

2005

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Rick Lagiewski

Damon Revelas

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TIMESHARE AS A STRATEGY IN TOURISM INVESTMENT: THE CASE OF CROATIA

Damon A. Revelas
Roger A. Saunders School of Hotel & Restaurant Management
Boston, Massachusetts

Richard "Rick" M. Lagiewski
Rochester Institute of Technology
Rochester, New York

ABSTRACT

The purpose of this paper is to examine how timeshare strategy can assist tourism investment in the lodging sector within a transitional economy. Specifically, the study describes initial timeshare operations in Croatia, an example of a transitional country, steeped in tourism tradition. Moreover, the discussion identifies benefits and challenges to timeshare implementation for hotel companies, when applied to broader tertiary perspectives. By using the case study approach, a record of events that lead to establishing timeshare operations should serve as a collaborative example to other developers, investors, hotel companies and legal entities that may attempt similar projects in other transitional tourism countries.

Key words: Timeshare, transitional economy, tourism, hotel investment, and strategy

INTRODUCTION

The former Yugoslavia was a multi-ethnic state in southeast Europe divided administratively between six republics: Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, and Slovenia. Yugoslavia developed as a major destination for western tourists seeking sun, sand and sea tourism in the early 1960's. This development was a result of the federal government's choice to develop and market tourism on a model similar to the Western Europe and less on the level of tourism practices in the USSR and its satellite countries. Through the 60's and early 70's much of the tourist development occurring within the former Yugoslavia took place along the coastline. This coastline largely consisted of areas within the republic of Croatia. Croatia was the most successful earner of foreign currency through tourism for the former Yugoslavia. By the early and mid 1980's Croatia's coastline was one of the top destinations for Europeans on the same levels as sun, sand and sea destinations in Spain and Greece (Lagiewski & Revelas, 2004).

As tourism evolves in Croatia, many challenges still exist in a country that is struggling in the development of a more sophisticated tourism product. With foreign investment at a minimal level (Roundtable U.S. Embassy, 2004), new strategies and applications need to be conceptualized and implemented to assist in this process. The mixed-use development of hotels and timeshare properties as integrated leisure resorts is a global trend of today (Horwath Consulting Zagreb, 2004). These resorts offer to developers and operators possibilities to combine interests in ownership and management of hotels with interest in sales and management of other real estate, such as timeshare. The Case of Waterman Holiday Club, as the first timeshare project in Croatia, provides a valuable model in establishing timeshare operations in transitional economies, specifically Croatia, in assisting new investment into the lodging sector. A record of the events that lead to establishing timeshare operations should serve as a useful tool to other investors, hotel companies and legal entities that may attempt similar projects in Croatia and other transitional countries.

METHODS

The case study format was used in conducting analysis of the Waterman Holiday Club timeshare project. Interest in this case study is generated by the notion that as transitional tourism evolves; products and services grow with it. By researching such a ground-braking project for Croatia's tourism sector, implications may be drawn about future tourism development, sustainability and growth.

During the research the emphasis was placed on providing multiple sources of evidence in order to connect the gathered data to case study objectives. The company's documents, letters and e-mails were reviewed in order to obtain the data of the procedures to set up the timeshare operations in Croatia. Croatian legislation was researched, as well as the legal requirements Svpetrvs Hoteli needed to fulfill in order to obtain the license to market the timeshare apartments. Interval International, the timeshare exchange company that Svpetrvs

Hoteli are affiliated with, was studied to obtain data on affiliation proceedings as well as to gain an increased understanding of the company policies and procedures.

For the successful completion of the case study it was necessary to conduct a series of interviews to supplement the primary data collection about timeshare development in Croatia. Interviews were conducted with the various parties involved in the entire project. The strategy was to conduct the interviews with Svpetrvs Hoteli management team, Owner of Svpetrvs Hoteli (Mr. Marion Duzich), Regional Director of Interval International for Eastern Europe (Mr. Joachim Mezger), the founder of Intergrupa as a trustee company (Mr. Mislav Laktic), the Svpetrvs hoteli marketer (Ms. Maja Dlaka), and the company Holiday Club Hungary (Mr. Denes Pieke), which sells timeshare apartments in Hungary and Slovakia. Moreover, interviews were conducted with Svpetrvs hoteli lawyer (Mr. Ivo Markusovic) and a former Croatian Minister of Tourism (anonymous) for further understanding. For the purpose of this paper, we will summarize the key points of discovery and inquiry through interviews, keeping proprietary information confidential.

