

## Segmentation

In late October, you were asked to prepare a marketing plan for a timeshare with 13 villas each containing 3 twin bedroom units under construction near Fort Lauderdale, Florida, USA. Your American company has a small, UK based, sales team to sell the timeshare villas in the European market. This marketing plan should include an analysis of the segment(s) in the market, the product benefits linked to these segments, whether the company should use intermediaries to reach certain segments, and all the promotional planning that is necessary to support these distribution channels or to reach the customers on a direct basis. It should also provide some indication as to the likely revenue for the company over the next year which is to run from December to beginning of February the following year.

### Florida Villas - the company and the proposed operation

The company is a joint venture between a developer based in St Louis, Missouri, with 10 years experience of timeshare development; and 2 senior managers from an American brewing group. The development is on the Tenth Fairway of the County Park Golf Club in Florida; one of the top 50 golf clubs in the United States. At the end of October, one of the 13 buildings containing 3 units was complete; the others would be finished within 6 months. One had been given to top golfer Randy Miskin in return for his name on any promotional material. The total cost of the construction plus the 5 year membership of the golf club and the Marriott Beach Hotel leisure resort is an estimated £3 million. Investors are prepared to fund additional developments if this initial exercise is successful. The other units would be sold by month; with a month priced at £22,000. There was little research on the exact price elasticity operating in the market, and the developers had fixed the price by comparison with similar premium developments.

Initially, operations focus on the UK. It was currently undecided whether the month should be fixed - the customer buying the same month every year; or whether the month should move forward every year - January in the first year; February in the second and so on. This is one of the issues that the marketing plan has to resolve. The management charges were initially £600 a month. The five strong, national, sales team are young with little knowledge of golf. Their average salary is £15,000. In addition there is a national sales manager with a salary of £35,000. The sales staff come from high pressure selling environments like home improvements and financial services. Running costs of the UK office are estimated at £150,000 a year in addition to salesforce costs.

### The timeshare market

Started as an American concept in the 1960s, the timeshare aimed to provide low cost holidays, away from home, with all the benefits of self-catering accommodation and ownership, but none of the drawbacks - maintenance and cleaning would be arranged by the timeshare management. Timeshare operators concentrated on providing a higher level of luxury than customers had previously experienced. The idea moved across the Atlantic in the early 1970s, and had considerable success for a time. However, the entire timeshare business developed a bad reputation in a number of respects. The first had been the cost of buying the timeshare itself, when compared with other types of holiday arrangement in a particular location: either purchasing a property locally, or an annual package holiday there. The second issue was management charges: the fees for maintenance, running costs of the unit, and property taxes. These were often high and also effectively outside the control of the timeshare buyer, who faced a possible blank

cheque for the future. The third problem was limits to freedom: buying a timeshare meant visiting the same locality at the same time for the foreseeable future. Timeshare companies attempted to deal with the difficulty by offering transfers or swaps through other companies. The ability to achieve an effective swap was based on supply and demand; with poor timeshare units failing to achieve adequate levels of swaps, though prestige units did better. Another complaint was the over development of many sites, which was coupled in many minds with the potential for future problems - for example what would happen if the timeshare owner went bankrupt. Other issues that concerned potential timeshare owners were the aggressive selling used by the majority of UK timeshare companies, which had been the subject of hostile media comment.

The contracts offered also discouraged buyers from becoming involved in the timeshare market. For example, contractual problems relating to timeshare owners' freedom to swap for other sites, or to allow other people to use the property. The final main drawback, according to the majority of timeshare owners, was the potential difficulty in selling their property should their circumstances change or should they encounter problems with the management team. The main types of problems and the way in which particular groups in the community responded to them are summarised in the Tables, 1A, 1B, 1C. In all the base is the percentage of the group that considered it a serious rather than a minor problem.

Table 1A. Socio - economic groups perceptions of the main timeshare problems with percentage reporting 'significant potential problems in timeshare purchase'.

Factor	Socio-economic group			
	A	B	C1	C2
Too expensive	90	70	70	65
Management charges	80	75	45	35
Limited freedom	85	70	30	20
Too crowded	70	67	35	30
Future problems	65	60	25	20
Aggressive selling	65	65	40	40
Contract problems	67	65	45	55
Difficulty of selling	76	70	55	45

Table 1B. Age perceptions of the main timeshare problems from existing purchasers, with percentages indicating 'significant potential problems in timeshare purchase'.

