A FINANCIAL SNAPSHOT OF SMALL AREAS

A look at the performance of small areas in Eastern Canada and the U.S. shows both similarities and disparities.

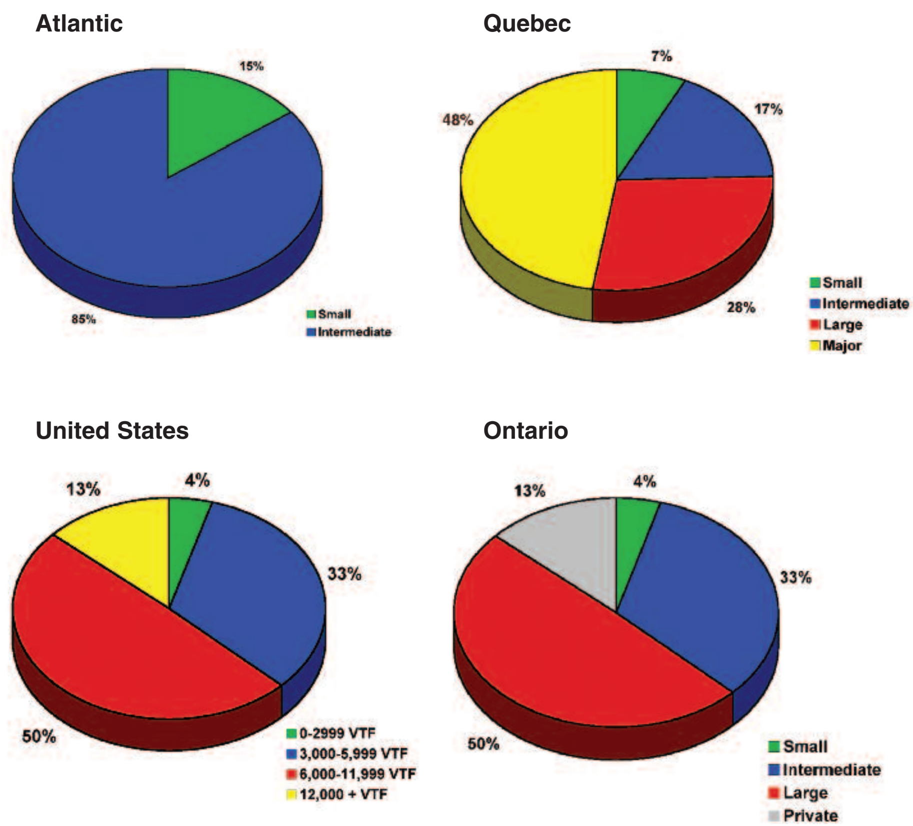
BY SYLVAIN AUDET

"Benchmarking is the process of comparing one set of business processes and performance metrics (including cost, cycle time, productivity, or quality) to another that is widely considered to be an industry standard or best practice. Essentially, benchmarking provides a snapshot of the performance of your business and helps you understand where you are in relation to a particular standard."

For many ski area operators, benchmarking their financial performance against other areas of the same size and in the same region is of great interest. But earlier this year, Canada's Atlantic Ski Areas Association wanted more: to benchmark the financial performance of small areas across the eastern regions of Canada and the U.S. And this analysis highlights some aspects of resort operations that are unique to each region. This snapshot of the 2007-2008 and 2008-2009 seasons provides valuable insight into the smaller areas that form the base of the ski and snowboard industry.

We defined small areas as those that:

• receive between 30,000 and 100,000



Visits to small ski areas—those with less than 100,000 visits or 3.5 million VTF; the VTF numbers above for U.S. areas are in 000s of feet—account for roughly five to 20 percent of a region's total visits.

Note: Quote about benchmarking at the beginning of this article is from Wikipedia.

