

RUSSKI ADVENTURES

Ian Sullivan prepared this case under the supervision of Professor Paul Beamish solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On July 15, 1991, Guy Crevasse and Andrei Kakov, the two major partners in Russki Adventures (Russki), contemplated their next move. They had spent the last year and a half exploring the possibility of starting a helicopter skiing operation in the USSR. Their plan was to bring clients from Europe, North America, and Japan, to a remote location in the USSR to ski the vast areas of secluded mountain terrain made accessible by the use of helicopters and the recent business opportunities offered by "glasnost".

During the exploration process, Crevasse and Kakov had visited a number of potential locations in the USSR, including the Caucasus Mountains near the Black Sea, and the Tien Shen and Pamir ranges north of Pakistan in the republics of Kazakhstan and Tadzhikistan, respectively. After close inspection of the three areas, and consideration of many issues, the partners had decided upon the Caucasus region.

After almost two years of planning and research, the thought of making a solid commitment weighed heavily on their minds. Their first option was to accept the partnership offer with Extreme Dreams, a French company that had started a small ski operation in the Caucasus Mountains during the 1991 season. Their second option was to enter a partnership with the USSR's Trade Union DFSO and a Russian mountaineer, and establish their own venture in a Caucasus Mountains area made available to them by a Soviet government agency. Their final option was to wait, save their money and not proceed with the venture at this time.

THE PARTNERS

Andrei Kakov, 27, was born in Russia. His family emigrated to Italy, and then to Canada when he was 17 years old. After completing an undergraduate degree in economics at the University of Toronto, he worked with Sebaco for two years before enrolling in 1989 in the Masters of Business Administration (MBA) program at the University of Western Ontario (Western). Sebaco was a Canadian-Soviet joint venture that, since 1980, had been facilitating business ventures in the Soviet Union by acting as a liaison between the foreign firms and the different levels of Soviet government and industry. This job gave Kakov extensive contacts in the Soviet Union and in many of the firms, such as McDonald's and Pepsico, which were doing business in the Soviet Union. Kakov was fluent in Russian, Italian, English, and Japanese.

Guy Crevasse, 28, had an extensive ski racing career which began at a young age and culminated in the World Cup with the Canadian National Ski Team. His skiing career took him to many countries in Europe, North America, and South America. During his travels he learned to speak French, Italian, and some German. After retiring from competitive ski racing in 1984, Crevasse remained active in the ski industry as a member of the Canadian Ski Coaches Federation. He led the University of Western Ontario Varsity Ski Team to four consecutive Can-Am titles as a racer/coach while pursuing an undergraduate degree at Western. Before returning to Western to complete an MBA, Crevasse worked for Motorola Inc. in its sales and marketing departments, where he worked on key accounts, set up product distribution channels, and developed product programs with original equipment manufacturers in the automobile industry. Crevasse had also worked with a ski resort planning and development firm on a number of different projects.

OVERVIEW OF THE SKIING AND HELICOPTER SKIING INDUSTRIES

Development of the Ski Resort Industry

In 1990, the world wide ski market was estimated at 40 million skiers. The great boom period was in the 1960s and 1970s when growth ran between 10 to 20 per cent annually. However, the growth stagnation which began during the 1980s was expected to continue during the 1990s. Some of this decline was attributable to increased competition for vacationers' time, the rapidly rising real costs of skiing, and baby boom effects. The only growth segment was female skiers, who represented 65 per cent of all new skiers. The total revenue generated by ski resorts in the United States for 1990 was estimated at \$1.5 billion. This figure did not include any hotel or accommodation figures.

Prior to World War II, most skiing took place in Europe. Since there were no ski lifts, most skiing was essentially unmarked wilderness skiing, requiring participants who enjoyed the thrill of a downhill run to spend most of their time climbing. There were no slope grooming machines and few slopes cut especially for skiing.

The development of ski lifts revolutionized the sport, increased the accessibility to many previously inaccessible areas, and led to the development of ski resorts. After the skiing market matured, competition for skiers intensified and resort operators shifted their efforts away from the risk sport focus towards vacation and entertainment. In order to service this new market and to recover their large capital investments, the large resorts had developed mass market strategies, and modified the runs and the facilities to make them safer and easier to ski in order to serve a greater number of customers.

Introduction of Helicopter Skiing

This change in focus left the more adventurous skiing segments unsatisfied. For many, the search for new slopes and virgin snow was always a goal. The rapid rise in the popularity of skiing after World War II increased demand on existing ski facilities and thus competition for the best snow and hills became more intense. Those who wanted to experience the joys of powder skiing in virgin areas were forced to either get up earlier to ski the good snow before the masses got to it, or hike for hours from the top of ski areas to find new areas close to existing cut ski runs. Hiking to unmarked areas was tiring, time consuming, and more dangerous because of the exposure to crevasses and avalanches.

This desire to ski in unlimited powder snow and new terrain away from the crowds eventually led to the development of the helicopter skiing industry. The commonly held conception was that powder skiing was the champagne of all skiing, and helicopter skiing was the Dom Perignon. The first helicopter operations began in Canada. From the beginning of the industry in 1961, Canadian operations have been typically regarded as the premium product in the helicopter skiing industry for many reasons, including the wild, untamed mountains in the western regions. For many skiers worldwide, a trip to a Western Canadian heli-ski operation is their "mecca."

Operators used helicopters as a means of accessing vast tracts of wilderness areas which were used solely by one operator through a lease arrangement with the governments, forest services, or regional authorities. The average area leased for skiing was 2,000 to 3,000 square thousand kilometres in size, with 100 to 150 runs. Due to the high costs in buying, operating, maintaining, and insuring a helicopter, the vast majority of operators leased their machines on an as-needed basis with rates based on hours of flight time.

