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9B17M183

raintree resorts international: envisioning unique adventures

Gary R. Carini and Douglas Y. Bech wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In early 2017, Douglas Bech, chief executive officer of Raintree Resorts International, Inc. (Raintree), sat in the boardroom at the company’s headquarters in Houston, Texas, contemplating his next move. Since founding Raintree in 1997, Bech had worked with his team to focus attention on creating and developing properties in the world’s top destinations. As he put it, he had been privileged to build the best vacation destinations for people. However, after 20 years of incredible growth through “blood, sweat, and tears,” Bech acknowledged that the company was at a turning point. He wondered if he should continue to grow by providing the current product—just more of it throughout the world—or instead think about taking a turn toward a different travel experience. He felt a sense of urgency, as he envisioned spending quite a bit of money either to expand the company or change the customer experience.

Bech was intrigued by disrupters in the broader hospitality industry. In 2017, Airbnb was the largest provider of rooms yet had no hotel ownership. Uber ran an estimated US$66 billion[[1]](#footnote-1) enterprise that provided rides, yet it owned no cars. With Gilt, Spotify, and Udacity also acting as disruptors in other arenas, Bech wondered how to add Raintree to this list.

While Bech respected the traditional strategy models (e.g., strengths, weaknesses, opportunities, and threats (SWOT) analysis, Porter’s Five Forces, and Big Hairy Audacious Goals), these frameworks could only lead to incremental growth at best. In 1997, when the timeshare industry was in its infancy, Bech had helped shape how customers interacted with properties to define their ever-evolving experience. He found it energizing to think deeply about significant innovation.

What this all meant for Raintree, specifically, was yet to be determined. Raintree’s next move had to respond to the influence of technology in enabling a deeper experience for a wider customer base. Bech was intrigued by the prospect of being able to identify and pursue undeveloped or underdeveloped niches in the hospitality market space, perhaps in the geographic area of the company’s existing portfolio in the United States, Mexico, and Canada.

company Mission

Raintree was the premier provider of innovative and flexible multi-resort timeshare and private residence club accommodations in the United States, Mexico, and Canada. Focused on creating extraordinary experiences for vacationers, Raintree was in the business of building assets with the sole purpose of supporting the customer. The ever-changing customer needs and wants from a vacation experience—and the ensuing communication with current and future customers—defined how Raintree engaged its asset base.

Since 1997, Raintree had stuck closely to the theme “Making Vacations Memorable.” Having a portfolio of 15 resorts (as of March 2017), each in an extraordinary destination, made Raintree a leader in the timeshare industry. This collection of properties offered Raintree members a unique blend of club, resort, and hotel-style hospitality. Raintree acquired properties that balanced local flavour and natural beauty, enabling it to create a “top-shelf” vacation experience.

company History

Raintree’s interest in the vacation ownership industry began in 1997, when it acquired the tourism division of Bancomer (see Exhibit 1). This division included three resorts in Mexico—in Cancun, Puerto Vallarta, and Los Cabos. To foster growth, Raintree implemented an aggressive expansion plan by acquiring a hotel in Acapulco and a vacation ownership company in Whistler, British Columbia, Canada. This expansion was followed by new developments and further acquisitions of unfinished or distressed properties.

By the end of 2008, Raintree had 22 properties in 18 destinations, including seven in Mexico, 10 in the Western United States, and one in Canada. At that point, the company reported an annual sales volume of $60 million or more per year. This volume dropped to $5 million per year by 2012, due to the global recession and, in Mexico, tourism concerns about drug trafficking violence. Revenues persisted at this level through 2014. By then, Raintree was able to sell four locations in Mexico and interest in three of its U.S. properties without materially reducing management fee income. In 2015, the company began to resume sales of timeshare products. By 2016, sales volume was close to $10 million and expected to be $24 million in 2017, with a membership base of 27,000 members. Approximately 64 per cent of members were American, 31 per cent were Mexican, 4 per cent were Canadian, and 1 per cent were from other countries.

company structure

As of January 2017, Raintree’s organizational structure featured two main branches: Raintree Hospitality, LLC and ARD Holdings, LLC (see Exhibit 2). With these two branches, Raintree focused on two areas to sustain growth: acquiring new members and providing more value-oriented amenities for existing members.

