Commentary

The American Ski Industry —

Reasons for Optimism in the 21st Century

BBC Research & Consulting

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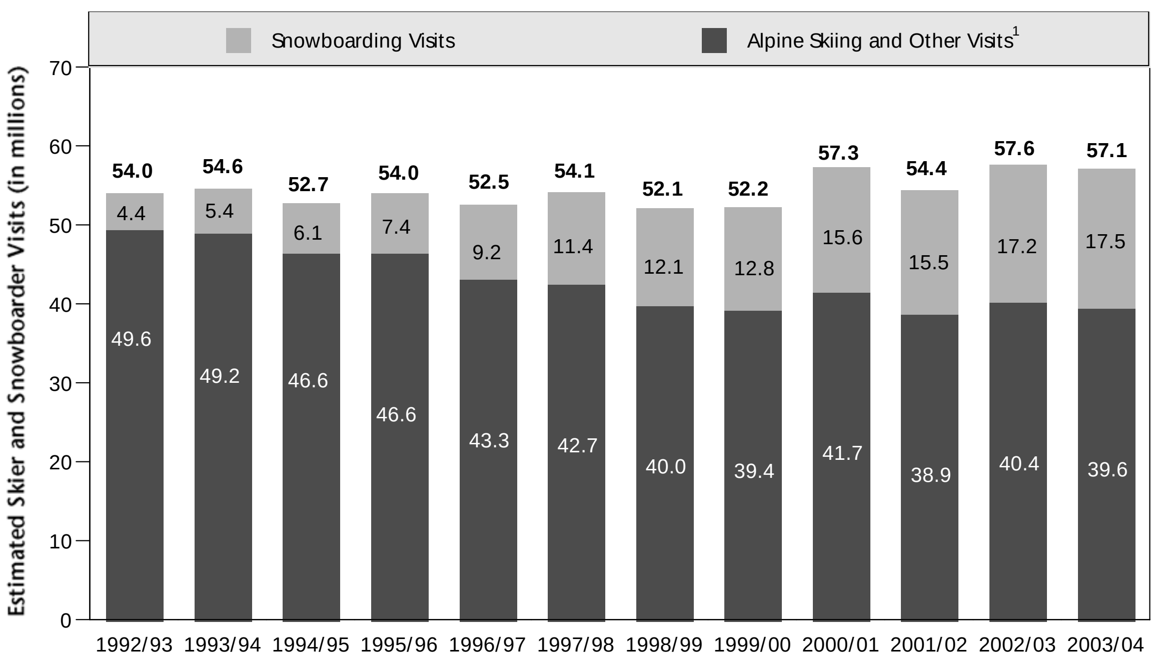
Amidst war, security concerns, economic disarray, airline bankruptcy and the aftermath of the dot-com/telecom Wall Street meltdown, one is hard pressed to imagine a more inhospitable business climate for the American ski industry. Long perceived as the victim of demographic change, drought and a fickle baby boom market, prospects for skiing's growth were dismissed long ago, and until recently there has been little in the news that would suggest the need for a reevaluation.

However, National Ski Areas Association skier/snowboarder visitation data for the past four seasons suggests that this industry merits a second look. In fact, United States ski areas have tallied all-time visitation records in three of the past four seasons. The data suggest a rather promising start for the 21st Century.

Skiing's Comeback

In the 2000/01 season, as the economy sputtered, the U.S. ski industry had its most successful season to date, logging more than 57.3 million skier/snowboarder visits. In addition, if one counts the 14 million or so visits logged in increasingly international Canadian resorts, one uncovers an extraordinary year for North American resorts. Yet, even industry insiders dismissed the 2000/01 record as a curious, but ultimately anomalous, event.

Exhibit 1.
Estimated Skier and Snowboarder Visits



Notes: (1) Also includes telemark skis, snowskates and other equipment types.
Source: BBC Research & Consulting from data compiled for National Ski Areas Association by RRC Associates

The next season 2001/02 should have been a disaster with reactions to September 11 coming at the peak of the industry's reservation period, followed by an economic downturn in the succeeding months. This recession seemed to hit hardest at the ski industry's core market — the urban baby boomers whose IRAs and 401(k)s were melting faster than a spring snowpack. Amidst the economic gloom and a persistent drought, pre-Christmas ticket sales were down over 30 percent.

