TIMESHARE Giants

By Jason Garcia

Marriott's Evolution

The company, which has its timeshare roots in Florida, is tweaking its strategy.

Marriott entered the timeshare business by buying American Resorts, a company founded by Lakeland businessmen Ed McMullen Sr., left, and Bob Miller.

In the mid-1970s, two friends and businessmen in Lakeland stumbled something called "timesharing." One, Ed McMullen Sr., an executive at an insurance brokerage, had made a loan to a company that said it was involved in timesharing. McMullen thought it was a payroll-servicing business. He was surprised to learn that it actually sold weekly increments of vacation time at some condos on Sanibel.

McMullen and his friend, Bob Miller, a former Arthur Young accountant, soon learned enough about timeshares to see opportunity.

Timeshares had begun a decade earlier in Europe, where French and Swiss companies began selling increments of time at resorts in the Alps. One company advertised, "No need to rent the room; buy the hotel, it's cheaper!"

photo: Norma Lopez Molina

The business model had crossed the Atlantic quickly. It appealed to developers whose condo projects had gone bust in the 1970s and were looking for a lifeline. And it also attracted some of the sharks and scammers who had made Florida real estate infamous. The industry, says Miller, had a "salty" reputation.

McMullen and Miller thought they could succeed as credible businessmen from outside the real estate industry. They envisioned constructing purpose-built resorts — as opposed to converting old condos and motels — and selling timeshares to more affluent consumers.

The duo founded a company called American Resorts in 1978. The jewel in their small crown was The Monarch, a 123-unit resort — huge for the time — in the Sea Pines Plantation development on Hilton Head, S.C.

As it happened, one of The Monarch's neighbors was Fred Malek,

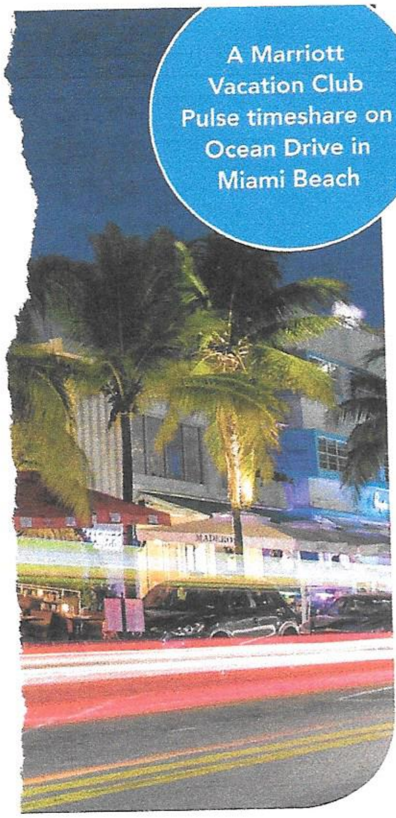
First lady Nancy Reagan hands Bob Miller, left, and Ed McMullen Sr. a first place landscape award in 1984 for their Monarch at Sea Pines property.

president of Marriott's hotels division, who owned a vacation home on Hilton Head near the Monarch property. Marriott, which had just launched its Courtyard brand, had already begun evaluating whether it should get into the timeshare business. It answered that question in early 1984, after a meeting between McMullen and Miller and Bill Marriott Jr. during the legendary Marriott CEO's 1983 Christmas vacation at the Marco Beach Marriott resort. Marriott purchased American Resorts for about $20 million the next year in a deal that allowed McMullen and Miller to stay on and gave them a share of future profits.

The deal was a seminal moment for both the company and the industry. Marriott, one of the most trusted names in lodging, forbade the high-pressure sales tactics for which the industry was infamous. It replaced the rigid fixed-week structure with floating weeks that gave buyers more flexibility. It raised housekeeping and maintenance standards. The first timeshare that Marriott built itself — Sabal Palms in Orlando — was so popular that 30% of the tours resulted in sales. The company built more: In Palm Springs, Calif.; Vail, Colo.; and Paradise Island, Bahamas.

