

A Theoretical Assessment of the International Ski Resort Industry

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Abstract

The purpose of this thesis is to assess the European and North American ski resort industries along a variety of theoretical frameworks. The objective is to determine the degree to which fit is attained between the various theories, and the realities of the modern day ski resort industry. Among the theories that will be discussed are J.-C. Spender's industrial recipe theory, and more briefly, organizational contingency theory. Utilizing a case study approach, it will be determined how well the various theories describe the firms selected for this thesis, and whether the ski resort industry should be considered as a globally contiguous industry, or perhaps more accurately a regionally based assortment of "sub-industries". This, in turn, will create a background with which to better understand the ski resort industry, and highlight some of its unique elements.

Structure

This paper will take an inductive approach, starting with background information on the ski resort industry's evolution as a whole, and then looking at a selection of interesting players within the industry on a case by case basis. Following this, it is hoped that a theoretical picture should start to develop that could explain why the ski resorts have developed in their particular ways, or whether there seems to be a broader pattern of development evident, in spite of the many differences among the discussed companies. Finally, conclusions will be made as to whether these theories adequately explain what is observed within the ski industry, or whether there seem to be other forces in action contradictory to what one might expect.

Background

It makes sense to begin by describing the industry discussed within this paper, with a brief explanation of the origins and history of the ski resort industry. Although the sport of skiing is estimated to have its origins up to 2000 years ago, the ski resort industry is a more modern phenomenon that only developed with the arrival of the ski lift. A ski resort as discussed in this paper is a business that has, as its primary focus, the provision of access to skiing (and/or snowboarding) in exchange for revenue. This is, of course, a simplified definition, as many larger resorts are heavily involved in other peripheral sectors (often to a larger extent than the skiing itself); however, for the purpose of facilitating research, this thesis focuses primarily on the operations of the skiing related aspects of the resorts.

There are records of makeshift ski lifts existing as early as the late 1800's, but these were generally provided as a secondary, not for profit service, (e.g. using the resources of a cog railway from a mine to bring passengers up a mountain), and thus are not really the type of "ski resorts" discussed in this thesis¹. Additionally, while it was possible to ski before the advent of the ski lift, the areas in which people chose to do so would also generally not be considered "ski resorts": the terrain was typically accessed at no cost, and the primary means of accessing the terrain was on foot. The development of the

¹ Allen, From Skisport to Skiing, p. 21

dedicated ski lift, access to which was provided at a cost, signified the birth of the ski resort industry.

The first ski lifts being built at ski resorts were *drag lifts* – lifts which carried skiers as they remained in contact with the snow. In the early 20th century, these types of lifts were often set up solely on the initiative of one or two people, using simple equipment such as an automobile engine, a pulley, and a length of rope on a small hill. The first documented drag lift in the world was built in Germany during the first decade of the 1900's, with one in Austria built during the same decade in 1908 at Dornbirn. These relatively simple lifts, which were similar to what one might know today as “T-bar” or “J-bar” lifts (although many just involved holding on to a moving rope), have some downsides: they are somewhat limited in capacity, they can only run a certain speed (the skier must be able to hang on), and typically one would not want to run these lifts up too steep a pitch. Technological development combined with the increasing popularity of the sport of skiing soon led to the development of more advanced ski lifts, such as Europe's first cable car (with far greater capacity than a drag lift), at Chamonix, France in 1927².

With the increasing popularity of skiing in Europe, the sport was eventually exported from Europe to North America, with enthusiasm in North America really starting to build around the 1930's – many legendary skiing feats in North America during the early 20th century can be credited to European skiers, such as Austrian skier Toni Matt's record time descent of Mount Washington during the Mount Washington Inferno (an accomplishment that has left him well known to this day). The first permanent drag lift in North America was built at Mont Saint-Sauveur, Québec in 1934, and a similar lift in Woodstock, Vermont, USA, was built shortly thereafter that same year (Suicide Six)³.

Information on the early history of the ski resort industry can in some instances be seen as inconsistent and conflicting, since the relative ease with which a drag lift could be constructed caused a very large number of primitive ski areas to be established – making documentation more challenging. Since these were often private, or set up only temporarily, documentation on these ski areas will likely never be complete. During the early 20th century, the industry was structurally very different from the modern day industry, with start-up costs significantly lower due to abundant land and simplistic lifts, a much lower level of popularity of the sport than in the modern day, and the ski equipment itself, which was quite rudimentary when compared to what is used today. A controlled descent of a steep (30+ degrees), un-groomed slope was something the majority of skiers would find impossible on leather boots and crude wooden skis, and partly on account of this, the ski areas of the early 20th century were significantly different (with respect to terrain) than the majority of modern ski areas, which evolved concurrently with developments in equipment.

Skiing began to grow rapidly after World War 2, with improving technology (both lift technology and ski equipment technology) and increased public awareness of the sport driving much of this growth. North American skiing was revolutionized by US soldiers

² <http://www.skiinghistory.org/history.html>

³ <http://www.vermonter.com/skihhistory.asp>

returning from the war who had been trained by the military in ski warfare. A number of veterans who served with the 10th Mountain Division of the US Army went on to found some of the most well known ski resorts in the US, such as Vail, Colorado⁴. With post-war economic recovery, leisure based industries (such as the ski resort industry) were able to capitalize on a market of consumers with extra money to spend, and more free time to travel. Also helping to spur growth was a significant level of government backing for the ski resort industry, since the government viewed it as an efficient way of developing wilderness areas. In many of these wilderness areas, a philosophy of land management similar to the European model was employed – a harmonious co-existence of public and private land as existed in the Alps⁵. Some of the steps taken by the government included ski trail cutting initiatives (the Civilian Conservation Corps), and government permission to develop public land into ski resorts. This land in the United States continues, at least to a large extent, to be used by ski areas at very little cost. In 1991, for example, the General Accounting Office found that while the ski industry generated \$737 million in revenues, it paid the taxpayer only \$13.5 million for the use of the land – a surprisingly low figure considering how many US ski resorts are built almost entirely (if not entirely) on public land⁶. All of this backing helped to result in a period during which the sport of skiing experienced its sharpest level of growth, both in Europe and North America, and is the time period in which skiing can be considered to have become truly popular.

The modern day ski industry has rapidly become more complex since the post war period. Internationalization has gradually taken hold, especially over the past two decades; resorts such as Bansko in Bulgaria, Yabuli in China, or Krasnaya Polyana in Russia represent more affordable alternatives to the resorts of Switzerland or France, and simultaneously serve to satisfy increasingly wealthy local markets. Skiing has even expanded to Dubai, with the ambitious construction project of Ski Dubai, the third largest indoor ski area in the world⁷. Simultaneously, the prevalence of multinational firms operating in the ski industry has been increasing – some of these firms include SkiStar (with ski resorts in Sweden and Norway), Intrawest (Canada and USA), and many international cooperative arrangements between ski resorts have been formed, especially noticeable in the Alps (one example being the Compagnie du Mont-Blanc (Brévent, Grands-Montets, Courmayeur, etc.). These agreements seem to develop on a predominantly regional basis, perhaps not surprisingly when one considers the logistical difficulties presented by rough terrain, or the isolated locations of many ski resorts.

The ownership structure within the ski resort industry varies greatly. Many ski resort operators are publicly held and traded (American Skiing Company, SkiStar, Intrawest), some are government or state owned (Gore, Whiteface (New York), Eaglecrest (Alaska), Cannon (New Hampshire)), some operate as cooperatives (Mad River Glen (Vermont)),

⁴ <http://skimuseum.net/history.html>

⁵ <http://www.dec.state.ny.us/website/dlf/publands/cats/index.html> The Catskill Forest Preserve in New York State would be one example, of which 60% is privately held, and 40% publicly held. Although this area was established in the late 1800's, the philosophy of land use continues to determine to what extent regional expansion will occur

⁶ <http://www.taxpayer.net/TCS/wastebasket/environment/W7-30-96.html>

⁷ <http://english.aljazeera.net/NR/exeres/53F8D9E9-E3EA-4BFC-BDE1-7F867DFFD92C.htm>

and some are even operated by native tribes (Sunrise Park (Arizona)). This illustrates that nearly every possible ownership arrangement can be found within the ski resort industry – although a large portion of ski resorts continue to remain independent, operating only their respective ski resorts. Often these resorts tend to be privately held, as an independent ski resort might in many cases be too small to meet listing requirements on a stock exchange, or to make the issuance of shares practical.

The emphasis of this thesis is primarily on these independent ski resorts (e.g. not one company controlling multiple ski resorts) – also due in part to the greater difficulty in obtaining information from managers within the larger firms. Some of the larger firms also no longer consider ski lift operations at the core of their business, and could even in some cases be considered as identifying more with other industries (some view themselves as primarily in the hotel or real estate business, for example—real estate has gained increasing significance among a large number of resorts in the past decade).

The business model of the independent ski resort seems to be on the decline, although independent ski resorts continue to represent a large portion of the industry. There has been a general trend globally of consolidation and closures in the ski industry, as operating costs rise and growth in the consumer market remains near zero. In the US for example, during the season of 1984-1985, there were 727 ski resorts in operation, but by 2004-2005, a mere 492⁸. And while the consolidation has been taking place, in the US, levels of skiers have remained relatively stable, with roughly 56.9 million visits in 2004-2005, versus 50.2 million in 1978-1979. One relieving statistic for the ski industry is that it seems there is at least increasing stability in the number of visits, even if there is only marginal growth. The fluctuation in visits from the period of 1978-1991 was from 39.7 million visits to 53.9 million visits, versus the 1992-2005 range of 50.8 million to 57.6 million. This could perhaps reflect a decrease in dependence on natural snow conditions (due to a trend toward expansion in snowmaking capability), or perhaps the increasing popularity of snowboarding beginning in the 1990's is responsible for this stabilization.

This lack of growth in visitors combined with consolidation has left many firms in the ski resort industry feeling as if they are competing for the same static group of customers. To add to this, the consolidation in the industry seems to be correlated with an increased level of legal issues for ski resorts, who suddenly find themselves under the watchful eye of government competition and antitrust authorities. Many of the major international ski resort companies have been plagued by lawsuits in the past decade; American Skiing Company on its merger with S-K-I Ltd. in 1996⁹; or SkiStar by the Norwegian Competition Authority on October 10, 2005, resulting from its intent to acquire Trysil, which would potentially put the firm in control of 29 percent of the Norwegian market.¹⁰ Vail Resorts, Intrawest, ASC, and Booth Creek Ski Holdings, together accounted for 28 percent of US skier days in the winter of 1999¹¹. As mentioned by Intrawest in their 2005 annual report, “the mountain resort industry has significant barriers to entry (e.g., very high start-up costs, significant environmental hurdles) so very few new resorts are being

⁸ <http://www.nsaa.org/nsaa/press/industryStats.asp>

⁹ <http://www.usdoj.gov/opa/pr/1996/Jun96/268.at.htm>

¹⁰ <http://www.dn.no/forsiden/article612424.ece>

¹¹ Clifford, p. 39

created”¹². One journal reports that the startup of a ski area, from conception to operation, can take as long as 20 years¹³. The impact of consolidation could potentially affect the business models that resorts adopt in the future.

Some aspects of strategy within the industry can be seen in the actions of many of the firms, illustrating that there is some level of overlap. One objective of many resorts has recently been “maximizing the yield per skier”. This terminology is present in the annual reports of Amalgamated Holdings Ltd. (the corporation which manages Thredbo Alpine Resort in Australia), Intrawest, Kamori International Corp., Booth Creek Ski Holdings, and likely the annual reports of many others. Maximizing the yield per skier refers to seeking revenue from channels other than the sale of lift tickets. The practical implications of this are that many ski resorts are shifting away from viewing the skiing itself as their core business, in favor of other peripheral income sources.

One way that firms attempt to accomplish this is through carefully controlled real estate developments in the proximity of the ski resort, which can generate positive economic externalities. As the resort is built on previously undeveloped (or underdeveloped) land, the value of land in the surrounding area typically increases. The ski resort developer will purchase this surrounding land in addition to the land required for the ski resort development, thus profiting on the increase in land value from development, and use the surrounding land to construct lodging facilities, shops, restaurants, and so forth. This “village oriented” model also aims to ensure that nearly all of the money visitors spend at the resort will go towards the resort itself, as they have effectively created a pseudo-monopoly, albeit on a small scale. Some smaller ski areas which are determined to capitalize on this, but might not themselves have enough free capital to construct one of these “ski villages”, have chosen to achieve this objective through outsourcing: Loon Mountain in the US, for example, recently signed a deal with Centex Destination Properties to develop a 47 acre village at their resort¹⁴.

The evolution of strategies such as this one could potentially alter the structure of the industry as a whole. If this strategy becomes dominant, then one might expect to see a continuation in the trend of industry concentration, as firms will need to be larger to implement these types of large scale development projects. The consequences of this could be greater barriers to entry, or maybe even the demise of small, independent ski resorts – some of which might be absorbed into their larger, multinational counterparts (although different target markets make it unlikely that smaller resorts will disappear altogether). Alternately, the ski resort industry might follow the example of Loon Mountain, and outsource activities outside of their core business of operating the ski resort, or perhaps cater to a customer segment for which this sort of development is unimportant. The expectations of the dedicated expert skier differ significantly from those of the family that is choosing between a trip to the mountains or a Club Med vacation, and forecasting of how the customer market will be composed in the future will likely impact long term strategy.