Despite this inauspicious beginning, however, the industry tallied its fourth-best year in history with over 54 million skier visits. This surprising total was achieved despite a 12 percent decline in overall operating days. Had the weather held, the season could have set a record. Still, no one announced an industry in recovery, and most reports of record sales (over 35 percent of areas surveyed by the National Ski AreaS Association reported increased sales over their previous record seasons) were met with shrugs, disbelief, or fear that any comment might jinx whatever strange magic the industry had working.

In the summer of 2002, most informed observers believed that whatever reprieve the ski industry had been given could not last through the next year. As the season progressed, all signs seemed to point toward decreased visitation. During the 2002/2003 ski season, the national economy was worse, the war with Iraq loomed, airlines were in bankruptcy, the dollar was declining and the tourism industry appeared to be on life-support. So what happened? The ski season began early with good snow and set a record pace through the holiday season. Virtually all areas of the country enjoyed robust crowds, diminished resort retail and lodging sales recovered, and the ski industry witnessed its best season ever — 57.6 skier/snowboarder visits.

While the 2003/04 season did not eclipse the record set in 2002/03, impressive numbers of skiers and boarders flocked to the slopes. The industry enjoyed its third-best season ever—57.1 million skier/snowboarder visits and a 5 percent rise in ski operator average total revenue. This near match of the record setting prior season occurred despite a 2 percent decline in average operating days.

How the Industry Changed

How can one explain this apparent industry revitalization, and what could account for this unexpected resurgence of skiing and boarding? This story may be a simple one of an industry that stopped doing business as usual, listened to the market and responded in kind — a management change of heart accompanied by fortuitous improvements in ski technology. In essence, this is a case study in business back-to-basics, and a lesson in the value of listening well and simply giving the market what it wants.

Problem: The ski industry was too reliant on aging, upper-income baby boomer skiers; skiing needed to broaden its appeal and its markets.

Solution: Relax the rules, embrace the growth of winter recreation in many forms, cater to youth, snowboarders and anyone else who wants to recreate in the mountains.

At the beginning of the 1990s, Generation Y (the children of the baby boomers) was metaphorically poised at the top of the slope. But would they embrace snow sports or reject their parents' preferences and seek their recreation elsewhere? A new generation needed something in this sport to call their own. That something was snowboarding, part of the new trinity of "boarder" sports: skate, surf and snow.

As shown in Exhibit 1, skier visits to U.S. resorts have hovered around 40 million per year for the past five seasons. Over the same period, total snowboarder visits have increased from 12.1 million to 17.5 million. In large part, the ski industry's success over the past several years is the result of stabilizing its alpine skier base while growing its snowboarder layer. Snowboarding continues to grow and participation rates have nearly quadrupled since the 1992/93 season.

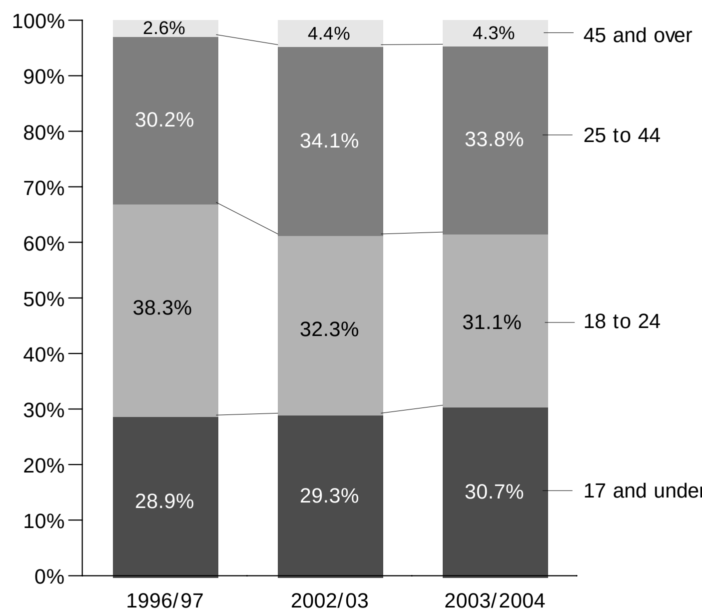
Although initially resisted, the infusion of snowboarding terrain, equipment, clothing and most importantly attitude re-energized the downhill recreation business, forcing it to shed its middle-aged stodginess and rethink its tried and true formula.

