

Expanding Hospitality

In this, our second in a series of discussions about the role of non-gaming amenities in both destination and regional gaming markets, we focus on the extraordinary and ongoing evolution of hotels, and how to assess, strategize and implement change.

The “lens” we use is comprised of five attributes that, when integrated, provide operators with a framework to create a comprehensive strategy for developing a new hotel or rebranding and refurbishing an existing one: the strategic assessment lens. This approach has helped several operators create new development and rebranding strategies for successful restaurants, bars, nightlife, entertainment and retail venues, casinos and hotels.

Consider the following developments in the lodging industry:

Highly evolved mobile booking applications. Proprietary mobile booking apps often include rooms, restaurants, nightlife venues, entertainment and uniquely curated experiences. This approach provides easy access and convenience to customers and allows the operator to harvest nearly 100 percent of the revenue for company-owned and managed venues.

Booking fees, such as those charged by online travel agents (OTAs), are eliminated. MGM Resorts International, Wynn and Encore Las Vegas, Boyd Gaming Corporation, Red Rock Resorts, Eldorado Resorts and others have launched robust and user-friendly mobile booking applications.

Loyalty program partnerships. Caesars Entertainment’s Total Rewards recently announced a new loyalty partnership with Wyndham Rewards. According to Wyndham and Caesars, “the move brings immediate benefit of complimentary status match to members of both programs with additional perks slated to come online later this summer. Once complete, Wyndham Rewards members will have the ability to book Total Rewards destinations directly through Wyndham Rewards channels.”

The Cosmopolitan of Las Vegas offers partner tier benefits to qualified loyalty cardholders at Pennsylvania’s Rivers Casino and SugarHouse Casino. Hotel room bookings are central to both of these programs, and provide broader distribution and loyalty program benefits to their customers.

The extraordinary and ongoing evolution of casino hotels

BY BOB BOUGHNER
AND
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Mergers, acquisitions, new brands and refreshed brands. IHG’s Holiday Inn Express has refreshed signage, lobby design and in-room décor standards. Middle-market regional casino operators may want to take a look at what Holiday Inn is up to. In addition to the 35 Intercontinental Hotels in North America, IHG acquired the Kimpton Hotels collection and has developed a new, fresh brand, EVEN Hotels.

Consider the rollout of Pendry Hotels, developed by Alan Fuerstman, founder of Montage Hotels, and son Michael Fuerstman.

“This is a new interpretation of Montage,” explains Michael Fuerstman. “The new generation of a luxury customer is not really age-specific. It’s a customer who’s matured in a way to appreciate art, architecture, design, bold experiences.”

During Alan Fuerstman’s time at Bellagio, it became the first hotel in Las Vegas to receive AAA’s Five Diamond rating.

The home-sharing industry. Airbnb has surpassed the 100 million-guest arrivals mark. It has recently launched Airbnb for Work, enabling business travelers to have more convenient access to Airbnb’s self-titled “Business Travel Ready” listings. Perhaps business travelers, convention attendees and corporate travel managers will consider home sharing as a viable and cost-effective option for business travelers. While likely to have more impact in Las Vegas than Louisiana, the scale and growth trajectory of home sharing should not be ignored.

The Strategic Assessment Lens

When a company is considering developing a new hotel or re-branding an existing one, assessing the product, positioning, processes, pricing and people requirements is an effective tool to accompany feasibility studies, demand forecasts and return analyses.

Hotel Product

The unique characteristics of the environment. From the arrival sequence outside the hotel, its landscape and streetscape, through the arrival lobby and corridors, to the private spaces within the guest room, the hotel product is comprised of a series of visceral experiences that should delight and inform the guest. We have the opportunity to positively impact four of



The creator of the new Pendry Hotels brand cut his teeth at Bellagio in Las Vegas, bringing it the highest occupancy rate in the city

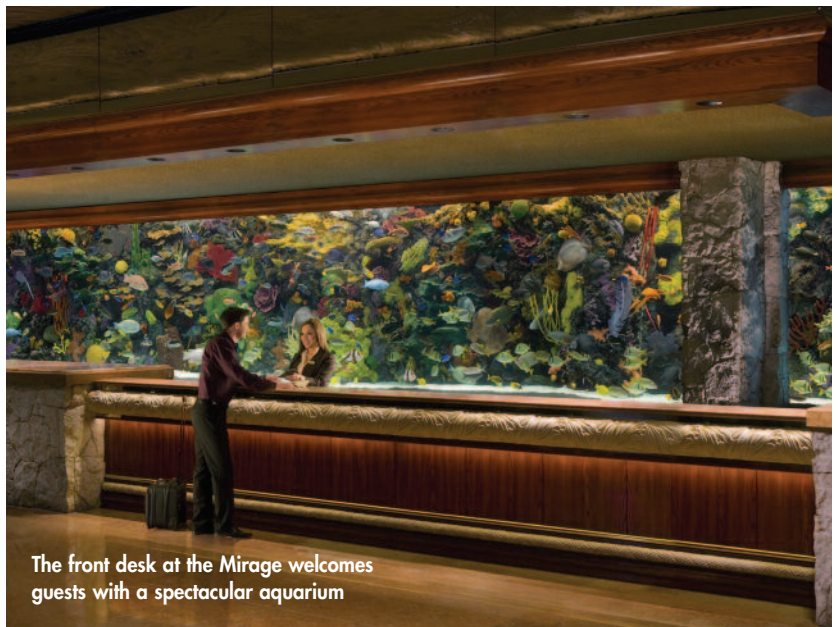


Wellness Rooms at MGM Grand promise guests a chance to feel better

“The hotel product is comprised of a series of visceral experiences that should delight and inform the guest.”

our five senses—what we hear, what we see, what we smell and what we feel by touch. Their impression of the hotel product begins outside and may or may not deliver on the promise made by the hotel’s brand position or “tone of voice” reflected in marketing and advertising materials.

