

Business Plan:

A Key Tool for Major Investments¹

By Sylvain Audet, M.B.A.

After a long board meeting, where a five-year development plan was approved, the top four managers (and newest shareholders) of Ski Mt. Kangaroo laid out the work to be done in the next few weeks.¹ They were able to demonstrate the need for a \$2 million investment over the next three seasons to assure the development and future of the area. They are aware that a good business plan will be an element of their search for funding....

The Purpose of This “Check List”

The purpose of this “check list” is to present the key information elements that need to be included in a detailed business plan before approaching a bank, government agencies, private institutions, or other financial partners for money.

This list affirms the importance of a business plan for the executive team and shareholders as a management tool for the next season. It shows how all future actions emerge from a single vision for everybody—shareholder values, investment strategy, market position, marketing strategy, etc.—and how all financial obligations, as well as operations margins in some cases, will be met.

The business plan can also be used as “financial leverage” with current or new financial partners for major investment projects in addition to procuring additional investments from current shareholders. Investments might cover additional services to skiers and snowboarders—new lifts in a new section of skiable domain, more trails covered by snowmaking, new lodging capacity, etc.—or replacement of actual equipment, such as lifts, groomers, etc. The plan brings together the overall development strategy—in the short, medium, and long terms—encompassing the continuity and viability of operations as well as the profitability that will follow from anticipated investments.

The precision and content of the business plan is directly related to the size (in \$) of the investment and the level of competition in the regional market. While this case is fictional, it is based on a typical situation in North America.



Photo: Rémi Boucher, Zone-ski.com

Section 1: Competition in the Region

As we can see in the following table, the level of competition (possible destinations) is quite significant in the Townships region.

The analysis also indicates that the region offers four different types of ski area (number of trails, vertical drop, etc.): an international destination (Eagle Resort), large ski areas (Townships Basin, The 3-tops Ski Area, and Mt. Charles), community-owned areas (The Fox and Deer Valley), and the “in-between” (Ski Mt. Kangaroo).

	Trails (#)		Vertical	Lifts	(% skiable terrain)			
	Day/Night				■	■	◆	◆
The Fox Municipal Ski Center	10	5	90	1	20	65	15	0
Deer Valley Mountain	5	5	80	2	65	35	0	0
Townships Basin	55	-	540	8	35	25	15	25
The 3-Tops Ski Area	60	-	460	8	25	35	20	20
Ski Mt. Kangaroo	30	10	195	2	42	23	35	0
Mt. Saint-Charles	40	-	540	8	30	35	15	20
Scottish Hill Ski Area	125	60	385	8	25	35	20	20
Eagle Resort	105		725	10	20	25	20	25

¹ We would like to thank the Association des ski de ski du Québec for permitting us to reproduce the case in English. It was originally published as a special edition of the ASSQ’s Le Sommet magazine.

	Full-time Residents (2008)	Part-time (Chalet)	Full-time Population (Targeted market)		Part-time (Chalet)		Market Size (20% Participation Rate)	
		Number of Chalets	Weighting	Total	Weighting	Number of occupants		Total
North Townships County								
Charlesville	24,350	1,125	25%	6,088	25%	3	844	1,386
Brookvales	750	100	100%	750	100%	3	300	210
Henryville	2,375	400	100%	2,375	100%	3	1,200	715
Dunn town	3,025	5	100%	3,025	100%	3	15	608
Johnso nville	1,100	450	100%	1,100	100%	3	1,350	490
Eastern Valley Townships County								
St. Charles	147,500	200	100%	147,500	100%	3	600	29,620
South Townships County								
Fox-River	9,025		100%	9,025	100%	3	0	1,805
	188,125			169,863			4,309	34,834

With conservative assumptions for full-time residents (within a 45-minute drive) and part-time (chalet) residents from the capital, the size of the regional market is estimated at 35,000 skiers and snowboarders. Based on an average of six days skiing or snowboarding per person, the market should generate 210,000 visits. However, Ski Mt. Kangaroo receives an average of 60,000 visits.

Section 2: Business Model

Because Ski Mt. Kangaroo does not have a significant vertical drop, there are limited possibilities for adding new trails and no possibilities for real estate or commercial lodging—the region already offers a wide variety of commercial lodging near the ski area. The new business model for the area will be based on highly competent and dynamic snow school teams and snow programs as suggested by industry research.ⁱⁱ

Section 3: Development and Investment Strategy

To guarantee the long-term development and viability of Ski Mt. Kangaroo in its new business model, a three-year, \$1.995 million investment will be required to install a second lift,ⁱⁱⁱ to redesign the snow school zone (including a conveyor), and to improve the snowmaking system.^{iv}

Section 4: Financial Plan

This development project will involve many financial partners such as:

- * Ski Mt. Kangaroo shareholders for \$495,000 (22.3%)
- * Government agency with two unsecured loans of \$50,000 each—one for snowmaking and one for the loading conveyor
- * Government grants of \$275,000 for the snowmaking, loading conveyor, and new lift
- * Bank loan of \$1,175,000 guaranteed by a government agency to a maximum of \$885,000



Photo: Google Maps Layout: Sylvain Audet, M.B.A.

