

## SnowSports Interactive: A Global Start-up's Challenges<sup>1</sup>

*SnowSports Interactive executives confronted a number of challenges: Could they attract investors who could share their dream? Which countries could they spread their wings to? How should they spread their wings, i.e., what global strategy should they implement? Could a Brisbane, Australia-based start-up expand globally? If so, how?*

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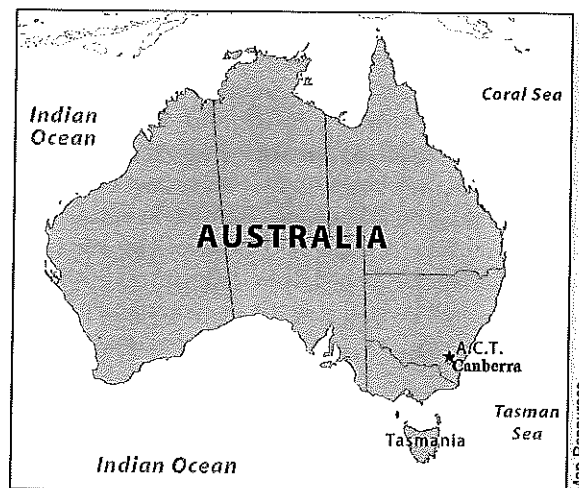
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"The best trick this season won't be done on skis or a board, it will be worn." SnowSports Interactive (hereafter, SSI) executives felt that phrase appropriately described the new technology they were planning to introduce to the world of skiing in the winter of 2006–2007. However, in late June 2006, the company confronted a number of challenges. What, they wondered, did they need to do to maximize the potential for their company?

### History of the Company

SSI was born over a beer at a conference in Melbourne, Australia, in January 2004. Company founders Steve Kenny and Shubber Ali quickly envisioned their initial product as a skier tracker system. During 2004, Kenny completed an analysis of the global ski industry. He identified key gaps in the market and the combination of technologies available to fill them. In May 2005, SSI was legally born with Kenny as CEO and Ali as Chairman.

The company's core intellectual property combined the latest positioning, wireless, and identification technologies with proprietary tracking and analysis software. In simple English, SSI technology could locate people and assets at any ski resort in the world where the company's technology was installed.



The company was located in Brisbane, Australia, and became an i.Lab member in November 2005. The i.Lab was part of the Queensland Government's new State-wide Technology Incubation Strategy. Location in the i.Lab provided the company with the opportunity to work with some of the leading business minds in Queensland and Australia. Nurturing, mentoring, and resources from i.Lab helped the company reach the next stage/level.

<sup>1</sup> The case was developed based on face-to-face interviews with the company executives and publicly available sources. The authors wish to express thanks to the SSI executives and other associates who continue to contribute to the ongoing development of this case study. © Marilyn L. Taylor, Xiaohua Yang, and Diaswati (Asti) Mardiasmo. Reprinted with permission.

### The Product/Services

From 2004 through spring 2006, SSI associates concentrated on product design and technology development. The company called its initial product, a small light-weight tag worn by skiers and snowboarders, the Flaik. The Flaik device included multiple technologies, including Global Positioning System (GPS) units to continuously monitor the position and time of users and GSM Communications units to transmit position and time data to a Network Operating Centre.

In March 2006, SSI and Mt. Buller Alpine Resort agreed to a beta test of SSI technology. Located near Melbourne, the Mt. Buller Alpine Resort was the fourth largest among Australia's five major ski resorts. SSI provided both tracking technology and the firm's wireless Internet service called *whispar*™ at Mt. Buller. The partners used a significant proportion of available funds to install the wireless system. SSI established an on site office for company personnel who dealt directly with customers and observed first-hand how the technology operated on the slopes. The system came into operation on June 9, 2006, and the beta test ran successfully during the 2006 season. Sales of the *whispar* system increased daily during the first month of operation and continued a favorable growth pattern.