Factor	Age group		
	25-35	35-55	55
Too expensive	75	60	45
Management charges	65	50	55
Limited freedom	85	60	45
Too crowded	45	55	40
Future problems	80	70	45
Aggressive selling	45	55	65
Contract problems	65	65	55
Difficulty of re-selling	75	55	50

Analysis by social group indicates clearly that the lower socio-economic groups were more

interested in the timeshare concept and thought that there would be fewer problems. A similar pattern exists for analysis by age, with older respondents preferring the product benefit of timeshare over younger groups. Table 1C shows that customers that had already purchased timeshare were far more satisfied. Overall, 64 per cent of existing buyers were totally satisfied with the service, though higher socio-economic groups reported greater dissatisfaction than other groups. Younger groups - as revealed in Table 1C - also tended to be more critical of timeshare provision than the older.

Table 1C Timeshare problems reported by various groups of existing purchasers, with percentages reporting 'significant reservations'.

Factor	Age					Household size	
	AB	C1/C2	25-35	35-55	>55	1 or 2	>3
Expensive	5	3	12	7	6	15	3
On site costs	17	5	17	5	5	19	1
Lack of freedom	21	5	19	5	4	16	10
Crowded	16	6	4	8	9	10	8
Flexibility	12	8	13	5	4	11	7
Changes in control	16	3	16	8	3	14	6

#### The golfing market

Golf has become one of the main types of sporting interest in the majority of industrialised markets. With an ageing, more sedentary and more affluent population, golf supplies the ideal opportunity to exercise in a socially acceptable fashion. In the UK alone there are around 1700 golf clubs with 1.5 million active or semi-active players.

Originally many of the clubs had been municipal, but with the reduction in public spending no new municipal golf clubs had opened since 1960. All the growth was in the private sector. Golf had become increasingly big business as a result, with growing pressure upon existing facilities. This had both increased the demand on existing public and private courses and the price that individuals were prepared to pay for access to them, though this demand pattern changed considerably during the late 1980s. Thus in the UK it was estimated that an additional 300 courses would be needed by the year 2010 (over and above the current construction programme); and in the United States the shortfall was estimated at 2000.

Recent studies suggest that this forecast pattern of demand is mainly illusory. Many golf courses in major resorts are having difficulty in maintaining the level of membership because of higher costs. Golf courses require considerable amounts of maintenance, and cannot use large equipment which would damage the playing surface, with the result that all golf courses are labour intensive. The current costs of joining a new private club were in the region of £20,000 for a club of 700-900 members with annual fees of £1000-1250 and playing fees for each use of the course (termed green fees), about £25. Such high levels of fees were proving a further brake on overall expansion of the market. Market research identifies a number of golfing segments, described in the next section.

#### The committed golfer

Committed golfers see golf as a challenge. They read golfing magazines in quantity, buy

the best kit available, watch a considerable amount of golf either live or on television, and play on as many courses as possible. They want to improve their golfing skills both by having expert tuition and also by playing on difficult and demanding courses. The competitive component of golf is a crucial factor in separating the committed golfer from other groups. Typically these individuals are male, affluent and in their late thirties to mid-fifties, and spent an average of 10 hours per week playing. Although they could devote time away from their professions to improve their golf, they could not normally give more than 4 weeks a year to the sport and even this would often be difficult to manage. In addition they had considerable freedom as to when they took such holidays.

#### The family golfer

The family golfer tended to be younger than the committed golfer. Though affluent, members of this group had to take account of financial and time commitments to a younger family. They would concentrate on playing golf locally spending, on average, 5 hours a week playing. They were less affluent than the committed golfer, and could rarely take more than 2 weeks holiday at a time which had to take account of children's holidays and the needs of the working wife. The family golfer had relatively limited funds available to invest in long term holiday planning, as most income was tied up with current expenditure.

#### The leisure golfer

As a group, leisure golfers were retired and able to devote a large number of hours to golf. In Europe, the typical leisure golfer played around 15 hours a week. As they were normally retired on full pensions, they spent large sums on their golf, experimenting with different courses both at home and abroad. These golfers could take their holidays anytime but tended to travel overseas at times of the year when the home weather was bad (mainly during the winter).