THE EVOLUTION OF TIMESHARE

Timeshare is a concept born in Europe in the 1960's as a way of providing more options for holidaymakers. It is believed that Alexander Natte from Germany invented the timeshare concept and applied it to apartment developments in Spain and Italy (TRI Hospitality Consulting, 2001). During the same decade, a model more similar to the timeshare we know today was established in French Alps. In the 1970's the US state of Florida experienced sudden increase of timeshare properties, primarily as a new way of selling condominiums (TRI Hospitality Consulting, 2001). The first timeshare exchange companies appeared soon afterwards. The two biggest exchange companies RCI or Resort Condominiums International (2002) and; Interval International brought new excitement to the industry as timeshare owners could, for the first time, take part in an exchange system and trade their weeks to travel to various destinations within the group of resorts affiliated with timeshare exchange agencies (TRI Hospitality Consulting, 2001). With the entrance of familiar hospitality industry brand names, such as Marriott, Four Seasons, Hyatt, Disney, Ritz Carlton and others, the timeshare industry gained significantly and gained credibility (Hovey, 2002). The arrival of branded names showed improvement of legal practices, which consequently raised the industry's standards (Baumann, 1999). Prior, the industry used to be a target of scrupulous individuals who lured people into buying non-existing product lines (Perkins, 1998). Presently, there are 5300 timeshare resorts in approximately 90 countries, with global membership of approximately 6.2 million owners (Interval International, 2003). The American Resort Development Association (ARDA, 2003); and The Organization for Timeshare in Europe (OTE, 2003), states that volume of timeshare sales worldwide increased from 2.94 billion euros in 1990 to 7.82 billion euros in 2001.

Typically, the timeshare product can be classified into three groups regarding the times and type of usage. Also, the development of hybrid products of vacation ownership has appeared in recent years. First, the fixed week option permits usage of a particular apartment during a specific week annually. Second, the floating week option enables usage at different periods on an annual basis, within a specified period (6-12 weeks) during a particular season. Another possibility would be usage of a combination of desired fixed season, with the floating weeks, that are selected at a later date (Mill, 2001). Third, in a point based system, usage is granted based on points for the apartment and season of ownership; which can later be exchanged for points to design member vacation experience based on desired season, location and amenities. Marriott Vacation Club is as an example of point based system (Mill, 2001). Marriott's vacation club members can use accumulated points to exchange the accommodation inside of Marriott's 52 timeshare resorts, take a cruise line, buy airline ticket, or rent a car through Marriott's point exchange system. Moreover, they can exchange their points through Interval International that has some 1900 affiliated member resorts as a part of their network system (Marriott Vacation Club International, 2004). Lastly, the split week option enables usage for part of one week, divided usage at some other time. This option provides more flexibility for tourists who live close to the resort (TRI Hospitality Consulting, 2001).

One of the more recent options is bi-annual usage. The member can purchase the right to use the accommodation every other year for a specified period (TRI Hospitality Consulting, 2001). When choosing timeshare, it should be noted that owners typically favor systems where there is flexibility in the exchange process versus being committed to a specified time annually (Gee, 1998). However, such systems are more complex to establish and usually work well when company has a wide variety of accommodation to satisfy

diversity of customer needs (Mill, 2001). The owners, who are able to participate in such exchange, have repeatedly rated their timeshare experience more positively (Gee, 1998).

One of the many advantages of mixing timeshare product with the regular hotel operations is that the hotel guests are exposed to timeshare product and with that point in mind it becomes easier for the resort to conduct sales efforts (Mill, 2001). Also, the hotels may overcome the fluctuations in demand regarding seasonality of business and build a new strategy on attracting a market which can qualify as potential timeshare buyers, build customer's loyalty and establish a long term brand image, in addition to ensuring the flow of fresh capital obtained from timeshare sales (Mill, 2001). Drawing benefits from operational practices, where significant savings can be achieved, by combining the buying power of both types of products, increasing food and beverage sales or revenues from sport attractions, are all considered benefits of using the mixed approach (TRI Hospitality Consulting, 2001).