New members were critically important to replace those who quit each year due to reasons associated with age, health, finances, change in interests, and, unfortunately, death. Bech gave the following example:

Two years ago, we outsourced sales in Mexico. In 2010, we had to decrease the marketing spend due to recession and drug violence in Mexico, but I still had 5 per cent of the members (for a number of reasons such as age, inability to travel, changes in lifestyle, and illness) no longer paying the fee. If I am not replacing these members with new members in traditional ways, I need to seek channels such as Travelocity, where my cost of acquiring a new member is higher. And, by going to Travelocity, I’m up against the visible competition.

Raintree considered new properties, weighing them against updating existing properties. Resort properties needed to be updated, but customers were not always willing to pay a premium for that. Thus, the cost associated with renovations would not necessarily yield an increase in revenue. Technology influenced how customers interacted with companies, and the expense for each property was worthy of consideration. The pricing could become dynamic in the way that airfares were. Based on moment-by-moment demand, prices could be raised or lowered. Furthermore, the pricing could be different just as first, business, and coach classes were on flights. The fact that Raintree conducted business in different countries spoke to the possibility of currency risks. Investments could shift from one country to another given the countries’ economies. Customer values, preferences, and expectations (before, during, and after the stay with Raintree) also had to be considered. This issue was of particular interest, as Raintree experienced a 5 per cent decline in membership each year. To replace 30,000 members, Raintree had to target 7,500 prospects, which in turn yielded 1,500 new members. Finally, the managers at each property needed to understand the business model as noted.

Raintree Hospitality, LLC

This part of the organizational structure conducted the hospitality management business, which focused on member services. It was characterized by recurring maintenance and management fee revenue paid by Raintree’s membership, as well as other predictable sources of revenue associated with operations and rental management.

RVC Members Trust

Raintree had approximately 27,000 members who were part of the Raintree Vacation Club (RVC). This club comprised a unique set of 16 “sea and ski” properties, with an inventory of over 600 lodging units. RVC offered a flexible points-based ownership plan at its resort destinations that allowed customers to tailor their vacation experiences at multiple resort locations.

The four main properties were located in the top three destinations in Mexico: Cancun, Puerto Vallarta, and Los Cabos. There was a Club Regina resort property in each destination and an additional property in Puerto Vallarta called Villa Vera, all of which Raintree managed. In total, these locations encompassed 500 lodging units. In addition, RVC members accessed 11 other properties in the Western United States and Canada.

RVC members acquired timeshare interests, also known as “points.” RVC had approximately 1.7 billion points (generally the same as Resort Condominium International Points) available for member use. Memberships had a point value associated with each gem level (see Exhibit 3). For example, Gold members were allocated 50,000 points each year based on being current with their account. The points essentially became currency, which members used to book reservations. Different units at different resorts had different point values associated with the reservation, and values could vary depending on the number of bedrooms and the season in which the member was staying.

Raintree tracked the total number of points across its system and knew the number of points that remained unsold. The points could be used in 12 of the company’s 16 properties—namely, Club Regina in Cancun, Club Regina and Villa Vera in Puerto Vallarta, Club Regina in Los Cabos, Westin Whistler, Sandcastle at Birch Bay, Miners Club in Park City, Cimarron in Palm Springs, the Teton Club in Jackson Hole, Franz Klammer Lodge and River Club in Telluride, and Worldmark Phoenix, known as Desert Arroyo to RVC members. Approximately 225 million of the 1.7 billion points were available for resale. Raintree officials believed that the retail value of the unsold points was approximately $0.30 per point (about $68 million in total).