Marriott's success attracted other big brands, including Disney in 1992 and Hilton in 1994. "Without Marriott having taken the first step to get into the timeshare business, the industry would be very different today," says Miller, who was president of Marriott's timeshare division from 1984 until 1996. Miller retired several years ago, although he still consults for Marriott; McMullen recently started a company building "intergenerational" retirement communities affiliated with universities.

Under Miller, the business grew from $5.4 million in annual revenue to nearly $258 million. And it continued to grow, selling aggressively and successfully through economic



A Marriott Vacation Club Pulse timeshare on Ocean Drive in Miami Beach

downturns. By 2007, Marriott's timeshare division was generating $2.1 billion a year in sales — 16% of Marriott International's revenue.

Then came the global recession, which shredded the industry's recession-proof aura. At Marriott — one of the industry's three largest developers, alongside Wyndham and Starwood — sales plummeted nearly 30% in two years, dropping below $1.6 billion in 2009 and 2010.

Even after Marriott's hotel business began to recover, the timeshare that investor concerns about the timeshare business were depressing its share prices, Marriott International in 2011 spun off the timeshare business into a standalone company named Marriott Vacations Worldwide. Headquartered in Orlando, the business became among the largest publicly traded companies in Florida, with nearly 10,000 employees in nine countries. It also created the largest pure-play timeshare company in the world (though maybe not for much longer — "ILGs New Heft," page 64).

Now run by 40-year Marriott veteran Steve Weisz, who succeeded Miller as president of Marriott timeshares in 1996, Marriott Vacations is growing again. But that growth has come in large part by squeezing more juice out of fruit it has already picked. Historically, about two-thirds of Marriott's timeshare sales were to new customers. After the recession, that number sank to one-third; its remaining sales are to existing owners who are adding to their stakes.

A similar shift has occurred across much of the industry, accelerated by the recession as timeshare companies scrambled to preserve cash and cut back on less-efficient sales channels. It costs more to sell to a new buyer, who is maybe unfamiliar or skeptical of timesharing, than it does to sell to an existing owner. Howard Nusbaum, president and CEO of the American Resort Development Association, an industry trade group, says that at its peak, nearly 80% of post-recession timeshare sales were to existing owners.

▲ Steve Weisz took over as as president of Marriott timeshares in 1996.

buy more has also become easier as the industry has evolved away from sales of time within specific resorts to sales of "points" within a network of properties — a model invented by Disney Vacation Club. Marriott's timeshare sales today are in the form of points in its Marriott Vacation Club network.

The structure of the post-spinoff licensing deal also created incentives for the company to focus on existing customers: Marriott Vacations pays an annual fee to Marriott International of $50 million plus 2% of its sales to new owners — but pays only 1% of its sales to existing owners, according to analyst research. Between 2011 and 2015, Marriott Vacations' revenue climbed 13.5% to more than $1.8 billion. But the number of owners shrank slightly, from 420,000 in 2011 to 410,000 in 2015.

Industry leaders know that strategy isn't sustainable. Marriott executives have set a goal of reaching a 50/50 split between sales to new vs. existing owners. So far, results are halting: The share of sales to new owners rose to 40% in 2014 but slipped back to 36% in 2015. To attract new buyers — who tend to be younger and more interested in shorter, urban vacations — the company launched Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand with properties and sales centers in Manhattan; Washington, D.C.; San Diego; Boston; and South Beach. Marriott Vacations expects the new destinations, along with its first resort in Hawaii, to eventually produce $125 million a year in sales.

The strategy has increased marketing costs and lowered sales efficiency, but executives say the tradeoffs will be worth it as the company attracts new buyers and continues to sell to existing customers.

"When you take everything through the sausage-grinder," Weisz told investment analysts last year, "in terms of profitability of the business, a first-time buyer is every bit as valuable to us over the long-term as an existing customer."

Marriott Vacations Worldwide (NYSE: VAC)

- **Headquarters:** Orlando
- **Employees:** 10,000
- **President/CEO:** Stephen P. Weisz
- **Revenue:** $1.8 billion (2015)