Now some ten years into the snowboard revolution, it is not just Generation X and Y who are riding. While people aged 18 to 24 make up almost a third of snowboarders, those aged 25 to 44 account
for more than a third. In the 2003/04 season, nearly 5 percent of snowboarders surveyed were over age 45.

Exhibit 2.
Age of Snowboarders

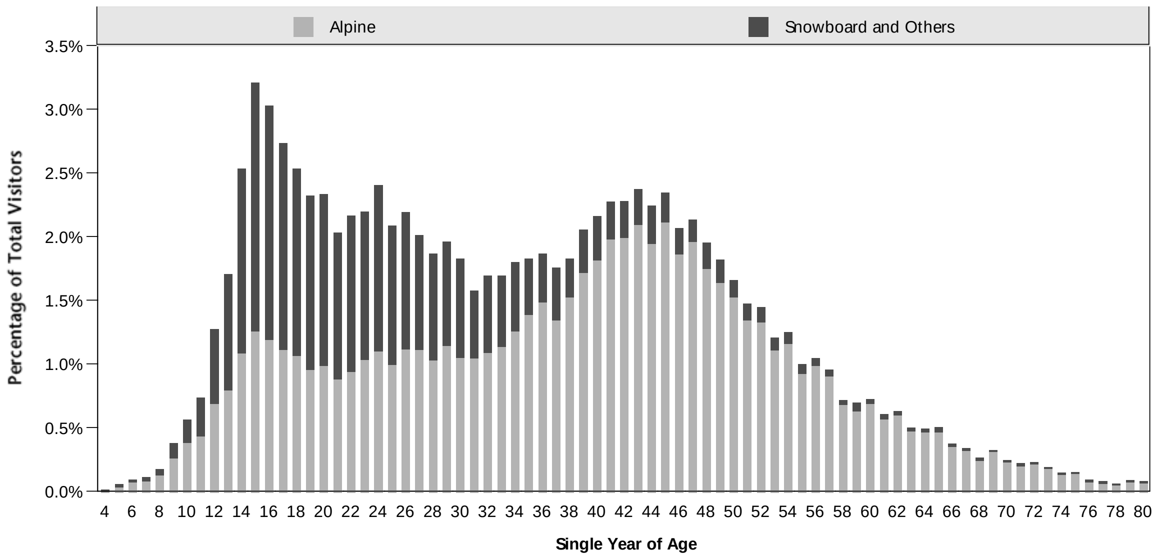
Source:

BBC Research & Consulting from NSAA National Demographic Survey data provided by RRC Associates



Although they may be sliding on different equipment, they seem to have taken to snow sports as enthusiastically as their parents' generation. Exhibit 3 shows the distribution of snow sport participants by age and equipment preference. The echo boomers (those born from 1979 to 1995) account for about 32 percent of the participant population, virtually the same share as the baby boomers, and for most of these young people, a day at a ski resort means a day spent snowboarding. In 1996/97, about a third of those aged 10 to 24 rode snowboards and less than 10 percent of children under age 10 got their introduction to the slopes on a snowboard. By the 2003/04 season, these ratios had changed dramatically. More than half of 10 to 24-year-olds surveyed were using snowboards and nearly 18 percent of those aged four to nine did the same.

Exhibit 3.
Percent of Participation and Average Days
of Participation by Age and Equipment Type 2003/04



Source: BBC Research & Consulting from NSAA National Demographic Study data analyzed by RRC Associates.

The introduction of snowboarding, and the rapid rise in telemark skiing, free skiing and a number of other equipment variations, was a breakthrough for the ski industry — not just because it drew a new generation of participants, but because it reminded an increasingly stodgy industry that "skiing" was fundamentally about unstructured, outdoor recreation and the individual freedom and adventure that it offers.