Three other properties—Park Plaza in Park City, the Polo Towers in Las Vegas, and Kona Reef in Kona, Hawaii—were also part of RVC, but no timeshare interests in these properties had been sold to RVC members. In addition to the foregoing, and excluding points that were reserved for term products, approximately 301 million points were reserved for use for seven- and 15-year term products and other products sold by Raintree during the past four years and for which RVC members paid the maintenance fees.

The three Club Reginas and the Villa Vera in Puerto Vallarta were managed by Raintree Hospitality under contracts that extended through 2047. At that time, the existing Mexican trusts holding title to the three Club Regina properties would expire and ownership of these three properties would revert to the entity that owned the residual interest. This entity was partially owned by two not-for-profit entities and an affiliate of Raintree. These three properties represented approximately 1.1 billion RVC points of the total 1.7 billion RVC points outstanding. The timeshare interests at the other RVC properties in the United States and Canada would continue under the terms of the various trusts to which the properties were subject, including renewals of these trusts, if any, or the properties would be sold and the proceeds distributed to the timeshare owners of these properties.

Previously, three RVC properties in the United States—the Sandcastle, Miners Club, and Cimarron—were managed by Raintree, but, as a result of a late 2014 transaction, were managed by an affiliate of Wyndham Vacation Ownership. Another affiliate of Wyndham Vacation Ownership also acquired specific units in these three properties and agreed to acquire future recovered inventory from the properties on an annual basis as whole units were available, if desired by Raintree, to be sold.

Raintree Hospitality conducted rental activities (and charged a rental commission on these activities) on behalf of RVC. Raintree Hospitality also conducted restaurant, pool bar, and food and beverage operations, and certain other activities that generated revenues at the four RVC properties in Cancun, Puerto Vallarta, and Los Cabos. These operations, which were started in 2010, were strong attractions for members and guests. Because of Hurricane Odile, which struck the Los Cabos region in September 2014, Club Regina was closed for approximately one year and reopened in September 2015. The net profits from the food and beverage and other operations in Mexico were forecasted to be approximately $1.1 million in 2017.

Occupancy at Raintree’s Mexican properties in 2016 was 74 per cent, and at its non-managed, non-Mexican properties, occupancy was 73 per cent.

ARD Holdings, LLC

This division had two organizational entities: ARD Inventory, LLCs and Raintree Sales & Marketing, LLC.

ARD Inventory, LLCs

This entity owned the unsold or recovered timeshare inventory. This unsold inventory was primarily composed of recovered inventory worth approximately 221 million points out of the total 1.7 billion points that comprised the Raintree Resort properties (see Exhibit 2).

Raintree differentiated itself from other timeshare companies by offering term products rather than lifetime memberships or perpetual products. The two term products were Raintree 15 (R15) and Raintree 7 (R7). The term products gave identical use rights, as did the perpetual product, but limited those use rights to a finite number of years of use: 15 years for R15 or 7 years for R7. R7 was extendable up to 15 years by alternating years of use or otherwise skipping years. These products were desirable for prospective members, as they mitigated a number of common complaints about conventional timeshare ownership, including ongoing maintenance fee obligations, risk of special assessment, pricing, and lack of flexibility of use. In 2017, Raintree started selling 10-year and 20-year products with added flexibility that enabled members to defer the annual maintenance fee to better suit their desired use.

RVC billed its members in September of the previous year for maintenance fees due the following year. Approximately 70 per cent of RVC members were billed on an anniversary basis. The remaining 30 per cent were billed maintenance fees in the month in which they purchased their RVC membership. Given this cash flow, RVC used members’ maintenance fees without regard to the calendar year in which the fees were collected.

Raintree Sales & Marketing, LLC

Due to the collapse of the credit markets in late 2008 and the global recession that followed, as well as the need for working capital to support the consumer finance activities of its sales and marketing business, Raintree terminated a number of marketing programs and reduced its exposure to the declining credit for financing its customers’ receivables. As a result, historical sales prior to 2009 were in the $60 million or higher range, but steadily declined in subsequent years (see Exhibit 4).

