



## Why Expansion Projects Falter

Several years ago a casino embarked on a significant expansion of its gaming floor as well as non-gaming amenities, including new restaurants, movie theatres and a showroom. First it hired a reputable firm to conduct a feasibility study to determine if the project and all of its components were feasible. The consulting team that authored the feasibility study analyzed the local and drive-in markets, addressed new cachement areas, conducted demographic and psychographic analyses of those markets, determined which segments of the population in those markets would be attracted to the new amenities and prepared its forecast. The feasibility study also addressed future amenities, including a hotel and retail outlets, and advocated the development of a master plan.

Leadership used the feasibility study to secure financing for the project. They then assembled a design team including an architect, engineering firm and interior design specialists to build the facility along with in-house professionals from operations, entertainment and marketing to manage the opening and subsequent operation of the expansion.

The in-house team devised a detailed business plan. The pre-opening marketing campaign was also well planned and well funded. The employee population was kept in the loop during the building process, attending periodic presentations, and training sessions and ultimately participated in a series of “play days” just prior to the opening.

The opening of the expansion proceeded smoothly but shortly thereafter problems began to appear. Slot win failed to achieve expectations; the restaurants did not attract enough diners; movie theatre headcounts were low; there did not appear to be any cross-play between the theatres and casino; and the headline acts in the showroom consistently lost money. EBIDA margins declined precipitously. Ultimately, management was forced to dramatically curtail the headline entertainment schedule, reduce staff and close unprofitable restaurants. Meanwhile, the tribe was burdened with having to meet higher debt service with little additional revenue to support it. Worst of all, the tribe realized that the expanded facility was built on land that what would have been an ideal place to locate a future hotel.

### The Development Process

No casino is immune from the situation described above. Any major capital investment, whether it is an expansion of existing facilities, the replacement of an aging structure with a new building or the opening of a new property, entails a certain amount of risk.

The development process begins with the feasibility study.

The feasibility study is essentially an assessment of the existing market, identification of new markets, an analysis of those markets including a psychographic and behavioral profile, the potential for growth from both existing and new markets, a future valuation of those combined markets, an expected fair share that the new/expanded project(s) might achieve, and a forecast of revenue and expenses. The feasibility study also defines a fundamental business strategy and courses of action that will guide the subsequent development of the business plan. A sound feasibility study will also offer insights into what might serve the market five or ten years in the future. Essentially, the feasibility study is the cornerstone of the development process.

In the case described above, the feasibility study proposed that, given research into the market, the popularity of nationally branded mid-priced restaurant chains in the market and the capabilities of the casino's F&B team, the tribe should solicit bids from national and regional restaurant companies rather than try to operate the dining facilities themselves.

The feasibility study also recognized a growing teenage population in certain cachement areas and based part of its casino revenue projections on the percentage of adults who would escort minors to the movie theatres but spend some time in the casino. Because of income levels and entertainment patterns in the market, the study also advised that the showroom offer mid-priced acts, be designed as a multi-use room with collapsible tiered seating that could function, not only as a showroom, but also as a convention center and nightclub.

With feasibility study in hand, the tribe was able to secure financing and proceed with design and construction. The feasibility study was then put aside and the casino's operations team was brought in to build the facility they thought would work. Most had not seen the original feasibility study and were given only an outline of what the expansion would consist of. It was up to them to carry out the expansion.

The food and beverage director was not enamored with the notion of turning over the operation of his restaurants to outsiders and lobbied to have the restaurants developed and operated by the tribe. The marketing director deduced that there were enough “first-run” movie theatres in town and decided that the tribe could eschew an outside operator and run the movie theatres themselves. Rather than offer commercial fare that appealed primarily to teenagers, the casino would offer art films that were normally screened only in New York or Los Angeles and would ostensibly attract a decidedly adult crowd.

The entertainment director decided that the room should be a true “Las Vegas” showroom with tiered booths and tables.

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A design change was ordered and the collapsible tiered stadium seats that were originally proposed were returned to the manufacturer. Once opened, the entertainment director brought in series of "A" level acts to give the market something special.

While each of these changes seemed reasonable, they were made in the absence of critical information. By not sharing the feasibility study with the people tasked with designing and operating the facility, leadership kept important information from its team, preventing them from formulating sound marketing and operational strategies.

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work for the operations and development teams to work with.

The feasibility study plays a critical role in helping leadership determine if a project is feasible and to secure funding. However, its role does not end once the loans are obtained. The feasibility study provides a fundamental rationale for the project and the basis on which to formulate operational and marketing plans. As such, it should be shared with the people tasked with building and operating the property and referenced both during the construction process and after the opening. ♣

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The image is a promotional graphic for Klebanow Consulting. It features a large, stylized white 'K' logo on a blue and purple background with binary code. Below the logo, the company name 'KLEBANOW CONSULTING' is written in a serif font. Underneath, the services 'GAMING RESEARCH' and 'MARKET PLANNING' are listed. To the right of the main text, a list of services is provided: 'Market Analysis and Feasibility Studies', 'Operational Reviews', 'Marketing Plan Development', 'Marketing Research', and 'Business Plan Development'. At the bottom left, the company's address and contact information are listed. At the bottom right, there are four small images: a hand holding playing cards, a roulette wheel, a hand pointing at a slot machine screen, and a pile of gold coins.

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