In the 1970s and early 1980s, the helicopter skiing industry was concentrated among a few players. During 1990 and 1991, the number of adventure/wilderness skiing operators increased from 41 to over 77. The industry could be divided between those operations that provided day trips from existing alpine resorts (day-trippers) and those operations that offered week long trips (destination-location).

By 1991, the entire global market for both day-trippers and destination-location was estimated to be just over 23,000 skiers per year, with the latter group representing roughly 12,000 to 15,000 skiers. Wilderness skiing represented the largest area of growth within the ski industry in the 1970s and 1980s. Market growth in the 1980s was 15 per cent per year. Only capacity limitations had restrained growth. The addictive nature of helicopter skiing was illustrated by the fact that repeat customers accounted for over 75 per cent of clients annually. The conservative estimate of total margin available to the destination-location skiing industry (before selling and administration costs) was US\$12.4 million in 1990. Table 1 gives typical industry margin figures per skier for helicopter skiing.

Table 1: Helicopter Skiing Margin per Skier Week (North America)

Price	\$3,500	100%
Costs: Helicopter*	1,260	36%
Food & Lodging	900	26%
Guides	<u>100</u>	<u>3%</u>
Total Operating Costs	2,260	65%
Total Margin	1,240	35%

** Note: Helicopter costs were semi-variable, but were based largely on a variable basis (in-flight hours). The fixed nature of helicopter costs arose through minimum flying hours requirements and the rate negotiations (better rates were charged to customers with higher usage). On average, a helicopter skier used seven hours of helicopter time during a one week trip. A typical all-in rate for a 12 person helicopter was \$1,800 per flying hour. Hence the above figure of \$1,260 was calculated assuming full capacity of the helicopter using the following: \$1,800 per hour for seven hours for 10 skiers + pilot + guide.

From a cost standpoint, efficient management of the helicopter operations was essential. Table 2 provides a larger list of industry key success factors.

Table 2: Helicopter Skiing Industry Key Success Factors

Factors within Management Control:

- establishing a safe operation and reliable reputation
- developing great skiing operations
- attracting and keeping customers with minimal marketing costs
- obtaining repeat business through operation's excellence
- providing professional and sociable guides
- obtaining operating permits from government
- managing relationships with environmentalists

Location Factors:

- accessible destinations by air travel
- available emergency and medical support
- favourable weather conditions, i.e. annual snowfall, humidity, altitude
- appropriate daily temperature, sunshine, daylight time
- suitable terrain
- quality food and lodging

Combination of Resort and Helicopter Skiing

The number of resorts operating day facilities doubled in 1990. Competition in the industry increased for a number of reasons. Many new competitors entered because of the low cost of entry (about \$250,000), low exit barriers, the significant market growth, and the rewarding margin in the industry. The major growth world-wide came mainly from the day operations at existing areas, as they attempted to meet the needs for adventure and skiing from their clientele. The major concentration of helicopter operators was in Canada; however, competition was increasing internationally. Industry representatives thought that such growth was good because it would help increase the popularity of helicopter skiing and introduce more people to the sport.

In Canada, where helicopter skiing originated, the situation was somewhat different. Out of the twenty wilderness skiing operations in Canada in 1991, only two were tied to resorts. However, for the rest of the world, roughly 80 per cent of all the operations were located and tied closely to existing ski operations. Both Crevasse and Kakov realized that there were opportunities to create partnerships or agreements with existing resorts to serve as an outlet for their helicopter skiing demand.

RUSSKI'S RESEARCH OF THE HELI-SKI INDUSTRY

Profile of the Skier

The research that the Russki group had completed revealed some important facts. Most helicopter skiers were wealthy, independent, professional males of North American or European origin. Increasingly, the Japanese skiers were joining the ranks. The vast majority of the skiers were in their late 30s to mid 60s in age. For them, helicopter skiing provided an escape from the high pace of their professional lives. These people, who were financially secure with lots of disposable income, were well educated and had done a great many things. Helicopter skiing was a good fit with their calculated risk taker image. Exhibit 1 describes a typical customer. It was not unusual for the skiing "addict" to exceed 100,000 vertical feet of skiing in a week. A premium was then charged to the skier.

Buyers tended to buy in groups rather than as individuals. They typically had some form of close association, such as membership in a common profession or club. In most cases, trips were planned a year in advance.

Geographically, helicopter skiers could be grouped into three segments: Japan, North America (USA and Canada), and Europe. In 1991, they represented 10 per cent, 40 per cent (30% and 10%), and 50 per cent of the market respectively. There were unique features associated with each segment and Crevasse and Kakov knew that all marketing plans would need to be tailored specifically to each segment. In general, they felt that the European and North American customers placed more emphasis on the adventure, were less risk adverse, and had a propensity to try new things.

Analysis of the Competition

Crevasse and Kakov had thought that more detailed information on their competitors would help answer some of their questions. During the winter of 1991, they conducted a complete physical inspection of skiing and business facilities of many helicopter skiing operations. As a result of the research, Russki determined that the following companies were very significant: Rocky Mountain Helisports (RMH), Cariboo Snowtours, and Heliski India. RMH and Cariboo Snowtours were industry leaders and Heliski India was another new entrant trying to establish itself in the market. A close analysis had provided Crevasse and Kakov with some encouraging information.

