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Succeeding Against All Odds: Vanke's Songhua Lake Ski Resort





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In late 2014, Vanke, one of China's largest real estate companies, embarked on a new chapter in its corporate history with the launch of a 40 billion yuan (US \$6 billion) ski resort in Songhua Lake, Jilin Province.¹ The resort attracted 300,000 visitors in 2016 – a figure previously achieved only by a handful of other Chinese ski resorts – and generated nearly 150 million yuan (US \$23 million) in profits despite the high start-up costs of the sport and its relatively recent introduction to the country.² Vanke's investment was part of a broader diversification strategy designed to enhance the company's reputation as a premier real estate developer and service provider.³ But continued success would hinge not only on Vanke's ability to sustain demand in an increasingly competitive market, but also its ability to address a spate of operational challenges unique to the global ski industry and particularly the Chinese market.

CHALLENGES IN THE GLOBAL SKI INDUSTRY

Skiing is traditionally viewed as a sport for the affluent, along with polo and golf. Ski getaways, particularly to posh ski destinations such as St. Moritz and Klosters in Switzerland or Courchevel 1850 in France, are often out of reach for residents of economically developing nations

such as China. They are also less common to a younger generation of sports enthusiasts. While snowboarding does tend to attract the youth, not enough are joining the sport to replace skiers who leave as they age. From 2008 to 2016, the number of skier-days in the world's main ski destinations fell from 350 million to around 320

1 "Vanke (000002.SZ): first skiing resort project to be completed in Dec." *Xinhua Economic News*, August 26, 2014. General OneFile (accessed March 17, 2019). http://proxy.library.upenn.edu:2084/apps/doc/A380011970/ITOF?u=upenn_main&sid=ITOF&xid=2cd9418a.

2 Chen, Meiling. "Snow, Ice Tourism to Be Pillar Industry." *Snow, Ice Tourism to Be Pillar Industry - Chinadaily.com.cn*. March 14, 2017. Accessed March 14, 2019. http://www.chinadaily.com.cn/cndy/2017-03/14/content_28542307.htm.

3 "Chinese Property Giants Look for a Share in Winter Sports." *The Business Times*. March 24, 2015. Accessed March 14, 2019. <https://www.businesstimes.com.sg/real-estate/chinese-property-giants-look-for-a-share-in-winter-sports>.

million. Skiing in particular has become a sport for older generations.⁴ More than 20% of U.S. skiers are over 55, with the most avid group being those aged 72 and up.⁵

In addition, climate change has had a major impact as well, driving the increased use of artificial snow. A 2007 OECD report projected that roughly 40% of Alpine ski resorts would not get enough snow to operate a 100-day season if the region warmed by another 2 degrees Celsius (a conservative figure given today's climate change trends).⁶ While purists shun the use of artificial snow, environmentalists argue that its growing use puts a strain on electricity and water resources. China is not immune to these challenges, facing water scarcity in some of the very places where the government is urging the development of ski resorts in support of the upcoming 2022 Winter Olympics, which it is hosting.

Against this backdrop, Vanke's decision to diversify into ice and ski holidays would appear on the surface to be foolhardy. The company has no obvious competencies in the sport, and it is an industry plagued by unfavorable demographic and environmental trends. Nonetheless, against all odds, Vanke's Songhua Lake Resort has been a runaway success.

VANKE'S PATH TO DIVERSIFICATION

Vanke was established as a home appliance and electronics subsidiary in 1984. It became a publicly listed

company in 1988, with the state holding a 60% share. During these early days, Vanke chose to pursue a multi-channel and multi-locational strategy. It had interests in electronics, food processing, media, and real estate development that reached beyond China's prosperous east coast. In so doing, Vanke developed a comparative advantage in typically underexploited Chinese inland markets, allowing it to grow even in the early 1990s when the Chinese economy slowed and other companies struggled.⁷

For Vanke, a willingness to be unconventional has often meant finding market opportunities ahead of its peers. For example, in 2007, Vanke was among the first Chinese firms to issue corporate bonds.⁸ This financing approach, novel to China, helped Vanke grow its profits by 110%. Operationally, Vanke emphasizes quality throughout the value chain. It has the largest R&D budget of all the big Chinese real estate firms and adheres to strict international management standards. Moreover, Vanke has adopted a decentralized locational structure in which regional managers have near absolute oversight (Figures 1a and 1b). This lets Vanke operate with a high degree of local understanding, resulting in more optimal decisions vis-à-vis its divisionally structured branch companies. The strategy has been good for business: Vanke is the only publicly listed company in China with uninterrupted profit growth for 17 years.⁹

