

NZSki

“Life As It Ought To Be”

As the NZSki CEO James Coddington looked out over the spectacular vista afforded by the Remarkables mountain range - taking in the New Zealand tourist hub of Queenstown - he contemplated the future for his company. “We’re at a tipping point,” he suggested, “things could go either way. We’ve been gradually building momentum over the last few years. But we have to keep moving forward. We certainly have room to cope with more skiers, but if all we do is get more skiers on the mountains we will actually reduce the customer experience from what it is now. That will mean less skiers in the future, a weakened brand, and the undoing of a lot of good work over the last few years.”

Figure 1: New Zealand’s Ski Areas



NZSki operated 3 ski fields – Coronet Peak and the Remarkables in Queenstown and Mount Hutt in Canterbury. Recent growth since Coddington’s appointment in 2007 has been spectacular. The 2009 season was the most successful season on record. As a company, skier/rider numbers were up 29% over 2008 and revenue was up 22% - despite the economic recession. “When I began we were getting 180,000 – 200,000 people a year on Coronet Peak, but now we’re at 330,000. The biggest single day in 2007 saw around 4000 people, but this year we had 7777 people in one day. With our old infrastructure we simply couldn’t have coped – but the completely rebuilt base building, and completion of the snowmaking system and our investments in lift and pass technology have paid huge dividends in protecting the experience. We have invested in excess of \$100m in capital

developments across the 3 mountains in the last 8 years.”

Coddington leads a team of 39 permanent employees and almost 1100 winter seasonal employees. The organisation is divided into 16 departments and has a leadership team of 50. Each mountain has its own ski area manager with staff working in areas such as food & beverage; retail (equipment, apparel & accessories); guest services (pass sales); lessons; gear rental; lift operations; and so forth. All 3 mountains are performing well in terms of profitability. Each mountain has its own personality. HR Manager Kevin Sharpe argues, “the culture is the same across the entire company, but the challenges on each mountain are slightly different so that culture expresses itself slightly differently in terms of personality.” Exhibit 1 shows a detailed comparison of the leading skifields in New Zealand, including the three NZSki mountains.

The two key drivers of **customer** demand are **accessibility and affordability**. Accessibility includes factors like accommodation and flights – can people easily get and stay at their destination. Unlike skiing in many countries, New Zealand provides very little ‘on-mountain accommodation’ instead relying on nearby towns and daily travel to the fields. However, Queenstown was in an advantageous position. “A lot of finance companies may have been hurt by the huge investments in accommodation in Queenstown during the recent boom and subsequent problems,” argued Coddington, “but the reality for us is that the accommodation is still there. Even during winter it is easy to find accommodation – especially in hotels. That helps affordability because there is more chance of attractive pricing.” Flights continue to improve after a long battle to get more direct international flights into Queenstown.

Skiing, unless indoors, is a weather dependent exercise – it is seasonal and subject to daily weather conditions. However, non-local skiers have to choose in advance when they travel to a ski destination – so a key part of accessibility is the likelihood of actually getting to ski. Coronet Peak has invested significantly in snow-making machines to be able to consistently offer a season of the first week of June through mid-October. Coronet Peak leads the World in this regard. Table 1 below shows the breakdown of customers on each of NZSki’s mountains.

Table 1: NZSki Customers by Mountain

	CORONET PEAK	THE REMARKABLES	MT HUTT
Country of Origin			
New Zealanders	35%	55%	70% ¹
Australians	60%	40%	30%
Other	5%	5%	negligible
Skier Level			
Beginner	20%	30%	15%
Intermediate	40%	50%	40%
Advanced	40%	20%	45%
Skier/Boarder			
Skier	70%	40%	65%
Boarder	30%	60%	35%

¹ 75% of whom are from Canterbury

Within Australia, Queensland has become NZSki's most important market. Fully 30% of NZSki's current customers are from Queensland. All the ski resorts operating each year in Australia – including the five biggest profiled in Exhibit 2 – are based in New South Wales or Victoria in the area known as Australia's Alps. The Australian ski industry has been focussed on Australian skiers who drive to the mountains, with only 1.5% of skiers coming from outside Australia. That can make Queenstown a more convenient destination for many Australians, but especially those more distant from the Alps. Skiing in Australia can also be very expensive. According to Coddington, "you can spend up to \$10,000 on a week skiing. So our current pitch of a ski pass for A\$69 in amongst the whole package really aids the affordability aspect." In addition, the Queenstown brand was strongly associated with skiing in Australia and Queensland had a complementary surfing culture.