"U.S. SKIERS AND SNOWBOARDERS TEND TO BE LESS EXPERIENCED OR COMMITTED, AND ARE MUCH MORE LIKELY TO NOT OWN GEAR. AS A RESULT, THEY RENT MORE FREQUENTLY...CANADIAN SKI AREAS GENERATE A GREATER PERCENTAGE OF REVENUE FROM THEIR SNOW SCHOOLS COMPARED TO THE U.S. AREAS."

visits annually

- generate between $300,000 and $1 million in lift revenue (all types of lift tickets)
- have between 300,000 and 1 million VTMH (vertical transport meters per hour) or between 1 million VTFH (vertical transport feet per hour) and 3.5 million VTFH.

The areas, 26 in all, were located in:

- the Northeast and Midwest U.S.—6 areas
- Atlantic Canada—6 areas
- Québec—9 areas, and
- Ontario—5 areas.

On average, the physical characteristics of these ski areas include:

- trails: 14
- skiable domain: 84 acres
- vertical: 590 feet/180 meters
- lifts (surface and aerial): 5.

Notably, the sample is evenly divided between privately-owned and community-owned areas.

While we were unable to obtain comparable information from all regions for all of the revenue and expense categories we wished to explore, we have included as much information as was available. And despite the relatively small sample sizes, some clear trends and factors stand out. Two in particular are the greater percentage of lessons taught at Canadian areas, and the greater volume of rental revenue at U.S. areas, both of which are reviewed in more detail below.

Table 1—Overall Situation

	ASAA Atlantic Ski Areas Association		ASSQ Association des stations de ski du Québec		OSRA Ontario Snow Resorts Association		NSAA National ski Areas Association	
2008-09								
Skier-visits (SV)	69,653		52,554		70,358		70,935	
Days of operation	97		92		92		93	
	$000	%	$000	%	$000	%	$000	%
Revenues	**1,585**	100.0	**1,211**	100.0	**2,625**	100.0	**2,800**	100.0
Direct Operation Expenses[2]	**714**	45.0	**734**	60.6	**1,560**	59.4	**1,607**	57.4
Gross Margin	**871**	55.0	**477**	29.4	**1,065**	40.6	**1,193**	42.6
Administration, Marketing and General Expenses	**498**	31.4	**329**	27.2	**1,002**	38.2	**474**	16.9
EBITDA	**373**	23.6	**148**	12.2	**63**	2.4	**719**	25.7
2007-08								
Skier-visits (SV)	68,415		59,781		69,624		74,490	
Days of operation	96		97				96	
	$000	%	$000	%			$000	%
Revenues	**1,461**	100.0	**1,308**	100.0			**2,943**	100.0
Direct Operation Expenses[3]	**760**	52.0	**763**	58.3			**1,694**	57.6
Gross Margin	**701**	48.0	**545**	41.7	**NA**		**1,249**	42.4
Administration, Marketing and General Expenses	**404**	27.7	**383**	29.3			**514**	17.5
EBITDA	**297**	20.3	**162**	12.4			**735**	24.9
Sources:	ASAA 2008-2009 Benchmarking Report		Étude économique et financière des stations de ski du Québec : Saison 2008-09		OSRA 2008-2009 End-of Season Report		2008-09 Economic Analysis of United States Ski Areas, Special Tabulations, RRC Associates	

Note: For this snapshot, figures are in Canadian dollars or US dollars; there was no attempt to convert currencies.

2 - Direct Labor (and benefits), Cost of Goods, Energy, Maintenance, etc.
3 - Direct Labor (and benefits), Cost of Goods, Energy, Maintenance, etc.

Note: In the tables on this and the following pages, we have included all available information from the four regions covered in the study: Atlantic Canada, Quebec, Ontario, and the Eastern and Midwestern U.S. Sources of this information for tables 2 through 5 are as indicated in Table 1.

Overall Market Share

Each pie chart from the previous page presents the overall market share, in terms of visitation, for each size of ski area in 2008-2009 by region. The smallest areas, as we have defined them, typically account for 10 to 15 percent of total visits.

Combined with intermediate-sized areas, smaller areas comprise a significant share of the overall market. In Eastern Canada, 47 out of 157 areas fit the intermediate-size profile, and account for 25.5 percent of the region's total visitation of 10.2 million visits.

