

Too Close for Comfort: A managerial dilemma

By Stefan W. Cosentino, Robert H. Woods and James Drake

Introduction

Tim Kincaid recently accepted an offer from Ocean Vacation Resorts to be the South Atlantic region's director of finance. Ocean Vacation Resorts is one of the largest publicly traded vacation ownership companies in the United States. Prior to accepting the role Tim did a lot of research on the company including reading the company's annual report filing from the investor section of the company's website. Tim discovered that the company generates revenue primarily from the sales and financing of its core product which was described as Vacation Ownership Interest or "VOI".

Like many other vacation ownership companies, Ocean Vacation Resorts sells a "points" product where consumers receive an annual allotment of points to make room reservations at the company's internal network of resorts. Other core sources of income defined in the report include revenue from property management contracts and nightly rentals of unsold or unreserved resort inventory. The company has operated for 10 years and is quickly expanding in terms of building or acquiring resorts.

Ocean Vacation Resorts is headquartered in Orlando, Florida where several other vacation ownership firms are headquartered. Although Tim had interviewed for the position in Orlando where he had lived the past several years, the job opportunity Tim accepted is in the South Atlantic regional office located in Hilton Head, South Carolina. Ocean Vacation Resorts is broken into four regions: the South Atlantic region, Florida-Caribbean region, the West region and the Pacific region. The company's largest resort in the South Atlantic region is also located in Hilton Head. Five other smaller resorts that are part of the region are within driving distance from this location. The South Atlantic region resorts listed in descending order of VOI sales volume are; Hilton Head, Charleston, Savannah, Atlanta, Kitty Hawk, and Roanoke.

On Tim's first day in the office he met the other members of the regional team, including the sales vice-president (SVP) that heads the region. Tim has one-on-one meetings with the SVP and the directors of the other departments. Each provided an overview of his or her specific department's roles, responsibilities and contributions. To help better understand how the region is organized Tim prepared an

organization chart (Figure 1) of the South Atlantic regional team and a summary of what each department does.

Billy McKieg – Sales Vice-President

Billy is the sales vice-president for the region. He is accountable for the sales performance at each of the resorts or sales sites. At each of the sites there is an active sales operation led by a sales manager that reports directly to Billy. The size of sales operations vary by site and is related to the size of the tourism industry that surrounds the resort's location. Since Hilton Head has the largest tourism industry in the region this site also has the largest "tour flow per day". Tim learned that "tour flow" is the number of prospects being assigned to a sales representative and touring the resort each day. Tours are couples who have agreed to attend to a sales presentation where the VOI product is pitched and ultimately sold.

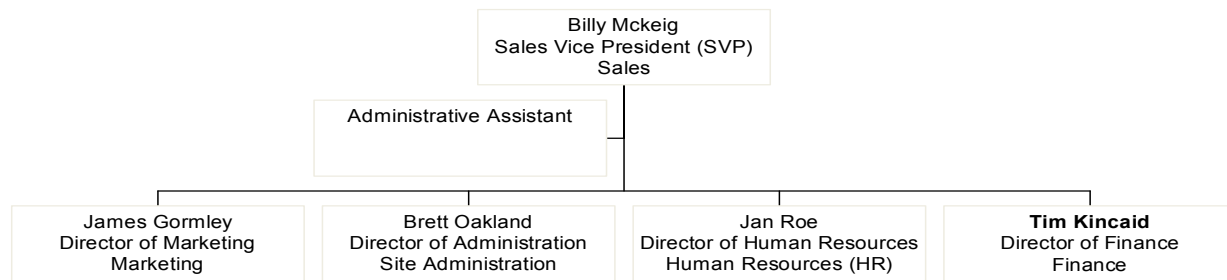
Sales appears to Tim to be a high pressure job where sales agents are primarily compensated on their ability to sell VOI to each tour they meet every day. One metric Tim heard the first day measures sales performance. This term is VPG or Volume Per Guest. It is calculated by dividing the sales volume of VOI sold by the number of tours. This calculation allows management to quickly review the performance of an entire sales site, a sales team, an individual sales representative, or a type of tour.