¹² Intrawest Annual Report, 2005, p. 43

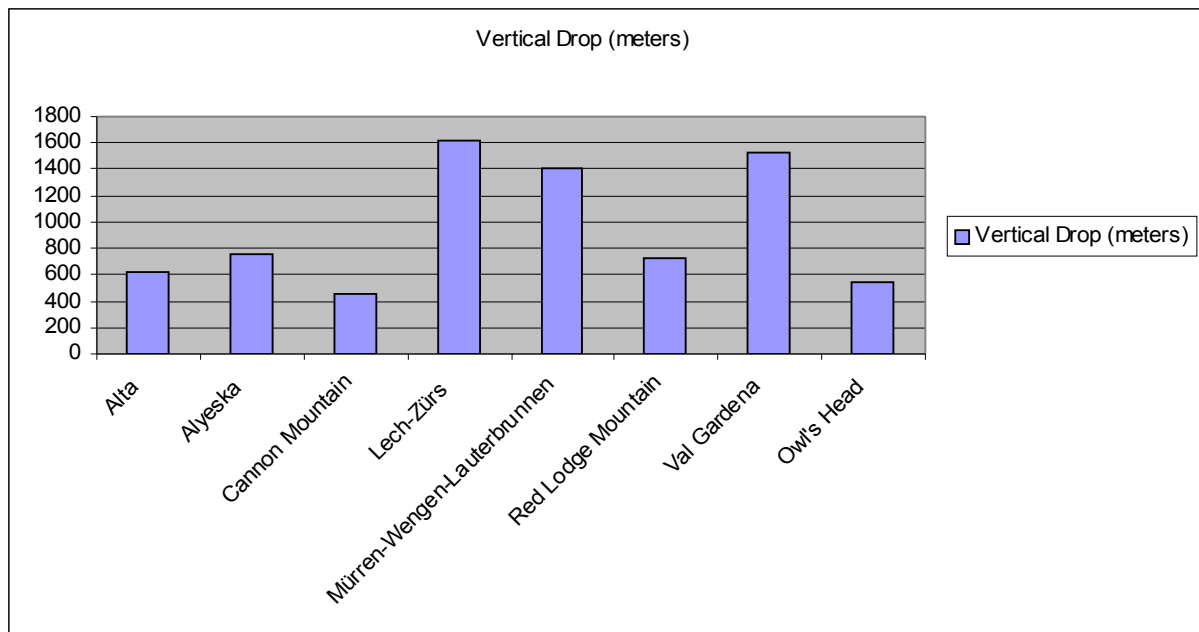
¹³ http://www.hotel-online.com/Neo/Trends/HVS/Journal/examine_dynamics.html

¹⁴ <http://www.firsttracksonline.com/news/stories/11309869931254.shtm>

Ski Area background and analysis

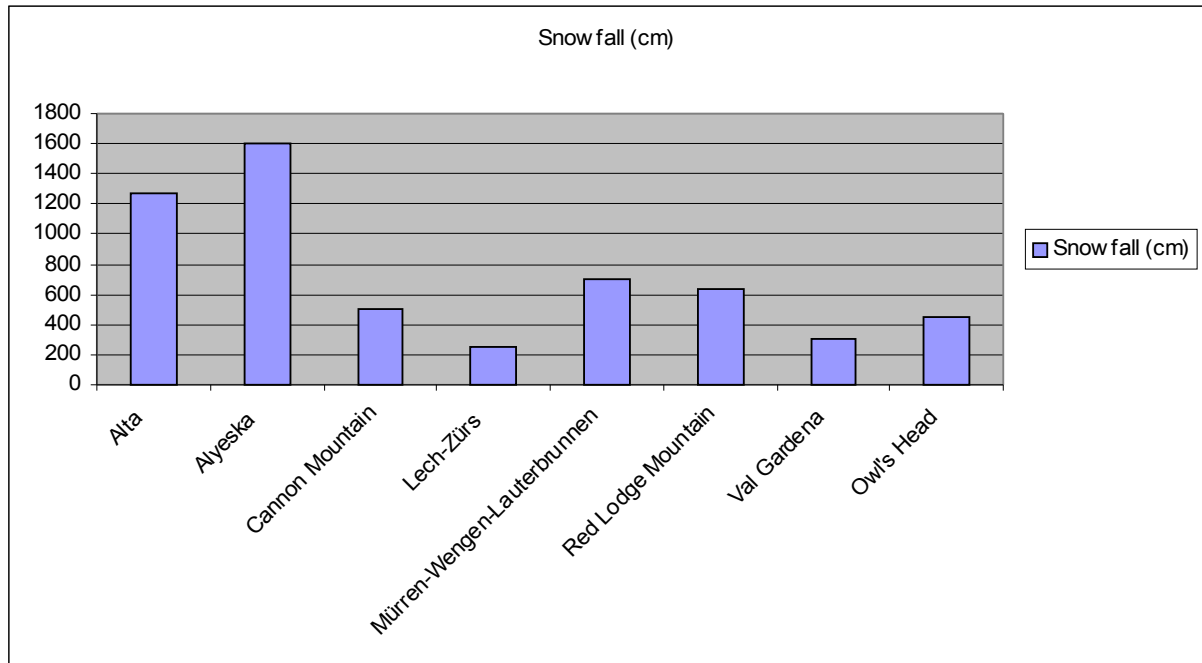
Eight different ski resorts across the world will be considered as a starting point from which to begin to develop a theoretical perspective of the industry. These ski areas include:

1. Alta (Utah), USA
2. Alyeska (Alaska), USA
3. Cannon Mountain (New Hampshire), USA
4. Lech-Zürs, Austria
5. Mürren-Wengen-Lauterbrunnen, Switzerland
6. Red Lodge Mountain (Montana), USA
7. Val Gardena (Südtirol), Italy
8. Owl's Head (Québec), Canada

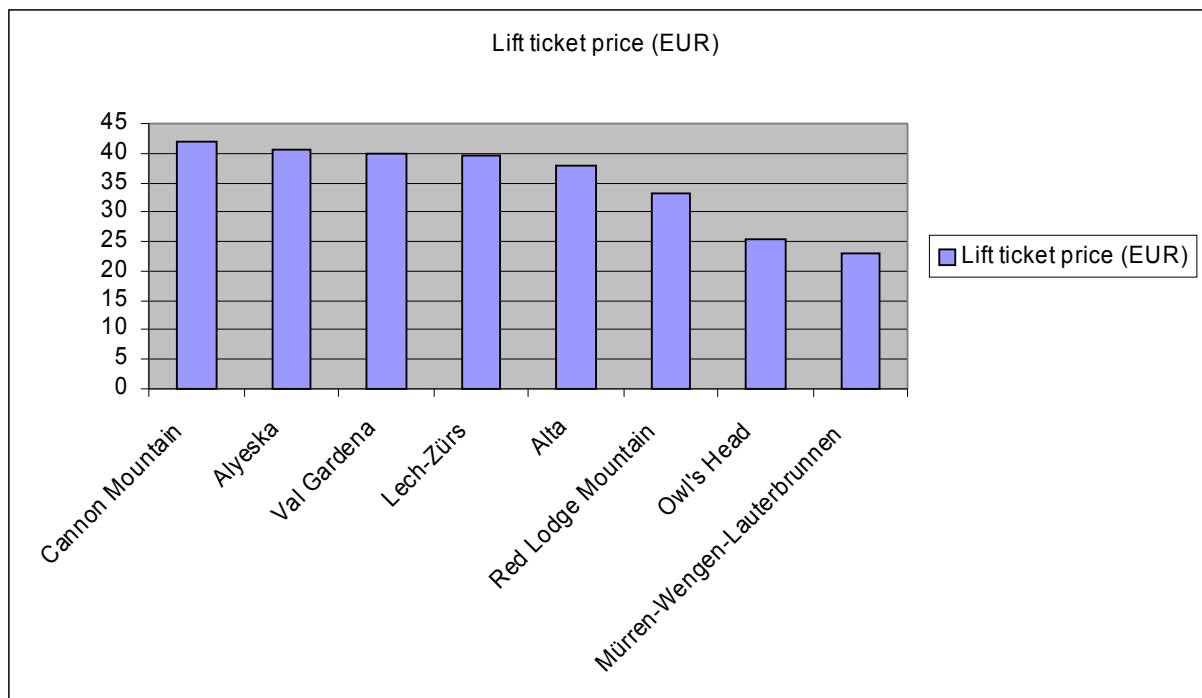


This chart compares the different resorts along a commonly used variable of size, vertical drop. This represents the vertical skiable distance between the elevation of the highest ski lift and the base elevation of the ski resort. Due in part to the geological formation of mountains in the Alps versus those in the Rockies, resorts in the Alps tend to begin at a far lower altitude than those in the Rockies, adding on a significant amount of available vertical drop.

All of the ski areas were active as early as the 1930's, with the exception of Alyeska (opened 1954), Red Lodge Mountain (opened 1960), and Owl's Head (opened 1965).



The above chart illustrates the different levels of natural snowfall received by the various ski resorts on an average annual basis. Once again, the ski resorts cover a wide spectrum of differing snowfall amounts, from 250 cm to 1603 cm on average.



Noticeably, there seems to be very little correlation between lift ticket prices, snowfall amounts, and vertical drop. Consumer decisions must therefore be influenced by many other factors which likely include (but are not limited to):

- Proximity to larger markets, accessibility related issues
- Pricing: Lift tickets, accommodations, dining
- Terrain: Variety, acreage, challenge, vertical drop, grooming, terrain park
- Climate: Snowfall amounts, length of daylight, length of season, range of temperature
- Travel related issues: Size of group, preference for air vs. land travel
- Familiarity with the resort: Return visitors, word of mouth, marketing campaigns

Sampling

This section will discuss the process by which the eight different ski resorts were selected for this paper.

Initially, upon beginning this paper, a questionnaire was sent out to a large number of ski resorts via e-mail. Roughly two hundred questionnaires were sent out based on a list of e-mail addresses compiled from several websites (www.skimaps.com and www.powdermag.com primarily). The response rate was extremely low, and additionally some questionnaires had to be discarded due to improperly entered information. On account of the low number of resorts in the sample, it seemed sensible to instead take the information received, and transform the design of this paper into a multiple-case study – this allows the collected information to be salvaged, although it is now being applied within a different context than originally intended. This offers a certain amount of convenience, but at the same time must be counterbalanced against the potential bias that could arise from this method of sampling.

Thus, it is important to carefully scrutinize the sample of resorts being evaluated in order to mitigate this potential bias. Crucial to the integrity (or more specifically, the validity) of a multiple-case study, is first and foremost establishing whether the selection of cases is representative of the industry being studied, and if not, then determining why this might be (they might be representative of a subsection of the industry, for example). The sample is confined to resorts located in North America (5) and the Alps (3). Thus, the conclusions drawn in this paper do not necessarily hold true for resorts located in other regions – as data pertaining to those regions is unavailable.

By having eight resorts, as opposed to more or less, it allows for a certain degree of generalization (which only four or five different resorts would not very adequately provide), but also allows for the presentation of a certain degree of detail (which would become increasingly difficult as the sample size increases).

In the following section, I will argue that the eight resorts on which this multiple case study is focused are representative or interesting enough that their inclusion in this paper is worthwhile. The resorts are, by and large, each unique enough to be interesting for further study, while retaining certain characteristic elements of the respective regions in which they are located. This should allow for the reader to develop a picture of the resorts on both a collective and individual basis, leading into the theoretical discussion.

Some of the details about the ski resorts come from the websites or press releases of the ski resorts themselves. The implications of this are that some of the information might be biased, as often ski resorts publish information with the intent of luring customers, rather than to provide objective information to researchers. This has been taken into consideration before the information was placed into this paper, and several of the resorts in this paper have been visited personally by the author of this paper (Alta, Cannon, and Owl's Head), for which the details have been complemented with first hand knowledge.

Alta, Utah

Alta is one of the most unique ski resorts in the world. One of two ski resorts in North America to continue to forbid snowboarding, it also intentionally runs its ski lifts slower to preserve snow quality, runs its lifts with no safety bars (whereas certain places, such as Vermont, require safety bars as per state law), and is known worldwide for extremely low water density snowfall¹⁵. The mountain extends from 2600 m above sea level at the base to 3216 m at the peak, with 2200 acres of skiable terrain, serviced by 11 lifts. Alta is in a partnership agreement with its neighbor, Snowbird (located adjacent to Alta in Little Cottonwood Canyon, Utah), which includes the sale of lift tickets valid at both resorts, and access from one resort to the other (barring snowboarders, who are not permitted to ski at Alta). Alta has two cafeterias on the mountain, as well as a full service restaurant (for which reservations are recommended during peak hours). If one includes the facilities of Snowbird into the totals, there are 4700 acres of skiable terrain, 27 lifts, 9 lodges and 22 restaurants¹⁶. Alta also operates a small scale cat skiing¹⁷ operation for visitors seeking to ski some of its more difficult to access terrain. Utah, unlike much of the rest of the North American ski industry, has actually been experiencing a significant level of growth over the past several years; in the 2004/05 season, Utah experienced a 12% increase over the previous record breaking season, and growth continued throughout the 2005/06 season¹⁸. Nearby markets: Salt Lake City.

