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## THE CANADIAN SKI MARATHON – SAVING A NATIONAL LEGACY

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This case was prepared by Gregory J. Koegl under the supervision of Dr. Jeffrey Henderson 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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### INTRODUCTION

Mike Carson was an avid cross country (Nordic) skier who had participated in the Canadian Ski Marathon for several years before becoming recruited to the Board of Directors. He was originally brought in to help raise funds for the event because of a decline corporate and government sponsorship. Mike became President of the Canadian Ski Marathon in 2007 and it was his goal to stabilize the not-for-profit business in order to make it less dependent on external funding.

While reviewing the 2008 financial results, realizing that there was a substantial financial loss, he received a phone call from Tim Hartley, Chairman of Sedbergh School announcing that, after 50 years, the school would be closing permanently because of poor registration. There was money owing to the CSM for BR400 maintenance and student registration fees for the 2008 event.

To make matters worse, Mike had received a notification from Revenue Quebec that it would be performing a GST/QST (value add sales tax) audit in the coming weeks.

It was clear to Mike that he needed to get some help to deal with all of this if the event were to continue to exist. This news was devastating and Mike called a special Board of Director's meeting to discuss. Prior to the meeting, Mike met with Revenue Quebec to learn that his predecessors at the Canadian Ski Marathon never claimed taxes on revenue collected which resulted in a \$ 100,000. After much negotiation, the Mike negotiated a settlement in the amount of \$60,000 and needed to inform his Board of the ramifications should this penalty not be paid back. Without having any cash in the bank, no credit line, a bankrupt school/partner, and a government assessment, Mike had no idea where to start at the emergency board meeting planned.

## THE CANADIAN SKI MARATHON

The Canadian Ski Marathon is a cross country ski tour that was founded in 1967 by former Canadian National Ski team member Don MacLeod, as a result of a government initiative to promote a spirit of fitness, friendship and fun, and to celebrate Canada's Confederation. It is a not-for-profit corporation which is owned by its members (the skiers). In the inaugural year, the event was a three day event, starting in Montreal, Quebec on Friday morning and finishing in Ottawa, on the Rideau Canal on Sunday afternoon. The trails were made by snowmobiles with a single track only with an approximate length of 65 kilometers, totaling 195 kilometers, which made it the longest ski tour in the world. There were only 300 participants in the first year. The entire event was run by volunteers and the food and other necessary supplies were furnished by local merchants without charge.

The event eventually became a two day event featuring ten sections (5 sections each day) that spanned 160 kilometers in total. It starts in Lachute, Quebec and finishes in Montebello, Quebec on Saturday afternoon. The start in Montebello on Sunday morning finishes late afternoon in Gatineau, Quebec. What makes the Canadian Ski Marathon special is that the event starts in one municipality and finishes in another municipality several hundred kilometers away after crossing several regional roads and privately owned land. Equally unique is that the trail is only groomed once per year specifically for the event. The CSM It is not a race, but a ski tour where participants can ski as little as one section of 16 km to the maximum of 160 km during the weekend.

The CSM is a family event where participants range in age from 5 to 95. There are a variety of registration categories to choose from depending on one's age and desired objective. There are also several team events where skiers combine the number of sections skied over a weekend to obtain a reward. The legendary Jackrabbit Johansson became an iconic symbol of the CSM, participating in it until well over 100 years old. He was a pioneer in promoting Canada's winter by getting people outside in the cold winter weather and by encouraging health, fitness and camaraderie for Canadians coast to coast.

The registration categories comprised of two main groups; Tourers and Coureur des Bois (CDB). Generally, the touring group is designed for participants not wishing to ski the entire distance over the weekend. The typical Tourer will ski two or three sections per day, and accordingly, this category is restricted from starting the event before 8 am. All the team groups and most of the children skiing with their parents are considered Tourers.

The CDB category is designed for those individual skiers attempting to ski the entire distance over two days. There are 3 sub-categories of the CDB; Bronze, Silver and Gold. The bronze category is the entry level for skiers whose only requirement is to ski the entire distance each day for two days, respecting the 3:15 pm cut off for the last section on each day. The Silver CDB can only be done once the skier has obtained the Bronze CDB award and this entails the carrying of a backpack with a minimum of 5 kg. of weight. The very elite Gold Coureur des Bois, must have obtained their Silver CDB first, and must carry a backpack with everything required for an overnight sleep at the "Gold Camp" including a sleeping bag, food, a change of clothing, and all waxes and required equipment for the next day. All the Coureur des Bois participants are permitted to start at 5:45 am and ski for roughly one hour until sunrise with only a headlamp as light in frigid Quebec winter temperatures.