The tour process for prospects that do not currently own with Ocean Vacation Resorts starts off with a "warm up" or "discovery" period where the sales agent breaks the ice or builds a bond with the prospects through learning how they vacation and might use a timeshare. A discussion of the product follows along with a walking tour of the property and units. The process closes with a pitch of price packages and various sales tactics to make a sale. With the exception of Hilton Head, all other sales sites have a single sales "line". At the Hilton Head sales center there are two different sales lines. One is called the "In-house" sales line which caters to individuals who are staying on the resort's property. This primarily includes current Ocean Vacation Resorts owners, guests of Ocean Vacation Resorts owners, exchange guests, and renters. The second sales line is called "frontline sales" which caters to prospects who generally do not currently own a timeshare. The smaller sites in the region only have an In-house sales line and do not have a frontline sales line due to the high sales and marketing cost associated with running a second sales line. It is Billy's

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Figure 1

South Atlantic Region Organization Chart



plan long-term to grow the sales and marketing operations at each of the sites and sales for the region overall.

Billy manages the sales performance of the various sites through monthly conference calls with each sales manager. Billy primarily focuses on reviewing VPG for the site and applauds site sales management when results exceed budgeted numbers or probes for answers and action plans when it does not. Expenses for each department at the site (sales, administration, and marketing) are also reviewed and discussions center on line items that are noticeably over budget or under budget.

Billy's site level performance calls are a prelude to a second round monthly conference calls where this he is being questioned by corporate executives about the region's performance overall. Billy has worked in resorts sales for most of his career. Tim noted that in instances where executives questioned a site's sales performance, Billy usually would assign the challenge to site level management and share that he would "get on top of it". The impression Tim got from Billy is that he rarely directly accepts accountability for the actions of others who work for him.

James Gormley – Director of Marketing

James is the director of marketing for the region and oversees the six marketing managers at each of the sites. The managers who report to James are responsible for tour production or delivering qualified tours to the respective sales center at each site. He categorized the type of tours he delivers into three categories; In-house, OPC, and Corporate mini-vac. In-house tours are generated primarily from the resort concierge desk at each of the Ocean Vacation Resorts locations. When guests approach the concierge, s/he tries to both solve the issue that brought the guests to ask for help and to get them interested in talking about buying more timeshare points, thus creating potential customers for sales people. OPC tours or Off-Premise Contact tours are generated from booths that the marketing department has leased in various areas in the community that may include popular tourist areas such as malls, tourist centers, sports venues, or events or festi-

vals. Similar to the In-house agents, OPC agents offer incentives to passers-by to agree to set up an appointment the next day. Corporate mini-vacs are guests who have purchased a discounted marketing package in exchange for touring. The mini-vac or mini vacation package is produced by corporate marketing programs based in Orlando and typically includes two nights' accommodations at the resort and a gift. In Hilton Head, only where OPC and mini-vac operations exist in the region, OPC and mini-vac tours are sent to the frontline sales center.

James' area of accountability primarily lies in the tour production through In-house and OPC departments at each of the sites as well as managing the overall costs to produce the tours. For In-house marketing, the company uses a "penetration percentage" to measure the effectiveness of the department. This is determined by dividing the number of tours produced by the budgeted or projected number of resort guests. Both In-house and OPC operations have a tour production target based on historical tour production volumes. These estimates are integrated into compensation plans for James, his marketing managers at each site, and marketing agents. A VPG incentive component is integrated into the compensation plans of marketers to ensure that tours sent to the sales center are ones that are qualified and positively positioned to take a tour and make a purchase. Sending guests to tour who are not qualified to purchase increases marketing costs and creates potential issues on the sales floor.

Tim's impression of James is that he is committed to his role and more importantly to driving the metrics considered in his compensation plan of tour production, which ultimately represents over 60% of James' total income.

Brett Oakland – Director of Administration

Brett is the director of administration and oversees the various administrative and sales support areas at each site. The Administration department and its employees function as the business or office management entity for each of the sites. Administration managers procure supplies for the site, pay invoices related to the site's operation

and assign expenses incurred to the appropriate department—all the while trying to stay within budget.

Administration employees operate three important areas at each site; 1) tour reception where guests or tour prospects check in on the day of their tour and are assigned to a sales representative, 2) the gifting desk where gifts promised to prospects are distributed after they tour, and 3) the contracts office that processes contract purchase paperwork and related financing documents when a tour decides to buy. In each of these areas administration staff are accountable for ensuring that records are kept in the tour tracking system the firm utilizes. For each tour that enters the sales center the administrative staff ensures that both the marketing agent that generated the tour and the sale representative that is assigned to the tour are accurately recorded in the system. As both marketing and sales representatives have compensations plans heavily weighted on delivering tours to the sales center or selling VOI to prospects, accurate data entry by administration employees is critical.