Operating agreements in Mexico

As part of the original transaction in 1997, the three Club Reginas and Starwood, the acquirer of the three Westin Hotels, entered into three separate operating agreements. Certain activities or assets at each of the three resorts were maintained and operated differently. In all three locations, the properties shared certain common amenities, such as landscaping, and shared the annual cost of maintaining this landscaping. In Cancun, the two properties shared boilers for heating and shared the cost of maintenance and repair for these boilers. Club Regina Cancun also remitted to the Westin Cancun for payment to the government of Mexico certain required beach access fees based on the linear beach footage in front of Club Regina.

In early 2015, Raintree decided to outsource the sales and marketing efforts at the three Club Regina resorts to a third party, Gusa Capital. In those discussions, Raintree realized that member attrition was a factor all timeshare companies had to deal with. In the 2016 annual review with Gusa Capital, Raintree determined that the number of new members being added was insufficient to meet the attrition.

Under the outsourced sales agreement, Raintree leased the Club Regina sales centres for a total of $1.8 million per year and paid 10 per cent of all sales proceeds up to $15 million; 12 per cent of sales between $15 million and $25 million; and 15 per cent of sales in excess of $25 million. The agreement would expire on February 28, 2020; however, either party could terminate the agreement by providing written notice to the other party, at which point the agreement would terminate six months after receipt of the notice. If Raintree were to terminate the agreement before August 31, 2019, it would have to pay a termination fee equal to 50 per cent of the commission earned on those sales in excess of $15 million for the previous 12 months. Raintree officials believed that this arrangement was proving to be a profitable way to sell RVC memberships with recovered RVC inventory and replace the normal losses in members that occur each year.

timeshare industry

A timeshare (i.e., “vacation ownership”) was the common term for a property with a particular form of ownership or use rights. Timeshare properties were typically located in resort condominium units.

**History**

The term “timeshare” was thought to be coined in the United Kingdom in the early 1960s. Some said the timeshare idea was a way to salvage the failed beachfront condominium properties in Florida at the time. The timeshares were initially sold on a fixed-week basis, which then became floating weeks with reservation policies adopted to promote equitable access to the various resort properties during prime season. Weeks were priced according to seasonal demand, varying from location to location. For example, mountain properties were priced higher during ski season and lower during pre- and post-ski seasons. Later, the advent of a points overlay and vacation clubs by developers with multiple properties provided even greater flexibility of the use of timeshares, making them more attractive to purchasers (see Exhibit 5).

The economics behind timeshares were clear until about 2008: the property might represent 25–30 per cent of the total sales price, with sales and marketing costs representing upward of 50 per cent or even more, and general and administrative costs representing about 10 per cent, depending on the scale of the operation. A major financial aspect was that timeshare sales would be financed by the buyer, with down payments as low as 10 per cent of the purchase price and five- to seven-year installment contracts (or more) that often had interest rates in the mid-teens. In 2008, with the collapse of the credit markets and the recession, timeshare developers who had substantial development debt or had hypothecated or financed their consumer installment contracts found themselves with major consumer defaults and debt that could not be serviced (see Exhibit 6).

The 2008–2010 period resulted in a significant supply of timeshares on the market. The timeshare companies that had strong balance sheets were able to continue to operate. They began to acquire defaulted properties or timeshare interests at a price between 10 and 20 per cent of the total sales price (often even lower), resulting in a much higher margin of profitability.

From 2010 to 2017, the timeshare industry became consolidated. The major participants were Wyndham, Marriott, Hilton, Holiday Inn Club Vacations, Bluegreen, Disney, and Diamond Resorts (owned by The Apollo Group). These participants captured over 80 per cent of the worldwide sales of the timeshare industry. The United States remained the leader, but companies in Brazil and Mexico and in Asian countries were growing rapidly as the timeshare concept spread around the world. The major participants had significantly lowered the sales and marketing costs to less than 40 per cent (or even much lower) of the total sales price. They generally had access to much lower capital to finance the consumer purchases of their timeshare product (see Exhibit 7).

