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Rising Gas Prices and the Possible Effects on Casino Visitation

The steady rise in gasoline prices over the past year and the possibility of further increases in the near future is a growing concern among gaming executives as well as financial analysts that watch trends in the gaming industry. While casinos in a number of jurisdictions have recently enjoyed steady increases in visitation and gaming revenue, the question that is on many peoples' minds is, "how will rising gas prices affect the gaming industry?" The question is of particular concern to managers of Indian casinos since the majority of Native American gaming operations are located outside of metropolitan areas in rural locations that require patrons to drive further and expend more fuel than if they were to participate in other entertainment options closer to home.

A recently completed survey by a research company in Nevada attempted to gauge the effects that rising gas prices will have on drive-in traffic from Southern California. The study noted that 48 percent of respondents said higher gasoline prices would deter them from planning vacations to Las Vegas and that 57% said fuel costs are affecting their decisions to go on weekend trips. At first blush, the results of this survey would cause casino managers in all US jurisdictions to be concerned. However, the *Las Vegas Sun* newspaper reported that as gas prices rose earlier this year, auto traffic to Las Vegas increased. From January to August of 2005, gasoline prices in California increased by 40% but auto traffic on Interstate 15 at the Nevada-California border increased by 30%. Las Vegas continues to enjoy historically high levels of visitation and gaming revenues. Even with gas prices hovering at \$3.00, people continue to drive into the city from Southern California for gaming/entertainment vacations.

Gaming researchers have started to include questions regarding the possible effects of gasoline prices on visitation patterns and gaming spending patterns as part of larger surveys that poll local gaming customers. Preliminary results are interesting. These studies find that, while gamers will probably not reduce their gaming spend per visit or their overall annual gaming expenditures, rising gas prices will nonetheless have an effect on casinos that cater to and depend on frequent visitors.

When asked what effect rising gas prices are having on their gaming visitation patterns, most gamers indicated that, while they are concerned about those prices, they still find themselves visiting their favorite casinos and spending more or less the same. However, they indicated that the marketing offers that casinos send them hold less

meaning than they previously did. Lower end gamblers indicated that a \$7.50 coupon holds little value when it costs \$20 in fuel to drive round trip to a casino. Also, so-called free gift days no longer seem as appealing as they once did. Gaming customers are less likely to make a special visit to a casino just to redeem a coupon for a beach umbrella or stadium chair. While gamers are still visiting casinos, incremental visits stimulated by these kinds of marketing demand programs appear to be less effective than in past years.

These preliminary results should be of concern to casino marketers. Cash and non-negotiable free slot play coupons designed to increase frequency of visitation and daily average spend have become the foundation for many casinos' marketing programs. What these preliminary research findings indicate is that, while gamers will not give up going to casinos nor will they necessarily reduce their gaming budgets, they will be far less likely to jump into their cars and visit their favorite casino because they have a \$5 coupon or a postcard that can be redeemed for a free holiday pie.

Higher worth gamers indicated that they will probably continue to maintain their visitation patterns, particularly those that receive cash coupons with values of \$50 or more. For these people, coupons will continue to be salient and they will continue to drive out to redeem them.

Bus marketing programs is another area that will likely be affected. Bus operators are obviously vulnerable to higher fuel prices. They will no doubt attempt to pass on the costs of higher fuel to casino operators that are willing to pay for these gaming customers. Many casino operators will simply acquiesce to these requests. The end result will be a further erosion of profit margins for a group of customers that have historically provided little, if any, profitability to the gaming operation.

For casino operators, the marketing challenge will be to find ways to get low and medium worth gamers to visit more frequently without dramatically increasing the value of the cash coupons and other marketing offers. Many will find that the only way to get people to visit more often will be to simply increase the value of marketing offers. To maintain revenue growth, many casino operators will ultimately have to increase marketing expenditures. Others will find their current marketing programs far less effective than in the past. ♣

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