Problem Statement

How can Big Mountain ("the Company") revise its pricing strategy to increase annual cash flow by at least $1.54 million over the next year? The question arises from the Company's recent investment in a chair lift that will increase operating expenses by $1.54 million. The solution to this problem is a function of Big Mountain's ability to increase its prices relative to competitors, while maintaining consumers' perception that Big Mountain offers a strong value proposition.

Context

Big Mountain is a ski resort that has based its pricing structure on the "average" ski resort. Management suspects they are not capitalising on pre-existing investments, and they are unsure of what investments are more important than others. While the idea of "cost cuts" has been floated, the Company just incurred an additional $1.54 million in operating costs. If operating costs were truly the problem, this investment would never have made sense. Increasing profitability, therefore, must come from the top line via an upward adjustment in average ticket prices.

Criteria for Success

The success of any changes to Big Mountain's pricing strategy will appear on the statement of cash flows as a $1.54 million increase in cash flow from operations (a/k/a "CFO"). Why not revenue? Revenue fails to provide an adequate picture of the success or failure of a change in pricing strategy, as it ignores the costs incurred to generate additional revenue.

Unlike management, who believe cost cuts are in order, we believe the company's use of a "cost plus" pricing strategy is the heart of the problem. Big Mountain sees itself as a premium destination, yet they charge an average price per ticket plus an arbitrary margin. With the data already provided, we can determine the most salient value drivers for Big Mountain, compare them to its competitors, and revise Big Mountain's pricing strategy. This change in sales figures will flow through the income statement and, ultimately, change the Company's CFO on its statement of cash flows.

Scope of the Solution

We are interested in revising Big Mountain's pricing strategy. The data provided allow us to compare Big Mountain to its competitors along key value drivers including, but not limited to, 1) the number and type of lifts (e.g., "fastEights", "fastSixes," "quads"), 2) the number and variety of runs, 3) elevation (e.g., "base", "summit," "vertical drop"), 4) total skiable area, 5) days open this year and projected days open next year, and 6) current costs for tickets of all types.

Constraints within the Solution Space

We know the data provided can identify key value drivers at Big Mountain, but we do not have access to the competitors' internal financials. Thus far, we have constrained the solution space to determining the relative value of a ticket at Big Mountain relative to other ski resorts. One could argue that the study should contemplate other, non-ski-related venues (e.g., movie tickets, theme park tickets) at which potential skiers could spend their entertainment dollar. Lastly, time is always a

constraint, and we assume management wants their revised pricing strategy in place before ski season begins.

Key Stakeholders

CEO, CFO, COO
Staff who maintain and run the resort
Big Mountain patrons

Required Data

1. Financial data for the past five years
2. The full data set of which we have already seen a snippet
3. Any competitive intelligence maintained by Big Mountain

The information above will help us identify the most influential variables driving the average consumer's decision to ski at Big Mountain. We can assume these value drivers are the same across all ski resorts in the area and, thus, rank where Big Mountain sits relative to its peers. We could use the findings to either take a relative value approach, or we can model ticket price as a function of the variables most closely tied to one's decision to ski. This will enable Big Mountain to use a data-driven approach to pricing.