Consolidation Gets Mixed Reviews

by Linda Goodspeed

"Everybody's talking about 'market synergy' and the 'synergy of size' that's going to result from all these mergers," said Ted Motschman, general manager of Mount La Crosse, Wis. "I'm not dead sure what that is."

This was one of many responses *SAM* got on a spot survey of several ski area operators from around the country. Their answers about the impact of merger mania were both surprising and candid.

Market Synergy: True or False?

Expanding on his response, **Ted Motschman** added, "When all the major resorts in the same weather system are owned by the same company, to me, market synergy just means they're all going to get nailed at the same time."

Added **Richard Kun**, president and general manager of Snow Summit, Calif.: "The theory of ski area synergy is just that, a theory. I think a lot of talk and purchases have been made with this theory in mind, but I haven't heard of anybody proving it. I'm not talking about economies of scale and efficiencies in operating costs. I'm talking about marketing, where ski areas can create visits between them. If each one makes money, fine. But if you're buying strategically so each area feeds the other skiers, that's one I'm very skeptical of."

Kun and Motschman are not alone. Marketing synergy—the idea that ski areas under one parent corporation can feed each other skiers—seems to have few believers around the industry.

"Maybe I'm missing something," said **Dave Crowley**, general manager of Wachusett, Mass. "But if I'm a Mount Snow skier and own a house there, and my son's in the racing program there, why would I want to ski Sunday River?

"I'd love to be proven wrong," Crowley continued, "but I don't get it. We've always been taught to promote loyalty in ski area marketing, why my ski area is best. Now we're teaching trial, encouraging skiers to ski other areas that are part of my partnership. If I'm a customer, I would find it very schizophrenic."

Tim Mueller, president of Okemo, Vt., also questions how much one area can help increase skier visits at another area. "People who ski a lot tend to have lodging, a home base. This is not to say the conglomerates can't get the person who's not attached. But how much more areas can do between areas I don't know. What the conglomerates have to do is grow the market. They'll say that's what they're trying to do. But the realism is somewhat questionable. I think there will still be attempts to steal market share."

Bill Stenger, president of Jay Peak, Vt., which has just been put up for sale by its parent conglomerate, Mont Saint Sauveur International of Canada, disagrees. "We all know that increasing skier frequency is at the core of our growth needs," Stenger said. "We need to get skiers who ski four or five times a year to ski nine or 10 times. A good ski experience is what makes people do that. A good ski experience comes from good lifts, good grooming, good snow. These areas that are merging and being acquired are coming forward with investment scenarios that are going to improve their product and service, and the customer's going to be the beneficiary of that. I buy into the fact that with better products our customers are happier, and happy customers come back more often."

Steven Showalter, general manager of Massanutten, Va., thinks southern skiers will be prime candidates for market synergy. "Being able to buy a ticket that's good at five or six areas and then stay in a central location certainly has a lot of appeal to me," Showalter said. "I think it's going to give people who travel north and west options they never had before."

Vern Greco, president and CEO of Purgatory, Colo., agrees market synergy can be achieved, but says it won't be easy.

"If Vail can take its existing customer base and learn which of those customers have a tendency or preference to visit another area next year, and can then reach that customer at his decision-making time and offer him that product at one of Vail's other areas, you can indeed feed skiers from one area to another. But it requires not just good market segmentation, but *great* market segmentation. That's really all market synergy is—great market segmentation."

Operational Synergy

Most independent ski operators were also skeptical of how much synergy—in this case savings—was possible on the operations side.

"Unlike manufacturing, where you can consolidate operations and eliminate duplication and actually cut costs because of it, you can't consolidate that many operations in the ski business," said **Dennis Eshbaugh**, president and general manager of Holiday Valley, N.Y. "You still have to park cars at all your various locations, you still have to make snow on every trail, you still have to groom at every area. I think you can get some synergy on the management side, the sharing of ideas and leadership and so forth. There's a lot of potential for synergy there, but I think we've worked very hard on that across the entire industry, including the independents."