#### The incentive golfer

There had developed a substantial market for those people that considered golf as a prestige activity but did not have the time or the inclination to join golf clubs. They were however interested in the game and followed it in great detail. Such individuals regarded invitations to either play golf or to attend golfing events with great interest. Typically, such golfers worked for large companies either in a sales or administration function. Company executives were interested in considering incentive packages either for their own staff (such as the salesforce); or for corporate hospitality (encouraging other firms to buy the products or services that were being offered). The cost of such incentives had risen steadily throughout the 1980s, and was becoming of increasing concern to many finance and marketing directors of large companies.

#### The current European holiday market

A number of clear trends had become established in the European holiday market. The first was the move towards long haul rather than short haul holidays. More people were now travelling longer distances for their vacations; the main beneficiaries were the United States and Australia, though countries such as Mauritius, Malaysia and India had also benefited.

There had also been a movement towards second holidays, with more people taking winter holidays in addition to their main summer break. This was particularly true of the elderly sector of the population where the general trend had been to spend more time away in the winter. The main concentration of this overseas winter holidaying was Spain, though an increasing number of the more affluent were travelling to Florida or the

Caribbean.

A third trend had been the growth of self-catering holidays, moving away from the traditional package holiday concept. A number of companies had developed to service this particular market. By the end of 1993 typical costs for a week - excluding travel - at a two bedroom villa in various locations was between £300 in Spain and £400 in the United States. Increasingly, many European residents were buying second properties abroad. It is difficult to separate those permanently resident, from those resident for part of the year only but a rough estimate of the number of homes owned by UK residents and their average purchase price (in thousands of pounds) and annual running costs are listed in Table 1D. UK residents make up roughly a quarter of all European owners of foreign homes in Spain, but a lower proportion in other markets.

Table 1D. Estimated number of UK holiday homes, growth rate of ownership, average purchase price in £, and annual running cost in £ by country in 1995.

<i>Country</i>	<i>No homes</i>	<i>Growth</i>	<i>Purchase cost</i>	<i>Running cost p.a</i>
Spain	280000	7	60000	900
France	65000	3	75000	1000
Italy	45000	8	55000	900
Portugal	65000	10	50000	700
USA	40000	20	45000	1200

The final major change in the holiday market was the greater demand for special interest packages. Naturally one of the major beneficiaries of such changing demand had been special golfing holidays. Typical prices for 2 weeks in various countries including car hire, access to golf courses, accommodation and flights varied from £650 in Spain to around £1100 in the United States by the beginning of the 1990s. Pressures on the US airlines were tending to further reduce prices.

Underlying all these various trends had been the Europe wide change towards paying more for vacations, partly a result of higher disposable incomes, and partially a result of higher levels of sophistication. The result had been that the average family holiday price of the late 1980s of £250 per head had been replaced by a market price of around £400-500 per head. Along with the higher prices was the view that the consumer expected a considerably greater level of service; such perceptions had significantly damaged the traditional tourist markets of Spain and Greece. Different socio-economic and age groups had significantly different expectations of holidays, as Table 1E shows: (rating \*\*\* very important, \* not important at all).

Table 1E . Importance of certain holiday service benefits by category. Sample of all holiday consumers.

Factor	Social class		Age		
	AB	C1C2	18-35	35-55	55
Variety	***	*	***	*	*
Luxury	***	*	*	**	***
Quiet	**	*	*	**	**
Social events	**	***	***	**	**
Food	***	*	*	*	*
Shopping	***	**	*	**	*

Factor	AB	C1C2	18-35	35-55	55
Sport	*	*	***	*	*

## Product features

Setting. The company views the setting as scenic. The description offered is of a 'lovely villa nestling among South Florida's palm trees and lush tropical foliage adjacent to the Tenth Fairway of the Country Club and giving exquisite views of the golf course. The twelfth hole of this magnificent PGA championship course is often described as one of the most beautiful in the United States. There's probably nothing as restful as watching evening fall over the course from your private patio-veranda as the peaceful sounds and warm breezes of the tropical night unfold. With the year round warm climate, the resort will be an effective escape from Northern European summers and winters.'

The resort is half way between Miami beach and Palm beach and a short drive to the Florida Keys, Orlando's Disney World and the Kennedy Space Centre. Part of the package is membership of 'the pick of one of the world's great private beaches where apart from a swim, you can try windsurfing, para sailing, scuba diving or snorkelling or you can use the tennis courts, saunas, hot baths and work out rooms. Greater Fort Lauderdale is within easy driving distance and offers some of America's most sophisticated stores, over 2500 restaurants with food to meet all tastes; boats can be hired to explore the city's labyrinth of canals and waterways, or to go out into the Gulf for some deep sea fishing. If you don't want to spend the day basking in the sunshine, or playing golf, there's angling off an ocean pier, thoroughbred horse racing and world class polo at Boca Raton and Palm Beach'.

