



SUSTAINABLE CASINO OPERATIONS TRAFFIC, VOLUME & BUSINESS CYCLES

August 7, 2014



You don't need to be good all the time. Just when it matters' (Beowulf, 1999)

With a small change of words, something similar could be said about casino traffic: You don't need to be packed all the time. Just when it matters'. But the decision as to when it matters should be based on careful analysis as to how much of a volume (drop, coin in,...) is required to at least make the operation sustainable and somehow guarantee its continuity.

Casinos around the globe have different business models and, even two casinos with same products, similar location and design, would show different traffic flows, frequency and game volume. Many times, the result of intangible sentiments and not-so clear variables. Yet, they are all subject to activity cycles of different lengths and frequency: Daily cycles represented by the traffic received during the hours and daily shifts, weekly cycles with traditional increases on weekends, monthly cycles sometimes based on paydays, number of weekends or special holidays and, surely enough, seasonal cycles at some jurisdictions and destinations with predominant conditions of weather, school-is-out periods, holidays, special celebrations, etc. Operators refer to these cycles in different ways: low-high seasons, Graveyard shift, garbage time, primetime hours,...

In each case, casino management must try to obtain the best business model to adapt to those cycles as well as to the particular lifecycle of the operation. Whether it is a start up casino, one in a maturing process, a stable operation or a decaying one needing urgent revamp. Casinos are a living entity addressing human beings. Consideration and attention to business and life cycles are, therefore, a must.

This is when optimization tools take front stage and priority: Yield Analysis, Floor and Revenue Optimization, Service Profit Chain, CRM and other marketing tools, Market Research and Analysis, Employees Scheduling, HR Analytics,....and, most importantly, Line Item Analysis on which the costs and expenses sides of the profit formula is deeply reviewed and weighted.

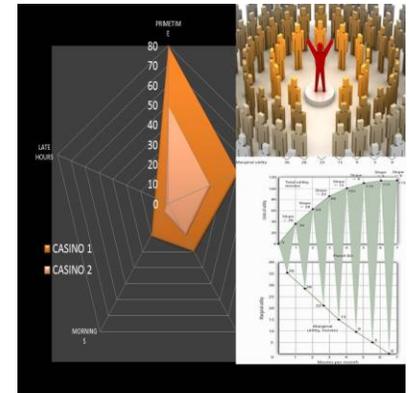
In the real world of casinos, skills and attitudes required to approach many of these analytical and management techniques, particularly line item analysis, are not normally present in operations and marketing managers and, many times, it is left to CFO and Accountants who, after large difficulties to establish communication end up being blamed by many for limiting floor management and marketing which, reduces even more traffic and volume by creating a vicious circle and so, we move along until sometimes is too late or too costly to overturn it. Continuity and Sustainability suffer. Casinos close or end up being white elephants!!

It is true that, many times, this cycles and traffic patterns can be unpredictable and depend on external variables which are out of control for the casino. Examples of these variables do include what is going on at other

competitive operations (shows, promos, raffles,..), is it raining or just too cold? Is there an important event in town? Maybe a long weekend or holiday and players just decided to go with their families. Although several circumstances can affect you traffic, it is management's and marketing's responsibilities to keep track of those variables, alertness and quick reaction to them is mandatory. You can never emphasize enough the importance of constant business intelligence and right-time information.

Other important considerations are the specific market catered to by the operation as well as the lifecycle stage of the casino: Is it a new casino trying to penetrate the market or an established brand with a good players' base? Or maybe a mature casino trying to reinvent itself. Planning and adapting to business cycles will require different approaches and tools for each lifecycle stage.

Another significant problem seems to be the deeply rooted confusion between quantity traffic (visitors, entrance) and quality of traffic. At one time you could have a significant amount of visitors to your operation and your volume results less than the one with much less people in or with insignificant increases. This is the result of low end or non-playing visitors attracted by a promotion not well design or a special event or show. **Management must be very careful not to confuse the following metrics: Visits/admissions, headcounts, gross and net occupancy percentages with strong consideration to the quality of the different customer segments which visit and play their devices in direct relation to the type and amount of revenue they generate.** Be it gaming or non-gaming revenue.



The hospitality industry is a good example of how metrics and KPIs can be derived and used to perform useful revenue optimization. The casino industry has taken a little bit more time to incorporate systems and analytical techniques to design productive strategies. We need to catch up!!