Alyeska, Alaska

Alyeska, located in what originally was the gold mining town of Girdwood, Alaska, is a younger ski resort than most of the major ski resorts of the world, and the most remote from major markets of all eight ski areas in consideration. The resort was purchased by the Seibu Corporation (based in Japan) in 1980, which is primarily involved in the hotel and resort business, making Alyeska the one resort of the eight that is operated by a larger, private sector corporation¹⁹. The CEO of Alyeska, Chris von Imhof, was once the Director of Tourism for the State of Alaska. Alyeska is located 40 km from Anchorage, Alaska's largest city. Due to its location, winter seasons are generally longer than most world ski resorts, and its latitude (roughly that of Stockholm) allows Alyeska to keep lifts

¹⁵ <http://www.alta.com/>

¹⁶ <http://www.alta.com/pages/altabird.php>

¹⁷ Access to the terrain is provided by special vehicles capable of carrying a group of passengers over the snow where no lifts or roads exist.

¹⁸ http://industryreport.mountainnews.com/2005/12/new_breed_of_seeker_arrives_in.shtml

¹⁹ <http://www.alyeskaresort.com/page.asp?intNodeID=10928>

running later in the day during springtime²⁰. During the winter, the resort compensates for its lack of sunlight with 2000 vertical feet of illuminated slopes. The resort has 9 lifts, yielding a skier capacity of 10335 passengers per hour, and 68 trails²¹. Alyeska provides a wide array of services in addition to skiing, including a highly rated hotel, conference center, and one of Alaska's two AAA four diamond rated restaurants (Seven Glaciers). Alyeska also markets itself as a golfing destination for the summer months, being able to offer golf for longer hours than most golf courses in the world due to its high latitude (but perhaps for a somewhat shorter season). With roughly 1600 cm of average annual snowfall, Alyeska certainly has some advantages that rationalize its distant location. Nearby markets: Anchorage.

Cannon Mountain, New Hampshire

Located in Franconia Notch State Park, New Hampshire, Cannon Mountain is owned and operated by the State of New Hampshire Department of Resources and Economic Development. The resort features 9 ski lifts and 55 trails²². The area is steeped in history, and a major historic milestone reached at Cannon was the cutting of the Taft slalom trail, the first race trail in North America²³. The ski area can be seen as more focused on the local market than the destination travel market, and offers plenty of steep terrain for expert skiers and snowboarders. New Hampshire residents are able to ski at Cannon at a discount (perhaps partially on account of the fact that they are all shareholders in the resort). There is some degree of cooperation with other New Hampshire resorts, with an association of ski areas offering interchangeable lift passes for all the New Hampshire resorts at a reduced price²⁴. The region within which Cannon is located is historically known for its connection to the sport of skiing, with places such as Tuckerman Ravine (considered by some the birthplace of "extreme" skiing) nearby.

Specific financial information about Cannon is relatively difficult to obtain, as Cannon's ownership by the State of New Hampshire makes it impossible for them to divulge very much about their internal operations. Nearby markets: New York City, Boston, Montréal.

Lech-Zürs, Austria

A famous pair of resorts in the Arlberg region of the Alps, Lech and Zürs have earned a reputation for attracting a primarily wealthy clientele. Zürs is located at 1720 m above sea level, and has a total of 22 hotels and guest houses. The village of Lech is a bit larger than Zürs, and is located at 1450 m above sea level. From Lech-Zürs, there is access to 85 lifts, 260 km of maintained pistes and 180 km of open slopes. The areas are interconnected by a circuit of trails of intermediate difficulty called "The White Ring", which also provides access to St. Anton am Arlberg, and other area resorts. These can all

²⁰ <http://www.alyeskaresort.com/>

²¹ <http://www.alyeskaresort.com/page.asp?intNodeID=10814>

²² <http://www.cannonmt.com/index.php>

²³ <http://www.telemarktips.com/GoodmanFeature.html>

²⁴ <http://winter.skinh.com/anywheranytime.cfm>

be accessed via the Arlberg-Skicard, which one can purchase for €37,50 - €40,50²⁵. During the summer the resort offers its “Welltain” vacation, which it markets to those seeking an active, healthy summer vacation in the mountains, with a coaching staff (although this program, thus far, is only run on a small scale). Lech-Zürs belongs to a partnership called “Best of the Alps”, which is comprised of twelve well known Alps resorts (Chamonix Mont-Blanc, Cortina d’Ampezzo, Davos, Garmisch-Partenkirchen, Grindelwald, Kitzbühel, Megève, St. Anton am Arlberg, St. Moritz, Seefeld & Zermatt being the others). This partnership has promoted these resorts internationally, in Asia and North America. Visitors come primarily from Germany, Austria, and the UK during the winter, together comprising nearly 75% of total winter visits²⁶. Nearby markets: Vaduz, Zürich, Munich.

Mürren-Wengen-Lauterbrunnen, Switzerland

The highest altitude resort in the Bernese Oberland (Switzerland), Mürren is linked up with neighbouring Grindelwald. The village of Mürren is 1650 meters above sea level. Mürren, although having merely 350 permanent residents, gained world fame as the filming site of the James Bond film “On Her Majesty’s Secret Service”, much of which was filmed from the resort’s Piz Gloria restaurant at 3000 meters above sea level²⁷. The town has 11 hotels, 2 hostels, and a sport chalet, providing 800 beds to tourists, in addition to the roughly 1200 extra beds divided among 250 vacation homes²⁸. Mürren only has 1% snowmaking coverage, putting it in contrast with many North American resorts, and the village of Mürren does not permit motor vehicle traffic²⁹. There are a total of 53 km of prepared pistes at Mürren itself, but as part of the “Jungfrau Top Ski Region”, nearly three times as much terrain is available at the neighboring partner ski resorts. Mürren has established arrangements for rail travel from Holland or Germany at a cost of €45 for second class travel³⁰. Mürren shifts its focus from skiing to mountain biking, hiking, running, paragliding, and other types of similar activities for the summer season. A formal ski club was established in Mürren by 1912, making it one of the earliest ski destinations in the world. Nearby markets: Bern, Basel, Geneva.

Red Lodge Mountain, Montana

Red Lodge Mountain is located close to Billings, Montana, and was opened in 1960 by the townspeople of Red Lodge, largely as a means to draw visitors when the Yellowstone and Beartooth highways were closed for the winter³¹. The region is known for world class skiing, and some more well known resorts are within close proximity, among them Big Sky and Jackson Hole. Red Lodge Mountain’s snowmaking capacity is 40%, which it states to be the largest capacity in the northern Rockies³². Among the terrain it lists on

²⁵ <http://www.skiarlberg.at/west/english/index.html>

²⁶ Lech-Zürs Tourismus GmbH, Geschäftsbericht 2004/2005

²⁷ <http://www.wengen-muerren.ch/index.php?id=218&lang=de>

²⁸ <http://www.wengen-muerren.ch/index.php?id=218&lang=de>

²⁹ http://www.skimaps.com/Mürren_skiarea763.html

³⁰ <http://www.berneroberland-hotels.ch/details/index.cfm?l=1>

³¹ <http://www.firsttracksonline.com/redlodge.htm>

³² <http://www.redlodgemountain.com/themountain/mapstats.asp>

its website are 71 trails and groomed slopes, 30 acres of “extreme chute skiing”, and 60 acres of gladed skiing³³. Serving this terrain are 8 lifts. The resort sits on 1600 acres of land in Custer National Forest. Amenities include 1 full service restaurant, 2 bars and 2 cafeterias. Additionally, the resort features a golf course. Red Lodge Mountain has a variety of “sister resorts” at which its season passes are either accepted, or pass holders receive a significant discount on lift tickets. The sister resorts are primarily smaller, independent ski resorts, most of which are located in northern US states (North Dakota, Minnesota among these). Nearby markets: Billings, Bozeman.

Val Gardena, Italy

Part of the Dolomiti Superski, Val Gardena (Gherdëina in ladin, or Gröden in german) is connected to 1220 km of slopes, accessible under a single ski pass. Val Gardena alone has 176 km of slopes and 84 lifts³⁴. Val Gardena includes three mountain villages, of which the majority of the population speaks the ladin language: Wolkenstein at 1563 meters altitude with 2570 inhabitants and 7900 beds; St. Christina at 1428 meters altitude with 1805 inhabitants and 2837 beds; and St. Ulrich at 1236 meters altitude with 5635 inhabitants and 5700 beds³⁵. Val Gardena hosts World Cup ski racing events, and has been working to extend its international recognition by various means. Val Gardena belongs to a partnership called “Leading Mountain Resorts of the World”, which includes Bariloche, Argentina; Vail, USA; and Queenstown, New Zealand. The objective of this partnership has partially been to develop a common global marketing strategy. Val Gardena plans a multitude of activities for the off-season, which include a culinary week, a network of hiking trails, and rock climbing. Many of Val Gardena’s lifts continue to operate in the summer, and the resort boasts the ability to travel around Val Gardena for 7 days on its lift system without a car for €56 during the summer months. Nearby markets: Venice, Munich, Milan.

Owl’s Head, Québec

Located in Québec’s Cantons de l’Est (Eastern Townships), Owl’s Head, named for an Abenaki chief that once lived in the area, is a smaller ski area with 8 lifts and 44 trails which primarily serves the Québec and New England markets. The resort has a total of 115-120 acres of skiable terrain, and 8 lifts with a total capacity of 14400 skiers per hour. Additionally, there is a cafeteria, restaurant, and a bar. The area has 90% snowmaking coverage, in addition to the 450 cm of average annual snowfall³⁶. Owl’s Head markets itself as “L’Everest des Cantons”, or “Everest of the Townships”, due to having the largest vertical drop in the Eastern Townships of 540 meters. The primary lodging facilities of the resort are at the resort run hotel located at the base of the mountain. The resort shifts its focus to golf in the off season, with its course ranked third best in Québec by Weekend.ca, and markets itself as a four season resort³⁷. Owl’s Head is also the youngest resort of these eight, having started operations in 1965. While Owl’s Head does

³³ <http://www.redlodgemountain.com/themountain/mapstats.asp>

³⁴ <http://www.valgardena.it/deu/page8.html>

³⁵ <http://www.valgardena.it/deu/page39.html>

³⁶ <http://www.owlshhead.com/page.asp?intNodeID=21452>

³⁷ <http://www.owlshhead.com/page.asp?intNodeID=19098>

not cooperate with any ski resorts individually, it has a variety of corporate partners (such as Pepsi and Rossignol), and belongs to the Québec Ski Areas Association. Nearby markets: Montréal, Ottawa, Boston.

The North American ski resorts essentially cover every region where ski resorts exist on the continent; the New England/Québec (Appalachian/Eastern) region, Alaska, the northern Rockies (Montana), and the southern Rockies (Utah). The European resorts are located in three different countries, also adding to the diversity of the sample: Italy, Austria, and Switzerland. There are both smaller resorts (Cannon, Owl's Head, Red Lodge Mountain), and large resorts (Val Gardena, Lech-Zürs, Alta). The resorts have anywhere from nearly zero snowmaking to nearly full snowmaking coverage. All resorts exhibit some level of cooperation with other resorts. On account of these factors, the sample seems to do a fairly good job at covering the various structural differences that differentiate ski resorts from one another, and thus seems to be a good sample.

Theoretical background

This section will cover the different theories that will be used to try to tie together what has been observed of the eight ski areas.

The first theory chosen for this thesis was industrial recipe theory. This theory was chosen as it is well suited to the objectives of this paper: it seeks to identify common practices across an industry as based on multiple case studies – the aim is essentially to figure out the basic processes that make the industry function, logical or illogical, which in turn gives one a certain degree of predictive ability towards how the firms might be expected to react when confronted with an array of situations. Once the operating processes of the firms in the industry have been identified, they are evaluated based on what purpose they serve in that industry, why things might be done in a particular way across the industry, and whether this occurs based on logical decision making, or imitation as a result of managers attempting to mitigate uncertainty.

The industrial recipe theory, authored by J.-C. Spender, was developed as an extension of sociological theory, in which the concept of recipes has existed for some time. Research by Schutz into recipes was one of Spender's influences in deciding to apply this element of sociological theory to organization and management. Schutz identified a "recipe of everyday life" consisting of "discrete bodies of context-oriented understanding into which the individual must be socialized if he is to meet his fellows' expectations and so form part of any organization", and of which "the individual ... already socialized into a recipe, is unaware ... [how] ... it is generated and modified"³⁸. According to this view, the recipe is therefore not a deliberate creation, but rather the natural evolution of the organizations within an industry, brought about through the socialization of managers into this mindset. Baumard notes that "the principal characteristic of socialization is its resistance to codification"³⁹. The recipe is only transferred from employee to employee (or the organization to employee) through experience working within the firm or

³⁸ Spender, p. 60

³⁹ Baumard, p. 26

industry, and is thus never something one would find written on paper – although written documents could perhaps provide supporting evidence of a recipe.