Success in generating customers risks being one-off if not backed up by the quality of the experience. "A typical Australian customer visits Queenstown for 10 days and spends four of those days skiing," pointed out Coddington. "So what else they do matters to their whole experience. It also means we have an opportunity to increase the number of days they spend on the mountain." In the Queenstown area there are around 200 other tourist activities offered – including iconic attractions like AJ Hackett Bungy Jumping, the Shotover Jet, and the TSS Earnslaw among others.

The experience that customers have with NZSki is strongly influenced by **NZSki's people**. The ski industry relies on seasonal workers – often young and in search of adventure. Retention rates in the industry are low – NZSki has traditionally been around 30% - from one season to the next. New Zealanders typically only made up 34% of staff - contributing to the churn. But NZSki has turned this on its head in the last two years. In 2009 retention was up to 59% and New Zealanders made up 64% of staff. Rather than hire all staff at once, staff are hired in waves as the season gets underway. For the first time ever in 2010 everyone employed by NZSki to open the fields in June had worked for NZSki before.

Global warming presents an enormous long-term threat to the industry around the world. Lower skifields would be quickest affected. Predictions are that under a worst case scenario of global warming, most of Australia's skifields would be unviable by 2030. Ironically snow-making itself could potentially be a questionable process from a sustainability perspective. However, NZSki takes its commitment to minimising its environmental footprint seriously. "Utilising that snow-making system requires a lot of water," according to Hamish McCrostie. Coronet Peak has on-mountain reservoirs that can hold 440 million litres of water after the completion of the 92 million litre Sarah Sue reservoir in 2009. "That's really been the culmination of a lot of work over the last few years really getting to understand the mountain and the water holding capacity that existed. We've had guys wandering around with sticks helping us identify underground reservoirs (very successfully the first time and very unsuccessfully the second time). We've also brought in a lot of technical people to help us. It turns out Coronet Peak has a layer of looser material over a very hard layer. Water as it melts filters through the looser material and then flows down to a quite specific level of the mountain. We gather the water from melted snow and pump it back up the mountain into the reservoirs during summer under very low pressure. We had to get resource consent for the initial water take, but the system is now essentially a pure recycling system."

“Where to now?” queried James Coddington as he sat down with his senior leadership team to check on plans for the upcoming season. NZSki competed, along with other New Zealand fields, in an international market and needed to have facilities and an experience that was world leading. While Coronet Peak was operating near capacity the Remarkables and Mt Hutt were not. The Remarkables not only had capacity for greater numbers, but also only accessed 52% of the potential consented skiable area on the mountain. Mt Hutt was more constrained by the local accommodation in small towns like Methven than by the size of the skifield.

“With the extra flights we are going to see rising numbers – but we need to make it a sustainable success into the future,” stated James Coddington. “The experience is the key. If we get it right this could be absolutely huge. We need to review our plans for the short and long-term to make sure we can take best advantage of the opportunities that lie before us.”

Exhibit 1: Major New Zealand Commercial Skifields

	Coronet Peak	Remarkables	Mt Hutt	Cardrona	Treble Cone	Porters	Turoa	Whakapapa
Base Altitude	1220m	1622m	1403m	1670m	1260m	1340m	1600m	1625m
Highest Alt	1649m	1943m	2075m	1860m	1960m	1950m	2322m	2300m
Vertical Drop	462m	321m	683m	600m	700m	610m	722m	420m
Skiable Area	220 ha	220ha	365 ha	345 ha	550 ha	250 ha	500 ha	550 ha
Ave. Snowfall	197cm	280	500	270cm	550cm	200	240cm	240cm
Ave. Snow Depth	59cm	87cm	104cm	80cm	91cm	90cm	186cm	145cm
Season Start	Start June	Late June	Early June	Mid June	Late June	Late June	Mid June	Late June
Season End	Mid Oct	Mid Oct	Late Oct	Early Oct	Late Sept	Early Oct	Mid Oct	Late Oct
Lifts	7	7	4	8	4	5	9	14
Chair lifts	3	3	3	4	2	0	5	7
Lift Capacity				10,000/hr			11,300/hr	15,000/hr
2009 Skier Days	330,000	150,000	160,000	172,000	90,000	30,000	237,000	216,000
Runs	36	39	40	40	56	15	40	43
Beg/Int/Adv %	20/45/35	30/40/30	25/50/25	25/50/25	10/45/45	15/35/50	20/55/25	25/50/25
Rest/Cafes	4	1	2	5	1	1	3	6
Snowmaking	208 auto guns	Yes	Yes (42 ha)	32 fan guns	Yes (50 ha)	Yes	Yes	Yes (extensive)
Creche	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Closest Town	Queenstown	Queenstown	Methven	Wanaka	Wanaka	Methven	Ohakune	Whakapapa
Drive to Town	25 min	45 min	35 min	35 min	35 min	60 min	20 min	15 min
Closest Int Airport /Major Accom	Queenstown	Queenstown	Christchurch	Queenstown	Queenstown	Christchurch	Rotorua/ Taupo	Rotorua/ Taupo
Drive to Airport	25 min	45 min	90 min	60 min	90 min	75 min	3.5 hrs/	3 hrs/ 90 min
Lift Pass	\$95	\$89	\$89	\$87	\$91	\$79	\$86	\$86
Lift & Gear	\$140	\$134	\$134	\$126	\$129	\$119	\$124	\$124
Season Pass Lo	-	\$449	\$679	\$720	\$999	\$499	-	-
Season Pass Hi	-	\$949	\$1179	\$1299	\$1750	\$725	-	-
2 Mtn Pass Lo	\$799							\$395
2 Mtn Pass Hi	\$1299							\$595
3 Mtn Pass Lo	\$999							
3 Mtn Pass Hi	\$1499							
Ownership	NZSki Ltd			Cardrona Ski Resort Ltd	Treble Cone Investments Ltd	Porters Ski Area Ltd	Ruapehu Alpine Lifts Ltd	
Profit/NFP	Profit			Profit	Profit	Profit	Not for Profit	