The Canadian Ski Marathon contracts with Fairmont Chateau Montebello Hotel each year for all 206 rooms for Friday, Saturday and Sunday (50 room allotment) nights to accommodate skiers, sponsors and dignitaries. Packages are available for a minimum 2 night stay with breakfast and dinner included for its participants and sponsors. The CSM also uses the hotel as its "clubhouse" for its administration and

logistics functions. There are registration tables, merchandise booths and waxing stations that are free for all participants to use, whether or not they stay at the hotel. There has traditionally been an average of 2.8 skiers per room that register for the CSM on an annual basis when the hotel is full, but in recent years, the hotel has experienced more and more vacancy which has a direct impact on the bottom line of the event.

As well, the CSM has an agreement with the Papineauville School to rent out the entire school for the CSM weekend for those skiers wishing less luxurious accommodation. Skiers sleep on the floor in various gymnasiums and classrooms and food is catered in from a local supplier. The CSM also uses the school as a staging area to organize logistics for the event during the weekend.

Most participants stay in close proximity to the Fairmont Chateau Montebello or the Papineauville School and usually drive and leave their cars at designated parking lots. Cars are not permitted to park at checkpoints. There is a sophisticated shuttle bus service between various checkpoints, hotels, schools and parking lots with a predetermined schedule available to Tourer Class skiers to be able to plan which sections that they want to ski during the weekend. Shuttle buses are available every 30 minutes at all checkpoints and parking lots. The shuttle buses are only full in the morning when they transport the CDB skiers to the start line from Montebello or Papineauville. Otherwise, the shuttle buses are rarely full unless poor weather prompts skiers to stop skiing earlier than planned.

The CSM also charters coach buses for skiers from Lachute/Buckingham, Montreal/Gatineau, and Toronto. Essentially, skiers originating from these major cities are able to participate without the use of a car. The charter buses drop skiers off at several accommodation destinations along the way. There is an extra charge for this service; however, the cost of shuttle buses between checkpoints is already covered in the Entry Fee.

Nutrition and re-hydration stations are of vital importance for all participants. There are 6 checkpoints each day which are set up at the start and finish lines as well as the end of each section (approximately 16 km). The food and refreshments provided are always nutritionally sound and are specifically designed to give skiers added energy. Foods include trail-mix, minestrone soup, plain bagels, oranges and bananas, chocolate bars, honey water, Gatorade, etc. Propane burners are required to keep the liquids warm. The checkpoints also have portable toilets, waxing stations sponsored by various local retail stores and a safety medical van with qualified volunteers for minor injuries of skiers, such as blisters and frostbite.

## **PARTICIPATION**

Participation in the CSM is dependent on many factors. For the Coureur des Bois skiers wishing to complete the entire 160 km distance, there is a significant amount of advance training required on groomed trails which is entirely snow dependant. There is a direct correlation between the amount of snow fall in eastern Canada by Christmas time and registration statistics. This also applies to the Touring category, but less so because the Tourers tend to ski fewer sections as a result of not be adequately trained.

Participation from American skiers is very important to the CSM because a large percentage of this group stay at the Chateau Montebello. The strong Canadian dollar in recent years combined with immigration changes requiring Americans entering Canada to bear passports has had a significant impact on US participation in the CSM.

Although there is no event in North America that compares to the CSM in terms of length and beauty, there have been more and more local loppets (small ski races) originating with a much more affordable entry fees. Most of these loppets are in association with local ski clubs on trails already existing in the winter time with very little additional maintenance required.

Sedbergh School is a local boarding school in Montebello that makes the CSM part of their curriculum for their students. Each year the school registers approximately 150 students at a preferred rate. The students train on trails that are actually part of the CSM trail. The school has had a tremendous presence in the event for many years.

