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Striving For the Highest Standards in Casino Design

Indian casinos now dot the American landscape. They can be found in such diverse places as Wyoming, New York and California. Architecturally, these casinos range from stunning resorts that rival the most beautiful casinos in the world to modest facilities that were built as temporary gaming venues. Unfortunately, it can be the latter that defines the expectations of customers when they think of Indian casinos. The question that must be asked is, "why does an industry with some of the highest operating margins of any segment of the hospitality industry offer its customers gaming environments that are not always the most attractive or comfortable?"

It is important to understand Indian casinos in a historical context in order to appreciate how many of these gaming properties were developed. With the passage of the Indian Gaming Regulatory Act in 1988, tribes were able to open casinos. However, many states' governors were unwilling to negotiate compacts with tribes or chose to severely

restrict the types of games that could be offered.

Capital markets were at first very reluctant to finance the development of these casinos, particularly those without compacts or with compacts that prohibited class III electronic gaming devices. Further, the remote locations of many Indian reservations were perceived as unfeasible for gaming development.

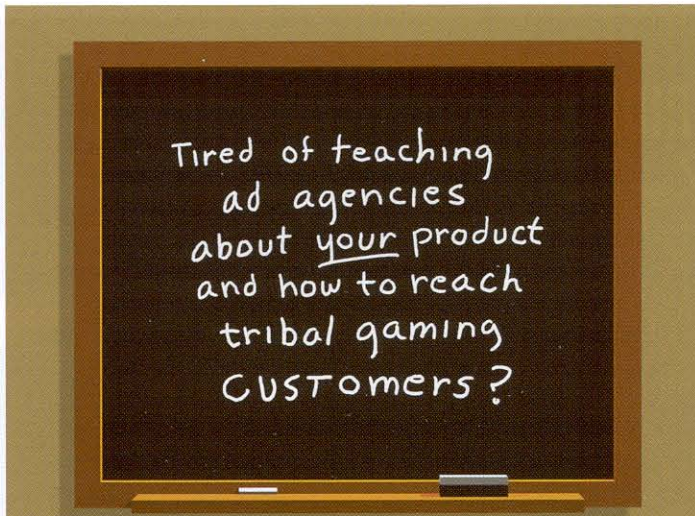
Ultimately, the first wave of casino development took place without access to traditional capital markets and many tribes were forced to fund developments internally. Included in this first wave were the conversion of buildings such as garages and warehouses to casinos, the construction of butler buildings and other warehouse style structures and even the conversion of mobile structures into casinos. All of these were done with the goals of minimizing investment costs and generating cash flow. While these properties were able to produce attractive operating margins, they offered gaming environments that were unappealing to many players.

As tribes were able to complete compact negotiations and as these temporary structures demonstrated their ability to produce outsized revenues, access to capital markets opened up and with it began a new generation of Indian casino development. Those tribes that chose to reinvest in their businesses were rewarded with unprecedented success. However, there remain today a number of Indian casinos that continue to operate in their original temporary facilities. They do so for many reasons including a fear of incurring long term debt, utilizing gaming profits to fund other tribal endeavors or perhaps a general reluctance to reinvest in a business that seems to be working well.

The Consequences of Inferior Design

While many tribes that operate such gaming operations look proudly on their operating margins (often exceeding 80%), they fail to realize that there could be a tremendous amount of money lost because much of the gaming population within their markets simply choose not to go to these casinos. Rather, this segment of players may save their gaming budgets for periodic trips to Las Vegas, Reno, Atlantic City or one of the other regional gaming destinations. These casino operators attract mainly diehard gaming enthusiasts.

When consultants conduct market feasibility studies, they examine a number of factors including the size of the population, the number of competitors and the types of facilities, the kinds of other entertainment options in the market and the quality of the proposed facility. The



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