SSI executives wanted to dramatically enhance the experience of skiers, snowboarders, and downhill sliders worldwide. The company had developed extensive intellectual property combining the latest in GPS, Wi-Fi, and RFID technologies with proprietary tracking and analysis software. When asked what the company's competitive advantage was, an SSI representative responded, "The SSI advantage is simple. We provide a simple, compelling user experience through the integration of the latest technology with unique, proprietary applications and services, all in a sleek package with a simple user interface."

The Flaik would be another accessory offering for the skier. Accessories, apparel, and apparel accessories were a must on the slopes. Among items that had been popular in recent years were anti-outerwear, urban influences for edgy looks, hip in the city, hip on the slopes, denim in snowboard pants, synthetic leather pants, prints like zebra, military fatigues, great fitting clothes for women, pockets with CD players, and avalanche devices in garments for the backcountry.

### The Industry

The snow sports industry was composed of many facets including manufacturing, retailing, resort development, and tourism. The industry's success was dependent on often-fickle Mother Nature—i.e., on whether the season had sufficient snow. The snow season was different on the five populated continents, and SSI would need to adapt its business model accordingly.

Snow depth was considered very important in the skiing industry as it determined whether a ski resort stayed open or not, the amount of operational days within a season, and the number of lifts operating within the season. The industry reported that the 2003–2004 ski season was the third best season ever in terms of skier visits, despite persistent negative factors such as a slowly rebounding international economy, a jobless recovery in many sectors of the economy, high gas prices, muted consumer confidence levels, and international tensions.

The snow sports industry was primarily known for its downhill and cross-country skiing and snowboarding. In the US, the demand for alpine ski lessons had increased, with a 1.1% increase between 2002–2003 (17,935 lessons) and 2003–2004 (18,135 lessons). The number of snowboard lessons had a smaller increase of 0.2% (from 6,101 in 2002–2003 to 6,113 in 2003–2004).

A new sport that had become recently popular was New School—a youth movement about music, festivals, and action sports. The movement was a fusion of snowboarding, skiing, skateboarding, bike stunt riding, motocross, and surfing. It was "hot" with 12- to 16-year-olds. Another sport that had become popular was Telemark Skiing, where downhill skiers "floated" down the mountain with their heels un-attached. Telemark skiers mostly accessed the backcountry, as it offered freedom and untouched powder for advanced skiers who wanted to push their limits.

The industry had created many innovative products and experienced significant gains in women's and children's equipment and apparel stores. The industry recognized that it relied heavily on affluent but aging baby boomers. However, the industry was also marketing itself to GEN Y, a group defined as those born immediately after GEN X. GEN Y included people in their early to mid-20s, teenagers, and children over the age of five. The term *GEN Y* was most popular in the

US, but its use had gone far beyond the US to refer to the youth throughout the anglophone world. The GEN Y age group was more diverse than previous "generations." For example, 40% of 16- to 24-year-olds were not Caucasian.

In the US, the snow sports industry was governed by SnowSports Industries America (SIA). SIA was a national, not-for-profit, member-owned trade association of competing snow sports companies. Its membership was open to product manufacturers, distributors, suppliers, and retail shops. Service providers, including web designers, could be involved through limited memberships. SIA was known for its comprehensive report on the global skiing market.

The industry also included manufacturers, importers, distributors, and retail suppliers of equipment, apparel, and accessories. Some of these companies were divisions of major corporations listed on the New York Stock Exchange. Others were small, independent companies. The greatest strength of the independent companies lay in their ability to innovate in design of new products, which were constantly giving skiers and riders fresh reasons to hit the slopes.

In the US alone, there were 8,500 retailers and other companies offering winter sports products for sale, rent, use as promotions, or use for professional purposes. Of that number, about 2,000 were specialty and chain stores that sold apparel or accessories related to winter sports but not what would be called a "ski/snowboard shop."

The consumer profile of the snow sports industry had continued to exhibit stability on many visitor characteristics and a gradual shift on others. Among the most prominent shifts were the continued aging of the visitor base and a related increase in experience in snow sports. There were also signs of gradual increase in participation by children in the 10-14 and 15-17 age groups, first-timers and beginners, and different ethnicities.