Investments	2009-10	2010-11	2011-12
Snowmaking	\$150,000		SMK: \$50,000 Government Agency: \$50,000 Grant: \$50,000
Snowmaking		\$50,000	SMK: \$50,000
Loading Conveyor 125m long		\$180,000	SMK: \$80,000 Government Agency: \$50,000 Grant: \$50,000
Snowmaking		\$50,000	MSK: \$50,000
Fixed Quad Lift 550m long		\$1,565,000	SMK: \$215,000 Grant: \$175,000 Bank Loan: \$1,175,000

Section 5: Financial Objectives

Financial objectives are:

- * Positive cash flow every season
- * Meet outside obligations every year
- * 20% EBITA at Year 6
- * 8.25% ROI annually after Year 5

Section 6: Five-year Budget

Based on conservative assumptions, the five-year forecast indicates that all financial goals and obligations^v will be met in the fifth season or at least annually (see table).

Also, the business plan includes a "Replacement Reserve" for major assets (e.g., Townships Express in ten years) of one third of the annual EBITA (by end of Season 2013-2014: \$108,000; more than \$280,000 by 2019-2020). The purpose of this reserve is to provide the area with some financial leverage when the time comes to purchase the new lift ten years hence.

	2009-10		2010-11		Budget 2011-12		2012-13		2013-14	
	\$000	%	\$000	%	\$000	%	\$000	%	\$000	%
Revenues										
Lift Ticket	715	54.4	852	52.4	931	50.6	1,005	49.9	1,088	49.5
Restaurants	195	14.9	231	14.2	253	13.8	277	13.8	301	13.7
Bars	52	4.0	63	3.9	69	3.8	74	3.7	81	3.7
Snow School	113	8.6	179	11.0	210	11.4	244	12.1	280	12.7
Boutique	58	4.4	81	5.0	105	5.7	115	5.7	125	5.7
Rental	171	13.0	211	13.0	245	13.3	273	13.6	297	13.5
Other activities	10	0.8	10	0.6	25	1.4	25	1.2	25	1.1
Total	1,314		1,626		1,839		2,013		2,197	
\$/SV	23.70		24.87		25.91		26.50		27.15	
Expenses										
Mountain Operations	411	31.3	490	30.1	535	29.1	578	28.7	626	28.5
Restaurants	146	11.1	173	10.6	190	10.3	208	10.3	226	10.3
Bars	37	2.8	44	2.7	48	2.6	52	2.6	56	2.6
Snow Schools	62	4.7	98	6.0	116	6.3	134	6.7	154	7.0
Boutique	39	3.0	55	3.4	71	3.9	77	3.8	84	3.8
Rental	51	3.9	63	3.9	74	4.0	82	4.1	89	4.1
Other activities	0	0.0	2	0.1	5	0.3	2	0.1	2	0.1
Gross Margin	567	43.2	701	43.1	800	43.5	880	43.7	960	43.7
Administration	150	11.4	153	9.4	156	8.5	159	7.9	162	7.4
General Expenses	200	15.2	210	12.9	215	11.7	221	11.0	226	10.3
Marketing	60	4.6	75	4.6	65	3.5	66	3.3	0	0.0
EBITA	157	12.0	263	16.2	364	19.8	434	21.5	571	26.0
Interests	35	2.7	35	2.2	117	6.4	199	9.9	199	9.1
Amortization	175	13.3	190	11.7	207	11.3	290	14.4	290	13.2
Profit before Taxes	-53	-4.0	38	2.3	40	2.2	-55	-2.7	82	3.7
Cash Flow	122	9.3	228	14.0	247	13.4	235	11.7	372	16.9

Notes:

Gross Assets (\$000)	2,131	2,361	3,976	3,976	3,976
Long term Debt (\$000)	338	388	1,481	1,317	1,153
Equity (\$000)	219	437	917	862	944
Investments - SMK (\$000)	50	130	265		
Government Agency Loan (\$000)	50 (snowmaking)	50 (conveyor)			
Grants (\$000)	50 (snowmaking)	50 (snowmaking)	175 (lift)		
Bank Loan (\$000)			1,175 (lift)		
Reimbursements - Government Agency (\$000)			21	42	42
Reimbursements - Bank Loan (\$000)			61	122	122
Financial Ratios:					
Gross Margin	43%	43%	44%	44%	44%
EBITA	12%	16%	20%	22%	26%
Cash Flow	9%	14%	13%	12%	17%
Profit before Tax / Equity	-24%	9%	4%	-6%	9%
EBITA / Equity	7%	11%	9%	11%	14%
Profit before Tax / Assets	-2%	2%	1%	-1%	2%
Total revenue / Asset	62%	69%	46%	51%	59%

Section 7: Marketing and Communication Strategy

The overall marketing and communication strategy is directly related to the new business model—based on the snow school model—developed by the management team and supported by new investments.