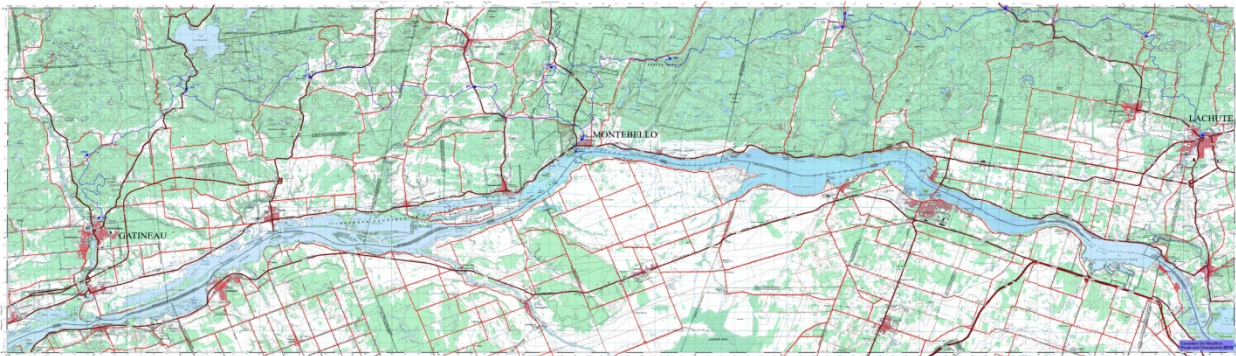
### EXHIBIT 1 - CSM PARTICIPATION 2002-2008

	Year						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Total Number of Skiers</u>	1940	2076	2174	2250	2330	2100	2007
Total CDB			804	833	797	735	702
Total Gold CDB			<u>261</u>	<u>270</u>	<u>271</u>	<u>243</u>	<u>280</u>
			12.0%	12.0%	11.6%	11.6%	14.0%
<u>Age Group</u>							
5 to 15	9%	9%	8%	10%	11%	12%	12%
16 to 25	10%	9%	8%	7%	8%	9%	10%
26 to 35	17%	16%	18%	15%	13%	11%	9%
36 to 45	27%	27%	25%	25%	25%	24%	21%
46 to 55	22%	23%	24%	27%	26%	26%	30%
56 to 65	12%	12%	12%	12%	12%	13%	14%
66 +	<u>3%</u>	<u>4%</u>	<u>5%</u>	<u>4%</u>	<u>5%</u>	<u>5%</u>	<u>4%</u>
	100%	100%	100%	100%	100%	100%	100%
<u>Gender</u>							
Male	62%	60%	60%	60%	60%	62%	64%
Female	38%	40%	40%	40%	40%	38%	36%
<u>Country of Origin</u>							
<u>CANADA</u>							
Ontario	28%	30%	32%	33%	35%	35%	35%
Quebec	50%	49%	47%	48%	47%	47%	47%
Other/International	<u>1%</u>	<u>2%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>3%</u>
Total	79%	81%	80%	82%	83%	83%	85%
<u>USA</u>	<u>21%</u>	<u>19%</u>	<u>20%</u>	<u>18%</u>	<u>17%</u>	<u>17%</u>	<u>15%</u>
	100%	100%	100%	100%	100%	100%	100%

## THE TRAIL

By far, the most important asset of the CSM is its vast trail network provided by property owners for free. The CSM has a contract with each of the more than 150 property owners to be able to have access to their property and to maintain the trail prior to the event (tree trimming and stump removal) as well as the right to prepare and pack the trail prior to the final grooming of the trail during the weekend of the event. In the early years, each of the 10 sections had a Trail Captain who would take full responsibility for his or her section. This was all done on a volunteer basis. The Trail Captains would report directly to the Board of Directors of the CSM. Unlike today, where the trail is professionally groomed and double tracked; the trails of yesterday were packed and groomed with a snowmobile, sometimes with a track setter and sometimes not.

### EXHIBIT 2 – THE CANADIAN SKI MARATHON TRAIL



Each year, there are minor re-routes that occur for a variety of different reasons. Urban sprawl is one of the most important factors that the CSM will face in the future as many of these municipalities continue to grow, thereby pushing the trail out further and further from municipal centres. In some cases, when properties are sold, the new owners do not always give the CSM permission to cross their land.

In 2001, the Canadian Ski Marathon purchased a BR400 snow groomer for \$ 90,000 and it financed a substantial portion of this investment. The arrangement provided for Sedbergh to be able to use the machine to groom trails at the school for its students, and then to prepare and final groom the trail during the CSM weekend. Although the CSM owns the machine, it charges an annual fee to Sedbergh for its use for the school. Maintenance costs were split 50/50 and in return the labour to operate the snow groomer is provided to the CSM for free.