Unlike sales and marketing roles, administration employees, including Brett, are not commissioned and receive a straight salary. One of Tim's notes written down when talking to Brett was "lack of depth". This was because while Brett shared a concise overview of department responsibilities, when asked about more specific processes employed by his administration managers, Brett consistently referred Tim to a site level manager or a corporate trainer for the answer.

Jan Roe - Director of Human Resources

Jan Roe is the director of human resources and is the human resources liaison for the entire region. Hiring at the site level is processed electronically through employee management and payroll systems available to the administration manager at the site. Resort management is a separate entity in this and every region so Jan's accountability is related to marketing, sales, and administration functions.

Jan's weekly work centers around the human resource issues escalated to her level from the site level leadership which is primarily funneled upwards by the administration manager. Other issues are provided through the company's 1-800 "integrity hotline" where employees can share issues anonymously. Challenges Jan faces may include everything from sexual harassment charges, inquiries on treatment of vacation benefits and sick time, procedural steps for placing an employee on probation or terminating an employee, or a variety of other employee-related issues.

Tim's experience with human resources departments at companies where he previously worked is quite different from what he experienced at Ocean Vacation Resorts. Prior human resource peers he partnered with were engaged with both leadership level managers and frontline employees. They sought to understand the mechanics of how the business operated and the dynamics involved in operating

the departments they supported to effectively prevent any potential risk or issue that may arise. At the regional office, Jan's door was consistently closed and she did not participate in the region's prior monthly sales calls where site level leadership opportunities and challenges were discussed.

Tim Kincaid - Director of Finance

As the director of finance Tim's work centers around managing and developing monthly and ad-hoc reports related to the net operating income of the individual departments at the site level and for the region overall. While Tim does not have any individuals reporting to him, his closest partners in the region are the director of marketing, director of administration, and administration managers at the sites. Most of the data used in the reports is derived from the tour tracking system that tracks tours, sales performance, and gift costs. Other data is derived from accounting system corporate uses for payroll and to pay invoices forwarded to corporate directly from administration managers. Tim's first delivery of reports is not due until the end of the month.

Tim's responsibility and accountability is not limited to the task of producing reports. While interviewing for the role it was stressed by both the senior finance and human resource executives that his role was also prevent and or minimize any potential monetary loss. To be able to address this task Tim decides he needs to observe the marketing, sales, and administration departments at the Hilton Head property to better understand the context of how the operation is run. This, he believes, will help him analyze and interpret any trends in the financial data being delivered from the sites. Below are bulleted point field notes Tim developed, organized by department.

Field notes:

Marketing:

- In-house agents are focused on tour generation and receive compensation for every qualified tour.
- Agents must deliver qualified prospects that meet qualification requirements such as income, employment, if married must attend tour with spouse, have not toured in past six months, and have not claimed bankruptcy in the past seven years. There is competition between agents to set the most tour appointments.
- The marketing manager occasionally offers a SPIFF or Sales Performance Incentive Focused Fund. SPIFFS are a temporary performance incentive to encourage increased tour generation. Rules for the SPIFF incentives are developed by the manager and awards are distributed by the administration manager.
- The marketing manager at the site occasionally has to visit the tour reception desk located inside the sales office to address situations where the guest has been turned away based on qualifications. Marketing agents are not compensated for tours

that are deemed not qualified to tour.

- The marketing manager negotiates gift premium arrangement with local vendors. These include local restaurant and attraction gift certificates or tickets which agents use to encourage prospects to agree to take a tour.
- Tour flow and appointments are set in what is called a “tour wave”. The maximum number of tours that can be set daily depends on the number of sales people available. The common tour waves at Hilton Head are 8:30am, 11:30am and 1:30pm.
- Most marketing agents work primarily on commission.

Sales:

- Very competitive department but very lucrative earning opportunities if a sales agent does well.
- The site sales manager has several sales supervisors who oversee teams of sales agents and are responsible for sales agents’ performance and training.
- The “sales wheel” is a metaphor for an ordered listing of agents. The wheel is used to determine the order in which sales agents are assigned to tours. Sales agents with the highest VPG, who may be considered the best sales representatives, are the first to be assigned a tour. The sales person with the second highest VPG gets the second tour, and so on. The wheel starts over after the last sales representative received their first tour.
- Sales also employs SPIFFs to energize the sales representatives and encourage increased sales volume.
- Occasionally sales managers work with tour reception in cases where a tour prospect may not meet tour qualifications.
- Sales agents would prefer to have only tours which purchase VOI, of course, as this increases their VPG and their earnings. Tours which do not purchase negatively affect their VPG.
- Sales agents work entirely on commission.