Given its unconventional business style, Vanke's diversification into the ice and snow industry seems

Figure 1a: Vanke Organizational Structure (as of 2013)¹⁰



4 Carolyn Webber. "As Baby Boomers leave the Slopes Millennials are Failing to Fill in the Gaps." *The Aspen Times*. October 16, 2017. Accessed April 15, 2019. <https://www.aspentimes.com/news/as-baby-boomers-leave-ski-slopes-millennials-are-failing-to-fill-in-the-gaps/>

5 "Winter Sports Face a Double Threat, from Climate and Demographic Change." *The Economist*. January 27, 2018. Accessed March 14, 2019. <https://www.economist.com/international/2018/01/27/winter-sports-face-a-double-threat-from-climate-and-demographic-change>.

6 Ibid.

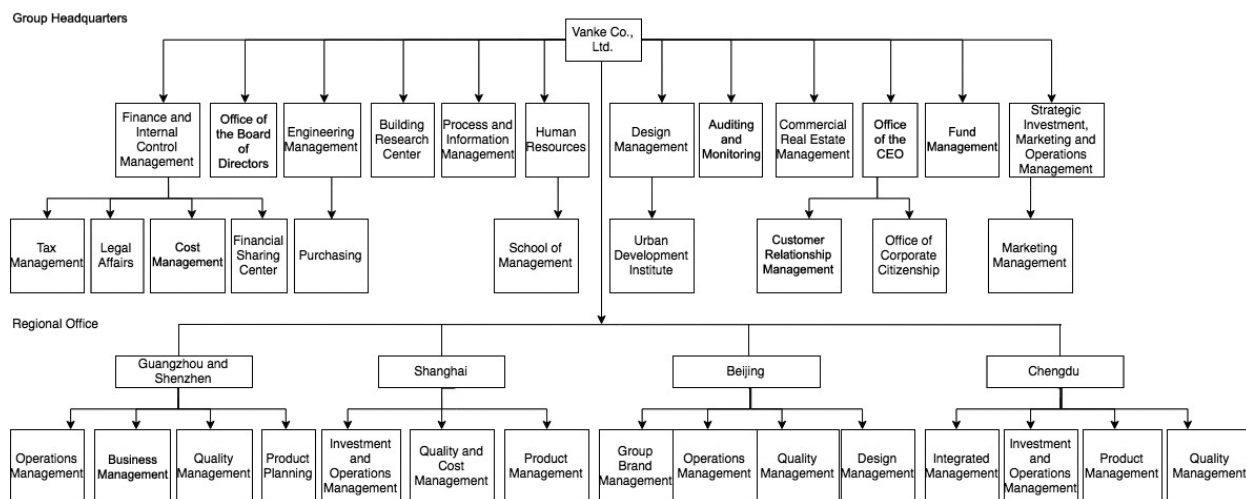
7 Hickman, Bobby L. "China Vanke Co., Ltd." *International Directory of Company Histories*. Ed. Drew D. Johnson. Vol. 188. Farmington Hills, MI: St. James Press, 2017. 104-108. Business Insights: Global. Web. February 6, 2019.

8 Ibid

9 Larmer, Brook. "Building Wonderland." *The New York Times*. April 06, 2008. Accessed March 14, 2019. <https://www.nytimes.com/2008/04/06/realestate/keymagazine/406china-t.html>.

10 Zhang, Zhanchao. *The Developing Strategy of Vanke Company*. Master's thesis, 2013., p 27

Figure 1b: Vanke's Organizational Structure 2014-Present¹¹



consistent with its DNA. However, Vanke's legendary founder and former Chairman Wang Shi is also well known for being judiciously risk-averse. By 1998, Wang Shi had decided to focus Vanke's energies on real estate development. Consequently, Vanke's recent diversification into the ski and winter resort industry was met with considerable internal resistance.

In 2011, the regional general manager of Vanke Changchun initially floated the idea of venturing into winter sports.¹² At the time, China's growing middle class was fueling a real estate boom in the northeastern city of Changchun and elsewhere, and Vanke prospered in the 1990s and 2000s. Starting in the late 2000s, however, growing overcapacity, particularly in China's third- and fourth-tier cities, became a challenge that Vanke Changchun had to overcome to sustain existing growth rates.¹³ The company ultimately decided to focus on China's booming internal tourism and hospitality industry as the best option.

China's northeast, after all, has a rugged geography and an unusually harsh winter climate, making it unsuitable for many types of activities. But Changchun lies within the world's golden snow belt, getting perfect, compact snow that skiers adore. The regional general manager argued that building a ski resort would be an appropriate way to exploit underutilized resources within Vanke Changchun's jurisdiction.