Ski Mt. Kangaroo will be the ski area in the Northern Townships to learn and develop ski and snowboard skills. Ski and snowboard lessons, customer relations, snowmaking, and grooming standards will be maintained or improved.

Daily ticket and season pass prices will not be changed next season. At this point, the only changes will be pre-season discounts on season passes and the number of promotional tickets. The purpose of these decisions is to increase the ticket revenue yield ratio. For the following seasons, the prices of daily tickets and season passes will be reviewed with regards to financial objectives and investments.

Also, in terms of marketing communications, Ski Mt. Kangaroo will be able to capitalize on the fact that it is the only major investment project in the region and, in recent years, the tourism sector. Hand in hand with traditional media (brochure and radio) and the Web, the communication team will maximize the visibility of the area through extensive public relations activities.

Section 8: Management Team

The leaders in the development of Ski Mt. Kangaroo are:

Mr. William Watson, M.B.A. Mr. Watson has 25 years of experience in the tourism and ski industry. For the last five, he has been General Manager of Ski Mt. Kangaroo. He has been involved in major development and investment projects in North America.

Madame Élodie A. Galipeau, CSIA Level 4, CSCF Level 2
Mrs. Galipeau just joined the team as the new Snow School Director. Previously, she was an assistant to the Snow School Director at Mt. Saint-Charles. Her arrival as head of the snow school will bring new ideas in terms of snow programs, communication with clients, and instruction.

Mr. Charles Smith, Bachelor in Business Marketing
Mr. Smith has been with Ski Mt. Kangaroo for three years and will be in charge of the new marketing and communication strategy. A born communicator, he is up to date with the latest communication technologies, especially Web 2.0. Mr. Smith's challenge is to advance Ski Mt. Kangaroo through social networking media such as Facebook and Twitter.

Monsieur Thomas Well, P. Eng., CASI Level 3
As an engineer and snowboard instructor, Mr. Well will continue his excellent work as Mountain Manager for a fourth season at Ski Mt. Kangaroo. He will also continue his involvement with various North American technical committees and keep Ski Mt. Kangaroo in the forefront of the industry.

These four members of the management team have committed to investing \$200,000 (within the next three years) and will become shareholders of SMK.

In conclusion

With an initial investment, of \$455,000, we will be able to get:	* \$1,175,00 bank loan (guaranteed by a government agency)
	* \$100,000 unsecured loan
	* \$225,000 in grants
Annually, we will grow:	* 7% in visits
	* 4% in revenue per visit
	* 10% in total revenue
	* 11% of the Gross Margin
	* 29% of EBITA
After five years, we have:	* Positive and growing annual cash flow
	* Met all our financial obligations (\$164,000 per year)
	* a ROI of 9%

As we can see in this case, a good business model—here, a snow school model—clear client segmentation, key investments in the more profitable activities, and reasonable financial returns—based on organizational efficiency—can justify major investments and, as well, interest financial partners.

This case also shows that a business plan is a significant and long process. The detailed plan will show the serious and well-considered reflections of the owners and the management team. It is the result of extensive market analysis, development, investment and financial scenarios, and discussions with potential financial (private or governmental) partners.

Your document will be persuasive only if it is based on a well-thought out business model, adapted to the local community, consistent with the financial means of the promoters, and based on realistic financial forecasts.

Keep in mind that the business plan, beyond all the analytical and forecasting aspects, is the most important promotional and selling tool of your development project. Remember that, after all, you are looking for financial partners!

ⁱ We would like to thank Mr. Serge Couture, owner of Centre récréotouristique Monjoye, for permitting us to use the area's characteristics for this document.
ⁱⁱ *Analyse comparative sur l'industrie du ski alpin au Québec.*
ⁱⁱⁱ Replacing the T-Bar.
^{iv} Pumps, snow guns, etc.
^v Season 2009-2010: Government agency: \$50,000/8.25%/5 years - 3 payments of \$21,010 beginning at the end of the 2012-2013 season.
Season 2010-2011: Government agency: \$50,000/8.25%/5 years - 3 payments of \$21,010 beginning at the end of the 2013-2014 season.
Season 2011-2012: Bank Loan: \$1,175,000/8.25%/20 years - annual payments of \$121,900 guaranteed by a government agency.

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- * to support clients in making effective management, product development, and investment decisions.

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- * ski areas and private companies,
- * cities, counties and resort communities,
- * economic development agencies,
- * visitor authorities, and
- * trade associations.