Administration:

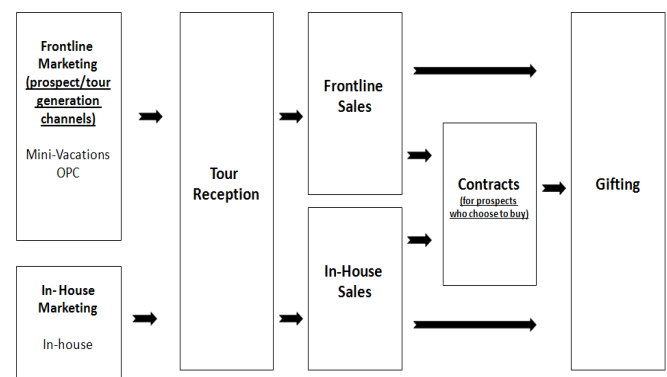
- Tour reception coordinates aligning prospects with sales agents based on the sales wheel the sales manager provides daily.
- Tour reception functions just like any reception area where guests check in to a well-appointed reception area and then wait to be greeted by their assigned sales agent.
- Problems arise for tour reception agents when sales agents claim a specific tour should not be counted in their VPG because the tour was not a “qualified tour”.
- The gifting desk distributes gifts offered by the marketing department after the prospect has completed the tour.
- When a prospect agrees to buy, the contracts department begins contracts paperwork that includes checking the consumer’s credit score and financing rates Ocean Vacation Resorts can offer.
- The administration department’s most important function is the accurate data entry in the tour tracking system of all tour data

from tour reception, contracts and gifting as well as sales agent data. Reports from the tour tracking system are used to define commission pay for sales and marketing agents and managers.

- The administration manager processes invoices to pay premium/gift vendors and invoices for marketing location rentals that are generally sent directly to corporate to pay.
- The site administration manager may be perceived as a human resource liaison as they process new hire paperwork, vacation time requests, and termination paperwork.

Tim’s impression of the dynamics of site level management is that there is a delicate leadership balance between the sales manager, marketing manager and administrative manager. It reminds Tim of the checks and balances employed in the United States government between the executive, legislative, and judicial branches. While the sales manager has overall responsibility of the site, the administrative and marketing managers have a direct reporting relationship to the directors of administration and marketing respectively. From observing the steps a prospect goes through on a tour, Tim drafts a tour flow chart represented below.

Hilton Head Tour Flow



Tim decides to use his weekend to visit one of the smaller sites in the region a few hours away. Roanoke is one of the oldest, yet smallest, sites in the region in terms of sales volume. Tim arrives at the sales center unannounced to find that the sales manager is surprised that Tim is visiting. The Roanoke sales manager explains that he does not get many visitors from the regional office in comparison to the other sites that drive a larger share of the region’s business. The sales manager encourages Tim to go meet the administration manager and the new marketing manager he has just hired. Tim introduces himself to the administration manager who shares that she has been working at the site over a year. Shortly after his discussion with the administration manager Tim meets the recently hired marketing manager. He discovers that the marketing manager and administration manager

are married to each other, husband and wife. After a quick walk through of the resort and sales center Tim leaves the site and enjoys the rest of the weekend.

Upon return to the regional office Monday morning Tim tells Brett that the newly hired marketing manager in Roanoke is married to the administration manager. When returning from lunch Brett shares that he spoke to Jan, who thinks this “should not be a problem”. It is Tim’s impression that Brett considers the issue resolved. Tim is somewhat surprised at this rather quick decision considering what he just learned about site level operations. Tim reviews the human resource policy guidelines and finds policies that prohibit employees who are related to have any direct reporting relationship to each other. While related employees can work in the same department one cannot be the manager or supervisor of another employee who is related to them. No policy addresses married employees managing closely aligned business units. Jan is correct that there is not a policy violation in this situation but Tim wonders if that is really the best decision and how it may impact his ability to get his job done.

Tim shares this concern with Peter who is the director of finance in the Pacific region. Peter shares that it is not uncommon to have employees who are related in leadership positions, especially in the vacation ownership industry. Within the Pacific region there is a married couple that holds positions as sales supervisors at the same sales site. These two individuals actually compete with each other in terms of total sales volume but have no influence over marketing or administration. Near the end of the conversation, Peter shares his concerns about collusion or corruption of the data or processes of the administration department in this case and that it could be a serious issue. Although Jan and Brett had made the decision that it was not a problem, accountability for any monetary loss would be placed upon Tim as the director of finance. Tim becomes very uncomfortable with Peter’s last comment and weighs his options.