**2014–2017 Period**

From a demographic perspective, the American Resort Development Association (ARDA) reported in November 2014 that the timeshare industry had finally returned to growth mode due to a shift in ownership. The new owners were “younger, had higher incomes than current owners, and represented a more culturally diverse cross-section of the U.S. households.”[[2]](#footnote-2)

Ernst & Young’s 2016 edition of the *State of the Vacation Timeshare Industry*, prepared for ARDA, provided a snapshot of the industry at the end of 2015. The information was based on a survey of timeshare resorts that were in the business of selling and maintaining interval and points-based vacation lodging products. According to Ernst & Young’s study, the timeshare business contributed an estimated $79.5 billion in consumer and business spending to the national economy in 2015. This contribution included 511,000 jobs with $28.1 billion in salaries and wages.[[3]](#footnote-3) Other aspects of the industry included gaming, lodging, travel, tourism, convention centre business, and sports facilities. Given the breadth of this activity, the estimated industry revenue exceeded $7 trillion for 2016 (see Exhibit 8).

**Future of the Industry**

ARDA provided timeshare resort sales and trends through the years (see Exhibits 6 and 7 for information up to 2015). According to its “Global Hospitality Insights: Top 10 Thoughts for 2016,” Ernst & Young saw a vibrant industry moving forward, influenced most notably by technology and innovation. Customers had an increasing ability to connect to customers from a business-to-business perspective and a customer-to-customer perspective (through posting customer reviews). Given this technology, Ernst & Young challenged incumbents to find opportunities to disrupt. “Older business models may have worked well, but the infusion of technology into the business presents and suggests moving into new directions. It might be a combination of keeping the existing models, while exploring new processes and products. Without innovation, growth cannot be sustained.”[[4]](#footnote-4) For the timeshare business, companies needed to juggle providing unique adventures (e.g., eco-tourism and volunteerism), socially and environmentally responsible experiences, and authentic experiences that embraced local culture.

Skift, a respected source of information in the industry, posted “10 Maxims of the Supertraveler Mindset”[[5]](#footnote-5) which proposed including major hospitality themes. Travellers needed to experience authenticity and be able to trust the company with which they were dealing; this included rewards for company loyalty that did not seem “gimmicky.” Successful companies needed to care about the social and environmental context of the area in which they brought travellers. Using technology, travellers’ experiences needed to include searching, planning, and discovering with other people with whom they might be travelling. Adopting technology in this way represented a great challenge that would enable a successful company to differentiate itself.

Millennials were one of the largest consumer groups that could influence the way consumers interacted with the industry. In general, millennials were interested in spending money on experiences over accumulating more things. Money that might have been spent on purchasing a home, for example, might be split between the purchase and vacation time. In addition, research suggested that there was less impulse buying among millennials than with other generations (see Exhibit 9).[[6]](#footnote-6)

moving forward

Over a cup of coffee with his staff, Bech said,

What an incredible strategic opportunity we have going forward into the next three years. The challenges are tremendous, but with these challenges, we can be instrumental and significant in terms of shaping Raintree and the industry. We are in great shape financially and have an opportunity to invest in the future (see Exhibits 10A and 10B). We have an opportunity to provide experiences of a lifetime to new members and to those who have been with us for years. Let’s go!

Exhibit 1: Raintree’s History in stages, 1997–2017

**Stage I**:

The early years (1997–2002): As Bech assembled his team in 1997, his initial strategy was to build a portfolio of high-quality properties through acquisitions; he also considered ground-up developments with the right opportunity. Reports about available sites came across Bech’s desk, but of particular interest were properties that would leave an immediate and distinct impression in customers’ minds. Some of these sites might be distressed, but if the destinations were interesting, Bech sought to see if the property acquisition would make good business sense. An ill-timed effort to go public for equity funding led to a need to restructure the company debt to enable smart acquisitions.