At that time, SSI's main competitors for the Flaik included NASTAR, Slope Tracker, Suunto, and NAV-MAN. SSI identified its competitive advantage in real-time remote monitoring, the ability to locate friends, and safety applications. SSI's potential competition came from two main streams, namely, recreational GPS receiver and sports tool manufacturers and

recreational snow sports analysis service providers. However, SSI executives felt they were differentiating themselves as a company that would provide customers a low-cost, easy-to-use service with functionality that far outstripped that provided by existing manufacturers and service providers.

### The Financial Situation

One of the challenges SSI as a global start-up continued to face in mid-2006 was how to finance growth and capitalize on its current greenfield opportunity presented by the lack of dedicated ski tracking companies. SSI was initially funded by Kenny and Ali. The two founders then relied on a round of financing provided by "three Fs" (family, friends, and fools). In mid-2006, SSI was in the process of placing a round for US\$1.5 million at US\$3.50 a share (i.e., a company valuation of US\$6.06 million). The company had recruited Mike Wallas, CEO of Enterprise Growth Solutions, to secure this round from a combination of high net worth individuals, investment groups, and venture capitalists. The company had also secured government funding through Commercialising Emerging Technologies (COMET) and was preparing grant applications for Commercial Ready, the Queensland Innovation Start-up Scheme, and the (Australian) Federal Government's Export Market Development Grant.

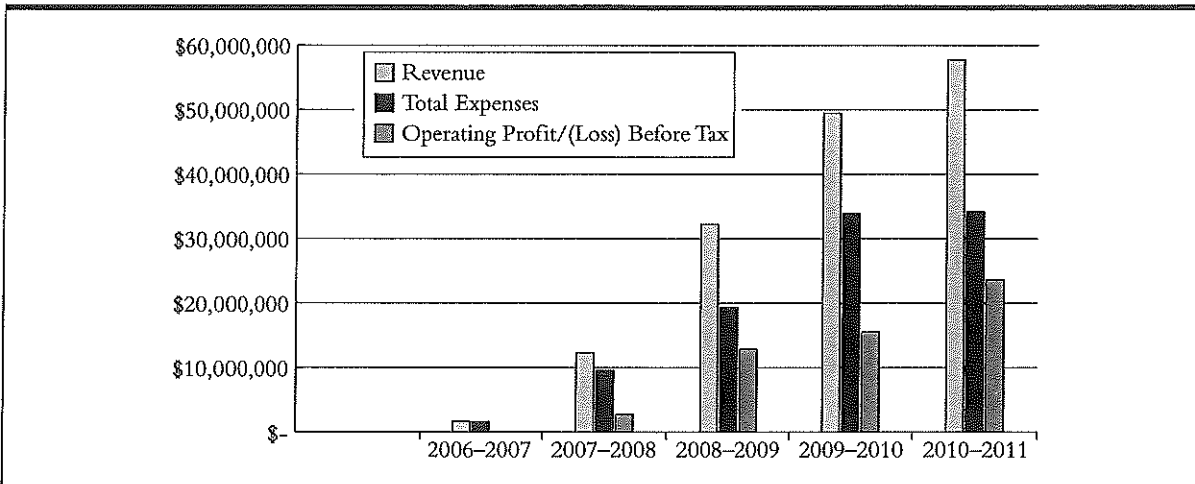
Most experts identify financial issues as among global start-ups' major challenges. SSI executives agreed. The company's five-year profit and loss forecast is presented in Exhibit 1.

### The Company Strategy

SSI identified five potential revenue sources in its business model. These sources were: ski school applications, user applications, resort management applications, sponsorship and advertising, and wireless Internet.