Much of the industry's recent success is the result of simple attitudinal transition from resistance to acceptance of change. Skiing, or snow sliding of any kind, does not really need rules, regulations, accepted technique or appropriate attire. Once that attitude became a reality, not a marketing slogan, a new generation signed on.

But skiing still faced the dilemma of many businesses seeking renewal: can we reinvent ourselves without losing the core market that has supported us for decades?

Problem: While attracting a new generation of participants, skiing still needed to retain the core baby boomer market — despite the realities of aging and increased leisure competition.

Solution: Promote new wider/easier equipment, focus on mountain services and quality, and emphasize the social side and unique multi-generational, family opportunities of skiing.

The American ski industry grew up with the baby boom generation. However, as the baby boomers aged, their athletic ambitions dissipated, their knees hurt and their increasing household incomes afforded new vacation opportunities, many of which were less physically demanding than skiing. Heading into the mid-1990s, the ski industry faced an enormous challenge: how to retain older skiers?

In this instance, the industry was rescued by the serendipitous introduction of wider and shorter skis, which made skiing easier and skiers more proficient. Baby boomers still constitute a disproportionate share of snow sport participants and they have remained participants far longer than the preceding generation. Bill Jensen, Vail Resort's COO, attributes Vail's success with skier retention to two primary factors: (1) improvement in equipment, and (2) mountain investments in skier facilities, grooming and services.

New ski technology has kept the boomers in the game, particularly if they are also provided a comfortable place for lunch, high-speed lifts and a mix of well-groomed slopes. Development of elaborate terrain parks also effectively segregates younger participants who are mostly boarders from older participants who are mostly skiers. This means that terrain parks can also offer food, music and atmosphere suitable for one sub-market without offending another. Meanwhile traditional skiers can have their creature comforts and well-groomed slopes without the MTV lifestyle.

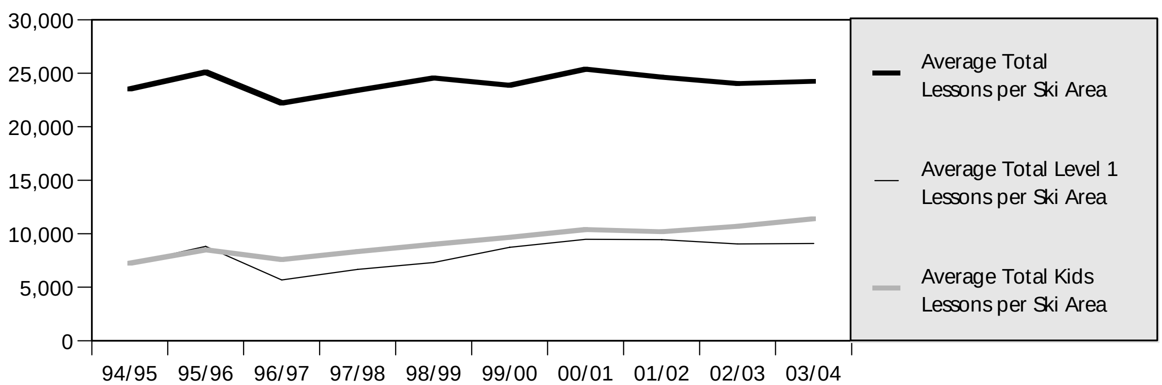
By differentiating product and better providing for the various submarkets in winter recreation, skiing reinforced one of its greatest strengths — multigenerational appeal. The baby boom is family oriented and skiing allows a vacation for everyone in the family. Mountain visitors also see winter recreation and mountain resorts as both safe and secure traveling options — highly valued attributes in the hyper-competitive and security conscious, leisure time market.

Problem: The industry had created significant barriers to entry for new participants.

Solution: Make lessons easier and cheaper, ski schools more accommodating and the entire sport more accepting of new participants.

An increase in youth skiing and new entrants into snowboarding has also meant an increase in lessons. This increase has been steady for the past six seasons, despite fluctuations in the number of ski visits. Exhibit 4 shows the trends in lessons taken per season at the resorts surveyed by NSAA.

Exhibit 4.
Lesson Trends



Source: BBC Research & Consulting from NSAA End of Season Survey data analyzed by RRC Associates.

