Customer Value of Second Home Ownership: Insights from a Mature Market (Switzerland)

Robert Weinert, Christian Laesser, Pietro Beritelli, University of St Gallen

Abstract

This paper discusses the customer value of second home ownership. Because non-rented second homes are an increasing problem in many Swiss alpine destinations (under-utilisation of costly communal infrastructure, visual impairment, loss of potential income from visitors) an investigation into the drivers and barriers of renting out second homes is needed. This study presents the results from approximately 50 in-depth interviews using the means-end approach in a hierarchical value map. The results reveals that the prime reason for renting out second homes is economic, and the reasons people do not rent out are psychological. Therefore, measures to increase the willingness to rent include economic incentives, but also reducing psychological barriers.
Key words: second home ownership, customer value, Switzerland, Alpine destination.

Introduction

Second home tourism around the world has become a substantial form of tourism (Hall and Müller, 2004). While most people still buy second homes in their own countries, an increasing number are also venturing abroad. However, second homes is a largely neglected research topic. Few reliable figures exist on the number of second homes around the world (Timothy, 2004), due to poorly measured statistics and differing definitions of second homes (which mostly also include holiday homes) given by institutions, governments, and researchers alike (Fraguell, 1996; Barke, 1991). The lack of accurate official records of temporary international and domestic migrants compounds the problem (King, Warnes, and Williams, 2000).

A study conducted in 2002 with the Swiss population revealed that approximately 12 per cent of Swiss households own a second home (Bieger and Laesser, 2002). An additional 11 percent of households have regular, privileged access to someone else's holiday home (privileged here means free access or access at a very reduced rate). Globally, second homes are often considered a property investment, and thus rented out commercially (Muller, 1999). Yet the majority of Swiss second home owners do not rent out their property (according to the above study, as well as Bieger, Beritelli, and Weinert, 2007). This may be because most of those homes are within an acceptable travelling time of a weekend trip, which results in low renting ratios (Bieger and Laesser, 2002; Hall and Müller, 2004). Additionally, Switzerland is a very mature market, with an affluent population (Hopkins, Rodi, and Vincent, 2002), as well as a highly evolved buying environment (Bieger and Laesser, 2005; D'Souza and Rao 1995; Ehrenberg, Barnard, and Scriven, 1997). For many, there might be no economic need or value to rent out their property. The potential disadvantages or disutility from renting out may outweigh the economic benefits or utility; or owners may use their second home frequently themselves (mainly during weekends), which makes renting out unfeasible. Consequently, many second homes remain vacant for most of the year.

Irrespective of whether second homes are used regularly or not at all, the destinations still have to provide peak oriented communal infrastructure (peaks which sometimes last less than

one month per year), but at the same time they are prevented from maximizing economic benefit from tourism, because the same second homes are not used to their maximum potential. From many destinations' standpoints, second homes that are not rented out are thus increasingly considered a serious economic and social challenge.

This research offers some insights into the rationale of second home owners for renting or not renting out their property, and discusses measures that destinations might take to increase their willingness to rent out. In order to identify and investigate the drivers and barriers to renting out second homes, we started from the position that the decision to rent out second homes is based on differences between the perceived (anticipated) value of second home ownership. Presumably, owners estimate that the economic benefit of renting out higher is than the potential sacrifice associated with doing so. In contrast, owners who do *not* rent out estimate the economic benefit of renting out to be lower than the potential sacrifice associated with doing so. Therefore, the concept of perceived value is an appropriate approach to understanding the willingness to rent out due to the consideration of the trade-off between the perceived benefits and sacrifices.

Literature Review

Within the field of consumer research, and its extension to service quality and satisfaction research, the construct of perceived value is identified as one of the most important research approaches, and has thus been researched extensively (for example, Gale, 1994; Parasuraman and Grewal, 2000; Woodruff, 1997; Zeithaml, 1988). However, there is no consistent definition of "value" in the literature. First approaches in the field of microeconomics describe perceived value as the difference between the benefits (or utility) from, and the sacrifices required for, the reception, and use of a specific good or service (Sinden and Worrell, 1979; Smith, 1776). Following that definition, and based on Kahneman and Tversky's (1979) prospect theory, Thaler (1985) conceptualized perceived value as a function of both acquisition utility and transaction utility. Acquisition utility is the expected pleasure gained from purchase and use of the product, less the displeasure of paying for it (Urbany, Bearden, and Weilbaker, 1988). Transaction value is defined as the reference outcome, that is, the value of paying a price compared to a reference price (Thaler, 1985). However, some studies using this conceptualization show that it is difficult to disentangle the measures of acquisition and transaction value (for example, Al-Sabbahy, Ekinci, and Riley, 2004; Grewal, Monroe, and Krishnan, 1998; Petrick and Backman 2002). Therefore, numerous studies extend the perceived value construct. Many researchers argue that the value of an object or service is mainly determined by the trade-off between price, price fairness, and quality (for example, Martins and Monroe, 1994). Yet other authors suggest that viewing value as a trade-off between only quality and price is too simplistic (for example, Bolton and Drew, 1991; Sweeney and Soutar 2001).

