5 October 2019

RE: Cardrona/Treble Cone Merger Application.

To whom it may concern.

On behalf of our business, www.snow.nz we'd like to make a submission supporting the Cardrona/Treble Cone merger application.

As a background we first began operating in 1995 as Snow.co.nz, and more recently merged with SnowHQ.com. We operate as independent portal, providing an objective overview of the snow industry of NZ and beyond. We receive no industry funding in any way, nor are we supported by any ski area. Personally, I have worked within the industry marketing in the 1990s, and since then have worked alongside ski areas in a variety of capacities both in NZ and offshore. I have an external perspective on the industry.

Market Background:

As identified in the application there are various tiers of ski areas within NZ:

1. Large Commercial - NZSki (Coronet, The Remarkables, Mt Hutt), Ruapehu Alpine Lifts (Whakapapa and Turoa), Cardrona, Treble Cone.
2. Small Commercial – Ohau, Porters, Dobson etc
3. Club fields.

There are overlaps between markets within these tiers, but each tier tends to cater to a particular niche and we'd suggest that competition is generally within each tier, as opposed to across them. Thus, Cardrona is generally competing with areas in the large commercial tier. Cardrona and Treble Cone as individual entities are at a disadvantage.

There are also very defined markets:

1. Locals, primarily Wanaka
2. South Island, primary Christchurch
3. North Island
4. Australia.

Each market, aside from the first, already has considerable choice, and broadly, we believe there is likely to be little or no reduction in competition, due to the diversity of these markets. Unlike the last referenced acquisition, that of Turoa and Whakapapa, there is no large captive market that will be left with little choice. Snow consumers are more affluent and have global outlook, and quite simply they could choose another ski destination should they feel the price or offering was constrained.

We'll now comment briefly on each of the preliminary issues identified.

Response to Preliminary Issues:

12. We believe this assessment is vastly different to the RAL proposition. There is only a very small captive market (Wanaka locals) with the majority of visitors having to make a choice of where to travel. Skiers are global and mobile, if the price was too high or services constrained, they can and do choose different destinations.
13. We agree that there is considerable competition in the market and a merged Cardrona and Treble Cone would have little bearing on competition. Australians have options of NZ, Japan or Canada. Japan is increasingly an attractive destination due to lower cost (lower than NZ), cultural appeal, and snow quality. North Islanders also have the option and with the domestic cost of travel and accommodation, we'd also suggest offshore ski travel is one of the most significant competitors. With school holidays also falling early in the season now, we'd suggest the Pacific Island holidays also represent a considerable threat. Finally, Cantabrians are spoiled for choice, and with season passes available at Mt Hutt for $349, a trip to Cardrona/Treble Cone is a conscious decision, based less on price.
14. We'd agree with the single customer market. The possible exception obviously is that Wanaka locals have less choice.
15.
    1. We'd suggest that Cardrona/Treble Cone represent little or no threat to club fields. The product and pricing is very different with a considerably different market. Similar with heliskiing or indoor.
    2. We'd suggest there is strong competition with commercial ski areas located near Queenstown, in attracting from both the North island and more specifically Australian markets. We see this competition as healthy and generating innovation in the market. They obviously compete with Ruapehu, but then the proposition is somewhat different in that they cannot compete with the weekend market, only the "holiday" market. Having said that, the North Island has many options for ski holidays in the South Island. We're aware some North Islanders buy cheap Mt Hutt season passes, and with Tekapo becoming a more sought-after destination, this gives NI choices.
    3. By the type of ski pass we're assuming differentiating between skiers in different stages, beginners to experts. If that's the case, it's well known that Ruapehu, club fields and Canterbury given their proximity to population centres are feeder grounds for the industry. There is no way Cardrona/Treble Cone could affect this.
    4. Given the majority of Cardrona/Treble Cones market originates from other geographic markets, we not only believe that other areas (Japan and Canada namely) are key competitors, but we'd suggest that the merger is necessary to present a unified marketing message to potential visitors. This would be similar to Whistler/Blackcomb, or the myriad of other amalgamations that are occurring offshore. Furthermore, with Vail purchasing key Australian areas, there's a risk to our market that inbound Australians could in fact decline.
16. If the acquisition did not proceed, it's likely it would be "business as usual" for Cardrona. However, for Treble Cone that picture is quite different. As an area geographically further from a key market (Queenstown), a niche product, and high operational costs it's quite possible that the area could fail financially, thus impacting on the perceived attractiveness of Wanaka as a ski destination. The lift infrastructure ranges from between 10 and 20 years old, and investment will soon be required to bring the area up to a standard of its competitors. Quite simply, the complimentary nature of the two

products, as they are very different, means this partnership has the most likelihood of success in our opinion.