But what happens when a casino does not optimizes its whole operations to the business and market cycles? The answer is obvious: Resources are wasted and financial burden compromises the continuity and sustainability of the business. Some typical examples :

- ❖ **24/7 OPERATION.** Without proper market research and intelligence, results could be very negative and damaging to an otherwise productive business. Market for early morning hours and mid-day hours could be unavailable or too limited to even cover extraordinary and additional expenses required to sustain a continuous activity. Of course, any incremental revenue would help to minimize the effect of fix costs but increases on operational expenses must be considered and compared.
- ❖ **STRONG WEEKENDS BUT MINIMUM TRAFFIC REST OF THE WEEK.** This is frequent at several operations. Even at those with a limited set of working hours. They subsist and live with the expectation of a strong weekend but the place looks like a desert rest of the week except for some late night and primetime hours.
- ❖ **LOCAL CASINO - LIMITED HOURS.** Most local casinos tend to understand the need for maximizing their hours of operations since they usually have a consistent players base. Unless they try to copy-cat others with very negative results. 14 and 16 hours operations are common with increasing volume, resources and staff.
- ❖ **LIMITED HOURS RESORT CASINO.** It is common to see some small resorts limiting the operations hours to accommodate for visitors to use the beach, city tours and other activities during morning and

afternoon hours, but many times those same casinos do not seem to understand the seasonal cycles of the resort industry or fail to optimize their table games by opening them all at once and maybe every day.

- ❖ **LOW SEASON AT THE RESORT.** This condition sometimes requires difficult management decisions. Including reduction of labor and limiting devices and areas. Also limited entertainment. Constant and positive interaction between hotel and casino marketing and management is vital.



It is difficult to admit that you might be operating in excess of hours, staff or gaming devices. Specially, when you think you can overcome the existing competitors or when pride affects your decision making process and you just do not want to cut down hours or devices afraid of “*negative word-of-mouth*”. In all cases, you must be careful not to forget that investors expect sufficient profitability and yield to justify their investment. Sometimes a smaller and limited-time operation would yield higher ROI than an expanded but unsustainable one.

Here are some suggestions that you can implement to optimize your operation by adapting to business cycles.

- ✓ **BREAK EVEN POINT.** Always be aware of this significant metric and how revenue sources contribute to it. As much as possible, calculate breakeven points by operation areas (slots, tables, bingo, sport book, poker rooms...). Remember, Breakeven is a dynamic amount or percentage and not a static one.
- ✓ **PLANNING OPERATIONS TO OPTIMIZE TRAFFIC CYCLES.** Promos, tables closing and openings, hours of operations. It is somewhat surprising to see everyone basically marketing only for weekends like everybody else and precisely when more traffic is expected instead of concentrating on leveling the whole week and hours of the otherwise very slow days.
- ✓ **MARKET RESEARCH AND BI.** Know your business cycles and that of your competition. Including the one from other non-gaming activities competing for the disposable income of the population.
- ✓ **KEEP A PLAYERS' BASE AS WIDE AS POSSIBLE. DIVERSIFY.** Different segmentation could provide you with traffic and volume in different hours of the day and days of the week. Make sure to address each segment in a proper way and as personalized as possible.
- ✓ **ADAPT YOUR TABLE LIMITS AND GAMES TO THE CYCLE.** If you already know that your early and mid morning visitors have limited gaming budget, why not adjust the table limits to them or just open the games which your research shows are most attractive?
- ✓ **DO NOT BE AFRAID TO LIMIT HOURS OF OPERATIONS AND/OR GAMING DEVICES.**
- ✓ **ALWAYS DO THE MATH AND KEEP ON TIME INFORMATION AND ANALYTICS.** Do not wait for end of month or quarterly financials to find out your revenue was improved but your bottom line was not enough to pay interests and provide reserves.
 - Keep constant observation on Cost and Expenses (Line Item Analysis)
 - Make sure your EBITDA and ROI are in line with your budget and strategic plan.
 - Keep on-time and actionable information and analysis on appropriate metrics and KPIs
 - Do not confuse Revenue and Cash-Flow with Profits
- ✓ **WORK AND PLAN FOR OPTIMUM TRAFFIC BUT DO NOT BUDGET BASED ON MAXIMUM.** Very common mistake. Specially for new properties. It is better to be conservative to gain and maintain traction and sustainability than to overspend in resources to attract maximum traffic which your market sometimes cannot provide. Even worst, overinvest and have low or negative ROI

- ✓ **PLAYER DEVELOPMENT.** Develop plans and strategies to improve your players' current frequency of visits, average amount of play, monetization and retention programs.
- ✓ **KEEP CONSTANT COMMUNICATION WITH THE FLOOR PERSONNEL** they have the feeling for the market. They represent your casino's at all touch points

Remember, all you need to do is to find a little space into the life of your costumers. A space than he or she can fill in with visits to your property. As I have said many times, having the best gaming devices and the nicest casino helps but being open does not assures players will come with the frequency and game time you need to sustain your operation.

We want to help you evaluate, implement and develop these ideas.

Let us hear from you!!



AGL360CG, SRL is a gaming consulting company addressing its services to the Caribbean and LatAm areas and with strong emphasis on gaming and marketing analytics studies, metric and KPIs development to be used by Management to support sound decisions.

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