Because of a different classification used in the National Ski Areas Association (NSAA) reports, the exact percentage of visitation for comparable U.S. areas is not available. RRC Associates, which performs economic research for the NSAA, estimates that 140 ski areas (30 percent of the 473 ski areas in operation in 2008-2009) fit a similar profile (intermediate), with an estimated 14 million visits—roughly 25 percent of total U.S. visits, similar to the percentage of intermediate-area visits in Eastern Canada.

Overall Financial Situation

Small ski areas in three regions (Atlantic, Ontario and United States) received on average almost the same number of visits annually, approximately 70,000 visits (Table 1). Available information indicates that those areas are located in regions where the number of other ski areas (larger or smaller) is geographically limited, or they are located near a major market. Remember, too, that 2007-08 was a record season for the ski industry in North America.

In all four regions, small ski areas generated gross margins of more than 40 percent. Atlantic Canada areas were the most efficient in 2008-09, with an operating margin of 55 percent, due to an increase in revenues and a decrease in operation expenses (that is, rather than any significant variation in the length of the season).

The table also indicates that ski operations expenses in small areas are relatively stable year to year. Therefore, the difference between a good year and a bad year depends on how much total revenue a resorts gains from its guests.

U.S. ski areas are the most efficient in regard to administration, marketing and general expenses. These items represent only 17 percent of expenses, compared to 27 to 38 percent in the Canadian regions.

In terms of EBITDA, Atlantic Canada and U.S. ski areas are most profitable, with an EBITDA averaging more than 23 percent.

Revenues

In terms of revenue generation (Table 2), small areas separate into two distinct regions—let's refer to them as the east (Atlantic and Québec) and the central (Ontario and the U.S.).

Eastern ski areas generate at least 43 percent less total revenue and 33 percent less revenue per visit compared to central areas, which are able to charge an extra $7 per lift ticket, an extra $2 for food and beverage, and an extra $4 on rentals. Available information indicates that Eastern areas depend more on season passholders (45 percent or more of the total visitation is generated by those patrons), which leads to lower per-visit revenues. The central areas are able to capitalize on their geographical situation—limited competition and major markets—to generate more revenue.

Two major differences between U.S. and Canadian areas stand out, both related to ski culture. Canadian ski areas generate a greater percentage of revenue from their snow schools compared to the U.S. areas. Canadian areas have a high number of experienced participants, many of whom take part in the resorts' well-established six- to eight-week school programs. Many skiers and snowboarders return every season.

U.S. skiers and snowboarders, on the other hand, tend to be less experienced or committed, and are much more likely to not own gear. As a result, they rent more frequently, and this raises the rental revenue contribution, both as a percentage and in dollar amount, compared to Canadian areas. The differences are significant: At small areas in the U.S., rental operations are the second-biggest source of revenue, after lift tickets and ahead of food and beverage. In Canada, rental revenues trail those for food and beverage and, in Ontario and Quebec, trail snowsport school revenues as well.