The transfer of knowledge of the recipe is brought about through a process of implicit learning. Reber (1993) defines implicit learning as “the acquisition of knowledge that takes place largely independently of conscious attempts to learn and largely in the absence of explicit knowledge about what was acquired”⁴⁰. Reber notes the following with regard to the decision making process:⁴¹

“People appear to be, generally speaking, arational. [...] when people were observed making choices and solving problems of interesting complexity, the rational and logical elements were often missing. It was not so much that decisions were being made that were irrational, it was rather that decisions were being made on the basis of processes that simply failed to take into consideration rational elements. Moreover, importantly, people often did not seem to know what they knew not what information it was that they had based their problem solving or decision making on.”

Spender also alludes to this discrepancy between what decision makers perceive as objective reality versus their actual behavior, noting that cognitive processes mediate significantly between what is taken as fact and a person’s actual behavior⁴². Spender cites Simon (1958) and Knight (1921), saying that “role occupants are at best only ‘intendedly rational’”⁴³. The intent to be rational, even in the absence of any realistic possibility of actually achieving a sense of objective rationality, leads us somewhat closer to understanding the formation of the recipe.

Since the recipe is an embodiment of a wide array of tacit knowledge, it is contained entirely within the subconscious mind. Polanyi defines tacit knowledge as that which is “personal, difficult to convey, and which does not easily express itself in the formality of language”, versus explicit knowledge, “codifiable and transmissible in a formal and systematic language”⁴⁴. Spender writes that “the knowledge most evident in [organization’s] day-to-day activity may well be more implicit rather than explicit. Organizations may be more systems of meaning and action than rule-bound production systems”⁴⁵. The degree of significance tacit knowledge plays within organizations is evident in their hiring practices.⁴⁶

“We note for example the reticence of organizations to hire young managers without experience. They generally feel they will have to teach them everything, and that the first year will cost the organization a great deal. This does not represent any distrust of the teaching that these young managers have received but is a simple observation that their type of knowledge is not directly exploitable in the firm, because what the young managers do know is the aggregate of the explanations society has produced about organizations: scholarly writings and theorization.”

⁴⁰ Reber, p. 5

⁴¹ Reber, p. 13

⁴² Spender (1993) p.13

⁴³ Spender (1993) p. 16

⁴⁴ Baumard, p. 59

⁴⁵ Spender (new) p 15

⁴⁶ Baumard, p. 61

Greek philosophy has contributed a large amount of theory on the subject of tacit knowledge. In contrast with viewing knowledge in a purely positivist light (as a model of reality, sound representation of the world, objective and independent of people), some Greek philosophers held that there were four types of knowledge: *episteme* (abstract generalization), *techne* (capability, capacity to accomplish tasks), *phronesis* (practical and social wisdom), and *mètis* (conjectural intelligence)⁴⁷. The following table and chart created by Baumard illustrate the differences between these categories of knowledge.⁴⁸

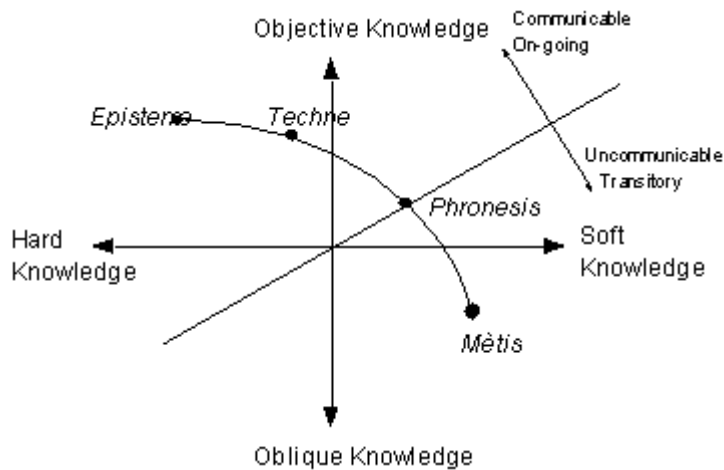
| | <i>Episteme</i> | <i>Techne</i> | <i>Phronesis</i> | <i>Mètis</i> |
|--------------|---|--|---|---|
| Definition | Abstract generalization | Being able to get things done know-how | Practical wisdom, driven from social practice | Oblique and conjectural knowledge |
| Articulation | Hierarchical | Embodied | Organic | Mutable |
| Time range | Undetermined | Perennial | Life | Goal-driven /ephemera |
| Scope | Universality | Systems | Persons | Situation |
| Structure | Hard | Hard and soft | Soft | Furtive |
| Nature | Abstract, Objective | Abstract & practical | Abstract & practical | Practical, Oblique |
| Goal | Truth-Science | Structure | Wisdom | Result |
| Emergence | Maturation | Experience | Social interaction | Unpredictability |
| Process | Sequential | Hybrid | Hybrid | Simultaneous |
| Elaboration | Constructive | Hybrid | Hybrid | Deconstructive |
| Means | Abstraction, Deduction, Idealization. | Observation, Study, Recipes | Implicit learning, Personal experience, Socialization | Combination, Regeneration, Ruse, Flair, Short-cuts. |
| Preservation | Laws, Principles, Representation | Manuals, Community of practice | Clans, ethnic groups, Culture, Personality | Discreet, Intimate, Clandestine |
| Status | Substance | Accumulation | Learning | Transitory |
| Explicitness | Analyzable, Easy to communicate, Standard | Hybrid with a trend to Explicitness | Hybrid with a trend to Tacitness | Complex, tacit, Difficult to communicate, Specifics |

The knowledge in which the recipe is contained lies within the *phronesis* and *mètis* categories – the most difficult types of knowledge to isolate, but also the more complex and rich sources of information. On a spectrum from objective to oblique knowledge, these two types of knowledge trend towards the oblique end. Understanding the rationality of these types of knowledge is extremely difficult, on account of the fact that it is intangible, may have little or no objective rationality, and the bearers of this knowledge

⁴⁷ Baumard, p. 53

⁴⁸ Baumard (1994 inet)

are usually oblivious to its existence. The following chart designed by Baumard offers a graphical representation of the four categories of knowledge:



In the process of turning a sociological theory into one applicable to organizations and management, Spender isolates policy and strategy decisions of the firm as the source of emergence of the industrial recipe. Spender focuses on these decisions that are “synthetic” in nature, versus those that are “analytic” in nature, consisting of operations and administration⁴⁹. Synthetic decisions, according to Spender, must have an *active decider*—one who provides premises additional to those given in the data, as opposed to a *passive decider*, who is faced with less ambiguous choices based on available, factual information (e.g., determining when to restock inventory based on a calculated optimum level)⁵⁰. Strategic decisions are always active decisions, since strategy is focused on future events which will always, for the most part, be uncertain. It is in these active decisions that an industrial recipe begins to emerge, as they require the decision maker to add something of themselves to the decision beyond the available information. The hypothesis that Spender sets out to prove is “that recipes are shared and significantly influence managers coping with uncertainties, [and] can be broken down into several constituent parts:

1. that there is a pattern in managers’ responses to uncertainties;
2. that managers appear to be rational in their own terms, and that their rationality –
 - (a) is of limited complexity,
 - (b) displays partial closure,
 - (c) defines correspondence rules,
 - (d) is shared along industry lines.”

To dissect this hypothesis, the first step is to define “uncertainty” as mentioned within this context. Spender categorizes uncertainties as “the result of informational defects due to:

1. incompleteness;

⁴⁹ Spender, (p. 57)

⁵⁰ Spender, (p. 57)

2. indeterminacy;
3. irrelevance;
4. incommensurability.”⁵¹

The industrial recipe specifically revolves around the handling of the *incommensurability* component of uncertainty by managers – incommensurability being defined as “the impossibility of measuring or comparing”, or “lacking a common quality on which to make a comparison”⁵². This incommensurability, according to Spender, is the driving force behind why managers might, confronted with some type of novel problem, look to the past actions of managers of other firms within their industry, in an attempt to build some kind of logical base on which to make a decision⁵³. When this desire to appear “logical” repeats itself many times within an industry, the industry recipe is generated as the sum total of these “imitative” decisions.

By focusing on this variant of uncertainty (incommensurability), the positivist sense of risk is out of scope – in other words, the type of risk that can be put in terms of probabilistic scenarios, or the type of financial risk that one can hedge; the level of uncertainty is such that it would be next to impossible to quantitatively assess the risk level⁵⁴. Spender defines uncertainty more plainly as “a condition of information deficiency in which the data by themselves neither contain nor determine a conclusion”, and therefore conclusions can only be drawn when a “manager adds something of themselves to the data available”⁵⁵. To summarize this into one sentence: the industrial recipe is the total result of imitation occurring between managers as a result of being confronted with the need to make seemingly extra-logical decisions.

It helps to clarify the differences between policy and strategy with regard to the industrial recipe. When one considers the nature of policy, there is little uncertainty as compared to strategy – uncertainty lies in the actual implementation of policy, in other words the “creation of a constructed rationality” using strategy to *comply* with policy⁵⁶. Policy is imposed on the firm, often from a higher level than the level at which strategy is created, from the owners of the firm or board of directors, for example. But policy is also eventually (and circularly) influenced by the recipe, since the recipe “... demarcates what the industry thinks operational and professionally acceptable”; there is never an absolutely clear divide between policymakers and strategists, and often there is no divide at all⁵⁷. Since policymakers are by definition also members of the industry, it is likely that they have also been socialized into that particular industry’s recipe. However, although the recipe encompasses, and is influenced by, both policy and strategy, the

⁵¹ Spender, p. 188

⁵² *The American Heritage® Dictionary of the English Language, Fourth Edition*
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⁵³ Where in reality, the decision required to be made might be, on account of its incommensurability, inherently extra-logical – but the industrial recipe theory dictates that managers always seek to appear logical, and so “imitating” other managers within the industry is the closest to being logical that they are able to attain.

⁵⁴ Spender (Ch 3) – Knight (1965)

⁵⁵ Spender, p. 187

⁵⁶ Spender, p. 54

⁵⁷ Spender, p. 66

evidence of the recipe should lie in its practical implementation, rather than some potentially arbitrary policy rule imposed on the strategists. Even so, the aspects of policy which are intertwined with strategy would seem to be good indicators of the industrial recipe (since it is somewhat unrealistic to see policy and strategy as completely separate entities), and so they should not be discounted.

The recipe serves as a tool by which managers are able to construct a *bounded rationality* to compensate for the uncertainty they are confronted with. Baumard mentions a study carried out by Porac, Baden-Fuller, and Howard (1989), which concluded that the knitwear sector in Scotland “owes its existence [...] to mental models of transactions and to habitual strategic decisions which assert themselves on the market ... the identity of the generic knowledge core together with its associated beliefs, allows the directors of these networks to delimit their competitive activity and to make sense of interactions taking place within these boundaries”⁵⁸. Thus, the industry recipe develops as a means of simplification of an otherwise infinitely complex environment, through the actions of strategists that (subconsciously) tap into the industrial pool of tacit knowledge.

The problems in understanding any particular industry’s recipe are numerous. Adding to the challenge of isolating what might constitute the recipe for a particular industry is the dynamic nature of the industrial recipe – one might encounter difficulties in isolating the industry at one particular static point in the industrial cycle, and this could result in the recipe appearing less coherent. This can be noted in Spender’s analysis of the forklift truck rental industry, in which he discusses that the recipe could “be made instantly irrelevant by a change in the tax structure which cuts off the supply of new capital”, or any other type of major structural change⁵⁹. If the industry is undergoing rapid, dynamic change, then it might appear, for example, that several different recipes are in place, depending on whether a company is one of the leaders of the changes, or has yet to follow the leaders of change. Thus, what seems to be an incoherent recipe might in reality just be a recipe that is undergoing a phase of transition. Putting the recipe into its environmental context therefore seems prudent, as reference to the dynamism of the recipe should not be misconstrued as evidence of its transience.

It might also be difficult to determine the existence of a recipe until the industry approaches maturity, due to the generally volatile nature of most fledgling firms, and the fact that there still may not be any “established common practices”. Although the ski resort industry has been fairly well established over many decades, evaluating the structure of the industry seems to reveal a relatively slow business cycle (perhaps on account of the high entry and exit costs, among other factors), and this combined with significant regional differences could cause difficulties in isolating the recipe.

As Spender notes in his development of the theory, mere incidence of imitation across the industry is not necessarily proof of the recipe, since imitation is nearly inevitable—especially in a consolidating industry, but the more relevant issue is determining on *what level* the imitation is occurring—e.g. whether there seems to be a trend among strategists

⁵⁸ Baumard, p. 15

⁵⁹ Spender, p. 181

to take for granted (perhaps subconsciously) that certain strategies are “logical” (within the *bounded rationality* created by those within the industry). Also crucial to deciding on the existence or non-existence of the industrial recipe is whether the imitation being considered is endogenous to the industry, since this is obviously what makes it an “industrial recipe” as opposed to some kind of more general recipe visible within the entire economic sector to which it belongs, for example. However, a high level of imitation in the industry does provide some aid in judging whether there is actually a recipe, in spite of the fact that it may not be sufficient in and of itself. The imitation should be on a level which is significant enough to be seen in the industry as a whole – if this is not the case, then an explanation should be sought as to why. One could begin by reviewing whether the sample selected may have been too broad; it could be possible that what appeared to be one industry is, in reality, comprised of several sub-industries, each with its own recipe. Spender differentiates the type of imitation relevant to the industrial recipe from what he deems to be “simple imitation”, in that the imitation which the industrial recipe focuses on is not normally substantive, detailed, prescriptive, or a specific formula outlining what to do⁶⁰.