Rocky Mountain Helisports, the first operation to offer helicopter skiing, was started in 1965 in Canada by Gunther Pistler, a German immigrant and the "inventor" of helicopter skiing. In 1991 his operation, servicing 6,000 skiers, represented roughly 40 to 50 per cent of the world-wide destination-location market. He followed a strategy which cloned small operating units at seven different sites in the interior of British Columbia. RMH's strategy was designed to offer a product that catered to a variety of different skier abilities and skiing experiences. The company serviced all segments that could afford the \$4,000 price of admission, including introducing less able skiers to the experience of helicopter skiing. Compared with the revenue of traditional Canadian ski resorts, such as Whistler Resorts in British Columbia, RMH's gross revenue for the 1990 season was larger than any resort in Canada at over \$21 million. RMH, which had developed a loyal following of customers in North America and Europe, enjoyed significant competitive advantage because of proprietary client lists, a loyal consumer base, and economies of scale due to its large size.

Cariboo Snowtours, the second largest operation in the world, was established by another German immigrant, Fritz Mogler, at Blue River, British Columbia. In 1991, Cariboo Snowtours served over 2,000 skiers, a number which represented roughly 18 per cent of the market. Mogler developed a strategy of one mega-operation and enjoyed economies of scale in the operations area. Similar to RMH, Cariboo Snowtours had a loyal

following from North America and Europe, and catered to a variety of skiing abilities and price levels.

Heliski India was a new entrant to the helicopter skiing business. In 1990, the first year of operation, the company serviced 30 skiers in a three week period, increasing to 120 skiers during the 1991 season. Heliski India followed a more exclusive and adventurous strategy aimed at the experienced helicopter skiing enthusiast. To cover the high costs and low volume, the operation charged \$5,500.

Russki estimated margins and profit dynamics for these three operations. Exhibit 2 contains the projection for RMH. These projected statements were best guess estimates based on discussions with a wide range of industry experts, managers, and investors. Cariboo Snowtour's total profit was estimated as slightly over \$2 million, while Heliski India was projected to turn a small profit. Crevasse and Kakov found these figures very encouraging.

LAND USAGE AND ENVIRONMENTAL CONCERNS IN THE INDUSTRY

The helicopter skiing industry was facing some land use issues which were tough on many operators, but which also created new opportunities on which Russki wanted to capitalize. Of particular concern to many helicopter skiing operations, especially European, were pressures from environmentalists who were concerned that noise from helicopters could adversely affect wildlife habitat, and start avalanches.

As a result, severe downsizing or complete shutdown of existing European operations had recently occurred, leaving only eight helicopter skiing operations in continental Europe in 1991. The one Swiss and one Austrian operation were under pressure to close, and a 1992 season for the latter was already doubtful. The six small operations in Italy, which worked in conjunction with existing ski areas, were basically the only helicopter skiing available in Western Europe. Flying for skiing in France was illegal due to environmentalists' concerns about a negative impact on the limited areas in the Alps. In Sweden, a few companies operated with a shorter season due to the high latitude, and provided less expensive daily services for visitors who skied within the existing lift systems, but week-long packages were not part of their program.

The North American industry had not been exposed to the same environmental and limited area constraints as the European, mainly because of the vast size of the mountain ranges and good relationships with all interested parties. The American operators, who were associated mostly with the large ski areas, had good working relationships with the forest services, which controlled the areas and issued the working permits.

Canadian operators received their permits from the Ministry of Lands and Forests and the provincial governments. Helicopter skiing had been encouraged because of its ability

to bring money into the regions. Due to the vast size of the Canadian mountain ranges and the limited competition for the land use, pressure on the operators in any form had been minimal or nonexistent.

Crevasse and Kakov realized that the environmental and capacity constraints in Europe provided helicopter skiing operators worldwide with significant opportunities. Thus far, it had been mainly the North American operators who had capitalized on this situation, and Russki wanted to find a way to capture unsatisfied demand.

RUSSIAN ENVIRONMENT

The Political Environment

Crevasse and Kakov knew that starting a venture in the Soviet Union at this time would be complex. The political situation was very unstable in July 1991, and most expert predictions were not encouraging, including the possibility that the Soviet Union might not exist in the near future. There was a major power struggle going on: the hardliners, most of whom were from the old guard of the Communist Party, were trying to hang on to power; and others, such as Russian President Boris Yeltsin, wanted sweeping democratic changes. The new buzz word on the streets was not "glasnost" or "perestroika" but "razgosudarstvo", which refers to the breakup of the Soviet state. Secession pressures from many of the republics, such as the Baltics, tested the mettle of the political leaders, perestroika, and the strength of the union itself.

On a regional basis, the future status of some of the regions and republics where the physical conditions met the requirements for helicopter skiing, such as Georgia and Kazakhstan, was unknown. However, Crevasse and Kakov were encouraged by the fact that experts predicted that, no matter what the state of the whole union, Russia would remain intact and continue to function as a unit. This was one of the many reasons why the Russian Republic was selected for the potential initial location.

The Economic Environment

The economy of the Soviet Union was in dire straits. Confusion, lack of focus, and compromise, were crippling the process of change from a government controlled economy to a market based one. Real Gross Domestic Product was projected to drop anywhere from three to 11 per cent or more in 1991. Soviet President Mikhail Gorbachev had been given authority to overhaul the economy. However, what changes he would initiate, and whether he still had the support and power to see the process through to completion, were questionable.

Therefore, developing a helicopter skiing operation in the Soviet Union presented Russki with a difficult business environment. Marshall Goldman, Director of Harvard's Russian

Research Centre, summed up part of the dilemma facing any new venture in the Soviet Union at this time:

for those entrepreneurs who think chaos is an ideal environment, this is a perfect time, but for others it is a scary time. The society is collapsing. The economy — both the marketing portion and the planning and administrative sector — is a shambles.