Golf. Use of the club's facilities including the golf course comes with the purchase of a unit. In addition there are a large number (approximately 75) of other golf courses available within an hour's drive. The membership of the golf course allowed access to the three professionals it employed; there was also the potential to discuss particular golfing weaknesses with a professional golfing instructor during the time he was at the club; such personal tuition would cost \$60 an hour.

Luxury. The resort has its own private swimming pool and jacuzzi, gazebo bar, barbecue area, card and game room and other amenities. The on-site management team can arrange car hire, golf or concert tickets as required. Each air conditioned unit has two bedrooms and bathrooms, a 'lavish living and dining room'. There is a 'jacuzzi style' bath in the master bedroom, Italian marble floors in the entrance foyer, hallways and bathroom, and a kitchen with everything from an automatic ice maker to a deluxe sound insulated dishwasher. There are two colour television sets, a video player and a stereo. Units can sleep up to six and are very suitable for entertaining. A maid deals with the cleaning, and it is possible to send out for food or have it cooked in the villa.

Control. The resort offered features that improved the control that the potential customer had over the development. The site was a limited development with no further scope for expansion. The company could show that there was no possibility of getting extra land for further development. The prospective purchaser was also offered freehold ownership of the month, and a management agreement registered under Florida state law. Each purchaser would have a single individual to contact both at home and in Florida. Management guaranteed to maintain management charges at the rate of inflation over the next 10 years. Management estimated the likely rate of inflation in the United States over this period to be 4 per cent per annum.

Flexibility. Customers had total freedom to use the month as they wished. They could either sub-let to other individuals or invite other couples to share the accommodation subject to limited control. With the membership of HRI Holiday Resorts International, the quality of the resort would enable them to exchange their month for over 800 other timeshare developments world-wide. The chance of achieving this exchange was estimated by the developers to be over 95 per cent. Customers could choose either a fixed or variable month option, and would be given access to a whole range of sporting and leisure facilities in the Fort Lauderdale area either on a pre-booking basis before they left Europe or via a voucher system which they could use locally for particular events.

Exclusivity. The resort would only cater for particular categories of clientele. The nearby Marriott Beach Resort, to which timeshare ownership gains access, provides a whole range of leisure eating and relaxation facilities plus an additional two golf courses. Entry to this facility is only possible with the provision of the most detailed references. Timeshare owners will be invited to weekly buffets and a monthly gala dinner where local celebrities will be present.

Business services. The management have provided a whole range of secretarial services at the complex, including typing, fax and telephone answering services. Staff were available to design particular entertainment packages and to provide access to a whole range of discount flights.

Financial security. Similar developments to that currently under construction have shown considerable increase in value over the past 10 years. A typical comparable development had increased by 25 per cent compound over this period with units now selling for around £45,000. Customers would be able to let their solicitors inspect the agreement registered under Florida law before signature. Customers would also be able to inspect the property before finalising purchase.

The company was offering to fly the purchaser out to Florida for 3 days once a deposit of 25 per cent had been received on the property - this was held by an independent solicitor until the purchase was finalised. It would be returned in full if the individual decided not to purchase. The company had not considered offering finance purchasers, but were prepared to provide an incentive in the form of a Caribbean cruise for full settlement of the total cost of the villa unit. It had initially been proposed that the company would buy back the properties at the full purchase price at the end of 5 years, but this was no longer part of the package on offer. The product is capitalizing on year round sun, sand, golf, shopping, restaurants, water sports, wildlife, theatre, music.

#### Distribution channels

There were a number of intermediaries that existed in the market that could be used to expand sales of the units. Those identified by company executives were: golf clubs, investment brokers, sales incentive houses, corporate.

Golf clubs. Each golf club was independent and run for the benefit of members. The company would be able to either sponsor a particular competition - this would cost a maximum of £400 (under the golfing rules a larger sum infringed individuals' amateur status); or it could approach the golf club to arrange a demonstration during one or two evenings with free entertainment. The cost of would be around £500 for booking the room and providing entertainment in addition to the prize. The likely numbers of golfers that the company could contact in this way would be around 100, in each club, for each type of promotional plan, as only a limited number of the club would be interested in either the

competition or the demonstration.