THE CASE OF WATERMAN HOLIDAY CLUB

In August 2003, the company Svpetrvs Hoteli d.d. located on the island of Brac, founded the first timeshare project in Croatia. The project is recognized as the Waterman Holiday Club. The timeshare product is established as a 30-year transferable right to use option for fixed week and fixed unit option (Vacation Industry Review, 2004). Waterman Holiday Club consists of 42 timeshare units, 15 studio, 17-1 bedroom, 8-2 bedroom, and 2-3 bedroom units and is a member of a larger portfolio called the Svpetrvs Hoteli Resort Complex. (See Figure 1).

Figure 1
Profile of Svpetrvs Hoteli Resort Complex

- Waterman Holiday Club Timeshare Apartments – four star accommodation units. Presently 42 apartments are part of timeshare operations.
- Hotel Kaktus with attached buildings, Olea and Salvia, combination of three and four star property. Hotel Kaktus has 94 units; Olea and Salvia have 55 units.
- All Inclusive Club Adria composed of two refurbished pavilions and hotel Adria. New Pavilions have four star quality rating and consists of 60 rooms and 12 suits. Hotel Adria is three star property of 48 rooms.
- Villa Marija refurbished four-star property, with 4 studio and 12 one-bedroom apartments.
- Meridian: a four-star suit hotel with 32 apartments.
- Palma complex provides two star accommodations and includes buildings Agava with 41 rooms and Pavilion III with 38 rooms.
- Villa Diana Apartments - 78 apartments of two star quality
- Four (4) bungalows renovated to four-star quality.

Source: Svpetrvs Hoteli Facts

Amenities at the resorts include: two outdoor swimming pools, an indoor swimming pool at the hotel Kaktus, six tennis courts, volleyball court, archery field, bocce court, fitness centre, and wellness centers. Other features include a children's recreation area, highlighting animation for the resorts' guests, and a variety of water activities on the beach such as jet skiing, paragliding, and boating (M. Dlaka, April 29, 2004). The Svpetrvs Hoteli employs approximately 70 people on full time basis, while during the summer months as many as 200 seasonal workers are employed. The price of units range from €4000 to €8000 per week depending on the season, the size of the unit and the amenities included (Industry Review, 2004).

The first phase of the project included 29 apartments that were renovated to meet four star quality requirements of timeshare industry according to Interval International rating criteria; while another 13 apartments were added shortly thereafter. In view of the seasonal nature of Croatian tourism, the stakeholders thought timeshare was worth exploring in order to achieve greater product variation and an alternative means of bringing new investment into the lodging sector, while extending the season.

The idea about developing timeshare operations originated in the year 2000 when Svpetrvs hoteli complex was privatized and purchased by the company Waterman International, entrusted to CEO Mr. Marion Duzich. The newly developed timeshare apartments were originally part of Villa Diana complex, which had

113 apartments. Renovation of 29 apartments were complete in the spring 2003 and; by the end of the year, 13 new apartments were added to the project, totaling 42 apartment units.

It is estimated that the construction costs of the average apartment was approximately €18000 per apartment unit. During the remodeling process new electrical installation were put in, new windows, plumbing system, air conditioning units, new furniture, kitchen facilities, bathroom fixtures and fittings. Certain rooms needed to be made bigger in order to fulfill Interval International unit size requirements, as well as, bathrooms needed to be added in order to ensure maximum privacy in some units (M. Duzich, April 24, 2004). According to Mr. Duzich, the company worked very closely with Interval International when setting up timeshare operations within the existing property facilities. Villa Diana complex has 120 apartment units and the conversion of units to timeshare will happen in multiple stages.

When Mr. Duzich became the major shareholder of the company it became obvious that the company was in a dire need of investments. The timeshare was seen as a good way of spreading the risk. Timeshare sales generate much of needed income in early stages and the availability of strong cash flow serves as an excellent way of making future investments into the resort complex. Moreover, benefits from combining hotel business and timeshare operations can be achieved (J. Mezger, April 23, 2004). Another reason was to provide a product that does not exist in Croatia and improves the resort quality. Timeshare guests are expected to become repeat visitors to a destination. Even when Waterman Holiday Club members exchange their weeks many international guests would come to the island of Brac through the exchange system, making the destination more international. When discussing about the parties that were the most influential for the successful completion of the project, the CEO stated that the entrepreneurial spirit of the owner Mr. Marion Duzich was crucial in the periods when many others in Croatia were dismissing timeshare product to be “too complicated, something that would never work in Croatia or telling that this is not the right business” (J. Mezger, April 23, 2004).