There is a trail maintenance crew that are on CSM payroll and this is the most expensive direct cost of the CSM. There is a Trail Manager and 3 -4 employees who start in the fall maintaining the trail from one end to the other. They are provided with rental vehicles (trucks) from September until the end of February (6 months) and all costs are paid fully by the CSM. Further, the CSM owns 6 snowmobiles and a variety of equipment including chainsaws, branch trimmers, trailers, etc. which is stored at a farm about 35 kilometers from Montebello. The market value of all this equipment including the BR400 is about \$50,000. The loan balance is approximately \$ 13,000.

The Trail Manager is also responsible to negotiate with various municipalities to have safety vehicles at all regional road crossings. In most cases, the Canadian Military and local fire departments have been providing this service for free. Recently, the CSM has been forced to hire the Sureté de Quebec (Quebec provincial police force) for a fee due to cost cutting at the federal and municipal levels.

## **VOLUNTEERS**

There are more than 600 volunteers that give their time to the CSM each year. Of these, there are approximately 150 Government of Canada Army Reserve Cadets who help with safety, security, communications and evacuation. This has traditionally been a training exercise for the Canadian Military which has created a great benefit for the event.

The remaining 450 volunteers look after all the logistics of the event. The CSM rents 55 vehicles including rental cars, vans and small trucks for its volunteers to set-up and supervise each of the six checkpoints for Saturday and Sunday. Once a checkpoint is closed to skiers, the volunteers of the Operations team quickly disassemble and relocate the entire checkpoint to the Sunday location. Each checkpoint has a Safety team with qualified First Aid or medical experience, as well as a team on standby in the event of an accident on the trail between checkpoints.

The third volunteers group is the Communications group. This group is comprised of CSM Ham radio experts in conjunction with the Canadian Military. They report directly to the Operations Director via the Logistics Manager and both are paid positions by the CSM.

Every year one week following the event, there is a banquet for all the volunteers at a restaurant in Gatineau Quebec. This event is usually sponsored by some of the suppliers of the CSM. Traditionally, awards are given to volunteers based on number of years of service and there is one “Volunteer of the Year” who is selected by the President, who gets a special award. There is tremendous prestige associated with being a volunteer for the Canadian Ski Marathon.

## **FUNDING AND SPONSORSHIP**

For many years the CSM finished on the Rideau River in Ottawa, Ontario coinciding with the annual Ottawa Winterfest. The CSM received financial support from the Canadian Federal government, the Ontario provincial government and the Quebec provincial government. In many cases, the local municipalities in which the trail to crosses also used to provide some assistance to the CSM. Government funding provided about \$ 50,000 per year.

The event traditionally relied on significant corporate sponsorship from large companies such as Sun Life Canada (3 years), Hoescht Celenese (for 25 years) and Pfizer Canada (for 6 years). The Hoescht and Pfizer sponsorships provided \$ 125,000 annually for more than 30 years, which provided the CSM with lots of cash to be able to purchase assets and to create a substantial overhead. It is believed that the CSM was viewed as a well oiled “political” machine promoting health and fitness in Canada’s national capital region. It is also believed that the operating expenses and labour costs of the event were not properly managed due to this enormous annual cash infusion. In 2006, Pfizer announced that it would not be renewing its annual sponsorship of the Canadian Ski Marathon.

With a maximum trail capacity of 2500 skiers, and keeping in mind that the event is not a race, there would be very limited visibility for corporate and government sponsors in the future.

## **MANAGEMENT, BOARD OF DIRECTORS AND CORPORATE GOVERNANCE**

In the beginning, participation in the Canadian Ski Marathon was a fraction of what it is today. The Board of Directors looked after all of the planning, organizing and managing of the event. There were very few services available to participants other than the trail itself, which for the most part was single tracked at best. Over the years, the event grew organically and attracted sponsors who were not necessarily looking to get a return on money invested. Hoescht Celenese sponsored the event to showcase the company to its European partners and their local staff participated immensely in the running of the event.