**Stage II**:

Capital restructuring and rationalizing the company (2002–2006): During this stage, much of the company activity was focused on debt default and other restructuring while building the portfolio of companies. Given the company vision, this was a period when that restructuring had to be recognized, along with the growing or shrinking demand of some of the properties in the portfolio. Aside from restructuring, Bech completed acquisitions in the states of Washington and Colorado—maintaining the need to build a high-quality portfolio of properties.

**Stage III**:

Challenging times due to the global recession (2006–2009): In Stage III, the collapse of the credit market virtually eliminated access to capital for financing the consumer finance aspects of selling timeshares. Specifically, Mexican drug violence and the resulting negative impact on Mexican tourism had a significant impact on Raintree’s revenues. The only acquisition that occurred was that of Desert Arroyo in Phoenix, Arizona.

**Stage IV**:

Hospitality focus—improve operations and refurbish the resorts as needed (2010–2014): During this period, Raintree’s focus was on investing in some properties while selling others. Bech was open to investing in renovations at the properties in Mexico, including opening restaurants and completing other needed renovations. Simultaneously, properties were sold in Arizona and Acapulco to reduce company debt. Bech was keenly focused on reevaluating properties that were not as productive from a financial perspective. A surprise came when Hurricane Odile hit Mexico in September 2014.

**Stage V**:

Diving deeper into excellence in hospitality, considering internal operations and growth (2015–2016): This period was one of beginning to realize the positive financial environment. For the properties in Mexico that had represented a high financial risk in the past 10 years, sales began to increase. Raintree outsourced sales efforts, which brought a positive return. In conjunction with this outsourcing, the Los Cabos properties were rebuilt. Also, Bech began to think about developing more efficient resort operations that would enable members to have high-level travel experiences.

**Stage VI**:

Next-level expansion (2017 and beyond): This time period represented one of considering the overall strategic direction for the company. While the portfolio had performed well, different markets had emerged with new customer preferences. In addition, technology was enabling the notion of “disruption” to surface. New business models that were previously thought to not be possible invited new ideas (e.g., Uber, Airbnb, Gilt, and Udacity).

Source: Company documents.

Exhibit 2: Raintree Organizational Structure

Source: Company documents.

Exhibit 3: ARD Inventory by Level

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Points | Price (US$) | Annual Fee  (US$) | Annual Use Example |
| Gold | 50,000 | 24,750 | 1,250 | 1 BR in prime season |
| Platinum | 80,000 | 34,499 | 1,421 | 1 BR in high season or 2 BR in prime season |
| Sapphire | 130,000 | 52,999 | 2,111 | 2 BR in high season or 3 BR in prime season |
| Emerald | 160,000 | 62,599 | 2,562 | 2 weeks in a 2 BR in high season |
| Ruby | 240,000 | 89,999 | 3,619 | 2 weeks in a 2 BR in a fractional resort |
| Diamond | 320,000 | 121,999 | 4,699 | 4 weeks in a 2 BR in a fractional resort |

Note: BR = bedroom

Source: Company documents.

Exhibit 4: Raintree Resort Sales by Year (in US$ MILLION)

|  |  |
| --- | --- |
| Year | Sales |
| 2009 | 44.0 |
| 2010 | 27.0 |
| 2011 | 12.0 |
| 2012 | 5.0 |
| 2013 | 5.0 |
| 2014 | 3.5 |
| 2015 | 8.0 |
| 2016 | 12.0 |

Source: Company documents.

Exhibit 5: Timeshare Resort numbers since 1974

Source: American Resort Development Association International Foundation, *State of the Vacation Timeshare Industry*, 2016, 25.

Exhibit 6: Timeshare sales since 1974

Source: American Resort Development Association International Foundation: *State of the Vacation Timeshare Industry*, 2016, 28.

