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Choosing a Competitive Business Strategy

When it comes to identifying an appropriate competitive strategy, casinos are no different than any other business. All businesses compete using one of two basic strategies: they employ a pricing strategy or a differentiation strategy.

Businesses that compete on price strive to offer the lowest possible price. They do so by reducing the costs of production in order to deliver a product or service at a price that is lower than the competition. This strategy works well for commodities in which the products sold are undifferentiated. Wheat and oil are commodities and producers compete solely on price. Products that are clearly differentiated, through features or other unique elements, can command a higher price.

Other products and services can compete using either strategy. An example in manufacturing would be to compare two automobile products. A Kia automobile delivers basic transportation at a low price. A Mercedes delivers the same basic function but the product is differentiated in such a way that the manufacturer can command a much higher price. Kia employs a pricing strategy while Mercedes employs a differentiation strategy.

This principle holds true for the hospitality industry as well. Motel 6 can rent a hotel room for under $50. It does so by first selecting relatively inexpensive highway locations, building simple properties, eliminating most amenities and providing austere accommodations. Ritz Carlton on the other hand, provides its guests with a wealth of amenities in prime downtown or resort locations, richly designed rooms, elegant restaurants, room service and unparalleled service. Its guests pay a premium for this clearly differentiated product.

Casinos are no different. They can compete on price or through differentiation. In Las Vegas the Excalibur Hotel and Casino was designed from the ground up to compete on price. Its 4,000 rooms are relatively austere, all bathrooms contain shower stalls to reduce cleaning time and all of its restaurants offer modestly priced fare with relatively few selections. It can thus deliver a vacation product that is priced lower than the competition and still make an attractive profit. The Mirage Hotel and Casino is designed with a wealth of amenities designed to differentiate itself from the competition. Richly appointed rooms and suites, private gaming salons, stunning restaurants, an indoor rain forest all drive up the cost of doing business but allow the Mirage to command a higher rate.

A pricing strategy in a casino is comprised of a rather complex array of pricing tactics. These include same-day cash back, the hold percentage of machines and tables, the value and types of direct mail offers, the types and costs of promotions as well as food and hotel prices. A casino with lower fixed and variable costs can successfully adopt a pricing strategy. A casino with higher costs would most probably need to employ a differentiation strategy.

Whether by design or happenstance, Native American casinos also employ one of these two basic competitive strategies. A casino housed in a sprung structure with only a small dining room or snack bar is an ideal candidate for a pricing strategy, particularly if its competitors are full-service casino resorts. Its operational costs would be lower, its debt service (if any) would be less and it could resort to price, in the form of liberal table game odds, slot hold percentage, cash back rebates, aggressive direct mail offers and discounted food in order to compete against more attractive competitors. Conversely, a casino housed in an upscale resort is differentiated from its low-cost competition. Its facilities cost more to build and run, and is thus a more desirable place for customers to play. It would not have to offer food discounts, cash back and other pricing tactics to attract customers. Customers would sacrifice price in order to play in this more attractive property. As such, it can command higher prices.

Today, a number of Native American tribes are completing or will soon complete construction of new casino resort facilities. These projects include golf courses, multiple dining venues, highly themed gaming areas, cashless slot technology and a wealth of other amenities all designed to attracted well-healed gamblers. Several tribes pay homage to their ancestors by building museums and cultural centers as part of these developments.

Yet, despite these elaborate projects, a curious thing happens once many of these facilities open. Rather than apply a differentiation strategy, managers of some of these facilities immediately resort to a pricing strategy. Some operators resort to price even in the absence of competition. It is as if the managers of these facilities feel they need to promote low prices in order to get people to try their place. No sooner do these places open than the discounts appear. Cheap food, single decks, full-pay video poker, double cash back promotions and aggressive direct mail offers become the primary marketing tactics.

Properties that are designed from the ground up to be differentiated are difficult to manage using a pricing strategy. Waterscapes, lush landscaping, beautifully designed restaurants and elaborately themed casinos cost more to operate and maintain than those housed in sprung structures. These upscale properties also have the issue of high debt service to contend with. By their design they are not efficient and they are at an immediate disadvantage when trying to compete on price.

The decision to apply a pricing strategy soon after opening has other ramifications. Gamblers quickly perceive the new casino as just another commodity product. They are taught to expect discounts as an entitlement and are loathe to accept higher prices later on. By competing on price, casinos within a market cheapen their products by commodifying them. Customers seeking a truly differentiated gaming experience would then turn to other gaming destinations like Las Vegas for unique gaming entertainment experiences.

A pricing strategy may be appropriate if the gaming facility is clearly inferior to the competition or if its location is poor. It may also be appropriate when the competition's facility is far superior in terms of design and construction. On the other hand a differentiation strategy would be appropriate when the casino has a superior facility, a more convenient location or other attributes that allow it to clearly differentiate itself from the competition. It is perfectly acceptable for multiple casinos within one market to all employ a differentiation strategy as long as the consumers recognize a difference in each property. This is the case in Connecticut where two of the world's most successful Native American casinos compete against each other by differentiating themselves.

It is not necessary to resort to price as a strategy in order to succeed in the gaming business. There are plenty of casinos that succeed today using a differentiation strategy. Foxwoods, Mohegan Sun, Caesars Palace, Bellagio, MGM Grand and Mandalay Bay are some of the most successful casinos in the world and each uses a differentiation strategy to compete.

Any operator can lower the price of a product or service in order to attract more business. Doing so profitably is somewhat more difficult. Any operator can raise the price of their goods and services. Enhancing value for that product or service is a bit more of a challenge.

Ultimately each casino must decide on its own competitive strategy based on a variety of factors. Changing strategies once established is problematic. Therefore it is strongly advised that the operator of the Native American gaming enterprise choose their competitive strategy wisely. ♣

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