The current marketing literature offers multifaceted perceived value conceptualizations, which mostly distinguish more than two dimensions. Overby, Gardial, and Woodruff (2004), as well as Woodruff (1997), identify key areas of consensus among the dimensions. Perceived value is (1) linked to a product or service (for example, Myers and Shocker, 1981); (2) perceived by customers, rather than objectively determined by a seller (for example, Butz and Goodstein, 1996); (3) is specific to a use situation (for example, Sheth, Newman, and Gross, 1991); and (4) is a trade-off between benefits and sacrifices (for example, Zeithaml, 1988). Pursuant to Zeithaml's (1988) concept, Woodruff (1997) and Woodruff and Gardial (1996) offer a conceptual approach, proposing that: "Customer value is a customer's perceived preference for and evaluation of those product attributes, attribute performances, and

consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations." In line with their approach, Woodruff and Gardial (1996) offer a methodological concept for measuring customer value by introducing *customer value hierarchy*. This means-end type of model has three levels: (1) desired product attributes and attributes performances; (2) desired consequences in use situations; and (3) customers' goals and personal values. Although originally intended to describe how customers classify information about products in memory, this model can be adapted to capture the essence of customer value (Gutman, 1982; Woodruff, 1997). Customer value hierarchy suggests that customers conceive of desired value in a means-end way. Consequently, we assume that this is also the case with regard to second home ownership.

Data and Methodology

The means-end theory focuses on the links between the *attributes* of products and services (the "means"), the *consequences* for the consumer provided by the attributes, and the *personal goals and values* (the "ends") which the consequences reinforce (Gutman 1982; Reynolds and Gutman, 1988). This model explains how consumers organize the content and structure of knowledge about a product or service which they believe suitable for a specific consumption context (Overby, Gardial, and Woodruff, 2004). It is also used for mapping the concerns and the reasons for resistance to products and services (Kuisma, Laukkanen, and Hiltunen, 2007). According to Gutman (1982), the model is based on two fundamental assumptions about consumer behavior: (1) that values play a dominant role in guiding choice patterns, and (2) that people cope with the tremendous diversity of products which are potential satisfiers of their values by grouping them into sets or classes, so as to reduce the complexity of choice.

The marketing literature acknowledges laddering as an elicitation technique for uncovering means-end hierarchies. This involves an in-depth, one-on-one interviewing technique used to develop an understanding of how consumers translate the attributes of products and services into meaningful associations with respect to personal values (Reynolds and Gutman, 1988). This study asked respondents about their reason for not renting out, or their concerns when renting out. The elicited answer might relate to an attribute, a consequence, or a value. The interviewer then asked "Why?" or "Why is that important to you?" and the respondent generated a second construct on a higher level (values). For assessing lower levels (attributes), the interviewer asked "What made you concerned?"

The data collection was based on a series of in-depth interviews conducted in 2004 in Switzerland at the respondents' normal home. Four interviewers received laddering interview training, including how to recognize and probe for the dimensions of a participant's value hierarchy. Two independent judges conducted the coding. In total, the 53 respondents (28 renters; 25 non-renters) produced 186 ladders, with an average of 3.5 ladders per respondent.