Therefore, similarities in strategy should be weighed against the environmental context within which strategy is established, to rule out whether these similarities might have been a consequence of economic factors beyond any particular manager’s control – if parallel strategies can be more reasonably attributed to something broader than factors exclusive to the industry in consideration, e.g. to the economy as a whole, then it logically follows that this would not be the best evidence of an industrial recipe. Spender explains that “the broader socioeconomic environment is secondary, acting on the firm through the recipe, the industry’s collective response”⁶¹. This illustrates that while external factors can perhaps influence the evolution of the industrial recipe (as economic factors experienced by the industry as a whole could perhaps cause strategists across the entire industry to face a similar set of dilemmas), an economic downturn causing all firms to streamline operations is too broad in scope to really be considered an aspect of that any particular industry’s recipe.

Spender proposes that the best way to determine the industrial recipe is to establish a set of constructs, divided into three separate categories. These three categories consist of: the *static product-market definition* of the industry’s marketplace, the *input-output flows* and systems, and the *synthesis of the subsystems* into the recipe’s rationality (the crucial strategic issues facing the industry)⁶².

The isolation of an assortment of “constructs”, according to Spender, “creates the right context for understanding what the specific companies are doing”⁶³. The constructs reflect the key resources and elements within an industry, and can serve as a focal point in determining how to compare the different firms in consideration. Based on data gathered from the distributed questionnaires, as well as by evaluating publicly available information released by members within or connected to the ski resort industry, it should

⁶⁰ Spender, p. 188

⁶¹ Spender, p. 66

⁶² Spender, p. 166

⁶³ Spender, p. 181

be reasonably possible to determine if there truly seems to be an industrial recipe or not. The objective of finding the industrial recipe is not to determine an absolutely comprehensive formula describing the functionality of the industry, but rather to observe if there is some intangible, socialized force that causes managers to respond to uncertainty in a similar manner.

By isolating the components and characteristics of a particular industry's recipe, a foundation for understanding an industry's evolution can be developed, which can give insight into what particular direction an industry might be headed in, or build on ones understanding of the competitive dynamic within the industry⁶⁴. Isolating the industrial recipe allows the researcher to evaluate the industry beyond theories that assume the existence of objective rationality in business – in reality, the forces driving managers to make decisions are not all readily visible, and relying too heavily on information that is quantitative will necessarily leave one with an incomplete perspective.

Contingency theory

The relevance of contingency theory to the ski resort industry will also be taken into consideration. The primary objective of applying contingency theory in research is to analyze the level of fit of some contingency (size of the firm, for example), with the structure that the firm chooses to adopt for its business (e.g., the size contingency was determined to be correlated with the degree to which the firm has a bureaucratic structure). Generally speaking, contingency theory is concerned with examining the match between the activities of a firm or industry, and that of the external environment within which they operate. Donaldson identifies a link between the level of fit between structure and contingency, for example, and the level of performance of the firm⁶⁵. Examples of this fit would be the fit between divisional structure and diversification, or the fit between bureaucratic structure and a larger size firm. It is expected, on the other hand, that mis-fit would result in a negative change in performance.

Contingency theory makes several assertions regarding the organization as related to its environment. According to Simon, “the match or coalignment of an organization with its environment occurs on at least two levels: (1) the structural features of each subunit should be suited to the specific environment to which it relates; and (2) the differentiation and mode of integration characterizing the larger organization should be suited to the overall environment within which the organization must operate.”⁶⁶

Additionally, contingency theorists make some propositions toward explaining the fundamental reason for the existence of organizations. Weick, for example, claims that “human beings organize primarily to help them reduce the information uncertainty they face in their lives”⁶⁷. The claim contingency theory sets out to make is that “there is no one best organizational form but several, and their suitability is determined by the extent

⁶⁴ Symon & Cassell, p. 5

⁶⁵ Donaldson, p. 10

⁶⁶ Simon, p. 90

⁶⁷ Simon, p. 91

of the match between the form of the organization and the demands of the environment”⁶⁸

Contingency theory parallels industrial recipe theory to some extent regarding the need for simplification of the environment in order to create rationality. Scott elaborates on this point:

“Given that an organization is open to the uncertainties of its environment, how can it function as a rational system? [Thompson’s] principal answer to this question is that it can do so by creating some closed system compartments in critical parts of its structure.”⁶⁹

One example of how contingency theory is applied is to organizational structure. For this contingency, there are two separate theories: organic theory, for which the primary contingency is task uncertainty, and bureaucracy theory, for which the primary contingency is size. A minor contingency universal to both contingency theories is the level of task interdependence⁷⁰.

The differences between the two perspectives are as follows. Organic theory holds that organizations can be described along a perspective from organic to mechanistic. Along with organic go the characteristics of being decentralized, unspecialized, and non-formalized. A mechanistic organization displays the opposite characteristics: centralization, specialization, and formalization. The conclusions of this categorization are that a mechanistic structure which emphasizes hierarchy is effective for low task uncertainty, whereas an organic structure which emphasizes participation is effective for high task uncertainty. However, as argued by Mintzberg (1979), it is possible to have a highly centralized organization with low functional specialization and formalization. This is the view of bureaucratic theory, which argues that structure formalization is accompanied by decentralization. Bureaucratic theory, thus, does not require that centralization, specialization, and formalization necessarily must go together. With all of this information in mind, it is possible to display the different types of organization on a chart:

| | | |
|---------------------|---|---|
| High centralization | Simple | Mechanistic |
| Low centralization | Organic | Bureaucratic |
| | Low specialization Low formalization | High specialization High formalization |

Donaldson writes that “structural contingency theory holds that change in the contingency leads to change in organizational structure, because of the need to regain fit and performance [...] therefore contingency theory is deterministic”⁷¹.

⁶⁸ Scott, p. 98

⁶⁹ Scott, p. 106

⁷⁰ Donaldson, p. 14

⁷¹ Donaldson, p. 131

This paper will take a more generalized approach to contingency theory, by discussing the relationship between external environment and industrial structure from a perspective over a period of time.

Methodology

From what is known from questionnaire results and other available information about the eight mentioned ski areas, the various theories will be assessed and discussed in connection with the ski resort industry.

As mentioned, this paper will be employing a case study approach. Yin defines a case study as “an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident”⁷². Considering that the ski resort industry is, relatively speaking, not well researched compared to many other industries, in addition to being very unique, a case study approach is well suited toward building a better foundation of understanding.

Since the theories discussed within this paper cover a variety of different subject matter, the methods that will be used with respect to each theory will have to be tailored to what is relevant. Overall, this paper employs an inductive research approach, beginning with information about the various firms and followed by theory to build an understanding of the industry. First I will focus on industrial recipe theory, followed by contingency theory.

Spender identifies many methodological hurdles in determining any given industry's recipe, and chooses a phenomenological method rather than a positivist one in building the industrial recipe theory. According to Spender, the research objective of the phenomenologist is to “encourage the sceptical listener into a new way of looking, into an unfamiliar rationality which probably includes unfamiliar premises and objectives”, and the ultimate goal in this particular perspective is to find a meaning which “... lies in the totality of the inter-relationships, not in the elements or constructs”⁷³. Barr describes an advantage in qualitative methods such as those employed by Spender in that they “provide the opportunity to identify and explain complex relationships without having to pre-specify either the variables involved, or the nature of the relationship between them ... qualitative studies allow one to simply ask questions rather than test whether the answer you expect is correct”⁷⁴.

To gather data, Spender first selected several industries located in the UK, and then conducted unstructured interviews with managers of each respective industry. The unstructured interview was chosen for several reasons: it allowed for minimization of the impact the interviewer might have on the data, and, when combined with passive observation of the managers in their own, undisturbed professional contexts, one can gain

⁷² Yin, p. 13

⁷³ Spender, p. 71

⁷⁴ Barr, Pamela S. Current and Potential Importance of Qualitative Methods in Strategy Research. p. 166

a realistic sense of how each particular business is run. Additionally, careful observation with minimal interference from the interviewer could potentially reveal some of the tacit knowledge of the managers, which managers might otherwise fail to articulate in a standard, structured interview. As the industrial recipe is not always the result of a managers conscious decision making process (but rather a subconscious process resulting from the particular managers socialization into it), being able to identify some of this tacit knowledge helps to build a more complete understanding of the recipe.

My approach toward figuring out the industrial recipe is somewhat less comprehensive, due to having far less time or resources available compared to Spender's research, and the broader focus of this paper. In addition to the many secondary sources I have consulted (websites, annual reports, literature), I have employed a multiple choice questionnaire, covering the opinions of managers in the industry toward various aspects of their businesses. Even though the response rate was not as high as originally planned, the data will be useful as applied to this multiple case study. The questionnaire has been tailored to obtaining information specific to the subject matter of this thesis, and its standardization facilitates comparisons between the firms. The questionnaire (added as an appendix to this thesis) covers a range of issues, from the structural (what physical assets of ski resorts are perceived to be the most crucial – which can help to develop some of the constructs), to the intangible (manager's perceptions of industry trends, perceptions of close competitors, sources of information and recruitment patterns). Although this method differs from Spender's, the information gathered from it should offer insight into whether an industrial recipe exists, and part of what comprises that recipe.

Additionally, the questionnaire helps to overcome the disadvantage of an inability to have physical presence at the firms being considered. Responses have been received from ski resort operators across a large geographic area, from Alaska to Italy. Although Spender finds it to be significantly important that the interviewer / researcher minimize their impact on the subjects of interest (thus choosing an unstructured interview format, in addition to passive observation of the ongoings of managers within the industry), I feel that the increased ease of comparison derived from a slightly more structured and predefined questionnaire has its benefits in providing a more direct route to ascertaining the existence of a recipe.

The firms that are the subject of this paper represent an interesting and diverse sample of ski resorts. Geographically three resorts are in the Alps, and five are in North America. The size of the resorts varies from small, locally focused resorts, to large, world class resorts. There is a wide spectrum of different terrain characteristics between the firms, with the resorts focusing on different levels of skier ability, the challenges of operating in different climates (mostly those climates with less snowfall), the remoteness of the mountains (from within a short drive of a major urban area to remote destination resorts that customers typically must fly to), and the degree to which peripheral services or amenities are available (lodging, dining, and leisure activities outside of skiing or snowboarding itself). The ski resorts have all been established at different points in time during the 20th century, which also contributes to the diversity of the sample. At first

glance, being able to tie similarities among these firms together on a theoretical basis is far less apparent than it might have been, had the firms all been geographically and structurally similar. Regrettably, ski resorts outside of Europe and North America were not studied for the purpose of this thesis, and so generalizations about the ski industry within this paper might not necessarily apply to the industry outside of these geographical regions. Information about these regions would however be very interesting, as the ski resort industry is still not as mature in Japan, South America, or New Zealand, as compared to in Europe and North America.

Much of the contact information such as e-mail addresses or phone numbers, in addition to statistical information about the ski resorts, was found to be available at a variety of skiing related websites (www.skimaps.com, www.iski.com, www.powdermag.com, primarily), in addition to seeking out addresses for individual ski resorts from their respective websites. The ski resorts with managers that chose to respond to my solicitations were considered more in depth (by reviewing annual reports, finances, statistics, and so forth). Many of the attempts to contact ski resorts were ignored; the low response rate is likely on account of relying heavily on e-mail communication (which is easy to ignore), the lack of comfort some recipients might have had answering some of the questions (due to privacy concerns or language barriers), or other difficulties that might have been encountered in receiving the e-mails. For some of the resorts there is far more information than for others, and for the resorts with less available public information, a greater reliance was placed on information obtained from third party sources. These sources help fill in the void of information that might exist for some of the less transparent firms discussed.

The questionnaire was designed with several objectives in mind. The first set of questions in the questionnaire helps to develop a picture of the basic structure of the firms that have been polled. By gaining an understanding of what the firms feel to be their competitive advantages (strengths versus competitors, target market demographics, etc.), their competitive posture can be determined and used in conjunction with the data from other parts of the questionnaire. Since it is theoretically relevant to elicit information about the handling of uncertainty by firms within the ski resort industry, the non structural based questions were mostly with regard to the future intentions of the firms, the future being a broad embodiment of uncertainty. Information was sought regarding which elements of the firms operations were viewed as most crucial to competition (among the provided options), to determine if any patterns emerged, and if so, then why they might have emerged.

The strengths and weaknesses of competitors, as viewed by the respondents, was sought by asking the respondents to rank the various elements of the competitors resources in order of which most contributed to their competitive threat against the resort of the respondent. This allows one to consider the internal perspective held by the firms towards their industry, and perhaps also to understand the reasoning behind many of the decisions taken put into this context.

The predictive questions, which aimed to determine whether there were any common viewpoints regarding predictions of growth, or changes in the structure of the market, could be a good barometer of any perceptual overlap held by managers regarding the external environment. Additionally, a question was posed with respect to recruitment of managers of the ski resorts, in order to determine how the respondents themselves might value tacit knowledge specific to their industry – recruitment primarily from within the firm or the industry could signify that tacit knowledge was highly valued, an important component of industry recipe theory.