Eventually, Vanke's Wang Shi was persuaded to enter the market. In 2013, construction began on the Songhua Lake

Ski Resort. Around the same time, Wang Shi announced that Vanke was best thought of as a 'construction and living service provider' and not just a mere 'builder of homes for ordinary people.'

THE SONGHUA RESORT

Construction of Songhua Lake Ski Resort was completed in mid-2014, with the Town Center having its grand opening in 2015. This massive, world-class facility was the result of a collaboration by international and domestic designers, architects and builders. The project cost 40 billion yuan (US \$6 billion) and spanned more than 7 square kilometers (2.7 square miles).¹⁴ The four-season resort has a skiable area of 1.55 square kilometers (0.6 square miles) across 32 trails with a total length of 28.8 kilometers (17.9 miles).¹⁵ In contrast, most Chinese ski resorts built prior to 2014 had at most 50,000 square meters (0.2 square miles) of skiable area.

All ski-related infrastructure was imported from Italy and Austria. Songhua's six ski lifts run on Italy's world-leading Doppelmayr systems capable of rising at a rate of 5 meters (15 feet) a second, transporting as many as 15,000 people an hour. Vanke also uses SMI snowmaking and Prinoth snow-compacting machines, which are the best in the industry.

The Songhua resort's supporting amenities are equally impressive. The main activity center is a cluster of seven buildings along fully pedestrianized streets with 17,000 square meters (183,000 square feet) of condominium

¹¹ E-House report, unpublished

¹² E-House report, unpublished

¹³ Chen, Yawen, and Ryan Woo. "Real Estate Booms in China's Small Cities, but Construction..." Reuters. July 31, 2017. Accessed March 14, 2019. <https://www.reuters.com/article/us-china-economy-smallcities/real-estate-booms-in-chinas-small-cities-but-construction-outpaces-demand-idUSKBN1AF01A>.

¹⁴ "SongHua Lake Ski Resort." Plusurbia. August 06, 2018. Accessed March 14, 2019. <https://plusurbia.com/project/songhua-lake-ski-resort/>.

¹⁵ Axis Leisure, Vanke Songhua Resort. Accessed May 31, 2019. <https://axisleisure.com/work/vanke-songhua-resort>

space, a 46,000-square-meter (500,000 square feet) 5-star hotel as well as 10,000 square meters (108,000 square feet) of shops, clubhouses, restaurants, and VIP rooms. It also has a summit restaurant and multiple lookout points throughout its slopes.

The company’s focus on delivering a high-quality ski experience won Vanke Songhua the accolade of being China’s best ski resort in the 2017 and 2018 World Ski Awards.¹⁶ Today, it remains widely regarded as China’s most sophisticated and best-run ski resort. But building a world-class facility is not enough without the ability to attract skiers. To do that, Vanke needed to have a deep understanding of the Chinese ski market.

Image 1: Songhua Resort’s ‘Pine Flower’ Town Center (Daytime)¹⁷



Image 2: Songhua Resort’s ‘Pine Flower’ Town Center (Evening)¹⁸



Image 3: Songhua Resort Trail Map¹⁹



GROOMING A NEW CONSUMER IN CHINA: THE SKIER

Commercialized ice and snow sports are relatively new in China. They emerged into the national consciousness after Yang Yang won China’s first Winter Olympics gold medal in Salt Lake City in 2002 for speed skating. Even so, ice and snow sports were only actively pursued by Chinese who are rich enough to afford the sport and with prior exposure to North American and European winter sport lifestyles.²⁰ But all that began to change in the past decade.

In 2012, China announced that it was preparing a bid to host the 2022 Winter Olympics (Beijing eventually won). Not long after winning the bid in 2015, President Xi identified ice and snow activities as a key tourism focus of China’s 13th 5-year plan, and actively encouraged citizens to participate more in winter sports.²¹ With this, a growing wave of middle-class Chinese made their way to the slopes. In 2017, they made 17.5 million ski trips, boasting a year-on-year growth rate of 15.89% while the rest of the world’s ski industry shrank. By 2022, China is expected to have 650 skating complexes and 800 ski resorts — 450 and 300 more than in 2015, respectively. By 2025, the industry is expected to be worth 1 trillion yuan (US \$147 billion).²²