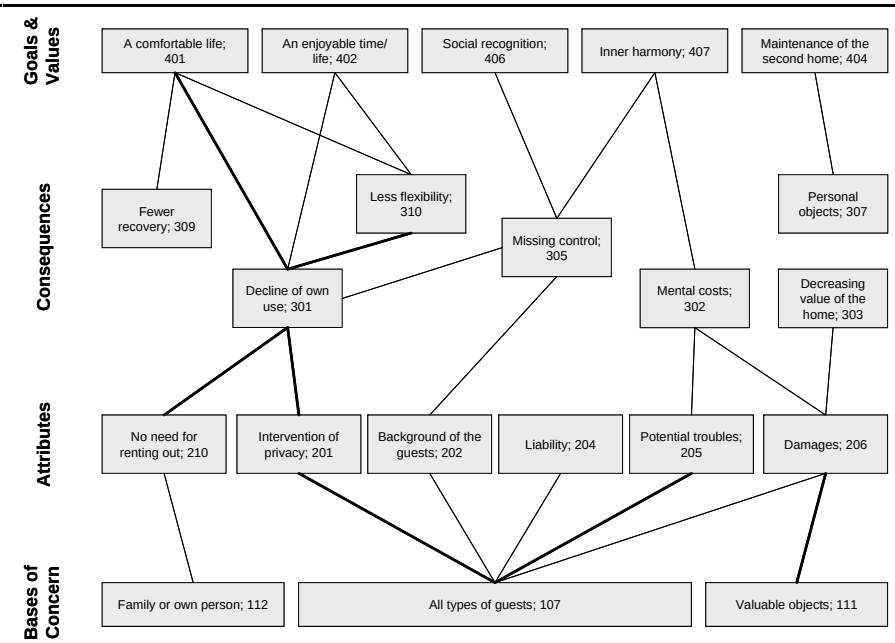
The results are presented as a hierarchical value map (HVM), ranging between (1) attributes — representing the perceived characteristic of renting out, (2) consequences — of renting out or not, that is, the advantages/disadvantages the owner perceives from renting out, and (3) individual underlying values — representing the desired goals and end states which arise from the second home. In addition to common HVMs, a fourth result was recorded: (4) the bases of concerns, which describes persons and objects involved in the renting out process. In order to illustrate the results, the HVM was constructed to represent respondents' ladders in the aggregate. The HVM determinates the dominant perceptual segments represented in the overall map of aggregate relations (Reynolds and Gutman, 1988). To accomplish this, an implication matrix was generated, which shows direct and indirect relations of the sub-dimensions (download at http://www.alexandria.unisg.ch/Publikationen/37941). Although

more sub-dimensions were originally coded, only those sub-dimensions and links which met the specified cut-off level of four times per sample were included in the HVM.

Results and Discussion

Figure 1 presents the results. We discuss the results from the bottom up, along the levels of the elements (bases of concerns to values). We use "NONS" to designate persons not renting out their second home, and "OUTS" for persons who rent out their second homes.