Russki's research indicated that only 20 per cent of the 1,300 joint ventures signed since 1987 were operational because of currency exchange problems, bureaucratic delays, and lack of legal framework to make agreements. Also, it had been very hard for the few operational ventures to realize a return on their investment. In 1991, any business in the Soviet Union had to be viewed with a long term bias in mind. The big question for many businesses was getting hard currency out of Soviet ventures because there was no international market for the Soviet currency, the ruble. Those who were operating business ventures in the Soviet Union suggested to Russki that it was not an area for the faint hearted to tread. PlanEcon's Keith Crane advised that, "even after the agreement has been signed it can be very difficult to get down to specifics and venture into working entities. It took McDonald's 14 years to do it". Due to the political and economic realities of the Soviet environment, firms were making deals with republics, with city agencies, directly with Soviet firms or factories, and sometimes with all of them. More and more frequently, firms had to go to the enterprise level to find the right people and partners. Additionally, foreign firms found the business environment difficult because the concept of business that Westerners had was very different from the one that the Soviets had after 70 years of a controlled Marxist economy. The addition of cultural differences made for a demanding business climate. Russki thought long and hard about the fact that doing business in the Soviet Union had never been easy. In 1991, as the nation wrestled with the gargantuan task of restructuring the country, most firms were finding it more confusing than ever. No road map or blueprint for business development existed.

In addition, without the significant financial resources of a highly capitalized firm that could overlook short term profits for long term gains, Crevasse and Kakov realized they would be in a more exposed position if they decided to go ahead with the venture. Political unrest or civil war in the Soviet Union, especially in Russia, could destroy their business and investment. Without a steady supply of repeat and new customers, the venture would be finished as an on-going concern. They knew that credibility from an existing operation or established name would make the task of attracting customers to an uncertain environment easier but, in a time of crisis, would guarantee nothing.

The Opportunities

Despite all the negatives, Crevasse and Kakov thought that helicopter skiing in the Soviet Union would be developed on a large scale in the next few years for a number of reasons. The sport was experiencing tremendous growth, environmental pressures were great in Europe, and capacity at all of the good locations was already stretched.

Therefore, a current opportunity existed in the industry. The partners speculated about how fast they could proceed with their business plan and whether they were exposing themselves to too much risk for the return. Would the opportunity still exist in a couple of years? Could a business of this nature function with the future of the Soviet Union being so unstable? The complete answer to these questions was unknown. Crevasse and Kakov felt as if they were doing a case back at business school where someone had left out half the case facts. Regardless, this was a real life situation, and a decision had to be made on the knowledge available.

After looking closely at their competition and the general environment, they concluded that, despite the instability in the Soviet environment, there were a number of strong points that suggested that they might be able to make a venture of this nature work. On a positive note, the Canadian Prime Minister, Brian Mulroney, had recently signed the Foreign Investment Protection agreement to ensure stability of Canadian ventures in the USSR. Also encouraging to entrepreneurs wanting to enter the Soviet Union was the new law that allowed for full ownership of Soviet subsidiaries by foreign firms. Experts suggested that these agreements would be honoured by whatever form of government was in place.

The critical factor in the minds of the Russki partners was the fact that they would be taking in all revenue in hard currency. Thus, the absence of profit repatriation risk decreased this business exposure dramatically. Russki would operate all of the sales and administrative tasks outside of the Soviet Union and, as a result, all of its revenues would be collected in the West in hard currency, thereby eliminating the currency risk completely. This was a position that would be envied by any firm attempting to do business in the Soviet Union. Also, Russki was attractive to all levels of government because the venture would bring desperately needed hard currency into the country.

Mt. Elbrus, the highest peak in Europe and the Caucasus mountain region, was where Russki had options to locate. It was well known throughout Europe and its high altitudes and warm climate offered ideal skiing conditions. Because a strong allegiance already existed between the European customers and the Canadian operators, Russki's Canadian background would sit well with customers. In addition, Russki would deliver comparative cost advantage for the Europeans in a Soviet operation, as shown in Exhibit 5, even if Russki charged similar costs for a week of skiing.

The uniqueness of the region and mystique of Russia offered an interesting alternative for tourism. Russia had a 2,000 year history and a rich culture, which was reflected in the traditions of the local people and the architecture. Furthermore, the Black Sea area which was close to the Caucasus Mountains had been used as a resort area for centuries. The dramatic changes during the early 1990s in the Soviet Union and Eastern Europe had resulted in tremendous interest in these areas.

Since Russki already had the money required for startup, the company could move quickly without having to take time to raise the capital. The low cost of leasing Soviet helicopters, pilot salaries, service, and fuel as compared with North America was a distinct advantage, and one of the original attractions of Russia. Negotiations with the Russians had shown that this cost advantage was obtainable. The high costs of helicopter operations represented the largest part of the operating costs in helicopter skiing. Lower helicopter costs in Russia would result in cost savings in the range of 50 per cent or more in this expense relative to North American competitors.

The Russki management team was strong. Both men were business school trained individuals with international work experience, language skills, and ski industry background. Additional hard-to-copy assets, including access to the "Crazy Canucks" (a World Cup ski team) and European ski stars as Guest Guides, and Soviet knowledge, would be tough for anyone to match in the short term.

