The Forgotten Ones

How to Lower Your Marketing Costs and Increase Your Portfolio Yield

by Harry Van Sciver

An old joke among timeshare veterans goes like this: "Nobody ever wakes up in the morning and exclaims to their spouse, ***'Hey sweetie, let's run out and buy a timeshare today!'***"

That old joke is also an excuse. An excuse for high Vacation Ownership marketing costs, and for low interest rates on Vacation Ownership portfolios.

We hear Vacation Ownership is not sought-after. So, to close just a few sales - we must contact, wine and dine, host and incentivize many prospects. This gets expensive, whether we are dropping 10,000 pieces of mail, developing 1,000 internet leads, or buying 100 tours.

We hear that buyers are turned-off by our developer financing, especially buyers with good FICO scores and high incomes. So, they either pay-off our high yield receivables, or they demand concessionary interest rates. Either way, our Portfolio income is curtailed.

There are millions of consumers who actually desire Vacation Ownership, both in the United States and internationally. But we ignore them. These eager buyers want to be Vacation Owners today and are willing to pay higher interest on their financing. They will close at higher percentages and lower costs than we are accustomed-to, and they are enthusiastic about quality resorts (even if yours aren't Five-Star). They are also brand-loyal and can be easier to upgrade.

So, who are these eager buyers we are ignoring? Who are the 'Forgotten Ones'? They are Moderate Income consumers. Some may have marginal credit or insufficient credit history. Others are hard-working families craving a little luxury, who can't afford a vacation home or a big out-of-pocket expense. They may be millennials, retirees on fixed incomes, young families, or recent immigrants. They are all folks who deserve a break and want to join in the fun, but whose options are limited.

Timesharing was invented for Moderate Income consumers. But we have forgotten them as our lenders, underwriters, even regulators have pushed us towards high income, sophisticated consumers with great credit. Compared to those privileged few we are chasing, the 'Forgotten Ones' are a far larger market segment. They are not obsessed with the

financial return on their Vacation Ownership. They do not demand unlimited vacation options, costly amenities or the most exclusive locations. Moderate Income consumers are just looking for a good vacation value, something exciting and useable which they can afford.

Knowing the whole pie is out of their reach, such aspirational buyers begin with a slice that fits their budget. An affordable monthly payment is far more important to Moderate Income buyers than a low interest rate. Accustomed to paying rates that approach usury (18% to 21% in today's market), we find they are content paying premium rates (12% to 17%).

In our experience, the significantly higher yields on Moderate Income Portfolios far exceed slightly higher losses due to delinquency. Especially because 'Forgotten Ones' are content purchasing right-to-use, trust certificates, contracts-for-deed or other titles which eliminate Developer foreclosure expense if a customer cannot continue their payments, and which ensure inventory control.

A less obvious benefit of financing Moderate Income owners is that lenders reduce their advance rates. This is because receivables financiers do not control the end-user like the Developer does and must treat the receivable as unsecured. So, a 600 FICO will not get us the same advance rate as a 700 FICO. Why is that a benefit? Because Moderate Income consumers close at higher percentages, developers burn less cash originating the sale and we don't need to borrow so much. When we borrow less our debt service costs go down; we also we build equity and reduce leverage. A "Marginal Credit" Portfolio yielding 16% with a 70% advance rate can generate more profit for the developer than a "Good Credit" Portfolio yielding 12% with an 80% advance rate.

We see many Moderate-Income consumers buying at projects or clubs which are drive-to or regional, so that they can afford regular use. Although exchange remains important, they are less interested in exotic locations or complex networks and systems. They just want a good vacation that is useable and affordable.

As noted above, the Developer controls the end user and therefore has a huge influence on Vacation Owner satisfaction and likelihood to pay every month. In giving "Forgotten Ones" what they want, Developers can also improve operating margins: Mini-golf instead of championship courses; Casual restaurants instead of fancy dining; Zip-lines and game rooms instead of water parks; Kiddie pools instead of infinity pools; good Wi-Fi instead of movie theatres. How about clean, comfortable units near the beach.... instead of Beachfront Villas? And don't forget friendly, family-oriented, multi-lingual staff.

Finally, never forget the future. Bob Dylan sang, "The first one now will later be last, and the times they are-changin'". Indeed, many of today's "Forgotten Ones" will be tomorrow's top prospects. Economics, demographics and disposable income all will improve for millennials, for recent immigrants and young families. If they are already in your Portfolio, they will make prime upgrades.

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