Calculations of mean and variance were carried out on the multiple choice questions. This is done for the convenience of the reader in making comparisons, or to help draw basic conclusions about what the responses yielded – the small sample size does not suggest that the responses should hold true for the entire industry, but are a good starting point for any intuitive conclusions that one might draw – statistical significance is not entirely relevant in a qualitative paper such as this one. For the questions which responses had a particularly high variance, the responses to more structural questions could be compared among the different areas to determine if the variance might have been caused by a different competitive posture (for example, targetting a completely different type of customer, or having proximity to a major market as a main source of competitive advantage versus a wide variety of terrain).

It should be noted that the questionnaire was designed in the absence of the tacit knowledge held only by ski resort industry managers (having been designed by a Master's student with no work experience within the industry), and this could result in some deviation from the industry's reality. In spite of this, any trends that might emerge from the available data will nonetheless be interesting in formulating a picture of how the industry operates, and developing an absolutely complete picture of the industry is not the objective of this research – this paper is more focused on highlighting a portion of interesting similarities and differences observable between the eight considered firms, and considering to what extent the findings might be more broadly applicable. The questionnaire will provide an adequate amount of information to, at the very least, develop a partial picture of the industrial recipe, which will be sufficient to assess its existence (or nonexistence), as well as to explore the relevance of other theories. A high level of similarity in responses could suggest that maybe there is a base of tacit knowledge shared among managers within the ski resort industry, even though the questionnaire does not specifically identify what that tacit knowledge is – very similar responses might be one symptom of a broadly overlapping base of tacit knowledge. Spender's study was focused on actually deciphering the recipe in place within the various industries that he studied, and had deciphering the recipe in its entirety been the purpose of this paper, the methods employed would likely fall short of their objective.

In this authors opinion, determining whether a recipe exists does not require the unraveling of the entire recipe, but rather a significant enough aspect of the recipe must be revealed to draw a proper conclusion. To replicate Spender's methods on an international scale, would require far more time and financial resources than were likely

even available for his study, as traveling between the various countries in which the ski resorts are located could rapidly become a very costly ordeal.

As regarding contingency theory, a discussion centered on how the modern ski industry has evolved from its early 20th century roots will aim to explain how the changing environment within which it operates has altered the composition of the industry. This will revolve around identifying characteristics of the early ski industry versus the modern ski industry, as well as historic trends, and a discussion of the environmental factors which may have driven this evolution.

The following section discusses the methodological strengths and weaknesses of this thesis. Some have argued that the interpretive process characteristic of qualitative research “precludes the very idea of a ‘scientific objectivity’ as implied by reliability and validity”, but this thesis will be assessed along the various criteria which have become established practice at SSE, and authors such as Lee feel that ideas of reliability and validity apply equally well to both quantitative and qualitative studies^{75,76}.

Reliability

Reliability refers to the consistency (repeatability) and stability (consistency over time) of “scores” resulting from some “measurement process”⁷⁷. Reliability is a measure of the strength and nature of the conceptual association between the researcher’s phenomenon of interest and its scored measurement⁷⁸. A study in which reliability is strong is one in which similar results can be expected if it is repeated using similar methodology⁷⁹. Yin suggests that to properly assess the reliability of research, the methods by which conclusions were drawn must be presented in a transparent manner⁸⁰. Achieving reliability in qualitative research such as this presents certain challenges; for example, the dynamic nature of people’s opinions and behavior can negatively impact the degree of reliability in the study⁸¹.

The methods utilized in this thesis have been presented clearly, and tailored to its particular objectives. While some aspects of the thesis could potentially be improved (for example, by conducting unstructured interviews where the focus is on the industrial recipe, or increasing the sample size to create more statistical significance), I have sought to balance out any deficit of relevant information by using secondary sources where primary sources were unavailable or irrelevant. The factual information derived from secondary sources can also help to complement the data of a more subjective nature.

An additional point of concern is the differing levels within the organization at which the respondents to the survey work. Depending on what a respondent’s position in the firm

⁷⁵ Symon & Cassell, p. 6

⁷⁶ Lee, p. 146

⁷⁷ Lee, p. 146

⁷⁸ Lee, p. 148

⁷⁹ Yin

⁸⁰ Yin

⁸¹ Sekaran

is, responses might reflect a very different understanding of what the strategy of their employer is, or how it might evolve. Managers might choose to reflect predominantly on the positive aspects of their firms conduct, or a manager hailing from one department might only be able to articulate their understanding of the firm from that specific department's perspective. To attempt to reckon with this potential for discrepancies, I have sought to obtain information from employees at similar levels within their firms, even if they might have been from different departments.

The international diversity of the firms polled also adds to the complexity of arriving at exactly what this thesis sets out to prove. However, the reliability is boosted somewhat by having tangible, numerical answers from the questionnaire to analyze. Additionally, the greatest level of transparency possible has been sought, and all questionnaires were distributed under the precise same circumstances. Therefore, the reliability of this study is judged to be moderate to semi-strong.

Validity

Validity is connected to reliability, in that reliability serves as an upper bound to validity⁸².

Construct Validity

Construct validity, in simple terms, is the degree to which scores actually measure what the researcher claims they do, rather than some other phenomena⁸³. Construct validity can be established only through the presentation of a substantial body of data – although whether “sufficient evidence” has been gathered remains a subjective judgment⁸⁴. Lee notes that in qualitative research, the central issue is not whether construct validity has been demonstrated, but rather the qualitative judgment that sufficient evidence has been gathered for construct validity to be demonstrated⁸⁵. Yin mentions three ways of increasing construct validity: (i) use of multiple sources of evidence; (ii) establishing a chain of evidence during the data collection; (iii) having the case study report reviewed by key informants⁸⁶.

I have sought to complement the data that I have personally collected with a significant amount of other sources, including press releases, magazine & newspaper articles, online forums, and a variety of books, among other sources, with the objective of strengthening the construct validity of this paper. The background information provides an adequate context on which to judge whether there is an industrial recipe within this industry. Thus, the construct validity is assessed to be semi-strong.

External Validity

⁸² Lee, p. 149

⁸³ Lee, p. 151

⁸⁴ Lee, p. 151

⁸⁵ Lee, p. 152

⁸⁶ Yin

External validity is a measure of whether the conclusions reached by the study can be generalized beyond the particular study itself⁸⁷. The ski industry is rather unique, and the firms studied within this thesis are diverse. It would seem that based on the cross section of firms chosen for this thesis, the conclusions drawn should be reasonably applicable to the ski resort industry as a whole, or at least the portions of the ski resort industry within North America and the Alps. The selection of firms offers diversity along the dimensions of target markets, size, climate, and location, and would thus seem to constitute a fairly representative sample.

Additionally, it is believed that similar methods could ostensibly be applied to other industries – methods used in this thesis could be considered for industries that are similarly regional and fragmented like the ski resort industry, where the researcher aims to first consider some number of firms, and then determine what theories could potentially be used to generalize about the firms as a group. There is, however, very little previous research on the ski industry, and thus the external validity is not quite as strong as it would have been if there was a large amount of information on the industry. The external validity is thusly judged to be moderate.

Internal Validity

Internal validity addresses the question of whether the research design controls for the effects of other factors that may affect or obscure the relationship under study⁸⁸. It is noted by Slater & Atuahene-Gima that “narrow studies, regardless of the internal validity achieved or the size of the effect found, must be repeated in a variety of settings before making any conclusions about the validity of the theory being tested”, all the while being careful to avoid too broad an industry definition, which provides little or no control⁸⁹.

As already mentioned, due to the vast geographic distances of the majority of the firms I have contacted for information, as well as the difficulty in gaining prolonged access to observing the firms in operation, my methods had to be modified to accommodate practicality (at the expense of very comprehensive, long term research oriented toward tacit knowledge, among other aspects). Case studies by nature pose a challenge with respect to illustrating any kind of statistical significance accounting for every variable that could explain why a firm operates in the manner that it does. The questionnaire that was distributed was produced with the intent of simplifying the process of making comparisons. The responses to the questionnaire can easily be compared for similarities or differences – this improves the objectivity of the comparisons, as there is a limited amount of possible responses.

The internal validity is increased in part by using theories that have been tested, such as in the case of the industrial recipe theory. The fact that Spender has successfully determined the existence of an industrial recipe within several other industries should result in stronger internal validity with respect to what is written about that theory.

⁸⁷ Yin

⁸⁸ Slater, S.F.; Atuahene-Gima, K. Conducting Survey Research in Strategic Management.

⁸⁹ Ibid.

However, using a case study approach adds some ambiguity toward the level of internal validity achieved. Yin notes that in order to increase the consistency of a multiple case study, “each case must be carefully selected so that it either: (a) predicts similar results, or (b) predicts contrasting results but for predictable reasons”⁹⁰. The similarities and differences that will arise with the application of theory to the case studies will be evaluated with this in mind. Overall, the internal validity is considered to be moderate.

Empirical study

Discussion of major differences within ski industry

There is some difficulty in applying industry recipe theory, for example, to such a diverse sample of firms, especially considering that in Spender’s research the firms were far more similar, and within a more narrowly defined industry and region. This results in more difficulty in being able to identify patterns across the various firms in this paper, or perhaps a less convincing argument that the findings are a good basis for generalization. Some points to consider, if the firms truly seem to lack any common patterns, are the possibility of taking a more uniform sample from within the ski industry, of broadening the research to include far more firms, or to narrow the focus of research to a more specific aspect of the industry. The ski industry as a whole has developed on an extremely regional basis compared to many other industries, and this would lead one to predict great variations across firms. Adding to this challenge are the different structural characteristics of the various firms. However, it should be noted that similarities that do arise will be more compelling evidence of a pattern, as those similarities will have surfaced in spite of all of these major differences.

Methodological issues

As there a number of internet sources cited in this paper, some comment should be made on their reliability. A high level of scrutiny was given to each of the internet sources to determine their validity – in some instances, internet sources were only used to provide some peripheral information that could be of interest to the reader, but not directly related to accomplishing the objectives of this thesis. Many of these internet sources are also considered invaluable to businesses within the ski industry – some managers in the ski industry require their employees to regularly read internet forums such as First Tracks Online to stay up to date on public opinion. A variety of other internet sources merely provided published information by more accessible means, (such as the reports by the National Ski Areas Association). This author sees no reason internet sources should automatically be any less credible than traditional sources solely by virtue of the fact that they are on the internet (assuming they are subject to the same scrutiny as any other source might be).

Static product-market definition of the industry’s marketplace

⁹⁰ Yin, p. 47

Lifts

Lift capacity in the ski resort industry is typically denoted in terms of people per hour. Generally speaking, the majority of capacity is covered by chairlifts, which can seat 2-6 people, or enclosed lifts, which might house anywhere from 8-150 people. Drag lifts are generally only used on a limited basis in the modern ski industry. Lifts are a primary limiting factor for any ski resort; they are expensive to install and maintain, and undercapacity results in delays for visitors. This could also result in the inability to service all potential customers, in some extreme cases even having to turn customers away. The construction of new lifts is generally viewed as having significant marketing value, and some ski resorts go to great lengths to inform the public when new lifts are installed. Technological changes in lift technology have exerted a major impact on the ski resort industry in the past, such as the arrival of the high speed detachable quad lift. This lift was a major technological improvement over the fixed-grip quad lift, in that it can run far faster in between the loading and unloading station, since it detaches from the main (faster) wire to a slower one, allowing visitors to safely embark and disembark at a lower speed, before reattaching to the faster line for the majority of the trip. These lifts provide a worthy increase in capacity; one resort managed to increase capacity by 113% by installing a detachable quad lift⁹¹. With such a significant increase per lift, multiplied by however many lifts are upgraded (some resorts have even started to install detachable lifts capable of carrying six people at a time), one can see the major impact technology has had on capacity. It should be noted that maximizing lift capacity is not necessarily the objective of all ski resorts, some of which deliberately maintain a lower lift capacity in order to provide higher snow quality, either by running the lifts at a slower speed, or by not building more/newer lifts (Alta (Utah), and Mad River Glen (Vermont) being two resorts that are known for doing so). However, these can be considered the exception to the rule, and have a somewhat unique approach to the industry: they happen to be two of the three resorts in the US which forbid snowboarding. Lift ticket pricing seems to be commonly viewed as being of insignificant marketing value to most of the ski resorts polled, with a mean response of 6.75 (a response of “1” would denote a high level of importance), and a relatively low level of variance of 2.69. Lift capacity itself, specifically from a marketing perspective, was surprisingly not viewed as being particularly important, although one resort viewed it as being most significant – the mean response was 6.13 with a variance of 4.86. However, every resort with the exception of one stated that they plan to place more emphasis in expanding lift capacity in the future.

Land and Terrain

Depending on the ski area, land may be privately held, or land may be leased from the government for conversion into a ski area. Land, as with lift capacity, can be a limiting factor to the overall capacity of the resort. The view held by some ski area operators is that it is advantageous to have as much land at their disposal as possible, and expansion (of the resort area itself) is viewed by some resorts as crucial to competition, even in spite of meager growth in the customer market. However, all ski resorts with the exception of

⁹¹ <http://www.snowjournal.com/article253.html>

one responded that capacity maximization is important, which suggests that for most resorts, there is a limit as to how far they are willing to take their race for expansion.