First-time guests have prepaid for the room or have posted a credit card without experiencing or receiving the “goods and services.” This can be a leap of faith on the part of the guest. Merely meeting expectations is a missed opportunity, and may adversely impact the guest’s intent to return. Exceeding expectations may help justify premium rates, resort fees and two or three forms of room taxes listed on the folio at checkout.



The front desk at the Mirage welcomes guests with a spectacular aquarium

Marriott's St. Regis brand is the ultimate in luxury, creating a "tone" for the hotel rooms



Hotel Positioning

The confluence of our products and services; our unique voice and attitude; what we say about ourselves using words and images. For a gaming property, aligning the “tier” of the hotel with the positioning of the casino is crucial. Major hotel chains tend to be very specific and categorize their brands as Luxury (St. Regis), Upper Upscale (Loews Hotels), Upscale (Hyatt Place), Midscale (Fairfield Inn & Suites), or Select Service (Hilton Garden Inn). The tier or brand position impacts the design sensibility, choice of amenities, towels and linens, among other things. More importantly, it can define how the guests perceive and react to the entire campus: gaming, dining, nightlife, spa, retail and entertainment offerings.

Establishing the tone or “attitude” of the hotel can be challenging. Should the experience be highly aspirational or very accessible? Something that is “middle of the fairway” just may confuse everyone, including potential customers, team members and lenders.

Achieving the right balance should help operators realize premium pricing and broad-based demand, key revenue and profitability drivers. Clarity of tone from the beginning of the development or re-branding process will help avoid costly mistakes that can occur when expenditures are made that are inconsistent with the position of the brand. Decisions regarding furnishings, amenities, marketing collateral and advertising campaigns will be driven by the positioning of the hotel.

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Hotel Processes

The unique way we deliver our products and services. Hotel operators must carefully consider interactions with guests at each touch point: reservations, check-in, housekeeping, maintenance requests, in-room dining, special requests and checkout. The management and development team should collaborate and carefully consider the steps for each process, and test and rehearse them.

Those processes should include service recovery procedures that are utilized when the service delivery falls short of the company or guest’s expectations. In the casino environment, it is important to carefully layer in the role of casino hosts and other customer relationship marketing personnel. Stating the obvious, room revenue from certain customers may be \$0 and gaming revenue may be very significant. Effective team member recruitment, hiring, on-boarding and training are at the core of ensuring that the thoughtfully developed processes are

consistently deployed across the enterprise. There are costs associated with these programs that can be quantified and managed.

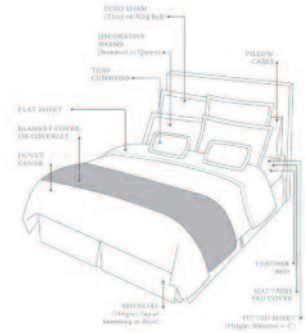
A key focus of technology investment should be improving the hotel’s direct booking process and guest experience when booking on the company’s website or mobile application. While OTAs may be important to a given operator, booking fees can significantly impact net room revenue, operating margins and profitability. One major hotel operator has hinted publicly that it was considering ending its contract with Expedia.

Some major hotel operators are offering lower rates only to members of



Trivago is the latest online travel agent to take a slice of hotel revenue

Can a quality bed and bedding make a difference in creating a unique product?



their loyalty programs. This is certainly not new to the gaming industry. It has been reported that during the two-week period ending July 4, U.S. TV advertising by online booking sites Trivago and TripAdvisor was \$18 million and \$6.8 million, respectively. These are significant expenditures aimed at diverting traffic from your online or mobile application to a booking engine that will charge you a fee for booking the room your company built and owns.

Hotel Pricing

Cost-based, demand-based, competition-based. Revenue management tools are more robust today than even a year ago. However, most systems require a “learning period” during which the software creates pricing models and demand forecasts based on historical data points. A cost-based model rarely drives hotel pricing, unless unstimulated demand is very weak.

Demand drivers such as seasonality, mid-week vs. weekend travel, convention and meetings business and special events are key determinants of demand and pricing strength. Competitor pricing is a factor that can be overcome with brand loyalty. In a casino hotel environment, especially in properties with limited rooms supply, which customers gain access to a hotel room is often the primary consideration, not the rate charged for the room.

Carefully managing suite inventory during weekends and special events is often a manual process. Accepting the most valuable business mix is part of optimizing revenue performance. Evaluating the profitability of group inquiries, the impact of cancellations and complimentary room no-shows and effective distribution across all relevant distribution channels are essential features of a quality revenue optimization tool. Amenity-rich properties with large, well-appointed rooms and suites, unique and professionally managed spas, quality restaurants featuring compelling interior designs, popular nightlife and entertainment venues can command a much higher room rate than properties without such amenities.

Hotel People

The unique way we develop and deploy our people in support of our products, positioning, processes and pricing strategies.

With a clear understanding of our other strategies, we can develop our service commitment and people plan. The ongoing cost of talent is generally the largest operating expense on the income statement for the hotel division. People drive the processes, reinforce the positioning and complete the overall product as they “reset the stage” throughout the day. Detailed staffing plans should be developed along with user-friendly position descriptions to support each role in the compendium. Many roles in the hotel are of transactional nature. Delivering the services to the customer in a non-transactional manner is not only desirable, it is achievable.

It is essential for the development team, operating team and human resources team to collaborate in preparation of the people plan. Carefully planning receiving and storage areas, guest-facing work stations, break areas and back-office functions should be performed as early in the design process as possible.

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