POSITIONING AND MARKETING OF RUSSKI ADVENTURES

Positioning and Pricing

The Russki team had considered two positioning strategies, a high and low pricing strategy. A premium pricing and service strategy like that of Heliski India at around US \$6,000 would require superior service in every aspect of the operation. The lower priced strategy at \$3,500 to \$4,000 was \$500 below the US\$4,000 to US\$4,500 pricing of Canadian operators like RMH for the initial season. The second positioning strategy would be designed to target a larger market and concentrate on building market share during the first few years, allowing more time and flexibility to move down the learning curve.

Even with parallel pricing of US\$4,000, the "all in" (as shown in Exhibit 5) would give a cost advantage to the European and Japanese customers. Crevasse and Kakov knew that this situation would help challenge customers' traditional allegiance to the Canadian operators.

Based on a "best guess scenario," profit models for the two pricing strategies using conservative sales levels are shown in Exhibits 3 and 4. Though the higher priced strategy was more lucrative, Crevasse and Kakov felt that they had a higher capacity to

execute the lower price strategy during the first few years of operations regardless of which partner they chose. They were not sure that they could meet the sales volume for the premium strategy as shown in Exhibit 4, regardless of the realization of savings from use of Russian helicopters. (In the unlikely event that the projected helicopter saving could not be realized, the discounted cash flow in Exhibit 3 dropped from \$526,613 to \$293, and in Exhibit 4 from \$597,926 to \$194,484.)

These estimates were extremely conservative. One helicopter could service 44 people per week (four groups of ten skiers and one guide). All projections for the profit dynamics were made with the number of skiers per week below capacity. In addition, the first two years were estimated using 10 and 15 skiers respectively. In subsequent years, the number of skiers was increased, but never to full capacity, in order to keep estimates conservative. Russki realized that operating at or close to capacity on a weekly basis would increase its efficiency and returns dramatically.

Russki also built in an additional \$250 in the variable costs per skier per week for contingent expenses such as the cost of importing all food stuffs.

If Russki proceeded with the lower priced approach, it would position its product just below the industry standard at \$4,000 initially. The intent would be to attack the market as the Japanese automobile manufacturers had done when entering into the North American luxury car market.

Crevasse and Kakov were encouraged by the numbers because the conservative sales estimates using the low price positioning strategy would allow them to generate a profit in the second year of operations if they could realize the projected savings with Russian helicopters. However, if they didn't, the strategy would still show a profit in the third year. They thought that the return on their investment would be sufficient as far as the internal rate of return was concerned, but they wondered whether the risk of the Soviet environment should increase their demands even more.

Product

Crevasse and Kakov planned to model the Russki product after the RMH operation, which was the best in the industry, by evaluating what RMH had built and improving on its processes. Although Russki wanted very much to differentiate itself from the rest of the industry, the partners were not sure how far they could go within the constraints of the Soviet environment.

Geographical Distribution

Although Russki would focus on the European and North American markets, the former segment was most important. Both Crevasse and Kakov realized that they would need a strong European operation in marketing and sales if they were going to capitalize on the opportunity available. Developing these functions quickly, especially in Europe which was not their home turf, was a major concern. They had to decide on the best sales and marketing channels immediately and set them up as soon as possible if they decided to go ahead with the venture.

Promotion

Due to the small size of the target market and promotion budgets, the new company would have to make sure that the promotional dollars spent were directed effectively. Russki would do this by direct mail, personal selling by the owners, travel agents, and free tour incentives to trip organizers and guides. Long term word of mouth would be the best promotional tool, but it had to be supplemented especially in the start-up phase of the business.

Additionally, Crevasse and Kakov planned to increase the value to customers by inviting business and political speakers to participate in the skiing activities with the groups in return for their speaking services. Celebrity skiers such as Canadian Olympic bronze medallist and World Cup champion, Steve Podborski, would be used as customer attractions. As outlined in Table 3, they budgeted \$100,000 for promotional expenses.

Table 3: Marketing Promotion Budget - Year 1

Information nights with cocktails	
@ \$1000 /night @ 20 cities	\$ 20,000
Travel Expenses	10,000
Trip Discounts (1 free trip in 10 to groups)	25,000
Direct Mail	5,000
Brochures	5,000
Commissions	15,000
Celebrity	<u>20,000</u>
	\$100,000

Labour

Where possible, Russki planned to employ Russians and make sure that they received excellent training and compensation, thereby adding authenticity to the customers' experience. Providing local employment would also ensure the Canadian company's existence and create positive relations with the authorities.

Currency

Through Kakov's contacts, Russki had worked out a deal to purchase excess rubles from a couple of foreign firms which were already operating in the Soviet Union but which were experiencing profit repatriation problems. Russki would pay for as many things as possible with soft currency.

THE PARTNERSHIP DILEMMA

During the exploration period, Crevasse and Kakov had well over a dozen offers from groups and individuals to either form partnerships, or provide services and access to facilities and natural resources. They even had offers from people who wanted them to invest millions to build full scale Alpine Resorts. Many of the offers were easy to dismiss because these groups did not have the ability to deliver what they promised or their skill sets did not meet the needs of Russki. Crevasse and Kakov's inspection and site evaluation helped them to determine further the best opportunities and to evaluate first hand whether the site and potential partner were realistic. This research gave Russki a couple of excellent but very distinct partnership possibilities. They knew that both options had trade-offs.

Extreme Dreams

A partnership with the Extreme Dream group had some definite strengths. This French company, located in Chamonix, an alpine town in the French Alps, had been running the premier guiding service in and around Mont Blanc, the highest peak in the Alps, for 11 years. Chamonix was the 'avant garde' for alpinists in Europe and one of the top alpine centres in the world. Extreme Dreams had a 5,000 person client list, mostly European but with some North American names.