Exhibit 7: Performance trends in the timeshare industry (2011–2015)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 | 2014 | 2015 |  |
| Sales (US$ billion) | 6.5 | 6.9 | 7.6 | 7.9 | 8.6 | 7% CAGR |
| Sale prices (US$) | 18,401 | 18,723 | 20,460 | 20,020 | 22,240 | 5% CAGR |
| Occupancy | 78.9% | 76.9% | 76.8% | 78.3% | 79.9% | 1.0 % point increase |
| Average resort size (m2) | 125 | 122 | 125 | 128 | 130 | 1% CAGR |
| Maintenance fee per interval (US$) | 786 | 822 | 845 | 880 | 920 | 4% CAGR |

Note: CAGR = compound annual growth rate.

Source: American Resort Development Association International Foundation, *State of the Vacation Timeshare Industry*, 2016, 30.

Exhibit 8: Highlights of the Ernst & Young 2015 timeshare Report

* 1,547 timeshare resorts comprised of 200,720 timeshare units, averaging 130 units per resort with an average occupancy of just under 80% (hotel occupancy was 65.6%).
* 9.2 million timeshare weekly intervals owned in the United States.
* Sales volume from 2014 to 2015 increased by 9% from US$7.9 billion to $8.6 billion, the second largest increase (percentage-wise) since the recession.
* Rental revenue decreased by 5% from US$1.9 billion in 2014 to $1.8 billion in 2015.
* 619 new units were added in 2015, down from 1,312 units built in 2014. The number of units built in 2016 was 2,115, and 2,397 units were being built in 2017.
* 11 new resorts were planned for 2016 and 9 new resorts in 2017.

Source: American Resort Development Association International Foundation, *State of the Vacation Timeshare Industry,* 2016, 6.

Exhibit 9: Millennial approach and Raintree’s possible response

|  |  |
| --- | --- |
| Millennial Approach | Raintree Response |
| Needs personalized, unique and interesting experiences to be shared with friends on social media | Work with Xplora to source experiences and post reviews on social media (e.g., www.xploracancun.com) |
| Booking travel through smartphones | Responsive design for booking; full website overhaul |
| Spontaneous/last-minute travel | Emphasize drive-to destinations |
| Travel in groups | Emphasize larger unit availability in promotional material |
| Learning something new while on vacation | Offer special regional experiences |
| Technologically astute | Provide technological connectedness throughout the vacation |
| Travel more, spend less | Ensure membership provides more value than competitors |

Source: Company documents.

Exhibit 10a: Raintree Consolidated Income Statement REVENUE,

December 31, 2016, Year to Date (IN US$)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Trust | Hospitality | ARD/SM | NRRI | Eliminations | Consolidated |
| REVENUES |  |  |  |  |  |  |
| Vacation interval sales | – | – | 26,500 | - | – | 26,500 |
| Provision for uncollectible vacation interval sales | – | – | – | – | – | – |
| Net vacation interval sales | – | – | 26,500 | – | – | 26,500 |
| Management fees | – | 2,935,347 | – | – | (2,935,347) | – |
| Maintenance fee income | 31,581,996 | – | – | – | – | 31,581,996 |
| Reserve for maintenance fee/late and collection fees | (546,003) | – | – | – | – | (546,003) |
| Renewal fees | 254,624 | – | – | – | – | 254,624 |
| Late and collection fees | 790,142 | – | – | – | – | 790,142 |
| Rental and service fee income | 3,016,733 | 1,213,808 | 1,800,000 | – | (1,213,808) | 4,816,733 |
| Food and beverage revenue | – | 3,302,426 | – | – | – | 3,302,426 |
| Club administrative fee | - | - | - | - | - | - |
| Other income | – | 605,676 | 61,712 | – | – | 667,388 |
| Xplora revenue | – | 52,952 | – | – | – | 52,952 |
| Interest income on vacation interval sales | – | – | 241,073 | – | – | 241,073 |
| Interval sales commission | – | – | 1,067,797 | – | – | 1,067,797 |
| TOTAL REVENUE | 35,097,492 | 8,110,209 | 3,197,082 | – | (4,149,155) | 42,255,627 |

Source: Company documents.