Many companies have placed land management as their ultimate priority—including an increasing focus on land allotted for purposes other than skiing on. Some ski resorts have evolved to see themselves as being primarily in the real estate business, with the actual ski area serving as a benefit (and value creator) to purchasers of nearby real estate development projects. Water supply, largely an issue of land as well, is also crucial to many ski resorts, as enormous amounts of water are required to operate snowmaking equipment (for those resorts that do have a significant level of snowmaking coverage), and efforts to obtain an adequate water supply are often hampered by environmental regulations. Generally speaking, the land procurement efforts of most ski resorts suggests that there is little sense of diminishing marginal returns, and more land is almost unequivocally viewed as a benefit – in spite of stagnant growth in the customer market. This could perhaps explain the significance the respondents placed on maximizing capacity, since rapid expansion could have caused somewhat of a glut. The marketing value of terrain acreage and variety, while not conclusively viewed as being of the highest significance, nonetheless was ranked most important for the marketing of the various ski resorts, with acreage having a mean response of 5.00, and terrain variety at 4.88. This leaves ski resorts with the need to reconcile their desire to maximize their capacity in use, with their desire to expand terrain for its marketing advantages. Clifford raises an interesting opinion on the desire of many ski areas to expand terrain, despite the fact that it might (on paper at least) appear less sensible. Clifford notes that expansion of terrain (and the desire to expand) could be correlated to the view that ski resorts are generally competing for the same set of customers, which was confirmed by the questionnaire distributed in connection with this thesis; the mean response to the statement that “the vast majority of competition in the ski resort industry is for the same segment of customers” was 7.00, with 10 denoting “strongly agree”. As Clifford mentions, “there may be a demand on the part of ski-area operators to develop more public lands to lure skiers from competing resorts, but that’s a very different proposition from accomodating new skier demand ... what is significant about the industry’s recent strategy is that it has saddled ski operators with a heavy capital investment and little likelihood that they can grow sufficiently in terms of overall skier days to pay for it”⁹². This can be considered to be one of the many factors responsible for raising barriers to entry in the industry. The highest level of consensus on any aspect of what ski resorts viewed as being part of an ideal business model, was the desire to attract completely new customers, with five out of eight responding that this would be an important factor in their vision of an “ideal business model”.

Emphasis on customer service

Resorts can be categorized based on their orientation toward service, from no-frills resorts, which tend to primarily cater to single day visitors, to destination resorts, which focus mainly on customers who travel long distances from home, spending more than one day at the resort. The primary factor in “maximizing the yield per skier” for the

⁹² Clifford, p. 34

destination resorts, is that the customer remains at the ski resort for longer than the time they are actually skiing or snowboarding: this method of doing business is gaining popularity on an international level. Increasing customer expectations, combined with ski resort operator's interest in peripheral revenue sources (e.g. those unrelated to lift ticket sales), have resulted in a trend toward an expanded array of services, which come at a higher cost. This includes ownership and operation of health clubs, restaurants, bars, hotels and other real estate. This model seems to have taken hold more rapidly in North America, where resorts have often been developed in otherwise undeveloped areas – whereas in Europe (especially the Alps), resorts are often surrounded by already developed land, generally well before the existence of the ski resort, thus making the “monopolization” of real estate in the proximity somewhat more difficult. The focus on day trip versus destination customers varies greatly among the resorts polled, on account of their respective distances to major cities, size of resorts, and likely also the perception of who the resort's primary competitors are. For every resort that replied that its focus was more on destination customers rather than day trip customers, the focus was also more on providing a luxurious experience rather than a no frills experience.

Market segmentation

All of the resorts were more focused on attracting family and group customers, with the exception of the one resort that was most strongly oriented towards day trip and no frills customers. The mean response with respect to which customers were the primary focus of each ski resort, on the spectrum from single customers (signified by “1” on the scale) to family/group customers (“10” on the scale) was 6.88. The mean response on the spectrum from children to seniors was 5.63, with only one respondent skewed slightly more to the younger market segment.

Balancing customer types

With numbers of customers across the years remaining relatively stable, and a consolidating industry, increased competition has caused most ski resorts to undertake large investments in facilities as their point of differentiation from competitors. This in turn has driven up the prices of skiing significantly – shifting the primary market of customers continually upward with respect to personal income levels. This trend toward a more “full service” business model could be causing customer expectations to rise, since customers used to particular services at one resort might begin to demand the same things at other resorts. This too will likely result in higher barriers to entry for new competitors (as resort developments go from being a novelty to becoming a base line requirement over years – one can see how this happened historically with snowmaking technology). All but two resorts thought that the typical ski resort customer will have higher income in the future, with these remaining two predicting no change in income level.

Input-output flows and systems

Resort operations

As with many industries, there is some evidence of a “top-line obsession” with growth in revenue rather than margins, supported by the many ski resorts continually seeking new land and lifts, even in spite of operating well below capacity. Since it requires a great investment in time, money, and equipment for someone to take up skiing or snowboarding, growth in the market of potential customers is slow (maybe even stagnant), and competition for existing customers among ski resorts is intense. Clifford, who is rather critical of the evolution of the ski industry, refers to this as “skiing’s self-defeating arms race”, since much of the expansion, in his view, would appear to be inconsistent with attempts at capacity maximization. The extremely high level of competition tips the focus of ski areas a bit more toward competing for customers at the higher end of the market, a relatively price-insensitive segment which is probably less focused on seeking a bargain.

Human resources

Respondants confirmed that recruitment for positions in the ski industry is very concentrated on recruitment from within the industry itself, with a mean response of 8.50 denoting strong agreement with the statement “promotion and/or hiring for top level positions at this resort is done generally from within this firm, or within the ski industry”, and a low variance of 0.50. The level of importance held by knowledge transfer obtained from recruitment of employees from competing firms was viewed differently by each of the respondents, making it difficult to draw conclusions based on that. The high level of intra-industrial recruitment and promotion, however, suggests that employee knowledge transfer is highly valued, regardless of whether it is explicitly identified.

Maintenance costs

Maintenance costs can be quite high in the ski industry, and these can be viewed as being another barrier to entry for new potential new entrants. Maintenance costs have consistently risen since the birth of the ski industry, as services previously considered unnecessary have over time become viewed as essential. This would include many of the snowmaking systems and snow grooming vehicles, as well as costs to create and maintain the “terrain parks” that have become an important aspect of many ski areas in the past decade. Higher property taxes can be one issue to consider in aiming to control costs associated with overcapacity – ski areas require very large tracts of land, and the land value increases along with development in the periphery.

Based on collected data, maintenance related issues were viewed as somewhat important in general, with a mean response of 6.13 favorable to maintaining up to date area maintenance technology (grooming vehicles, pipe dragons, and other related machinery), and 6.63 with regard to snowmaking technology (which is, of course, less important for resorts such as Alyeska or Alta). Maintenance can thus be seen as being viewed as very crucial to ski resorts, independent of their different specific marketing strategies or location.

Information sources

Results having to do with where ski resorts obtain information were mixed, with half of the respondents viewing private market research firms as being particularly important, but otherwise no clear patterns emerged. The lowest level of significance of information sources was from skiing or snowboarding related magazines, and the press releases or annual reports of competitors. It does not seem that there can be any conclusions drawn with regard to how ski resorts source their information on a general basis, as each resort seems to have its own particular strategy.

Synthesis of the subsystems into the recipe's rationality

Expansion decisions

The most important factors in deciding whether to expand (or to where) have been the proximity of the location to a major market, the availability of land in the area around the resort, and for some of the larger industry players, antitrust legislation has become a concern before any new development or acquisition is initiated (not surprising considering the rate at which the industry is consolidating). Ski areas wishing to expand often encounter tremendous difficulties, as suitable land meeting the criteria of being near a major market has become scarcer over time. In Switzerland, Germany, and parts of Tirol in Austria, for example, building new ski areas has been banned altogether⁹³. Globally, there is not (and will likely never be) an absolute shortage of land suitable for skiing, but land within ideal distances to target markets is difficult to come by. Expansion would thus seem to be mostly an afterthought, as the capacity of resorts to expand after they have already been established is generally limited; the polled resorts viewed expansion as being not terribly crucial, with a mean response of 4.50 (variance 3.75).

Effects of growth

As mentioned, the ski industry is a consolidating industry, driven in part by a wide variety of different barriers to entry. Much of the equipment that is seen as vital to the modern day ski industry was irrelevant in the industry's beginnings; grooming equipment and snowmaking technology became important only after the industry had existed for several decades. Over time the industry seems to be trending towards larger firms with higher revenues—needed to support continually rising costs. The ski resort industry does not seem averse to accepting excess capacity (although ideally resorts would not want to take on too large an excess), and expansion of lift capacity and acreage seems to be desirable to most ski resorts. The marketing value of being able to boast the most expansive resort in a region, with the greatest amount of terrain and lift capacity, seems to be more valuable to many resorts than the extra costs that one might associate with having excess capacity. Since the customer pool is seen to be fairly static, and firms view themselves as competing for the same customers, terrain and lift capacity become a major

⁹³ <http://www.guardian.co.uk/climatechange/story/0,12374,1445899,00.html>

source of differentiation from competitors. This perspective could have also been somewhat responsible for the rise of multinational ski firms such as Intrawest and American Skiing Company. Respondants were however sceptical as to whether continued expansion was indeed crucial to success, with the mean response at 5.00, and a variance of 4.75. This more conservative attitude toward expansion could perhaps be accounted for as a result of a frustration with the difficulties in seeking growing margins rather than revenues.

Growth predictions from the questionnaires suggest an optimistic outlook for growth in the western regions of North America, with projections in favor of growth between 2.50 – 2.63 (variance between 0.23 – 0.50), versus a pessimistic outlook for eastern North America and Scandinavia, both placing at 1.88 (variances of 0.11 and 0.36 respectively, with a response of “1” signifying reduced growth, and “3” signifying increased growth). Respondants only somewhat agreed with the view that the ski industry will in the future remain regionally based, with a mean response of 6.13. Most of the respondents forecasted that the industry would become more consolidated, continuing its current trend, with a mean response of 2.63.

Overall, the data obtained suggests that the ski resort industry is trending towards more consolidation, expansion of terrain, and a higher level of emphasis on group and family customers with a higher income level than present. The varied responses with regard to the geographical development of the ski industry could be on account of the fact that resorts tend to specialize on only the respective regions within which they operate. This implies that the industry is both regionally and globally based, dependent which aspect of the industry one is taking into consideration. This could also be a reflection of the industry being in an early stage of globalization, which may lag behind many other industries on account of its structure and regional roots. Since terrain is difficult to expand for most resorts, this might explain the high level of emphasis on maintenance equipment – resorts can create more diverse terrain (such as terrain parks, grooming coverage, snowmaking on pistes that might be difficult to open with just natural snowfall) without needing to procure extra land or clear heavily vegetated areas. The ski areas for which data is available seem to attach little significance to lift ticket pricing; this is a likely result of shifting focus towards the destination resort model, for which the ideal customers are less influenced by price.

Contingency theory analysis

Using the same data as from the previous analysis, a framework based on contingency theory can be applied to develop a more complete picture of the industry. Contrasting the early ski resort industry with what it has evolved into in the present day yields some interesting information.

| | Early ski resort industry | Modern ski resort industry |
|-------------------------|--|--------------------------------------|
| Lift technology | Non-standardized, simplistic, low capacity | Varied, sophisticated, high capacity |
| Geographic distribution | Regionally focused, local | Regionally and globally |

| | | |
|--------------------------|--|---|
| | | focused |
| Concentration of resorts | Small resorts, increasing in numbers, limited revenue | Emergence of large destination resorts, consolidation, increasing revenue |
| Snowmaking technology | None | Sophisticated, able to expand resort activities into warmer climates |
| Terrain | Limited vertical drop, gently sloping trails | Increase in vertical drop, steeper terrain, more acreage |
| Maintenance | Limited to keeping trails clear of debris, vegetation | Construction of terrain parks, grooming, avalanche control |
| Strategy | Focused on skiing itself | Diversification into peripheral areas, real estate, “four season” resorts |
| Customer profile | Local, individual or immediate family, all income levels | Local and global, individuals through large groups, above average income |
| Entrepreneurial activity | Resorts simple and quick to open | Up to 20 years to establish a resort ⁹⁴ |

One of the most significant changes in structure of the ski resort industry since its inception has been the increase in diversity of business models within the industry. The above chart illustrates how the industry has evolved from its rather homogenous beginnings into its far more complex modern form. As exemplified in the above chart and in profiling the eight ski resorts, one can observe a significant amount of diversity among firms: resorts such as Cannon are characteristically different from resorts such as Val Gardena (size, target markets, etc.), and on account of this, it does not seem sensible to consider them as direct competitors. The structure of the two resorts differs in the type of target market they are focused on, the infrastructure, and ownership (government operated versus private corporation). This level of difference would not be seen in the early ski industry, at which point ski resorts seemed to be by and large homogenous.