What Extreme Dreams had was the operational expertise Russki needed to acquire in order to run the helicopter skiing and guiding side of the business. However, they lacked experience in the key functional areas of business. During the 1991 winter season, it had run a three-week operation servicing 50 skiers in the Elbrus region in the Caucasus Mountains. The Soviet partner facilitated an arrangement with a small resort villa in the area. The facilities, which had just been upgraded during the summer, now met Western standards.

The French company had invested roughly \$100,000 U.S., and although it did not have a capital shortage, the partnership agreement that was outlined would require Russki to inject the same amount of capital into the business. The firm would be incorporated in the United States and the share split would be equal amounts of 45 per cent of the stock with 10 per cent left over for future employee purchase. The Soviet partner, a

government organization that helped facilitate the land use agreements and permits, would be paid a set fee for yearly exclusive use of the land.

However, Extreme Dreams lacked experience in the key functional areas of business. Possibly, this situation could be rectified by the partnership agreement whereby the management team would consist of three members. Marc Testut, president of Extreme Dreams, would be in charge of all operations. Guy Crevasse would act as president for the first two years and his areas of expertise would be sales and marketing. Andrei Kakov would be Chief Financial Officer and responsible for Soviet relations.

Extreme Dreams had overcome the lack of some food stuffs by importing, on a weekly basis, products not securely attainable in Russia. These additional costs were built into the variable cost in projected financial statements. Russki would do the same if it did not choose Extreme Dreams as a partner.

Trade Union DFSO

The other potential partnership had its strengths as well. The partnership would be with the All-Union Council Of Trade Union DFSO, and with a mountaineer named Yuri Golodov, one of the USSR's best known mountaineers, who had agreed to be part of the management team. Golodov, who had been bringing mountaineers from all over the world to parts of the Soviet Union for many years, possessed valuable expertise and knowledge of the Caucasus area. One of his tasks would be coordination of travel logistics for Soviet clientele. Sergei Oganezovich, chief of the mountaineering department, had made available to Russki the exclusive rights to over 4,000 square kilometres in the Caucasus Mountain Range about 50 kilometres from the area awarded to Extreme Dreams. A small user fee per skier would be paid to the trade organization in return for exclusive helicopter access to the area.

A profit sharing agreement with Golodov, which would allow him to purchase shares in Russki and share in the profits, was agreed to in principle by Russki, the Trade Union DFSO, and Golodov. Under this agreement, Crevasse and Kakov would remain in control of the major portion of the shares. Capital requirements for this option would be in the \$230,000 range over the first two years. The two Canadians would perform essentially the same roles as those proposed in the Extreme Dreams agreement. If Crevasse and Kakov selected this option, they would need to bring in a head guide, preferably European, to run the skiing operations. On a positive note, a small resort centre that met the standards required by Western travellers had been selected for accommodations in the area.

As far as medical care in case of accidents, both locations were within an hour of a major city and hospital. Less than an hour was well under the industry norm. In addition, all staff were required to take a comprehensive first aid course.

After discussions with many business ventures in the Soviet Union and with Extreme Dreams, Russki concluded that having the ability to pay for goods and services with hard currency would be a real asset if the situation were critical. Russki would use hard currency, where necessary, to ensure that the level of service was up to the standard required by an operation of this nature.

Crevasse and Kakov knew that selecting a compatible and productive partner would be a great benefit in this tough environment. Yet, they had to remember that a partnership would not guarantee customer support for this venture in the Soviet environment or that the USSR would remain stable enough to function as an on-going concern.