Mr. Duzich approached Interval International in the year 2000 and expressed desire to establish timeshare operations and requested the company’s help with respect to that. Through the joint meetings several strategies were discussed particularly with respect to legal procedures and sales & marketing techniques used, as these were considered the most challenging to the entire operation. It was mutually decided that the product would be sold predominantly to the Eastern European market and from that aspect Interval International introduced the marketing company Holiday Club Hungary (HCH) to the developer. HCH has been successful in the Hungarian market and at the time were exploring opportunities in Croatia. HCH brought their experience and had an important consulting role in the process of establishing Waterman Holiday Club (J. Mezger, April 23, 2004).

The role of Interval International was more of advisory in nature. During the period of 2 years and six months there were approximately ten meetings between Interval International and company representatives where Interval introduced the basics of timeshare to the developer. Duties and responsibilities of each party in the process were explained; the legal structure of the product and the marketing & sales company was introduced. Multiple international coordinators were presented, the background of the project, providing direction, and general business advice about operations. “In general, we transfer know-how and the experience to the developer”, states Mr. Mezger.

The developer, exchange agency and marketer are all equally responsible for the completion of the project. The Exchange agency is important as they set up the standards and provide certain legal protection. Interval sets the rules so that the end user is protected in the situations such as bankruptcy, a change of ownership or if one of the parties abandons the project (M. Laktic, May 4, 2004). Mr. Pieke stated that everyone had its role, meaning that timeshare is market driven product and long term relationship between the marketer and the developer must exist. Cooperation is essential if the product is to be sold successfully. The benefit is that there is a mixture of American hospitality experience as an added bonus to operational success. Also, the local experts such as Mr. Markusovic as company’s legal representative and Mr. Laktic as Trustee played an important role in fighting bureaucracy.

CROATIAN TIMESHARE LAW

In the early days, it was crucial to devise a system that would be acceptable under Croatian law (J. Mezger, April 23, 2004). The original legal documents drawn by Svpetrvs Hoteli and Laktic Law Office were designed so no specific timeshare laws were necessary to regulate operations. (E.g. various general businesses laws were used to create timeshare legal documents). The company’s documents were written even before the

section of timeshare act, under the Consumer Protection Law, was passed. As company contracts were written semi-simultaneously with Consumer Protection Law, anticipation in major components of Consumer Protection Law enabled the company to properly fabricate internal documents complying with new timeshare regulation.

Svpetrvs Hoteli has primary legal responsibility toward the various stakeholders. In the case of Waterman Holiday Club, transfer of ownership is not possible under Croatian law, as foreign citizens are not permitted to own real estate. However, legal documents were designed to allow long-term lease of property as stated in the contract. In this case there is no ownership over the property just the lease agreement between the parties (M. Laktic, May 4, 2004). Mr. Mezger stated that Croatian timeshare law has not been finalized yet but it is expected to be in line with 1994 European Union (EU) directive and similar to the laws of countries such as Austria and Germany. In his opinion, this is one of the laws that will need to be passed as a requirement for Croatia to join the EU.

Croatian government was involved in the early stages of the entire project and Svpetrvs Hoteli, Holiday Club Hungary and Interval International petitioned for a law that will protect the customer but still be flexible for industry development (J. Mezger, April 23, 2004). Both Hungarian and Slovakian timeshare law are based on EU laws. Hungarian laws provide a 15-year grace period; so all contracts can be reviewed by government officials (D. Pieke, April 25, 2004). A grace period is required to be part of the general contract by EU legislative system because of the negative sales techniques, where fraudulent individuals were selling units that never existed, causing much negative publicity for the industry. This is important because EU timeshare regulation in 1994 positively impacted the industry reputation. Moreover, the entrance of legitimate brand names aided in a positive industry image. Additionally, the Organization for Timeshare in Europe is working diligently on European industry code of ethics as a self-regulation tool (D. Pieke, April 25, 2004). Mr. Pieke stated he was accepted in April 2004 as a board member of the Organization for Timeshare in Europe (OTE). An OTE code of ethics will be presented to EU commission in Brussels and if new directives are accepted, any court case involving timeshare practice would have a model of comparing legal and illegal practice.