Structurally speaking, it seems clear that there are environmental (i.e. topography, climate, and location related) factors unique to each region that have contributed to this fragmentation in the industry. Contingency theory would hold that this is a manifestation of how these firms set out to achieve an optimal level of fit between their business model, and the individual environments within which they operate. The differences that can be observed imply, per contingency theory, that there could be an environmentally based reason for the various business models that have emerged – the pursuit of optimal fit between strategy and environment involves different approaches, which seem to be connected to the regions in which the resorts operate. In the ski resort industry, unlike

⁹⁴ http://www.hotel-online.com/Neo/Trends/HVS/Journal/examine_dynamics.html

many industries, relocation is not a possibility, and thus any advantages of location essentially remain static, putting a damper on flexibility. Location based advantages can only be identified and capitalized upon before the ski resort is constructed. This explains the apparent significance attached to location based advantages by the various ski resorts for which data is available, and location should in turn perhaps be viewed as most critical aspect of attaining optimal fit, or the primary contingency of concern to resorts. This is reflected in the lengthy period often required to establish a new ski resort. The environmental basis for this shift in the structure of the industry can be seen as something which came to existence only after ski resorts advanced beyond their primitive origins; that is to say, when ski resorts began to incorporate more than just lift operation into their business models.

This could support the prediction that the ski resort industry might always remain regionally based, and never develop into a “global” industry, since the region within which a resort is located is inseparable from the strategy that the ski resort chooses to pursue. This also suggests that truly worldwide industrial recipe cannot exist – environmental factors will always be drastically different depending on the region. Thus, achieving strategic fit with the external environment takes on different meaning depending on the location of the resort, resulting in different strategic contingencies. On the other hand, the increasing income level of customers combined with decreasing travel costs is resulting in greater mobility, and markets of customers are no longer necessarily dominated by local or domestic visitors, but inclusive of international visitors as well. In the absence of barriers to mobility such as transportation costs and the amount of available free time a customer has, regional differences could perhaps become less apparent. But even so, some customers may be motivated by other environmental factors external to the operation of the ski resort itself, such as the allure of vacationing in a Swiss mountain town (arguably impossible to authentically duplicate overseas).

Structurally, the ski resort industry is so vastly different in Europe compared to North America, that it seems unrealistic to consider them to be in direct competition at the present time. This is perhaps one reason behind the emergence of certain international cooperative agreements, such as that of Val Gardena’s “Leading Mountain Resorts of the World” -- they do not view the other participating firms as direct competitors, and see cooperation as beneficial. This agreement is focused primarily on the marketing aspect of the participant firms. It would be interesting to see if this type of international cooperation develops over time to cover other aspects of operations.

The competitive environment has become increasingly tense, with consolidation and general increases in the size of resorts. Customer expectations have also risen, as well as their disposable incomes. These contingencies also impact the external environment within which ski resorts operate, but as they universally impact the ski resort industry worldwide, they do not explain the differences that have been observed between Europe and North America. Thus, it would seem that the location contingency is the most significant contingency in determining business model.

Conclusion

Attempting to analyze the ski resort industry yields a certain level of difficulty, on account of its fragmentation, and wide variety of regional peculiarities. Generally speaking, this paper concludes that it would be flawed to consider the ski resort industry as a singular entity, and the ski resort industry should instead be evaluated along a regional basis in order to facilitate the isolation of more clearly defined patterns. However, this paper also concludes that some elements of a global recipe do exist, although they are less apparent in this industry than they might be in other industries.

Identifying an industrial recipe is extremely difficult, on account of its transience, and since it is embedded within the tacit knowledge of strategists. However, it does seem that the ski resort industry has a particular type of recipe in place, and this paper has identified some of the aspects contributing to the overall recipe. The objective of isolating the industrial recipe is not to create a comprehensive and definitive understanding of the industry, but rather to build on a base of knowledge as to how the industry functions. This paper was also intended to contribute to the reader's understanding of the ski resort industry, and it is hoped that this has been accomplished. As mentioned during the theoretical discussion of the industry recipe theory, the key objective in undertaking to isolate the industrial recipe is that its constructs and procedures serve to develop "an important foundation of understanding an industry's evolution". Just as it seems illogical to solely make strategy decisions based on one narrow aspect of a firm's business, it would also be foolish to rely on an industrial recipe as the most complete or accurate explanation of how business is conducted – especially since the industry recipe, by nature neither detailed nor prescriptive, cannot be thought of as simply as the term "recipe" might imply. Possessing complete knowledge of an industry is impossible, but each element of an industry for which one has an understanding contributes to one's ability to predict how that industry might evolve.

Regarding the evolution of the industrial recipe in the ski resort industry, there are some interesting points to consider. For example, the industrial recipe in the ski resort industry might have become more diffuse since the entry of major hotel and real estate firms into the business. Before these firms really developed a significant presence within the ski resort industry, intra-industrial competition was essentially the only real source of competition in the industry. If firms were focusing primarily on competition from within the industry, this could have served to constrain strategists to establish a bounded rationality that did not extend past the industry itself. If one agrees with the hypothesis that every industry has its own unique recipe, then that should necessarily include the real estate and hotel business as well. In that case, the real estate or hotel industries must have brought their own recipes into their management of the ski resorts that they constructed or acquired, and this could have influenced the recipe of the ski resort industry as these firms began to claim market share.

This paper has also sought to build a better context of understanding behind decisions made within the ski resort industry. This paper concludes that there seems to be a significant degree of imitation among firms in the ski industry, even in spite of regional

nuances, and it would be interesting in future research to look more deeply into how imitation affects the recipe's evolution, or how the industrial recipe impacts the dynamics of imitation.

Ideally this paper would have been written with a larger number of respondents, and one flaw is that the sample could be viewed to be too small. However, it would require great lengths of time to expand the number of sources in conducting this type of multiple case study, and perhaps result in loss of depth. Another flaw is the fact that the questions were written based on what was expected to yield evidence of the industrial recipe, rather than allowing those actually involved with the industry to personally reveal where the best evidence of the recipe might exist (getting more to the root of the tacit knowledge). This could be improved upon by complementing the data gathered for this paper with more responses, or by conducting a set of unstructured interviews (more in line with how Spender approached the problem) to yield information that might not be otherwise attainable.

In general though, the recipe might become more apparent if the resorts were considered along their regional subdivisions (European resorts versus North American resorts). Some of this can be attributed to the fact that these groupings of resorts bear some distinctive structural elements, many to do with terrain features and the environment within which they are located, thus being impossible to change. Even despite the vast differences between the firms responding to the survey, some common patterns emerged, and the patterns are by and large consistent with the expected results – and consistent with other complementary sources as well. Whether this can be determined to result from the “incommensurability” of certain decisions specifically is difficult to say, but this was not deliberately isolated even in Spender's empirical analysis in support of the theory; Spender only identifies incommensurability as a hypothesized source of why the industry recipe might arise. It is highly unlikely that a manager faced with an uncertain situation would be able to themselves identify that they are being faced with the specific problem of incommensurability in making their decision, and thus this poses problems for researchers in seeking to develop a method to best isolate these decisions.

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Questionnaires received from:

Alta (USA)

Alyeska (USA)

Cannon Mountain (USA)

Lech-Zürs (Austria)

Mürren-Wengen-Lauterbrunnen (Switzerland)

Owl's Head (Canada)

Red Lodge Mountain (USA)

Val Gardena (Italy)

APPENDIX A: Questionnaire distributed to ski resorts via e-mail.

Which ski resort do you work for:

Please briefly describe yourself and your position within the company you work for, to provide some background information to the survey results:

Rank the importance of the following factors to the success of your ski resort, **from a marketing perspective**: (1-9)

- ☐ Lift capacity
- ☐ Lodging
- ☐ Real estate development ("second homes", condominiums)
- ☐ Terrain (Acreage)
- ☐ Terrain (Variety)
- ☐ Location
- ☐ Snowmaking
- ☐ Cost of Lift Ticket
- ☐ Off-slope Leisure (après-ski, restaurants, spas)

Customer Types: **Which customer, if you had to select one particular target group, would you consider to be the most crucial to your resort?**

(1) *No-frills* ----- *Luxury* (10)

☐ (Enter a number between 1-10)

(1) *Day trip* ----- *Destination* (10)

☐ (Enter a number between 1-10)

(1) *Single* ----- *Family/Group* (10)

☐ (Enter a number between 1-10)

(1) *Children* ----- *Seniors* (10)

☐ (Enter a number between 1-10)

Rate the level of importance of each of the following on a scale of 1-10 for your particular resort, 1 denoting **LEAST** important, 10 denoting **MOST** important:

- ☐ Expansion ability/potential (e.g., availability of developable land, or potential to acquire neighboring ski resorts)
- ☐ Maximization of capacity in operation (ensuring lifts are being utilized when deciding on whether to operate them)
- ☐ Maintaining growth in size of area, both in area and revenue
- ☐ Maintaining the most current snowmaking technology
- ☐ Maintaining the most current lift technology
- ☐ Maintaining the most current maintenance technology (grooming, pipe dragons, etc.)
- ☐ Attracting new customers (i.e. first time skiers or snowboarders)

For the following section, the questions pertain to your views (or your resort's views) of your roughly 2-4 closest competitors, as they are perceived to be within your firm.

Which elements of your competitors businesses do you view to be most significant in **their** ability to leverage a threat against your resort? Please **rank** the following factors (1-9):

- ☐ Lift capacity
 - ☐ Lodging
 - ☐ Real estate development ("second homes", condominiums)
 - ☐ Terrain (Acreage)
 - ☐ Terrain (Variety)
 - ☐ Location
 - ☐ Snowmaking
 - ☐ Cost of Lift Ticket
 - ☐ Off-slope Leisure (après-ski, restaurants, spas)
-

The following section concerns your personal view of the ski industry, 20 years from today:

☐ Will the ski resort industry be:

(1) less consolidated / (2) the same / (3) more consolidated

☐ Will the average customer have (proportionally):

(1) lower income than now / (2) no change / (3) higher income than now

This section deals with your view of shifting regional growth (or lack thereof) within the ski resort industry:

☐ *US Rockies:*

(1) decreased growth / (2) no change / (3) increased growth

☐ *Coastal North America* (California, Oregon, Washington, British Columbia, Alaska):

(1) decreased growth / (2) no change / (3) increased growth

☐ *Canadian Rockies:*

(1) decreased growth / (2) no change / (3) increased growth

☐ *Eastern North America:*

(1) decreased growth / (2) no change / (3) increased growth

☐ *Alps:*

(1) decreased growth / (2) no change / (3) increased growth

☐ *Eastern Europe* (Slovenia, Bulgaria, Russia):

(1) decreased growth / (2) no change / (3) increased growth

☐ *Scandinavia:*

(1) decreased growth / (2) no change / (3) increased growth

☐ *Central Asia* (Iran, India, Pakistan):

(1) decreased growth / (2) no change / (3) increased growth

☐ *Australia/NZ:*

(1) decreased growth / (2) no change / (3) increased growth

☐ *South America:*

(1) decreased growth / (2) no change / (3) increased growth

☐ *Japan:*

(1) decreased growth / (2) no change / (3) increased growth

Into which of the following areas does your resort plan to place **greater emphasis** in the medium term (5-10 years) (mark with an X):

- ☐ Lift capacity
- ☐ Lodging
- ☐ Real estate development (“second homes”, condominiums)
- ☐ Terrain (Acreage)
- ☐ Terrain (Variety)
- ☐ Location
- ☐ Snowmaking
- ☐ Cost of Lift Ticket
- ☐ Off-slope Leisure (après-ski, restaurants, spas)

Rate the level of **importance of the following sources of information** for your ski resort: (especially with regard to developing strategy)

- ☐ Ski resort association events (trade fairs, expos)
- ☐ Skiing/Snowboard Magazines (targeted at consumers)
- ☐ Ski Resort Management Magazines
- ☐ Snowsports focused internet forums
- ☐ Private market research firms
- ☐ Press releases/Annual reports of competitors
- ☐ Knowledge transfer from movement of employees (hiring of employees who have worked for competitors)

Consider the hypothetical existence of an ideal business model in the ski resort industry. On which points might this model be differentiated from the model which your resort employs? Please select a maximum of FOUR of the options that you would like to change (even if they are realistically infeasible), with M for MORE and L for LESS.

- ☐ Lift capacity
- ☐ Lodging – variety
- ☐ Real estate development –variety (“second homes”, condominiums)
- ☐ Terrain (Acreage/Variety)
- ☐ Location – distance to
- ☐ Snowmaking
- ☐ Snow maintenance operations
- ☐ Cost of Lift Ticket
- ☐ Off-slope Leisure (après-ski, restaurants, spas)
- ☐ Attracting new customers (first time skiers/snowboarders)

In your opinion, rate to which degree you agree or disagree with the following statements, (1) meaning “STRONGLY DISAGREE”, and (10) meaning “STRONGLY AGREE”:

☐ Promotion and/or hiring for top level positions at this resort is done generally from within this firm, or within the ski industry.

☐ Firms within the ski resort industry are very likely to strategically imitate one another

☐ The vast majority of competition in the ski resort industry is for the same segment of customers

☐ The ski industry will remain more regionally based, less global

☐ This ski resort would most likely be successful if it were relocated elsewhere in the world

☐ Continual expansion is crucial to the competitive success of this ski resort

If you have any additional information you would like to offer, or any explanations you feel are necessary to support your responses, please provide them below.