THE DECISION

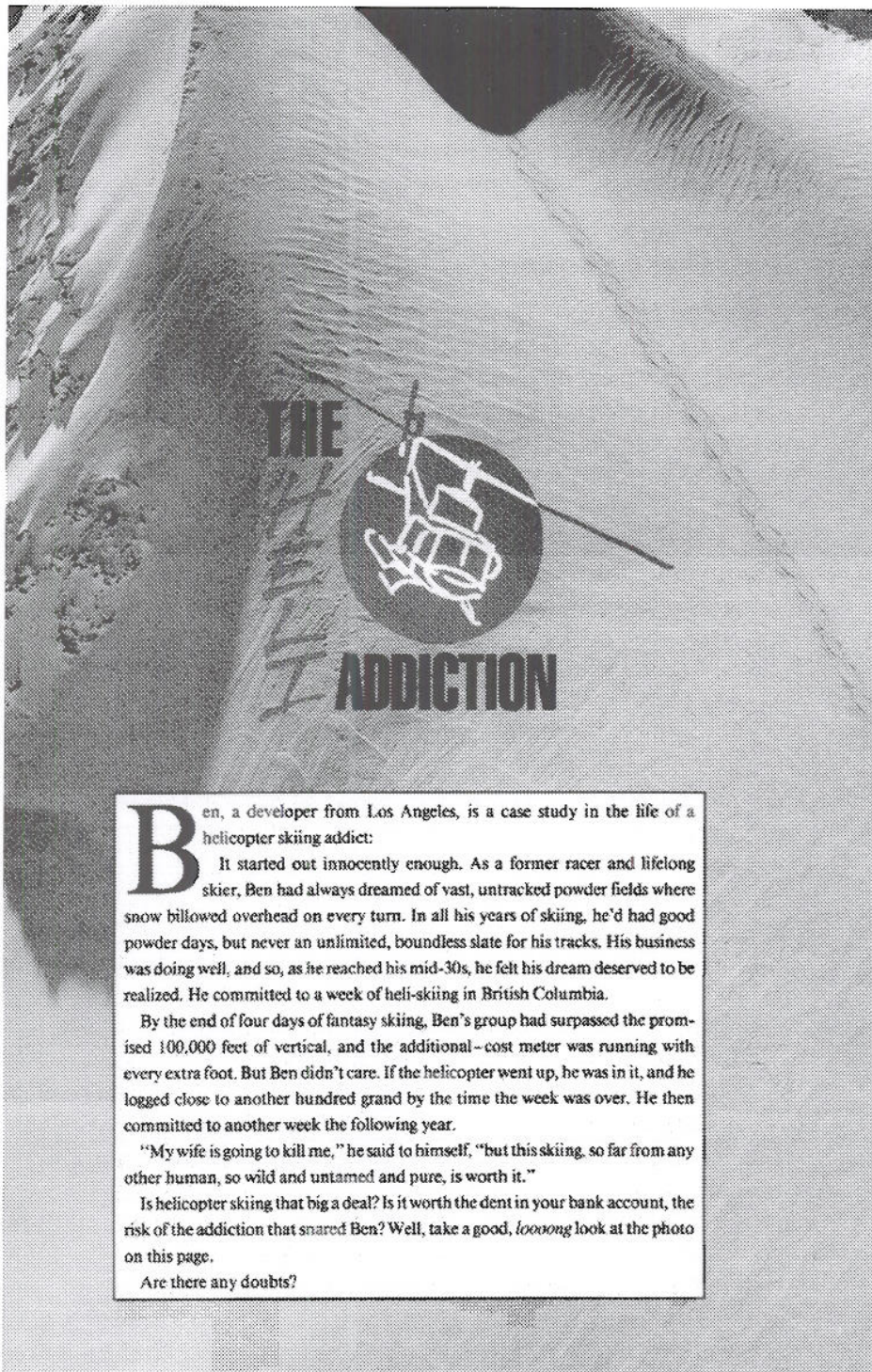
Crevasse and Kakov knew that it would take some time for the business to grow to the level of full capacity. They were willing to do whatever it took to make ends meet during the early years of the business. Because helicopter skiing was a seasonal business, they realized that they would need to find a supplementary source of income during the off-season, especially in the start-up phase.

However, they also were confident that, if they could find a way to make their plan work, they could be the ones to capitalize on the growing market. The Soviet Union had the right physical conditions for helicopter skiing, but the business environment would present difficulties. Moreover, the two partners were aware that starting a venture of this nature at any time was not an easy task. Starting it in the present state of the Soviet Union during a recession would only complicate their task further. Yet the timing was right for a new venture in the industry and, in general, they were encouraged by the potential of the business.

Crevasse and Kakov had to let all parties involved know of their decision by the end of the week. If they decided to go ahead with the venture, they had to move quickly if they wanted to be operational in the 1992 season. That night they had to decide if they would proceed, who they would select as partners if they went ahead, and how they would go. It was going to be a late night.

Exhibit 1

DESCRIPTION OF A TYPICAL HELICOPTER SKIING ADDICT



Ben, a developer from Los Angeles, is a case study in the life of a helicopter skiing addict:

It started out innocently enough. As a former racer and lifelong skier, Ben had always dreamed of vast, untracked powder fields where snow billowed overhead on every turn. In all his years of skiing, he'd had good powder days, but never an unlimited, boundless slate for his tracks. His business was doing well, and so, as he reached his mid-30s, he felt his dream deserved to be realized. He committed to a week of heli-skiing in British Columbia.

By the end of four days of fantasy skiing, Ben's group had surpassed the promised 100,000 feet of vertical, and the additional-cost meter was running with every extra foot. But Ben didn't care. If the helicopter went up, he was in it, and he logged close to another hundred grand by the time the week was over. He then committed to another week the following year.

"My wife is going to kill me," he said to himself, "but this skiing, so far from any other human, so wild and untamed and pure, is worth it."

Is helicopter skiing that big a deal? Is it worth the dent in your bank account, the risk of the addiction that snared Ben? Well, take a good, *loooooong* look at the photo on this page.

Are there any doubts?

Source: *Powder, The Skier's Magazine*, November 1990.

Exhibit 2

**RUSSKI'S 1991 PROJECTIONS*:
Profit Dynamics of Typical RMH Operation**

REVENUES

Ski season duration	- peak	20 wks		
	- regular	0 wks		
Total Season duration:		20 wks		
Revenue per skier	- peak		\$ 3500	
Weekly group size: (10 skiers + 1 guide x 4)		44 people		
Total Season Regular Revenue (3,500 x 40 skiers x 20 wks)				\$2,800,000
Revenue from Skiers Exceeding 100,000 virtual feet (10%)				280,000
TOTAL REVENUE				\$3,080,000

EXPENSES

Variable:	9 nights lodging/person/night	\$ 80	\$ 720	
	9 days meals/person/day	50	450	
Total variable cost/person/week			\$ 1170	
Total Annual Variable Costs (20 wks x 44 x \$1,170)				<u>\$1,029,600</u>
Contribution Margin				<u>\$2,050,400</u>

Fixed:

Helicopter cost/weekly basis (20 week season)	\$50,000	\$1,000,000	
Guides - 1 guide per 10 skiers @			
\$50,000 per guide/year	4 guides	\$200,000	
Support staff - 5 employees @ \$20,000 per employee		\$100,000	
Promotional		\$250,000	

TOTAL DIRECT FIXED COSTS		<u>\$1,550,000</u>
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TOTAL MARGIN (Revenue - Dir. Variable Costs - Dir. Fixed Costs)		\$ 500,400
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Annual Overhead - communication	\$20,000	
- staff travel	50,000	
- office branch	20,000	
- office North America	100,000	
- insurance @ \$5/day/person	50,000	
TOTAL OVERHEAD		\$ 240,000

Operating Profit		<u>\$249,600</u>
Number of operations 7		
Total Operating Profit		\$1,747,200

* These projected statements were best guess estimates based on discussions with a wide range of industry experts, managers, and investors.