Table 2—Revenues

	ASAA			ASSQ			OSRA			NSAA		
2008-09												
Revenues	$000	%	$/SV	$000	%	$/SV	$000	%	$/SV	$000	%	$/SV
Ski (Ticket)	**853**	53.8	12.25	**655**	54.1	12.46	**1,328**	50.6	18.87	**1,364**	48.7	19.23
Restaurants	**245**	15.5	3.52	**200**	16.5	3.81	**368**	14.0	5.23	**430**	15.4	6.06
Bars	**63**	4.0	0.90				**42**	1.6	0.60			
Snow School	**134**	8.5	1.92	**129**	10.7	2.46	**278**	10.6	3.95	**128**	4.6	1.80
Retail	**48**	3.0	0.69	**27**	2.3	0.52	**22**	0.8	0.31	**59**	2.1	0.83
Rental	**204**	12.9	2.93	**82**	6.8	1.57	**146**	5.6	2.08	**499**	17.8	7.03
Other Activities	**38**	2.4		**116**	9.6		**441**	16.8		**320**	11.4	
Total	**1,585**			**1,211**			**2,625**			**2,800**		
Revenue/SV			22.21			20.83			31.04			34.96
2007-08												
Revenues	$000	%	$/SV	$000	%	$/SV	$000	%	$/SV	$000	%	$/SV
Ski	**828**	56.7	12.10	**705**	53.9	11.78				**1,381**	46.9	18.54
Restaurants	**224**	15.3	3.27	**230**	17.6	3.84				**457**	15.5	6.14
Bars	**49**	3.4	0.72									
Snow School	**113**	7.7	1.65	**136**	10.4	2.27		NA		**119**	4.0	1.60
Retail	**47**	3.2	0.69	**31**	2.3	0.51				**64**	2.2	0.86
Rental	**180**	12.3	2.63	**63**	4.9	1.06				**531**	18.0	7.13
Other activities	**20**	1.4		**144**	11.0					**391**	13.3	
Total	**1,461**			**1308**						**2,943**		
Revenue/SV			21.06			19.46						34.26

Table 3—Lift, School Revenues and Expenses

	ASAA		ASSQ		OSRA		NSAA	
2008-09								
	$000	%	$000	%	$000	%	$000	%
Lift Revenue	**853**	100.0	**655**	100.0	**1,328**	100.0	**1,364**	100.0
Salary + Benefits[4]	**274**	32.1			**367**	27.6	**516**	37.8
Other Costs[5]	**66**	7.7			**326**	24.5	**330**	24.2
Gross Margin	**513**	60.1			**635**	47.8	**518**	38.0
2007-08								
Lift Revenue	**828**	100.0	**705**	100.0			**1,381**	100.0
Salary + Benefits	**249**	30.1					**503**	36.4
Other Costs	**152**	18.4					**377**	27.3
Gross Margin	**427**	51.6					**501**	36.3
2008-09								
	$000	%	$000	%	$000	%	$000	%
Snow School	**152**	100.0	**129**	100.0	**278**	100.0	**128**	100.0
Salary + Benefits	**84**	55.3			**173**	62.2	**86**	67.2
Other Costs	**4**	2.6			**20**	7.2	**1**	0.8
Gross Margin	**64**	42.1			**85**	30.6	**41**	32.0
2007-08								
Snow School	**127**	100.0	**136**	100.0			**119**	100.0
Salary + Benefits	**51**	40.2					**96**	80.7
Other Costs	**27**	21.3					**2**	1.7
Gross Margin	**49**	38.6					**21**	17.6

4 - Lift Operations, Snowmaking, Grooming, Ticket, etc. 5 - Energy, Maintenance, etc.

Revenue and Expenses

Table 3 shows that Atlantic ski areas perform very well in two key services to skiers and snowboarders—mountain operations (lift revenue) and snowsports school—with gross margins over 50 percent and 40 percent, respectively. The main reason for this performance is the close control of operating costs on the mountain and at the snow school.

Equipment rental (Table 4), with a gross margin of at least 60 percent annually, is by far the most lucrative service in all four regions. This department was once run primarily by concessionaires. However, ski areas now tend to retain control of rental operations because of their profit potential, as well as their impact on the novice skier and snowboarder experience, and due to the coordination required by snowsport school programs and group sales.

In smaller U.S. areas, the gross margin from rental operations is nearly as great as from lift ticket sales. This large-

» on page 56

A Financial Snapshot of Small Areas

» *from page 39*

ly accounts for the higher EBITDA U.S. areas enjoy compared to their Canadian counterparts.

Retail revenue (Table 4) makes a minor contribution in terms of gross margin in dollars, for Atlantic ski areas especially. Still, retail is considerably more lucrative, in terms of gross margin percentage, for U.S. ski areas. Significantly, roughly 40 percent of the time, retail represents less than three percent of total revenue, while requiring management of inventory. For this reason, retail operations are sometimes still run as a concession or are integrated with the rental operations. In Canada, this is true for about 40 percent of small resorts.