While the total lesson average per ski area has fluctuated with the total number of skier visits, the number of children's and Level 1 lessons rose steadily from 1996/97 to 2000/01, and number of children's lessons, perhaps an indication of youthful interest in skiing, continued to rise through 2003/04. There was a 12 percent increase in children's lessons from the 2000/01 season to the 2003/04 season. There is overlap between children's lessons and beginner lessons, as not all beginners are kids. The same messages that the industry has been sending to kids ("This is fun; there's lots of different kinds of equipment to try; everyone can feel proud of themselves at the end of the day"), have also been picked up by adults.

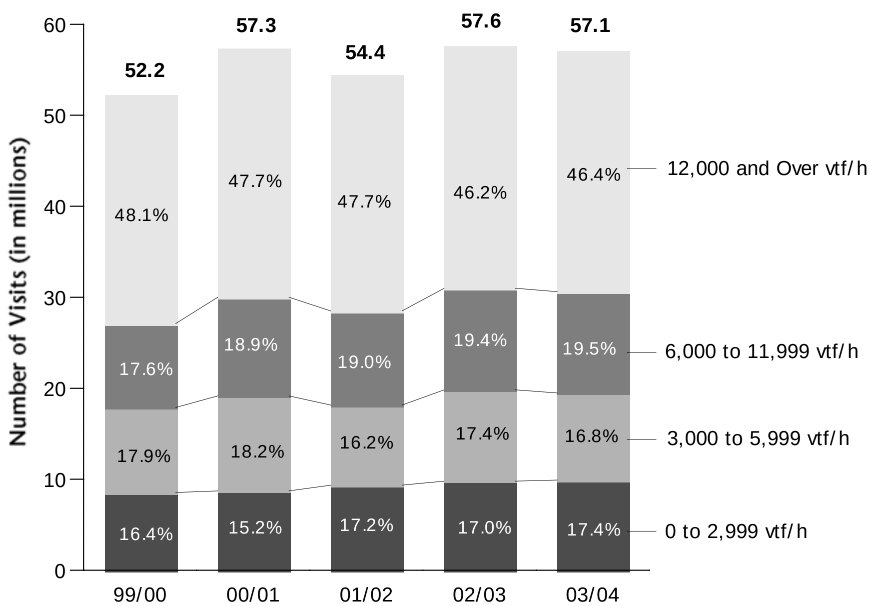
Problem: Small areas were struggling and the industry was losing its "farm teams."

Solution: Embrace the new markets, focus on entry-level participants, emphasize value and convenience, and reward loyalty.

Small resorts are usually known for their lower prices, family friendliness and convenient locations within reasonable driving distances of metropolitan cities. Although a great deal has been written about the large resort operators and ownership consolidation, small resorts are actually gaining a little ground. Exhibit 5 shows trends in the number of visits by size of resort.

Exhibit 5.
Number of Visits by Size of Resort

Source:
BBC Research & Consulting from NSAA End-of-Season Survey data analyzed by RRC Associates.



Over the past five seasons, the largest resorts (those with 12,000 or more vertical transport feet per hour) saw their share of the market slip from 48 percent to 46.4 percent. Meanwhile, the smallest resorts increased their market share to 17.4 percent of all visits. Although overall skier/boarder visits declined modestly from prior season's levels, the smallest resorts showed a visitation increase of nearly 2 percent.

Small resorts learned to avoid direct competition with the larger mountains and instead promoted their own advantages, which are typically price, convenience, informality, and often snowboard orientation. Specialized snowboarder facilities and terrain parks do not require large-scale mountains. Mountain High in southern California typifies the new strategy for managing smaller mountains. Mr. Karl Kapuscinski, Mountain High General Manager reports that "my market doesn't much care whether the hill is 300 or 3,000 vertical feet, it's the quality of the park and the innovation of the terrain features, coupled with convenient access and aggressive pricing that draws the rider market. I can offer that here, one hour out of LA, and I can do it with man made snow."