BENEFITS OF TIMESHARE

Expected benefits for Svpetrvs Hoteli's timeshare operations could be similar to those observed at other resorts. Timeshare operations typically have higher occupancy rates because timeshare guests regularly take holiday at the resort. Satisfaction rates with the product are high as timeshare image is built on a higher quality of accommodation. Due to the steady flow of arrivals and longer stay of timeshare guests, the resort is able to achieve higher profits. If guests are satisfied with the product services they become loyal guests. Often, timeshare guests have more disposable income to spend on site, which to the developer, means an expedient return on investment. Additionally, with payments of guest maintenance fees, financing and upgrade renovation to property becomes efficient. (J. Mezger, April 23, 2004).

Being the first in the market brings more responsibility and pressure to succeed. However, the success of this project will bring other developers to the timeshare market. The potential of the market is large and competition is healthy. The most important aim is to provide an excellent and safe timeshare product that the guest will appreciate (J. Mezger, April 23, 2004). Also, being a leader in the market is always crucial; there is no competition, meaning no comparisons are possible with other resorts (D. Pieke, April 25, 2004).

According to Mr. Laktic, the main motive for founding timeshare operations was to capitalize on the potential of Svpetrvs Hoteli resort complex. This would not be possible if the company continued to operate according to past principles; working for 5 months during the summer. The original Villa Diana apartments were built in the 1980's and were never used more than 4-5 months in a year, similar to other resort's properties (M. Duzich, April 24, 2004). The main objectives were to extend the season and raise the profits. Moreover, most timeshare revenue is obtained in the early stages of development (M. Laktic, May 04, 2004).

Mr. Mezger predicts timeshare will become an important part of every major hotel corporation; and many resorts will incorporate this product into their portfolio of services. He restates the timeshare advantages: brisk return on investment (usually in the period of 2-3 years); long-term customer base, continuous upgrade process where the customers are exchanging apartments, increasing profit; and resorts extending the tourist season as timeshare apartments are being sold yearly. Typically the guest is a responsible owner of the space and has a vested interest in usage; therefore, less maintenance of the amenities is required (D. Pieke, April 25, 2004). Also, because of the process of leveraging cash flow between increased revenue of operations and

investment capital from multiple stakeholders, hotel companies in transitional economies can bring their out-of-date facilities up to international standards expediently and more efficiently.

Additionally, guests have greater spending power, as expectations for a more sophisticated international guest holidaying in Croatia are evident. As timeshare increases in popularity, word of mouth will create additional sales opportunities for the company. Croatia is still a relatively new and exciting market, with most destinations not being overcrowded and nature remains unspoiled (Pieke, April 25, 2004). Croatia is an ideal drive-to destination situated in the center of Europe, particularly good for Hungarians because of location and its traditional popularity (D. Pieke, April 25, 2004).

With the timeshare strategy increasing employment opportunity, the extension of the season should be realized, with the hotel company obtaining additional income. When speaking about Croatia as a good timeshare destination, the country has experienced increase in tourism activity in the last few years and that there is a high demand in Central Europe for owning a second home in Croatia. Timeshare can be viewed as a natural extension and additional offering to tourists holidaying in Croatia because of improvements in the country's infrastructure. Additionally, Croatia is a drive-to destination for most Europeans, is perceived as safe and relatively inexpensive, which are all beneficial to timeshare development (J. Mezger, April 23, 2004). Mix use resorts have the greater traffic of regular guests and consequently have the greater opportunity for selling timeshare units to these guests (D. Pieke, April 25, 2004). Various benefits of combining timeshare business with the hotel operations can be achieved, particularly with respect to the marketing approach used. For example, the available hotel capacity can be used to attract mini vacationers to come to the resorts and become familiar with timeshare by attending presentations on site (J. Mezger, April 23, 2004).

