

GAMBLING ON REVENUES: THE PRICE WARS IN CASINOS



This current economic downturn was a reality check for the casino industry, which has never seen revenue declines this dramatic. But it is also an opportunity to refocus your team on what really matters, your brand, the elements of your service that

make you, and keep your customers coming back. Gary Loveman said, in a recent speech to Cornell University's School of Hotel Administration, that managing down is very different than managing up. Those who were great at up, need to refocus themselves during down.

The real danger of the price wars that are happening all around the industry, particularly in the major markets like Las Vegas and Atlantic City is not declining revenues or slow recovery, it's that we are teaching our customer that one hotel room is like another, that one casino is no different from another. Whoever offers the best price, wins. You are gambling with your customers' loyalty. The hotel room is a vehicle to generate revenue, but it is not your core product. The customer only rents the hotel room. They are buying the experience of being on your property, walking through your lobby, eating at your restaurants, playing in your casino.

CASINOS MUST MAINTAIN SERVICE LEVELS

A recent report from Forrester investigated low price seeking versus service seeking in customer buying behavior. While 65% of hotel customers indicated that both low price and good service was a priority, 19% favored good service over low price, and only 7% favored low price over good service. This means that nearly three times as many people would choose your casino only because your service was good than would choose your casino only because it was the lowest price. Why not send those price seekers to your competitors and focus on attracting and maintaining service seeking customers (within a reasonable price range for your market)?

The double edged sword of the down economy is discounting and then cutting key services that differentiate you from your competitors. In order to fight commoditization brought about by excessive focus on price, casinos MUST maintain service levels and brand focus.

Every customer who comes through the door needs to understand what makes your casino different and special, and what makes your brand unique, whether they are a loyal customer or came in because of a discount. The more information you can gather about your customers, the better. This can be used to design services and offers that appeal to your best customers, and eliminate out the ones that don't. Across the board cuts in services damage the brand, hurting you more in the long term than low rates hurt now.

A strong analytic strategy, supported by solid data collection, integration and quality, is essential in these tough economic times. Every promotion should be carefully planned with all stakeholders participating from revenue management to marketing to operations. The team should evaluate why a pricing decision is being made and whether the promotions supports or grows the brand promise. If the decision is strictly made because a competitor lowered their rate, then you need to go back to the drawing board. Analysis of response rates and customer behavior during visits will ensure that you measure success and can make course corrections when required.

Rom Hendler, VP, Strategic Marketing at The Venetian likes to talk about his use of data and analytics because he wishes more of his competitors did what his properties do. "If everyone was using revenue management and predictive modeling they would be so much smarter about pricing, and it would actually ensure that we were operating on a level playing field. Once a casino reduces room rates, the others will follow and you get this artificial effect. It's not about science. With data and analytics, you can fight room rate decline"

All of this discussion reminds us that pricing is as much an art as it is a science. It is very much subject to and influenced by consumer behavior, preferences and perceptions. There is no silver bullet, no across the board strategy that will save you. The reality is that demand is down, and even if you are strategic and thoughtful, you may be forced to deep discounts to drive revenue. You have a responsibility to your owners and stakeholders to continue to drive revenue now and also during the upturn. You may feel as if you are forced to discount rooms now, but do not discount the brand at the same time!

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Kelly has 18 years of experience in the hospitality industry, both in operations and in information technology. Before joining SAS, Kelly consulted with Harrah's Entertainment to develop restaurant revenue management strategies for the casinos in their major markets. Kelly was a senior consultant at Radiant Systems, working with contract food service clients like The Compass Group and HMS Host on web-based administrative solutions to manage cash handling, inventory management, supply chain and labor. She also worked for RMS (Revenue Management Solutions) on menu-item pricing strategies for chain restaurants, and designed a function space revenue management system for the Westin in Singapore. Kelly's operations experience is primarily focused on the restaurant industry, although she has worked in hotels and casinos. She managed an upscale Creole restaurant in New Orleans, and was the general manager of a franchised Ben and Jerry's Ice Cream Shop in the French Quarter.

Kelly has a BS from Georgetown University and a Master of Management in Hospitality from the Cornell School of Hotel Administration. She also has a PhD from The Hotel School, focused on non-traditional applications of Revenue Management. Her dissertation was on the impact of occupied wait time on customer perceptions of the waiting experience. Her research has been published in the Cornell Hospitality Quarterly, and she has conducted a number of executive level seminars on capacity management and non-traditional applications of revenue management.