17.

1. Unilateral effects. We'd suggest and agree there was virtually no competition between Cardrona and Treble Cone given the complementary nature of their markets. In fact we believe prices will decline from Treble Cones current price point, and the is potential for considerable innovation in the market by having two unique offerings. This innovation is unlikely to occur without a merger. The OnePass initiative some years ago as a joint venture was an attempt, but ultimately wasn't successful, most likely due to the differing management.
2. Coordinated effects. It is our opinion that without question the acquisition would allow for a more coordinated management and marketing approach for both mountains, as well as the destination Wanaka as a whole.

18. Pricing. The ski market in NZ is relatively cost sensitive with each area pursuing a somewhat different pricing strategy. Treble Cone tested, many would suggest unsuccessfully, the upper limit of pricing in NZ. We believe given the market, there is enough choice that should prices increase to a point that is inconsistent with other areas, there are enough other options for people to choose from, given the market is generally travelling and mobile.

20.

1. As stated earlier, we believe Cardrona and Treble Cone, despite sharing geographic proximity, are not close competitors, therefore competition is unlikely to be lessened.
2. We believe it is true that the most likely competitors of the merger would be the NZSKi and RAL areas. Our opinion is that the merger and efficiency of operation will increase the competition between these parties.
3. It is true that other club and commercial areas complete with Cardrona and Treble Cone, to a lessor degree. It is true there is a risk that with reduced prices from the merged entity, this could put pressure on smaller areas. Conversely, any price increase would increase the opportunity for the smaller areas.
4. Visiting skiers do make up a significant proportion of the market for some key players, notably Coronet Peak, The Remarkables, Cardrona and Treble Cone. A merger could make NZ more attractive as a destination, in a market that is increasingly competitive globally. In no way could we imagine competition decreasing as a result.

21.

1. As noted, the markets of Cardrona and Treble Cone are largely complementary. With Treble Cones pricing currently pricing policies, our understanding there was some displacement of the market to other ski areas, potentially to Queenstown and so to some extent some of the smaller areas in the Mackenzie, such as Ohau, which is popular with local Wanaka skiers.
2. Our belief is that will be little or any difference in constraints from the current situation.
3. There is currently little appetite in the ski industry for expansion, aside from the 6 larger areas, due simply to financial constraints. Ohau is the most likely to next add a lift, and does offer some alternative, although not significant.

22. Given the difference in markets, and of individual products, each grouping of areas already operate and price differently to their competitors. We believe it is extraordinarily unlikely that the merger would offer an opportunity to shift the balance of influence, individually or collectively across the industry
23. We agree that there is little potential for coordinated effects, as noted just previously, due to differences in the current products, pricing and individual markets.
24. We believe that there is little or no opportunity for coordination in relevant markets. The North Island market and the Ruapehu product is significantly different given one is centred around short stays, whereas the Cardrona product is based on travel. In Australia, again there is little opportunity because of the presence of powerful local operators, and the attractiveness of alternative destinations, such as Japan or Canada.

Summary:

In summary, it is our opinion that the merger of Cardrona and Treble Cone has little or no downside from a competition perspective. The only potential impact is on the local, specifically Wanaka market. However, a situation similar to this already exists in Queenstown, and absolutely exists in the North Island. The remaining markets, those that are inbound to the region from Canterbury, the North Island or Australia, already have significant choice domestically and globally. It is our belief that a lessening of competition by these two areas merging is unlikely, and instead offers an opportunity to better market two complementary products, and a region that sits "in the shadow" of Queenstown.

Is this merger likely to impact other operations in NZ? We believe it is likely to drive further product innovation, as already seen with the expansion of the NZSki and RAL offerings. We don't believe it gives Cardrona/Treble Cone any opportunity to unfairly increase or decrease prices, as there is considerable choice in the market currently. We think there is potentially a slight risk to smaller ski areas, especially in the unlikely event of price decreases or lower price rises, as this could add further financial pressure and an inability to develop their products to meet increasingly demanding standards. We think this is small and acceptable, given other players in the market, and the niche aspect of their products.

Lastly, we don't think there is much or any opportunity for coordinated efforts. The industry is geographically diverse, have differing products and price points, and markets that already have considerable choice. This is not a two airline, or ski area market. It's domestic market with around 25 areas, competing alongside a global market.

It is our opinion that a merger such as this would allow the development of a comprehensive destination offer, in a similar way to Queenstown has, that helps grow the market and opportunities, especially inbound from Australia. We also believe it provides an opportunity for efficiency in the management and marketing of these two areas, in return delivering a better product offer, that will benefit rather than detract from current or future visitors.

We support the application for Cardrona to acquire Treble Cone.

Kind Regards

Lawrence Smith