Another way the industry has reached out to children and families is with new forms of snow play. More than 40 percent of ski areas responding to the NSAA survey offer snowtubing. Almost three-quarters of these resorts have added tubing in the last six years. Tubing and similar low-skill level programs provide an outdoor activity that the whole family can do together regardless of experience or athletic ability. There are no specialized clothing requirements and costs are modest. Most importantly, tubing and similar activities introduce new participants to outdoor winter recreation with the prospect of conversion to boarding and skiing.

For many years, the industry has bemoaned its limited socioeconomic diversity and its seeming inability to attract new urbanites and minorities to the sport. Prior years saw a number of awkward marketing efforts with little impact, but the accommodation of change that came with snowboarding also made inclusion of different racial and socioeconomic groups a fortuitous by-product. Once again, the answer was not about selling traditional skiing to a new market, but rather changing the product to be attractive to new and different markets. A number of southern California areas, Mountain High, Snow Summit and Big Bear being the best examples, have led the industry in literally changing the face of skiing.

Again, according to Mr. Kapuscinski, Mountain High now caters to a highly diverse, southern California youth market by modifying virtually every element of mountain operations, pricing and services to meet the expectations of this market niche. Mountain High, in very challenging climatic conditions, averaged over 500,000 skier visits during the last three years of which 80 percent was snowboarders. The mountain positions itself as part of the boarding lifestyle: skateboarding, surfboarding and snowboarding. It may be a long way from Deer Valley, but that's the point. Mountain High doesn't compete with Deer Valley, but it does broaden and expand the winter market, and it does serve as an incubator for new ideas.

Problem: Skiing was too expensive for local residents and families.

Solution: Make skiing a better value for people who are not on a destination vacation.

A decade ago, only the most avid participants (who skied 20 or more times a year) would benefit from buying a season pass instead of an individual daily lift ticket. But beginning in about 1998/99 season a spate of new pricing experiments eventually led to a common solution: the deeply discounted season pass and a variety of other loyalty discounts. In locations with highly competitive markets, it suddenly made sense for "locals" and even some frequent destination guests to buy a season pass. Nationwide, the total number of passes sold by surveyed resorts increased 30 percent between 1997/98 and 1998/99. The next year, after other resorts jumped on the bandwagon and the initiating resorts refined their pricing strategies, sales increased another 20 percent to 416,000 passes. Season pass sales continued to rise in all regions and resort size categories during the 2003/04 season.

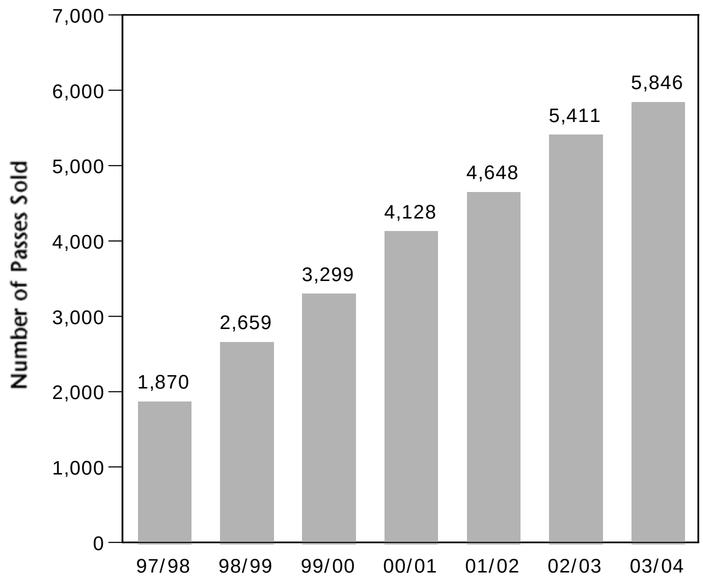
Exhibit 6.
Season Pass Sales

Note:

Some of the variation from year to year may be caused by different sets of resorts responding to the season pass question.

Source:

BBC Research & Consulting from 1997/98 through 2001/02 NSAA survey data compiled by RRC Associates



In 2001, the NSAA added a new question to its survey: What share of your visits are attributable to season pass use? The areas answered that almost 29 percent of visits were by season pass holders, a capture rate that has held steady for the past three seasons.