(a) Non-Renters' Means-End Value Hierarchy



(b) Renters' Means-End Value Hierarchy

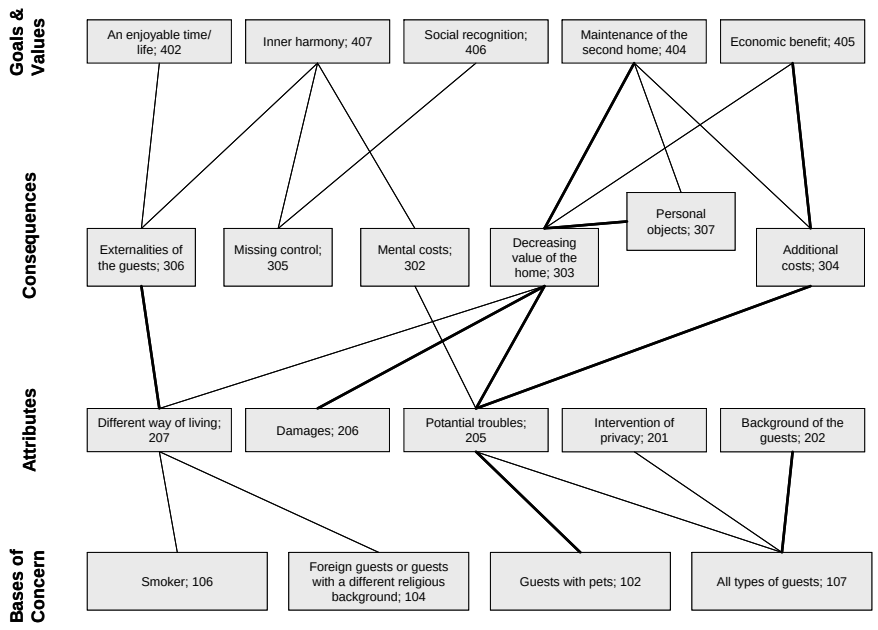


Figure 1: Means-End Value Hierarchies of Renters and Non-Renters

Bases of Concern: Among NONS, any types of renters are declined (*all types of guests*), no matter what their background (43 entries). Consequently, the desire to use the second home by family or on their own (*family or own person*) is the second-strongest concern within this group (15 entries). The above two attributes combined to cover 76.3 percent of all concrete renting attributes. In contrast, and among OUTS, the attributes which might lead to non-renting out any more are more heterogeneous, and include *all types of guests* (18 entries), *guests with pets* (12 entries), guests from abroad and with a different cultural and religious background (*foreign guests or guests with a different religious background*; 10 entries).

Attributes: The strongest concern on this level among NONS related to *invasion of privacy* (23 entries). In contrast, *potential troubles* might make OUTS become NONS (25 entries).

Consequences: Among NONS, the potential *decline of own use* is the point brought forward most often (32 entries). As with the bases of concern, the consequences pointed out by the OUTS vary, and includes *additional costs* (20 entries) as well as *externalities* (such as noise, odour/ malodour, and so on; 17 entries). However, the element with the most (28) entries was *decreasing value of home*.

Goals and Values: The NONS' values include *a comfortable life* (21 entries), *inner harmony* (18 entries), *and an enjoyable time/ life* (17 entries). In contrast, the OUTS' values include *inner harmony* (23 entries), *maintenance of the second home* (that is, *preserve economic value*; 26 entries), and *economic benefit* (15 entries).

Ladders (Overall): NONS strongly argue that to rent to *any type of guests* leads to an *invasion of privacy*. This concern is also related to a *decline of their own use*, and *decreasing flexibility*. Therefore, these owners fear that renting out could negatively influence their *comfortable life*. *Potential troubles* caused by *all types of guests* as well as the *damages* of *valuable objects* are also issues brought forward by NONS. Yet, the results show that *potential troubles* and *damages* bear a stronger relation to *mental costs* (consisting of issues such as stress and increased responsibility) than to the *decreasing value of the home*. In contrast, OUTS associate *damages* and *potential troubles* with a *decreasing value of the home* and *additional costs*. These connections lead to a hindering of their economic goals, notably *maintenance of the second home* and *economic benefit*.

The assumption that the major reason for renting out or not renting out second homes is based on the trade-off of economic utility and non-economic disutility cannot be rejected. Admittedly, both groups (NONS and OUTS) show inner harmony (that is, the absence of cognitive dissonance) as a value base for their renting behaviour. However, for NONS, inner harmony is associated with not renting out (that is, the non-economic disutility, or psychological benefit, is larger than the potential economic utility). In contrast, OUTS value the economic benefit from renting out more highly than the non-economic disadvantages.

Implications and Conclusions

The results show that the perceived value of second home ownership is multifaceted. Overall, second homes contribute to an increase in flexibility and quality of life, and also supply a location that has privacy. Second home ownership can also be associated with the seeking of economic security, as well as being an economic value driver. However, that economic value is outweighed by the desire of the owners to have full control over the second home, as well as preventing anyone from invading their privacy. From a destination point of view, the willingness to rent out can be supported by (1) changing the economic framework (for example, second home taxation, which is precisely what an increasing number of destinations in Switzerland are now discussing), or (2) addressing some of the issues brought forward by

the test persons (especially those closely associated with the direct inconvenience of renting out, such as *troubles*, *damages*, and *other*), or (3) reduce the psychological costs of renting out. Accordingly, some measures are currently quite successfully implemented in certain destinations, such as model contracts, efficient distribution, support by professional renting agencies/administrators, cleaning services, and so on. These centres also give *transferable* access to leisure facilities (such as sports centres, ski slopes, and other) exclusively to persons willing to rent their second home.

This study has several obvious limitations. The small sample limits the generalizability of results. However, the low variability of the answers/ entries supports a selective and conservative generalization of results. The method chosen is clearly qualitative in nature, which at this point only allows for descriptive results. Finally, there are concerns with regard to individual differences of thinking hierarchically, which could further limit the significance of this study (Grunert and Bech-Larsen, 2005). However, means-end chains are nevertheless a satisfactory methodology for revealing non-obvious associations and structures within human thinking.

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