



The Challenges of Developing a Casino Resort

Over the past fifteen years the Indian casino industry has evolved and so too have the individual properties that make up this industry. Many of these casinos have evolved from simple gaming operations housed in temporary structures to regional gaming entertainment centers, and some have succeeded in evolving into lavish full-scale resorts. While the evolution of a casino into a regional gaming entertainment center is often a natural and progressive form of casino development, the creation of a true casino resort is often a difficult, expensive and risky process. There is, in fact, a wealth of problems facing any casino operator that attempts to make the transition from a local oriented casino to a full-scale casino resort.

When conducting a market assessment for an expansion of a casino into a resort, consultants examine a number of variables including 1) the location of the proposed resort and its ability to support this kind of development, 2) the expected demand for a resort from primary feeder markets, 3) the proposed quality level of the resort, 4) the kinds of amenities that will support the resort experience, 5) the size of the proposed resort and the size of its related amenities, 6) the relative strength of the competition and 7) the ability of casino management to effectively manage a full-scale resort operation. Misreading any of these variables can doom the project.

The Transition from Regional Entertainment Center to Resort Destination

For many casinos, the safest and most practical development path is to first evolve from a simple gaming operation into a regional gaming entertainment center. In this process, the original casino is often expanded or replaced with a more attractive facility and a number of key non-gaming amenities are added, including multiple restaurants, bars and lounges, entertainment venues as well as a hotel. In addition, the gaming operator may add other amenities, such as a multiplex movie theatre, bowling center and soft-play children's activity center, all designed to best meet the needs of the local operation.

At some point the casino operator may make the decision to reposition the property into a full-scale resort. The casino resort, however, is a decidedly different operation from a regional gaming entertainment center. Merely adding a 150-room hotel and a swimming pool to a casino do not in themselves make a true casino resort. Resorts are far more complex, demanding significant capital expenditures and consumer expectations for a true resort experience are far higher than that of an overnight stay at a regional gaming entertainment center.

The first question that must be asked is, is the location of the property suitable for a resort? This suitability may be

dependent on any number of factors, including an attractive environment, key natural features such as lakes or mountains, suitable climate or proximity to other resort style development.

The next and most important question that must be asked is, is there sufficient demand from key feeder markets to support a resort operation? Until now the casino has been dependent on the local population as the primary source of demand. If a resort is developed, where will the new customers come from? In general, the resort must be close enough to primary feeder markets so that the proposed resort can be reached in less than two hours. Any further and customers may find the property too inconvenient. Further questions that must be asked are, is the demographic composition of the key feeder markets wealthy enough to afford a gaming resort style experience? What other vacation alternatives are available to the primary feeder markets? In other words, is a casino resort feasible?

Once overall demand has been defined, the depth of that demand has been quantified, and initial financial projections are made, it is time to define the breadth of amenities of the new resort. A resort, by definition, is far more than just a hotel and a swimming pool. A true resort requires not only a breadth of resort style amenities including a spa, room service, multiple fine dining venues, attractive poolscape, golf course, conference and meeting space and a full-service hotel, but those amenities must be built to a high enough standard so as to be unique and desirous of the target market. In other words, these amenities must be special.

Perhaps the greatest mistake that casino developers make is to under-size the resort development. If the demand is not deep enough to support say, a 350-room resort, the developer may opt for a 175-room hotel as the centerpiece of the resort. Unfortunately, many resort style amenities simply cannot operate profitably with such a small number of hotel rooms fueling demand for those other services. A spa is a prime example. A spa requires a number of highly skilled employees, including masseuses and cosmetologists. If the hotel is the primary source of demand for the spa, then that hotel must be of sufficient size to provide a base of customers that will be desirous of spa services. The table below illustrates this point.

Hotel Spa Analysis				
Hotel Size	Occupancy Per Room	Occupancy Rate	Capture Rate	Daily Spa Attendees
200	2	85%	5%	17
400	2	85%	5%	34

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In this example, a 200-room hotel would generate 17 spa attendees per day. This is probably an insufficient volume to support a spa operation. However, as the number of hotel rooms increases, so do the number of expected spa attendees. A 400-room hotel, providing an average of 34 attendees, would allow the spa to operate profitably. A similar argument can be made for a fine dining establishment, golf course or conference and meeting space. A small hotel simply cannot provide the critical mass of people to support true resort services.

The most difficult aspect of developing a casino resort is the actual day-to-day task of running a resort. While casino operating margins are usually large, resort operations are not. They leave little margin for error. EBITDA margins for a resort

are not nearly as attractive as that of a casino and the operator runs the risk of operating a resort that is unprofitable.

Making the transition from a local gaming entertainment center to a casino resort is a difficult and risky proposition and requires thorough analysis and forecasting. For many tribes, the risk may be too great. For others, where there is sufficient demand, the development of a casino resort may give the tribe a sustainable competitive advantage and allow it to reposition itself to better compete against racinos and other forms of convenience gambling. ♣

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