Discounted passes have produced additional benefits. Enthusiasm for skiing increases as participation rises, customer loyalty is reinforced, summer business can be efficiently cross marketed, and the ski pass database offers a low-cost means of communicating directly with a resort's most important customers. The success of season passes has also spawned a number of other experiments with pricing, including tickets priced by the hour, by the number of runs and by time of day. Again, the point is not that the industry has found a new universal pricing format but rather that the industry has learned that you can spur market interest and shape behavior with innovative pricing strategies. One size does not fit all.

In retrospect, the story of skiing's revival is not surprising. It turns out that if cordially invited, made to feel welcome, provided what they expect, and relieved of only modest sums from their wallets, people truly enjoy the mountains and love to go skiing and boarding. This should not be a shock. If one goes back over the past twenty years of market research, one thing stands out — people have always liked skiing (or at least sliding down a hill in some form), it's just the rest of the associated stuff that was disappointing.

What's next?

Skiing is ultimately a luxury expenditure and despite its recent success the industry cannot indefinitely withstand a continuing economic downturn. Skiing needs a return to economic growth and when that happens, the current investment in broadening the business, inviting new guests and accommodating market preferences will yield even greater results.

If the last four years have given operators evidence that market growth can be sustained, then future years will likely witness additional experimentation and renewed pressure for area modification and expansion in response to market preferences. Even a modest level of national market growth, results in large increases in skier visits. A one percent per year national growth rate requires the equivalent of a new Killington Ski Area every two years. Further, the next round of mountain expansions and modifications will by necessity replace the old "skiers per acre" standards, which have governed mountain planning for years, with new metrics that are about accommodating the desires of multiple market segments, promoting a more relaxed mountain ambiance, enhancing participant safety, better connecting with local communities and reducing overall skier density. The industry's need to expand and modify operations will undoubtedly raise eyebrows among those long-standing critics who tend to see skiing as the source of all mountain urbanization and environmental deterioration.

One source of pressure for mountain facility change is a dramatic increase in concerns for participant safety. An aging baby boom means more experienced but cautious skiers with little tolerance for on-mountain congestion, or other operating conditions that may increase skier conflicts. Crowded conditions and conflicts are often at the top of skiers' complaint list. We can expect area operators to listen and respond.

Terrain parks (now essential mountain amenities) typically require dedicated areas that are often segregated from other parts of the mountain. Similarly, visitors respond well to areas of the mountain set aside for family or slow skiing, and there have always been preferences expressed for expansive terrain for beginners and novice skiers. Most of the easy mountain retrofitting has already been done; we can now expect operators to be eyeing nearby terrain for the next round of improvements.

A desire for improved physical integration of the mountain with off-mountain services and the local community, often addressing the typical array of pedestrian connection, traffic and parking issues, is also putting pressure on mountain operators to modify facilities. In the last few years, there has been a spate of proposals for new gondolas or similar transportation systems designed not so much to serve active skiers, but rather to better integrate the town and the mountain and relieve associated traffic or parking problems. New systems that change visitor access and use patterns typically require mountain change and physical expansion to succeed.

Finally, both older and younger skiers have shown a distinct preference for less crowded and less congested skiing experiences. For some it is the esthetic appeal of a more authentic mountain environment, for others it is the challenge inherent in an unstructured, semi-backcountry skiing experience, but regardless of motivation the traditional skier-per-acre standards that governed ski area design for many years have little applicability in the current market. The positive market response to the opening of Highland Bowl (Aspen Highlands), Prospect Bowl (Telluride), Mineral Basin (Snowbird) and Blue Sky Basin (Vail) are evidence of how these market preferences are already reshaping ski area design and development. All of this comes against a backdrop of heightened environmental awareness and acknowledgement that regulators, local residents, customers and participants are not willing to trade skiing functionality for loss of environmental quality.

In sum, the sport of skiing has always been in a state of change and renewal, but the business of skiing has sometime been slow to respond. This appears to be changing, and despite years of dismissal there is evidence that skiing is growing again. The last four years, although challenging from many perspectives, have demonstrated that if the industry listens and responds to its market, the business has a viable and prosperous future. The next challenge will be seeing if the industry can garner the flexibility it needs to retool its mountain infrastructure to meet new market demands while still satisfying traditional guest, local residents and environmental concerns.