Food and beverage departments in all regions perform less well—between 24 and 30 percent—when compared to chain or independent restaurant standards (see Table 5). The profitability guideline in F&B is to generate a gross

Table 4—Retail, Rental Revenues and Expenses

	ASAA		ASSQ		OSRA		NSAA	
2008-09								
	$000	%	$000	%	$000	%	$000	%
Retail Revenue	**84**	100.0	**29**	100.0	**37**	100.0	**59**	100.0
Cost of Goods	**48**	57.1			**9**	24.3	**23**	39.0
Salary + Benefits	**13**	15.5			**23**	62.2	**6**	10.2
Other Costs	**1**	1.2			**0**	0.0	**1**	1.7
Gross Margin	**22**	26.2			**5**	13.5	**29**	49.2
2007-08								
Retail Revenue	**83**	100.0	**33**	100.0			**64**	100.0
Cost of Goods	**55**	66.3					**26**	40.6
Salary + Benefits	**9**	10.8					**6**	9.4
Other Costs	**2**	2.4					**0**	0.0
Gross Margin	**17**	20.5					**32**	50.0
2008-09								
	$000	%	$000	%	$000	%	$000	%
Rental Revenue	**227**	100.0	**87**	100.0	**183**	100.0	**499**	100.0
Salary + Benefits	**53**	23.3			**51**	27.9	**96**	19.2
Other Costs	**9**	4.0			**20**	10.9	**8**	1.6
Gross Margin	**165**	72.7			**112**	61.2	**395**	79.2
2007-08								
Rental Revenue	**202**	100.0	**61**	100.0			**531**	100.0
Salary + Benefits	**53**	26.2					**91**	17.1
Other Costs	**27**	13.4					**6**	1.1
Gross Margin	**122**	60.4					**434**	81.7

margin of 33 percent or more on an annual basis. The subpar performance for resorts can be explained in part by the fact that ski areas operate in winter, when the price of many food items is higher than at other times of the year, and in circumstances where food is more likely to spoil (because ski area traffic is mainly a weekend operation).

Conclusion

Clearly, geographic location (such as being close to a major market, as in Ontario, or with limited competition, as in Atlantic Canada and some parts of the U.S.) has a great impact on a ski area's financial performance. Nonetheless, a management team that keeps close control on expenses is also important, as the areas in Atlantic Canada show.

Small areas can generate substantial revenues from ticket sales, food and beverage, snowsport school, and rental operations—the trick is to keep costs from eating it all up. The best financial scenario for a small ski area owner would be to have the revenue stream of a U.S. ski area, with its higher lift and rental revenues per visit, with the cost control (i.e., number of employees working on each shift, and wages) of an Atlantic Canada area. That may be impossible—but as a benchmark, it could well be the key to success in any region.

We would like to thank the ASAA, ASSQ, OSRA, and NSAA for permitting us to present certain data from their annual reports .

Sylvain Audet (sylvain@sylvainaudet. com) is principal of Consultant Sylvain Audet, a Canadian-based leisure and tourism consulting firm (www.sylvainaudet. com) specializing in small ski area development.

Table 5—Food & Beverage Revenues and Expenses

	ASAA		ASSQ		OSRA		NSAA	
2008-09								
	$000	%	$000	%	$000	%	$000	%
F&B Revenue	**286**	100.0	**212**	100.0	**438**	100.0	**430**	100.0
Cost of Goods	**126**	44.1			**206**	47.0	**166**	38.6
Salary + Benefits	**62**	21.7			**156**	35.6	**129**	30.0
Other Costs	**10**	3.5			**29**	6.6	**29**	6.7
Gross Margin	**88**	30.8			**47**	10.7	**106**	24.7
2007-08								
F&B Revenue	**251**	100.0	**246**	100.0			**457**	100.0
Cost of Goods	**113**	45.0					**167**	36.5
Salary + Benefits	**58**	23.1					**143**	31.3
Other Costs	**12**	4.8					**12**	2.6
Gross Margin	**68**	27.1					**135**	29.5