference for attributes existed. This study did not intend to delve further to understand if differences in consumer preference for attributes was driven by the function of the attribute, i.e., utilitarian or hedonic, demographics, product purchased (product form, location, etc.), consumer-intended use of the product, length of ownership, or most recent purchase date. This information, as well as other psychographic information, may provide additional insight into the preferences of vacation ownership owners and prospective purchasers.

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