A tentative global strategy SSI had adopted to raise funds involved creating partnerships with ski resorts. SSI executives envisioned approaching target markets for expressions of interest. Each partnership would involve creating a limited liability company with a ski resort company. The limited liability company would be operated by a combination of the existing SSI Australian team and a local team. SSI executives

**EXHIBIT 1** SSI Five-Year Profit and Loss Forecast



Source: Snowsports Interactive, 2006.

identified the benefits offered to the resort itself as well as to the users of the system, including:

- Improved efficiency of ski school operations resulting in increased utilization of resort assets, including the ski runs, and thus increased revenue.
- Increased safety for ski school participants.
- Improved peace of mind for participants who could locate current positions of friends and family anywhere on the mountain—an aspect deemed to be especially useful to parents in trying to keep track of children, ski schools instructors tracking the whereabouts of their students, or the ski patrol trying to locate missing skiers.
- Enhanced skier experiences on the slopes by keeping score of performance statistics and enabling the skier to compare rankings with friends, family, and competitors.
- Extension of the skiing experience beyond the slopes by creating an online memory of their time on the mountain to share at a later date.

As an SSI partner, each resort would have two options for the infrastructure deployment. The infrastructure would support the range of applications that SSI would provide to the resort operators and guests. The options were: (1) resort purchasing infrastructure

that included a three-year life span with license and services contract charges yearly, or (2) resort leasing infrastructure for three years with the license and services contract charged yearly.

The partnership agreement called for SSI to provide a user-friendly process for customers through three elements: (1) integrating Flaik into existing point-of-sale systems in order to simplify the rental process for users, (2) providing upselling of data to parents of ski school participants, and (3) providing optimal placement locations for interactive kiosks in congregation areas such as lodges for customers to use across the resort.

Revenue sharing opportunities between SSI and its resort partners included the upselling of performance data to parents of ski school participants, provision of wireless access to customers using the whispas service, and rental of Flaik devices to non-ski school participants during the first phase of deployment.

The infrastructure and supporting technologies utilized by SSI were sourced from leading technology providers around the world and, where necessary, adapted to the alpine environmental conditions. SSI's current ecosystem of network partners included: Wireless Tech Group, CMD, Power Converter Technologies, Strix Systems Inc, MassMedia Studios, and Abuzz Technologies.

SSI believed that its primary competitive advantages lay in continual innovation through an evergreen research and development (ERD) program, which would allow SSI to update the functionality, flexibility, and interactivity of its front-end user software on a seasonal basis and its hardware every 12 to 18 months. The company planned to protect its intellectual property through a variety of means including patents, trademarks, and copyrights, as well as trade secrets of its designs and circuit layouts. The company also planned to use and enforce confidential non-disclosure agreements.

SSI identified the company's business activities as subject to relatively high risk factors, risks that were related to its business activities and were also of a general business nature. SSI executives fully acknowledged that the company's risks were higher than those generally faced by other companies. These risks included: limited operating history and forecasted losses, intellectual property, national and international regulations, specific country laws, dependence on third-party suppliers, schedule delays, seasonal market fluctuations, and competition. To manage such risks, SSI managers prepared a risk management plan detailing both preventive and contingency actions.

### **A Global Market for SSI?**

SSI executives recognized that signing the agreement with Mt. Buller was "just baby steps" on a long road; the only way to grow the business was to expand into international markets given the seasonality of the ski industry. The company's executives had identified several countries as target markets including the US, Canada, Japan, European countries, China, and New Zealand.

In-house market research suggested that the North American market was the most promising, owing in part to the abundance of information SSI had been able

to acquire on it. Although there was more limited information on other target market countries, the executives aimed to spend time investigating them to identify and aggressively address areas with snow skiing activities. As Kenny put it in June 2006:

*We currently have one location, i.e., Mt. Buller. And, we need to be in more resorts in Australia but there are only five major ski resorts and four minor ones here in this country. The most lucrative market, of course, is the USA where there are 493 ski resorts. We could focus on Japan, but that takes a different protocol and we would have to redesign our technology. However, we have had inquiries from Japan and there are a couple of people associated with Hoikkaido resorts. We need to think this through.*

Sources: Based on (1) authors' interviews; (2) SnowSports Interactive, 2006, *SnowSports Interactive Information Memorandum*, Brisbane, Australia; (3) SnowSports Interactive, 2006, *Resort Visitor Statistics*, Brisbane, Australia.