16 World Ski Awards Media Release. “Vanke Lake Songhua Resort Wins Title of China’s Best Ski Resort from 2018 World Ski Awards. December 10, 2018. Accessed June 1, 2019. <https://worldskiawards.com/mediacoverage/article/385/vanke-lake-songhua-resort-wins-title-of-chinas-best-ski-resort-from-2018-world-ski-awards>

17 Mountainworks (An Alpine Destination Designer) Vanke Songhua Lake Project. Accessed May 31, 2019. <http://www.mtnworkshop.com/pine-flower-china>

18 Mountainworks (An Alpine Destination Designer) Vanke Songhua Lake Project. Accessed May 31, 2019. <http://www.mtnworkshop.com/pine-flower-china>

19 “Worldwide.” Skiresort.info. Accessed March 14, 2019. <https://www.skiresort.info/ski-resort/lake-songhua-resort/trail-map/>.

20 Wei Gu. “Skiing is the latest obsession for China’s Wealthy.” *The Wall Street Journal*. March 26, 2015. Accessed May 15, 2019. <https://www.wsj.com/articles/skiing-is-the-latest-obsession-for-chinas-wealthy-1427357462>

21 Lucy Hornby. “China’s Xi launches Great Jump Forward into Skiing,” *Financial Times*. March 3, 2017. Accessed March 14, 2019. <https://www.ft.com/content/0b1923fe-ffef-11e6-96f8-3700c5664d30>

22 Zhu, Lingqing. “China and Austria Boost Winter Sports Industry Links.” *The Telegraph*. February 13, 2018. Accessed March 14, 2019. <https://www.telegraph.co.uk/news/world/china-watch/sport/skiing-in-china/>.

But the Chinese remain new to the sport and by one account are “90% beginner” skiers.²³ Most belong to China’s vast and newly risen middle class, typically nucleated single-child families seeking a novel holiday experience. Conventional market wisdom dictates that this demographic will not yield sizable profits for ski resorts even though they have considerable purchasing power. Ski resorts, particularly premium ones like Songhua Lake, typically have more success with sporting enthusiasts and skiing veterans.

Faced with a market that is still learning the sport, Vanke’s decision to build high quality infrastructure on such a large scale might seem puzzling. The rationale, however, is to convert vacationers into skiing enthusiasts. Indeed, Songhua resort’s slopes have a far higher ratio of beginner runs to intermediate and advanced levels than the typical ski resort of comparable quality. The ratio is 4:4:1 beginner, intermediate, and advanced, respectively.

Image 4: Slope overlook at Songhua²⁴



Vanke Songhua’s longest run is designed for beginners, a highly atypical choice in an industry where most novices might not even be adept at accessing ski lifts. This means Vanke Songhua is one of the few places in the world where beginners can quickly enjoy a picturesque view from summit to base, something that does not require expertise at skiing to appreciate. In making this decision, Vanke hopes that it can create a sufficiently captivating first experience to entice holiday-goers to return. In doing so, Vanke aims to build a sustainable base of patrons that it can upskill and ultimately generate more revenue from them.

Vanke’s deep understanding of its customer base extends to its branding choices and service provisions as well.

All major slopes at the resort are sponsored by BMW, a veritable status symbol among the Chinese middle class. It also provides extensive ski lessons in collaboration with Beihua University and a Japanese firm that specializes in using Panda-themed equipment to train children how to ski. In doing so, Vanke hopes to attract more children to the sport to ensure a future customer base while also motivating parents into making more ski trips.

HEDGING RISK: COMPETITIVE LANDSCAPE

Vanke’s new direction coincided with a tumultuous time for the company. In mid-2015, Baoneng Group quietly began to buy up Vanke shares. This was the beginning of an 18-month hostile takeover attempt which ended with Wang Shi’s resignation and the transfer of a significant ownership stake to Shenzhen Metro, a state-owned enterprise.²⁵ At the same time, Vanke was beginning to transition from a locational to a divisional structure in service of new ventures like Vanke Ski. To maintain coherence, Vanke needed to capitalize on its traditional strengths even while diversifying.

Vanke’s investment was not without risk. One way the company managed to hedge its bets was through selling residential units in the ski village at Songhua resort. These facilities lie within Vanke’s core competency of real estate and have shorter investment horizons. Consequently, blending these units into a larger, more capital-intensive project like a ski resort smooths out the rate of return, reducing Vanke’s overall exposure.