"I disagree you can't get efficiencies out of the operations side," Greco said. "I think you can. But it hasn't happened yet in any of the multi-area ski resort groups we've seen so far. I keep asking myself, 'When is one of these big conglomerates going to be bold enough to genuinely flatten out the organizational chart?' Clearly, you can't eliminate some jobs at every area. You still have to have somebody oversee all the moving parts at every area. But maybe it's an operations manager as opposed to an operations vice president. There's still a lot of duplication out there in all these conglomerates. Simply combining companies doesn't mean you're going to get efficiencies."

Kun had a different view: "One thing that's been under-appreciated in the ski industry is how difficult it will be for a central headquarters of a conglomerate to operate all these unique little subsidiaries. Ski areas are not like a chain of hotels or restaurants. They are unique operations, unique in character. By nature, ski areas don't lend themselves to management from above, the way some units of a chain might. I think there's going to be a lot of headaches in the industry before some people grasp that management from afar in the ski area business is very difficult."

Deal-making Synergy: An attitude?

"One of my problems with some of the conglomerates is that they're behaving like real bullies," said one eastern ski resort operator who asked to remain anonymous. "If there's a deal out there, they've grabbed it."

Another ski area operator told how he had been invited to participate in a CD promotion only to have the recording company revoke the offer after the ASC took over the promotion in the ski operator's state. "They don't even have a ski area in this state," said the operator. "It's a small thing, but I sense a real attitude."

Another operator lamented the way one of the conglomerates in his region had grabbed personnel from rival companies. "In one case, they even flew down in a plane and got the person."

"I do think the clout some of these conglomerates have in terms of attracting corporate sponsorships and the deals they can offer is a real concern in the industry," Mueller said.

On the other hand, the conglomerates have opened up partnership opportunities for the independents that they never had before. At Wachusett, Crowley said as a result of ASC's exclusive deal with Mobil, "I have deals with Gulf, Shell and Exxon. This probably wouldn't have happened if ASC hadn't picked Mobil. They could only pick one which left the other three scrambling for partners."

Similarly, Crowley said that ever since ASC switched their food companies, Wachusett's food supplier "has been much more attentive to me."

"In some ways I think all this deal-making and buying power the conglomerates have has opened up opportunities for all of us by making the suppliers more competitive."

Other Thoughts

Tim Cohee, president and CEO at Kirkwood, Calif.: "If you're not one of these guys (part of a conglomerate) and you don't have a real point of difference, you've got to be a little worried."

Tim Mueller at Okemo: "I think all the merger activity is helping legitimize skiing on Wall Street, and that's going to be good for the industry as a whole. Trying to raise capital for a startup or fledgling ski area is very difficult because the industry as a whole is viewed as very risky, weather-related—a luxury-type item which all adds to risk. Wall Street is very risk-averse. So the conglomerates are opening up a new funding market for a lot of ski areas by legitimizing investment in skiing."

However, others are worried about the amount of investment by some of the conglomerates and the way they are raising the money. "Some of the prices being paid for some of these areas are subject to discussion," said one ski area operator, who asked not to be named. "And the instruments that are being used to finance them could be considered speculative. I guess we'll just have to wait and see if these people made the right move."

Another east coast operator worries about the ripple effect a financial setback at one of these large companies could have on the entire industry.

"If one of these large companies stumbles, it could be a real PR black eye on the entire industry. Interest rates could rise, and eight or nine ski areas could all run into trouble at the same time. People might perceive it's an appeal problem when it's really a financial problem. It could create widespread belief that skiing is having problems.

"My belief is that the opposite will happen—that with all the cash going into these areas, the ski industry is going to see a renaissance."

Finally, as everybody keeps reminding everybody else, ski area mergers are not new. Areas have been consolidating for some time now. And those who've been competing head-to-head with multiple ski area companies, say the conglomerates have made them better and smarter.

Just ask Richard Kun at Snow Summit, who went head-to-head with S-K-I, then Fibreboard and now Gillett. "We're a better, stronger company by far than we were 10 years ago when S-K-I first came in and bought Bear Mt.," Kun said. "It was a classic example of competition making you better. We had to respond and not sit on our duff, and we did respond. And we're a better company because of it."

"It's not unlike when Walmart moves into town," added Greco at Purgatory. "The smart retailers thrive and actually get better. It's the ones who fail to look far enough ahead who get hurt in my opinion." ■