



ANDREW KLEBANOW

The Dangers of Marketing Cheap

Native American gaming operations have often looked to Nevada for insights into how to market their casinos. The general belief is that the marketing practices of Nevada casinos are based on sound research and experience, and have demonstrated themselves to be the best way of attracting and retaining qualified gaming prospects.

One of these marketing practices is the concept of attracting gamers by discounting food, drinks and room rate to ridiculously low levels. Cheap meals, cheap drinks and low room rates have always been associated with Nevada casinos. The logic behind these practices is that by generating traffic through the property, a certain percentage of those people will stop and gamble. The exact percentage that do stop to gamble or their gaming budgets has never been determined.

The question that one must ask when embarking down this path is what kind of gaming profile does a person have who is attracted by a \$1.99 meal special, a 50¢ drink or a \$19.99

room? Do people who are attracted by ridiculously cheap meals have larger gaming budgets than the rest of the population? More important, would you take your spouse to a hotel, sight unseen, that charged \$19.99 a night? Would you be attracted to a restaurant that advertised a dinner costing less than a fast food hamburger? If the answer to either question is no, then for what reason would one expect to attract customers with meaningful gaming budgets by promoting cheap food and rooms?

The History of Discounting in Casinos

Second tier slot houses in Las Vegas that do not have hotels have always used price to attract people walking down Las Vegas Boulevard or Fremont Street in order to lure passersby. The Golden Gate Casino used a 99¢ shrimp cocktail to lure customers. Despite its reputation as a no-limit gambling house, Binion's Horseshoe had for years promoted 50¢ drinks and a \$1.99 graveyard steak dinner to attract off-duty casino employees.

Circus Circus was the first Strip hotel-casino to utilize price as a fundamental business strategy. It advertised low room rates on the front page of the comics section of the Sunday L.A. Times and proudly displayed absurdly low buffet prices on its marquee. For years it succeeded because it was able to keep its operational costs low and its hotel occupancy high. The company's hotels were designed with few amenities and made them easy to clean; its restaurants offered basic fare at low prices.

In 1990 the company opened the 4,000-room Excalibur Hotel and Casino at a cost of \$275 million. The 3,000-room Mirage opened six months earlier at a cost of \$650 million. Everything about the Excalibur was designed to deliver lodging, meals and gaming at a lower cost. Its rooms had shower stalls instead of bathtubs so maids could clean the rooms more quickly. Each room had a through-the-wall air conditioner instead of central HVAC because it was cheaper to build and maintain.

This strategy did not last during the boom years of the past decade. Even a well-run company like Circus Circus Enterprises learned that a price-driven strategy limited their ability to grow revenue in a booming economy. It subsequently chose a different strategy for its newer properties, first constructing Luxor and then Mandalay Bay. Neither is a value property and Mandalay Bay often commands weekend room rates in excess of \$250 a night.

The Dangers of Being Cheap

Laughlin, NV is a gaming resort town known for cheap prices. In fact, the city had built a reputation on cheap rooms

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and food. Even today it is not uncommon to see ads in feeder markets for \$20 rooms and \$1.99 buffets.

Because properties competed with each other on price with the hopes of driving slot revenue, there was an intrinsic feat not to increase rates. Over the past ten years average daily room rates (ADR) in Laughlin grew a scant 3% while Las Vegas ADR grew by 58% and nationwide ADR increased by almost 40%. Today Laughlin's ADR hovers at around \$25 a night. Laughlin built its reputation on being a cheap gaming destination and is now unable to change that position in the minds of consumers. Worse yet, after a decade of this practice the resorts cannot justify adding amenities or renovating their room product because to do so would not guarantee a higher room rate. Capital would be better invested elsewhere.

Food and Beverage

Loss leader food specials and low food prices force a casino's food department to operate inefficiently. Because menus are often priced at unprofitable levels in order to attract visitors, many casinos have come to expect that their food departments will lose millions of dollars each year. Management cannot fault a restaurant manager for high food and labor costs if the menu is priced too low. This in turn encourages the Food department to operate less efficiently.

One casino came up with novel solution to the pricing of food specials. When Marketing decided to implement a dinner special, it proposed to reimburse the food department the difference between the retail price of a menu item and the discounted price. However, this created its own set of problems. Wait staff promoted the specials and drove retail customers into buying the dinner specials. Once profitable menu items went unsold as customers switched to the low-priced specials. The food department had no incentive to alter this behavior since it stood to benefit from the sale of these loss leaders. Moreover, wait staff felt they were doing customers a service by recommending loss leaders and thereby providing the outstanding customer service that management wanted them to give.

Use Price as a Tactic


Restaurants, hotels, and airlines often use price as a tactic to drive traffic during slow periods to generate supplemental revenue. However, casinos tend to rely on price as a form of strategy, or as a substitute for a well-thought out marketing strategy. The dangers of this are apparent. Casinos that rely on price quickly create an expectation among customers that their food and rooms should be cheap. "After all," their logic says, "it's a casino; they can afford it!" Yet these discounts are handed out to unqualified prospects with the hope that they might stay and gamble rather than applying those discounts to reward frequent gamblers for their loyal play. Further, cheap prices reduce the

perceived value of comps that are given to loyal and profitable gaming customers. How much value is there in a free Prime Rib dinner if it retails for \$4.95?

It is perfectly acceptable to use price as a tactic to periodically drive traffic into the property. However, discounted prices must be used judiciously and always for just a limited time. When considering a pricing tactic, always ask what is the purpose of this discount price? Who do you expect to attract? How will the discount affect the value of the player rewards program? How will it alter the image of the property?

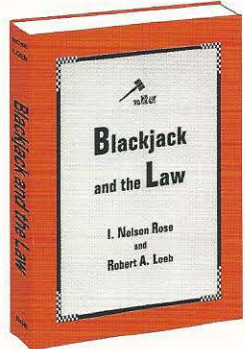
Pricing is an important component of a casino's marketing strategy and if used judiciously, can be a very effective weapon in the marketing arsenal. However, the astute marketer must understand the implications of offering discounts to non-qualified players and how it fits in with the property's overall strategy. It has been demonstrated time and again that there are dangers to marketing "cheap." ♣

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Blackjack and the Law

Do casinos have the legal right to exclude players because they are skillful? What if a player who is told to leave comes back to play later? Can you be forced to show your ID? Can you legally use false ID? What if you are told by security guards to go into the "back room"? Is preferential shuffling legal? Can a casino legally restrict your bet spread? How can professionals take gambling losses off their taxes? What records do you have to keep to satisfy the IRS? Is it legal to gamble over the Internet? Are gaming laws different on Indian reservations? Everyone from the casual player to the full-time professional card-counter will find useful answers to legal gambling questions in this 245 page book, **Blackjack and the Law**. This book brings together 14 years of the syndicated columns of Attorney I. Nelson Rose, recognized as one of the world's leading authorities on gambling law, with the commentary of Attorney Robert A. Loeb, who has represented many card-counters in various legal disputes.



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