Exhibit 3
PROFIT DYNAMICS LOW PRICE STRATEGY WITH LOW HELICOPTER COSTS

	Year 1	Year 2	Year 3	Year 4	Year 5
REVENUES					
Total season duration:	10 weeks	15 weeks	15 weeks	20 weeks	20 weeks
Revenue per skier - peak	\$4000	\$4000	\$4000	\$4000	\$4000
Weekly group size:	10	15	20	25	25
Total Season Revenue	\$400,000	\$900,000	\$1,200,000	\$2,000,000	\$2,000,000
EXPENSES					
Total Variable Cost:	\$100,000	\$225,000	\$300,000	\$500,000	\$500,000
(variable cost/skier@\$1,000)					
CONTRIBUTION MARGIN	\$300,000	\$675,000	\$900,000	\$1,500,000	\$1,500,000
FIXED					
Helicopter cost: (Assumes Soviet Costs of \$10,000/week)	\$100,000	\$150,000	\$150,000	\$200,000	\$200,000
Guides - 1 guide per 10 skiers @ \$50,000 per guide/year	\$50,000	\$75,000	\$100,000	\$125,000	\$125,000
Soviet staff - 3 employees @ \$5,000 per employee	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Promotional	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
TOTAL DIRECT FIXED COSTS	\$265,000	\$340,000	\$365,000	\$440,000	\$440,000
TOTAL MARGIN (Revenues - Direct Variable Costs - Direct Fixed Costs	\$35,000	\$335,000	\$535,000	\$1,060,000	\$1,060,000
TOTAL OVERHEAD	\$35,000	\$115,000	\$115,000	\$115,000	\$115,000
OPERATING PROFIT	0	\$220,000	\$420,000	\$945,000	\$945,000

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
INVESTMENT	\$-230,000					
Operating Profit		0	\$220,000	\$420,000	\$945,000	\$945,000
N.A. Partner's Share: 100%		0	\$220,000	\$420,000	\$945,000	\$945,000
Taxes @ 30% Profit	\$-230,000	0	\$154,000	\$294,000	\$661,500	\$661,500
DCF Year 1-5 PV @ 20.00%		\$526,613				
IRR	71.86%					

Exhibit 4

PROFIT DYNAMICS PREMIUM PRICE STRATEGY WITH LOW HELICOPTER COSTS

	Year 1	Year 2	Year 3	Year 4	Year 5
REVENUES					
Total season duration:	5 weeks	10 weeks	10 weeks	20 weeks	20 weeks
Revenue per skier - peak	\$6000	\$6000	\$6000	\$6000	\$6000
Weekly group size:	10	10	15	15	20
Total Season Revenue	\$300,000	\$600,000	\$900,000	\$1,800,000	\$2,400,000
EXPENSES					
Total Variable Cost:	\$50,000	\$100,000	\$150,000	\$300,000	\$400,000
(variable cost/skier @ \$1,000)					
CONTRIBUTION MARGIN	\$250,000	\$500,000	\$750,000	\$1,500,000	\$2,000,000
FIXED					
Helicopter cost: (Assumes Soviet Costs of \$10,000/wk)	\$50,000	\$100,000	\$100,000	\$200,000	\$200,000
Guides - 1 guide per 10 skiers @ \$50,000 per guide/year	\$50,000	\$50,000	\$75,000	\$75,000	\$100,000
Soviet staff - 3 employees @ \$5,000 per employee	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Promotional	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
TOTAL DIRECT FIXED COSTS	\$215,000	\$265,000	\$290,000	\$390,000	\$415,000
TOTAL MARGIN (Revenues - Direct Variable Costs - Direct Fixed Costs)	\$35,000	\$235,000	\$460,000	\$1,110,000	\$1,585,000
TOTAL OVERHEAD	\$35,000	\$115,000	\$115,000	\$115,000	\$115,000
OPERATING PROFIT	0	\$120,000	\$345,000	\$995,000	\$1,470,000

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
INVESTMENT	\$-230,000					
Operating Profit		0	\$120,000	\$345,000	\$995,000	\$1,470,000
N.A. Partner's Share: 100%		0	\$120,000	\$345,000	\$995,000	\$1,470,000
Taxes @ 30%						
Profit	\$-230,000	0	\$84,000	\$241,500	\$696,500	\$1,029,000
DCF Year 1-5 PV @ 20.00%		\$597,926				
IRR	70.78%					

Exhibit 5**COST COMPARISON BY GEOGRAPHIC LOCATION****North America:**

Costs for customer to go Heliskiing in North America from different geographic locations.

Origin of Skier	Trip	Transportation	Total
Japan	\$4000	\$2500	\$6500
Europe	\$4000	\$2000	\$6000
North America	\$4000	\$750	\$4750

Russia:

Cost for customer to go Heliskiing in Russia from different geographic locations.

Origin of Skier	Trip	Transportation	Total
Japan	\$4000	\$2000	\$6000
Europe	\$4000	\$1000	\$5000
North America	\$4000	\$2500	\$6500

Conclusion: This comparative analysis of all-in costs to the consumer shows that the Russian operation offers a 20 per cent cost advantage to the European customers.