Image 5: Apartments at Songhua Resort²⁶



However, Vanke’s more significant demonstration of organizational ambidexterity lies in staying true to its values and culture: a focus on quality. The company could

23 Prime Sarimienta. “More Chinese Putting on Skis. October 15, 2018. Accessed March 14, 2019. <https://www.chinadailyhk.com/articles/92/143/184/1539575469581.html>

24 “Gallery of Stage of Forest / META-Project - 23” ArchDaily. Accessed March 14, 2019. <https://www.archdaily.com/887148/stage-of-forest-meta-project/5a5e9eb7f197cc2bba0001aa-stage-of-forest-meta-project-photo>.

25 E-House, unpublished report.

26 “Jilin Vanke Songhua Lake Ski Maplewood Apartment.” Agoda.com. Accessed March 14, 2019. <https://www.agoda.com/en-sg/jilin-vanke-songhua-lake-ski-maplewood-apartment/hotel/jilin-city-cn.html?cid=-218>.

get away with providing a basic skiing experience and not invest in equipment such as snow machines since most of its clientele are not yet discerning enough to know what good snow feels like. Moreover, elite skiers concerned with pedigree would likely choose the older Beidahu resort, operated by a nearby incumbent in the industry, which has already played host to several high-profile events including the skiing 'world cup' and Winter Asian Games.

Knowing this, Vanke still opted to rely on quality as a differentiation strategy. It had spent decades building a formidable reputation of providing high quality, affordable experiences. Thus, rather than attempt market segmentation, Vanke opted to collaborate with Beidahu. In the 2016-17 snow season, for example, Vanke Songhua and Beidahu operationalized a single-platform, single-group, single-standard, single-brand, single-ticket policy, placing themselves firmly as Jilin Province's premier ski destinations.²⁷

This differentiation strategy also had the advantage of avoiding a costly battle for mass appeal among better capitalized peers like Vanke's chief rival, Wanda. Wanda operates the mammoth 7-square-kilometer Changbaishan resort. In 2017, it welcomed 300,000 skiers. Moreover, Wanda's Changbaishan also included an indoor water theme park, a 'mountain world,' a golf course, and an amenities list that reflected its longer-standing presence in the tourism and hospitality industry. A head-to-head battle with Wanda would not be pretty.

A RESORT FOR ALL SEASONS

To hedge market demand in the winter, Vanke sought to monetize the three typically fallow seasons that ski resorts almost inevitably endure. Sitting on a meadow 935 meters (3,067 feet) above sea level, Songhua Lake resort is an easy sell for city folks looking to escape the heat. The natural landscape is also an opportunity to expose Chinese citizens to new off-season sports that carry the same excitement as skiing.

Just months after Songhua Lake's opening, Vanke collaborated with Canada's NORCO to build three mountain bike trails. It also built a high-speed cable car for individuals who prefer more leisurely vacations mostly comprised of sightseeing. Vanke has also put Songhua front and center as home to outdoor training activities designed to help young people develop resilience. Songhua attracted more than 5,000 people

in 2016, generating about 30 million yuan (US \$4.4 million). In the summer of 2017, Songhua added a water park, campgrounds, self-service bonfires, paintball, tour boats, fishing facilities, paragliding operators, and hiking operations.

Image 6: Summer Activities for the Youth at Songhua²⁸



However, skiing continues to be the main value driver of Songhua Lake. The resort is ultimately reliant on a steady stream of willing skiers. There is, however, no guarantee that current domestic interest in skiing will continue past the 2022 Beijing Winter Olympics. If anything, early market assessments suggest that Vanke will have to work hard to develop a steady customer base.

To date, curiosity is the main driver of visits to ski resorts, but the sport remains cost prohibitive for many who largely partake in skiing as a day trip.²⁹ This does not bode well given that the Chinese government is encouraging the development of a ski resort closer to Beijing, despite greater water scarcity in these areas as compared to Jilin Province. These other resorts are also closer to international airports, possibly giving them some advantage in attracting international skiers. As a hedge, Vanke is working hard to raise its profile on the international stage.

27 "12 Days Winter Tour from Beijing to Jilin, Beidahu and Harbin." www.beijingsholiday.com/beijing-winter-tours/12-days-winter-tour-from-beijing-jilin-harbin-beidahu.html. Accessed March 14, 2019.

28 Singhal, Sumit. "New Youth Commune in Songhua Lake, China by META-Project." Aeccafe. February 5, 2017. Accessed March 14, 2019. <https://www.10.aeccafe.com/blogs/arch-showcase/2017/02/05/new-youth-commune-in-songhua-lake-china-by-meta-project/>

29 Hugo Cox. "Going Off-Piste: Homebuying in Ski Resorts from Austria to China." November 4, 2016. Accessed May 25, 2019. <https://www.ft.com/content/033b6e3c-9c4c-11e6-8324-be63473ce146>