CHALLENGES IN TIMESHARE

One of the biggest challenges, which continuously appeared in our response data, was the difficulty in obtaining land registry documentation. The issue was that some of the apartments that are part of timeshare Created by MARINA operations were not registered in the land registry books even though they were built 20 years before (I. Markusovic, April 29, 2004). The Croatian government has responded to such illegal activity by demolishing, both residential and commercial buildings along the coast.

Other major obstacles to founding timeshare operations were bureaucracy, in policy and procedure; and reluctance of some institutions to accept a new development approach. Many banks and potential lenders were not familiar with the concept and did not understand the economic benefits, which made it difficult to obtain financing to refurbish original apartment units. Another challenge was the lack of knowledge, and experience by Croatian managers in timeshare operations. Due to the complexity of the legal procedures and specialized way of selling the product, training and education takes a significant amount of time for resorts to perfect (J. Mezger, April 23, 2004). Timeshare is particularly complex in the areas of legal issues and require specialized knowledge with regard to marketing and sales techniques. It became evident that knowledge with respect to timeshare practices and effective management operations did not exist in Croatia.

Additionally, when the legal structure was developed, no similar regulation existed for timeshare operations. Because of this, all policy and procedure had to be designed and implemented from inception, even though a section of consumer protection laws partially regulated the timeshare product. Interval International provided guidelines about protecting the final user for fear that the company goes bankrupt or in case the company's ownership structure changes. The legal structure was designed if a company changed ownership; the rights of timeshare owners are still effective (M. Laktic, May 4, 2004).

The role of Privredna Bank Zagreb was to release the mortgage on the timeshare units, as this was one of the requirements of Interval International. The bank eventually accepted such action but requested that a portion of revenues achieved by sales serve as a guarantee for the return of the company's bank loan. Mr. Mezger believes that the timeshare industry needs both legal framework and self-regulation. The most important factor is to find certain balance between the various interests. In overly regulated market the industry cannot prosper. On the other hand, if the regulation is not rigorous enough the situation similar to those timeshare industry experienced in past can happen (J. Mezger, April 23, 2004). Moreover, from respondent data, it seems that difficulty in financing to initiate timeshare proceedings is not only problematic for Croatia, but also in other European countries. Emphasis is primarily on lines of credit line within banks and loaning institutions, which makes startup, especially challenging.

SUMMARY & CONCLUSION

Waterman Holiday Club timeshare project was established as a collaborative effort between developing company Svpetrvs Hoteli, exchange agency Interval International, marketing company Holiday Club Hungary and Intergrupa, as a Trustee Company. The parties were working together on setting up legal procedures and marketing strategy. Svpetrvs Hoteli, a Brac based company, decided to convert a portion of the apartment village Villa Diana and create Waterman Holiday Club timeshare product, which presently has 42 timeshare units. The product was established as a fixed week, fixed unit option with the 30 years transferable usage rights. This is a traditional product and although being less flexible, the product is easy to understand by customers and relatively simple to manage. Long-term lease of the property, rather than the ownership rights, are stated in the sales contract due to law, which forbids foreigners to own real estate property in Croatia. The sales process is outsourced through Hungarian based marketing agency Holiday Club Hungary. During the summer months, timeshare sales are executed on-site on Brac, targeting Hungarian and Slovakian tourists. Sales exceeded expectation, as approximately 66% of timeshare units were sold. The results were excellent and are considered one of the best examples of preliminary timeshare sales in Europe.

This paper provided a collaborative example of timeshare development in a transitional economy, specifically, Croatia. The Timeshare product is complex and there are many components that are important for it to be successful, mainly the cooperation between Developer, the Marketing Company, the Exchange Company, and Trustee. As can be seen in transitional economies, opportunities may exist in the development of tourism investment, specifically lodging investment, due to lack of regulation. While laws are evolving, this allows investors the chance of being a part of the design of regulation by showing economic benefit to its stakeholders, while developing a new product/service line. Additionally, the stakeholder can use this scenario as an example of development, organizing operations, according to those political and economic conditions presented in other transitional countries. What is saturation of one product/service line in one country may represent a development opportunity in another. •

• The authors acknowledge Ms. Snjezana Pavlovic, Blackard Group, Inc., for her research assistance.

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