Investment brokers. There were a large number of independent investment brokers in the country (approximately 7,500). They provided investment advice to the more sophisticated and asset rich individual, handling a portfolio which was generally in excess of £100,000. It had been suggested that these individuals could be motivated to sell units on commission to their clients.

Sales incentive houses. There were around 200 companies that specialised in designing promotional material for sales incentives for large corporate clients. Some of these companies might be interested in buying one or more of the units to incorporate in their range of promotions.

Corporate. An estimated 12,000 UK companies were involved in some way with providing incentives for customers or staff. Some of the larger companies with large salesforces or a substantial client base might be interested in acquiring units for long term promotional planning. The advantages for the corporate market could be described as asset value in the balance sheet and a greater control over costs.

Promotional channels.

Direct mail. The company could use a variety of golfing professionals to promote the timeshare in all promotional material; and it would be possible to mail all the golfers in Europe, or to concentrate on those using particular clubs. It was estimated that the cost of each individual mail item would be in the region of £0.80. Such mailings could be used in conjunction with demonstrations in specific central locations, which would cost around £300 per day.

Telephone. The telephone could be used to generate interest in the project. Particular groups could be identified for specific contact. It was estimated that each sales representative could contact around 15 potential clients an hour.

Golfing magazines. There were a number of specific golfing magazines published in Europe. Their details, percentage of AB readers, frequency of publication and cost are in Table 1F.

Table 1F. Relevant magazines for golfers

Title	Sales	AB%	Frequency	£ page ad.
Golf	130000	40	monthly	800
Golfing	80000	50	monthly	600
Swing	250000	45	monthly	1200
Fairway	60000	48	monthly	500
Par	50000	55	monthly	600
Golfer	40000	65	monthly	800
Masters	105000	70	monthly	750

Holiday magazines. There were a number of magazines that serviced the holiday market. The 3 most appropriate were Timeshare (circulation 40,000, published 6 times a year with a 25 per cent AB readership and a cost per page of £900 for a colour advertisement); Freestyle (180,000 circulation, monthly publication, 15 per cent AB readership and an £1800 colour page rate); Horizon (200,000 circulation, monthly, with a 20 per cent AB readership and a £1200 page advertisement rate).

General magazines. There were a number of general magazines servicing the potential holiday customer. There were two broad alternatives, the first the colour supplements of the national Sunday magazines, the second being the use of specific free magazines directed towards particular market sectors as in Table 1G .

Table 1G. General magazines

Title	Circulation	AB%	Frequency	£ page
SundayTimes	1318000		77weekly	11500
Observer	650000		76weekly	5500
Dimensions	30000		90monthly	1500
Banker	28000		85monthly	1800
Expressions	80000		65monthly	2800
Europe	15000		65monthly	1100

Exhibitions. A large number of national and regional exhibitions were designed to exhibit properties to potential purchasers. The most important national exhibition was Timeshare, lasting over 5 days, with 14,000 estimated visitors and a stand cost of around £20,000 (though this ignored the very high additional costs of attending exhibitions). Holiday Nineties was estimated to receive 50,000 visitors with a stand cost of £28,000 in a 3 day exhibition. Two regional exhibitions, Northern Holiday and Southern Holiday were also important receiving around 6000 visitors respectively; and each costing £10,000 over 3 days.

Promotional magazines. A number of magazines specifically serviced companies involved in the development of promotional plans. The most important was Incentive: monthly circulation 7,500, and a cost per page of £1800; and Sales Promotion: monthly circulation 15,000, and a cost per page of £1200.

General business magazines. Certain magazines that serviced the business market were also potential promotional channels. The most important of these were Business with a monthly circulation of 135,000 and a cost per page of £3600; Entrepreneur with a monthly circulation of 55,000 and a cost per page of £800; and Director with a circulation of 45,000 and a cost per page of £1900.

Public relations. The company had been approached by a number of public relations companies suggesting that they could create a favourable attitude towards timeshare purchasers amongst key decision makers. The proposed level of expenditure was £50,000 per annum, spread among a number of events such as free trips to the site for decision makers (around £500 per head), sponsored golf competitions (a maximum of £400 per club, as previously discussed) and golf 'parties' at exclusive venues around £1000 per event.

#### Action

You have to produce a marketing plan for Florida Villas. What are the best groups within the market to be aiming for?

What do they want?

Does the company provide the right type of product?

How should the company get in contact with them?

What type of support will the company have to provide to achieve these objectives?

What are the financial implications of the actions that you propose?