2010 Season Pass data is for an adult, Lo is lowest price (early bird) Sources: NZSki, Company websites

Exhibit 2: Major Australian Skifields

	Perisher	Thredbo	Mt Buller	Mt Hotham	Falls Creek
State	NSW	NSW	Vic	Vic	Vic
Base Altitude	1605m	1365m	1375m	1450m	1500m
Highest Alt	2034m	2037m	1805m	1845m	1780m
Skiable Area	1245 ha	480 ha	300 ha	320 ha	450 ha
Snow Making Area	53.4 ha	66 ha	70+ ha	25 ha	100 ha
Number of Lifts	47	14	22	13	14
Beg/Int/Advanced %	22/60/18	16/67/17	20/45/35	20/40/40	17/60/23
Drive time Sydney	6 hours	5 hours	1 day	1 day	1 day
Drive time Melbourne	7 hours	6 hours	3 hours	4.5 hours	4.5 hours

Perisher is actually made up of seven peaks

Mt Hotham & Falls Creek account for 26% of Australian Total Skier Days

Source: Australian Ski Areas Association

DISCUSSION QUESTIONS

1. What are the key drivers of NZSki's success in the New Zealand ski industry?

Location: Coronet Peak and the Remarkables are the two skifields closest to New Zealand's skiing mecca of Queenstown. Queenstown is arguably the only place in Australasia which has the wealth of skifields, accommodation and alternative adventure tourism activities that best cater to skiing vacations. The airport has traditionally been a restriction but evidence in the case suggests a loosening of that restriction. The weather is typically good for skiing.

Facilities: Coronet Peak especially – and the Remarkables and Mt Hutt to a lesser extent – have benefited from major investment in the facilities on each mountain. Coronet Peak is world class and considerably ahead of any other skifield in New Zealand. The capital behind that has been extensive.

Marketing: NZSki has been very successful in attracting Australian skiers particularly to expand their market. Relationships with other tourist providers and airlines, involvement with marketing co-operatives, and company branding have all contributed to NZSki's success.

People: James Coddington's commercial background has been useful, but key has been the improvement in staff retention so that training costs have lowered and staff are more skilled – leading to an enhanced customer experience.

Luck: The weather has been really good and there was no disruption to tourist numbers by unforeseen events. This is highlighted by the 2011 season which saw flight disruptions due to ash cloud and a late start to the season due to unseasonably warm weather.

2. What are the major risks that NZSki faces moving forward?

Long-term the biggest risk is global warming. Under the current worst case scenario the Australasian ski industry will be dramatically affected by 2030. Given the higher altitude and advanced equipment, it is likely that Queenstown would be less affected and therefore would increase a surge in demand as Australasian skiers seek out the remaining fields in greater numbers as other fields disappear. Ultimately, however, Queenstown fields would be affected negatively.

3. How sustainable is NZSki as a business?

NZSki is taking a variety of practical steps to enhance their environmental sustainability. Clearly that will not stop global warming on its own. However, it is important given the potentially devastating impact of global warming that the ski industry be at the forefront of sustainability initiatives. But even short-term this is a high risk business because of the dependency on weather and travel. NZSki has done all it can to enhance accessibility and expand the season with snow-making technology. But even that is not infallible as the 2011 season showed.