Exhibit 10b: Raintree Consolidated Income Statement Expenses, December 31, 2016, Year to Date (in US$)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Trust | Hospitality | ARD/SM | NRRI | Eliminations | Consolidated |
| GENERAL AND OPERATING EXPENSES |  |  |  |  |  |  |
| Cost: vacation interval sales | – | – | – | – | – | – |
| Advertising, sales marketing | – | – | 38,247 | – | – | 38,247 |
| Xplora expense | – | – | – | – | – | – |
| Club operating expenses | 6,773,553 | – | – | – | – | 6,773,553 |
| Club management fees | 2,935,347 | – | – | – | (2,935,347) | – |
| Resort operations | 19,480,546 | – | – | – | – | 19,480,546 |
| Other expenses | – | 85,724 | 308,247 | – | – | 393,971 |
| Food and beverage expense | – | 2,491,314 | – | – | – | 2,491,314 |
| Special assessment expense | – | – | – | – | – | – |
| Consumer finance processing fees | – | – | 159,408 | – | – | 159,408 |
| General and administrative | 2,420,329 | – | 606,235 | 140,720 | – | 3,167,283 |
| Rent commission expense | 1,206,693 | – | 7,115 | – | (1,213,808) | – |
| Recovered maintenance fees/developer subsidy | – | – | – | – | – | – |
| Indirect corporate allocation | – | – | – | – | – | – |
| Additional reserve of maintenance fees | – | – | – | – | – | – |
| TOTAL GENERAL AND OPERATING EXPENSES | 32,816,468 | 2,577,038 | 1,119,251 | 140,720 | (4,149,155) | 32,504,321 |
| OPERATING INCOME | 2,281,024 | 5,533,171 | 2,077,831 | (140,720) | – | 9,751,306 |
| OTHER INCOME (EXPENSE) |  |  |  |  |  |  |
| Interest expense | – | – | (55,049) | – | – | (55,049) |
| Recovery of VAT write-off/VAT cancellation | – | – | 413,599 | – | – | 413,599 |
| Foreign currency gains/(losses) | (53,011) | 54,285 | (91,278) | – | – | (90,004) |
| Income tax | – | – | – | – | – | – |
| Amortization of deferred loan cost | – | – | (34,304) | – | – | (34,304) |
| Other non-recurring income (expenses) | – | – | – | – | – | – |
| Net from sale of properties | 175,510 | – | 186,218 | – | – | 361,728 |
| NET INCOME/(LOSS) | 2,403,522 | 5,587,457 | 2,497,017 | (140,720) | – | 10,347,276 |

Source: Company documents.

1. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-1)
2. Peter Roth, “Today’s Timeshare Owner More Diverse, Younger,” VacationBetter.org, November 3, 2014, accessed January 3, 2017, http://vacationbetter.org/todays-timeshare-owner-more-diverse-younger/. [↑](#footnote-ref-2)
3. American Resort Development Association, “Timeshare Industry Adds $79.5 Billion to U.S. Economy,” ARDA.org, August 9, 2016, accessed on December 11, 2017, www.arda.org/timeshare-industry-adds-79-billion-to-US-economy.aspx. [↑](#footnote-ref-3)
4. “Global Hospitality Insights: Top 10 Thoughts for 2016,” Ernst & Young, accessed November 14, 2017, www.ey.com/gl/en/industries/real-estate/ey-global-hospitality-insights-2016. [↑](#footnote-ref-4)
5. Luke Bujarski, “The Supertraveler Manifesto,” Skift, 2016, accessed February 2, 2017, https://skift.com/supertraveler-manifesto/. [↑](#footnote-ref-5)
6. Christine Barton, Julia Haywood, Pranay Jhunjhunwala, and Vikrant Bhatia, “Traveling with Millennials,” Boston Consulting Group, March 18, 2013, accessed November 17, 2017, https://www.bcgperspectives.com/content/articles/transportation\_travel

   \_tourism\_consumer\_insight\_traveling\_with\_millennials/. [↑](#footnote-ref-6)