The original charter of the Canadian Ski Marathon had never been changed since 1967, but it appeared that management had respected the requirement to have a minimum of 12 directors on the board. Over the years, the board of directors decided to hire full and part time paid personnel to be responsible for the operations, logistics and trails, and the board would look after marketing and sponsorship. There was very little communication between the Board and the operations group other than through the President who would typically meet privately with them before the monthly BOD meetings. The Board of Director's meetings became "blue sky" meetings while the CSM was in good financial shape, but as fundraising became tougher, the Board found it harder to recruit new board members to assist in fundraising for the event. Refer to Exhibit 3 for the current CSM Organizational Chart.

The President and Vice President are appointed by the Board of Directors at the Annual General meeting for a two year term so that there is continuity and succession planning. Each of the respective functional groups report directly to the President. The General Manager has a direct liaison with the safety, operations/ logistic and trails groups and has direct responsibility for all the marketing and advertising of the event as well as with all the communication material with the participants such as hotel reservations, charter buses, preparation of the skiers guide and trail maps, etc. The General Manager is also responsible to prepare all material for Board of Director meetings with the President.

Each year, budgets are prepared by each functional head except for the Trails group. This was something that did not sit well with the Board of Directors. The Trails Manager did not want to take responsibility for the additional costs of unforeseen events such as an ice storm. The President would instead estimate the Trails budget and include it with the entire budget for submission to the Board for approval at the Annual General Meeting.

The Canadian Ski Marathon is a very prestigious event in Eastern Ontario and Western Quebec. The Board of Directors is made up of a group of passionate skiers who, for the most part, are not business oriented. As a result, the board meetings are not very productive. Mike found it difficult to get any one committed to actually do anything and he became frustrated with the Board in general. Now was the time to review the Charter to determine what role the Board should play going forward, especially in preparation of the 50<sup>th</sup> anniversary which will require a lot of work. At present, the only real responsibility of Board members is to approve budgets and to make decisions regarding trail safety prior to or during the CSM weekend.

## **FINANCIAL TRENDS**

With corporate and government sponsorship funding on the decline, Mike was worried that he would not be able to break even in the future given that the 2008 event lost significant cash. The financial results for the CSM are illustrated in Exhibit 4.

The Chateau Montebello is the CSM's largest supplier and was always viewed as a break even proposition because it generated significant registration revenue from its almost 3 skiers per room. However, Mike noticed that the occupancy levels were beginning to decline and under the current contract, the CSM is responsible to pay for all guest rooms whether or not they were occupied. The contract has one year remaining and Mike thought it would be a good time to re-visit the terms and conditions of the contract renewal.

Pricing of the event is based on skier category as well as the date the skier actually registers for the event, with significantly lower pricing for earlier registration (see Exhibit 5). In light of the challenges facing the CSM, Mike was wondering how the event would continue to operate given the cash constraints and given that there was only so much money a skier would be prepared or could afford pay to participate in the event. Of the 1,700 loyal skiers that support and donate money to the event, a large majority register early and Mike was wondering how much of this was actually related to saving money versus supporting the event. Mike had also noticed that the Gold CDB category was actually gaining in popularity at a faster rate than the other categories in total numbers. The Gold CDB's actually subsidize the Touring group on the weekend.

The salaries for permanent and part time employees are growing at a faster rate than revenue. There needs to be a proper analysis to determine how much the event can afford to pay on an ongoing basis if registration continues to decline.

One of the cost cutting measures proposed by the Board on several occasions is to cut the costs for printing materials, such as the registration brochure mailing, the skier's package and the results brochure. They seem to favour the use of the website for communication, but Mike is reluctant to do so because he argues that the majority of participants are not technologically savvy and still want to receive printed materials. The 16-35 age groups only represent about 20% of all participants and Mike is convinced that the remaining 80% expect to receive periodic mailings.

## **NOW OR NEVER**

With just four weeks to go before the Annual General Meeting, Mike had an incredible challenge in front of him if he was to keep this event alive. He knew that he could not do this alone and also knew that he could not depend on his current Board of Directors to help him out. Now was the time to completely re-vamp the entire event and several tough decisions needed to be made. He picked up the phone and called two very good friends; one a corporate lawyer and the other a chartered accountant. They both agreed to join the Board of the CSM.

The first item on the agenda was how to deal with the government assessment for goods and services taxes owed. It was now or never to put new policies into place to create a "Management by Exception" workout strategy in hope of running the 43<sup>rd</sup> edition of the Canadian Ski Marathon in 2009.