Guided Capstone Project Report – Big Mountain Resort

Context

Big Mountain Resort is a ski resort located in Montana with about 350,000 people skiing or snowboarding every year at the resort. The resort's strategy is to price its tickets at a premium above the average price of resorts in its market segment. The business suspects that it is not capitalizing on its facilities by basing its prices on the market average. This approach does not optimize for Big Mountain's facilities and consequently hampers investment strategy.

The goal of this study is to provide guidance to the business on its pricing strategy and facility investment plans by modelling ticket price based on a number of facilities at resorts in the market segment. This model will also enable the business to get a sense of what resort facilities matter most to visitors and test which ones they are likely to pay more for. The following paragraphs summarise the findings and recommendations from this study.

Study findings

The study analysed facilities and pricing information for 330 resorts including Big Mountain across all states which were treated equally. Comparing Big Mountain's price and facilities with other resorts in the same state shows that Big Mountain has better than average facilities. The results of modelling based on market segment data indicates that Big Mountain has a potential pricing upside on current price ranging between +$8.45 to +$29.

This equates to an average ticket price of $99.74 representing an annual incremental revenue opportunity ranging between $14.78 million to $32.8million assuming 350,000 customers purchase 5 day passes. It is worth noting that these figures do not factor in price elasticity of demand and relies on the assumption that other resorts are pricing accurately according to what the customer is willing to pay.

The study highlighted 4 key features that impact ticket prices the most which in order of impact are: Fast Quads, Runs, Snow-making and Vertical Drop. The below recommendations are based on scenarios flexing these features.

1. Permanently close down up to 10 of the least used runs. Closing one run has no impact with closing 10 runs reducing revenue by over $4 million. The model indicates that closing 3 runs is the same as closing 4 & 5 with over 5 runs leading to over 50% of the drop in revenue. Consider further profitability modelling of this scenario before testing run closures.

2. Increase the vertical drop by adding a run to a point 150 feet lower down but requiring the installation of an additional chair lift to bring skiers back up, without additional snow making coverage. The model predicts a support of +$0.60 for ticket price representing $1.04 million annually

3. Consider incorporating price elasticity into the pricing uplift analysis. The model does not factor the customer's reaction to price increases. Elasticity can be sampled through promotions and tests to further validate the scale of price increases that can be supported.

4. Consider incorporating profitability into the model. The modelling exercise did not consider the bottom line impact of price changes coupled with any potential investments. Building this in would enhance the model's ability to optimise revenue and profitability

5. Consider evaluating price increases in steps to the model's suggested value of $99.74