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Striving For the Highest Standards in Casino Design

Indian casinos now dot the American landscape. They can be found in such diverse places as Wyoming, New York and California. Architecturally, these casinos range from stunning resorts that rival the most beautiful casinos in the world to modest facilities that were built as temporary gaming venues. Unfortunately, it can be the latter that defines the expectations of customers when they think of Indian casinos. The question that must be asked is, "why does an industry with some of the highest operating margins of any segment of the hospitality industry offer its customers gaming environments that are not always the most attractive or comfortable?"

It is important to understand Indian casinos in a historical context in order to appreciate how many of these gaming properties were developed. With the passage of the Indian Gaming Regulatory Act in 1988, tribes were able to open casinos. However, many states' governors were unwilling to negotiate compacts with tribes or chose to severely

restrict the types of games that could be offered.

Capital markets were at first very reluctant to finance the development of these casinos, particularly those without compacts or with compacts that prohibited class III electronic gaming devices. Further, the remote locations of many Indian reservations were perceived as unfeasible for gaming development.

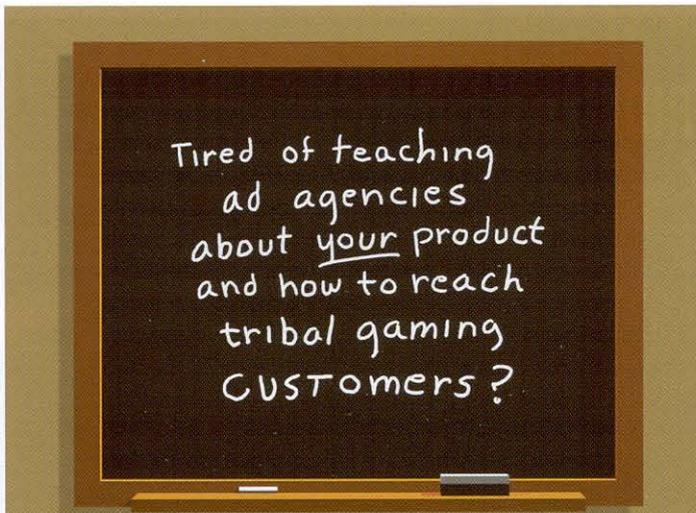
Ultimately, the first wave of casino development took place without access to traditional capital markets and many tribes were forced to fund developments internally. Included in this first wave were the conversion of buildings such as garages and warehouses to casinos, the construction of butler buildings and other warehouse style structures and even the conversion of mobile structures into casinos. All of these were done with the goals of minimizing investment costs and generating cash flow. While these properties were able to produce attractive operating margins, they offered gaming environments that were unappealing to many players.

As tribes were able to complete compact negotiations and as these temporary structures demonstrated their ability to produce outsized revenues, access to capital markets opened up and with it began a new generation of Indian casino development. Those tribes that chose to reinvest in their businesses were rewarded with unprecedented success. However, there remain today a number of Indian casinos that continue to operate in their original temporary facilities. They do so for many reasons including a fear of incurring long term debt, utilizing gaming profits to fund other tribal endeavors or perhaps a general reluctance to reinvest in a business that seems to be working well.

The Consequences of Inferior Design

While many tribes that operate such gaming operations look proudly on their operating margins (often exceeding 80%), they fail to realize that there could be a tremendous amount of money lost because much of the gaming population within their markets simply choose not to go to these casinos. Rather, this segment of players may save their gaming budgets for periodic trips to Las Vegas, Reno, Atlantic City or one of the other regional gaming destinations. These casino operators attract mainly diehard gaming enthusiasts.

When consultants conduct market feasibility studies, they examine a number of factors including the size of the population, the number of competitors and the types of facilities, the kinds of other entertainment options in the market and the quality of the proposed facility. The



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propensity rate, that is, the percent of the adult population that has a propensity to gamble, can range from a low of 12% to as high as 70% (as witnessed in Las Vegas where locals have a wide variety of attractive gaming properties to choose from). Consultants also estimate annual gaming budgets to determine overall market value.

Casinos that operate less than exciting facilities may never achieve high penetration rates or high visitor spending levels because their facilities are not as appealing as other player options. Potential customers may simply forego visits to these places altogether. Those gaming budgets go unspent in the local market. The accumulated cost of unspent gaming dollars could be two to five times higher for casinos with more modest facilities. So while operators of these facilities may be doing a good job, they could still be failing to tap their markets' true revenue potential.

Redefine Indian Casino Design Standards

It would be wrong to think that Indian casinos, because of their exclusive right to offer gaming in certain markets, do not need to strive for the same quality of design as other segments of the hospitality industry. Why can nationally branded restaurants, operating in a low-margin industry, invest millions in their restaurant properties and still do so profitably? Why do people enjoy these restaurant experiences so much? Because they are just that - experiences. Whether it be an Olive Garden, Red Lobster, Chili's or Outback, these facilities offer a dining experience that combine quality design, atmospherics, appetizing food and friendly service to create an overall experience. Casinos that take similar approaches to design are rewarded with outsized revenue growth.

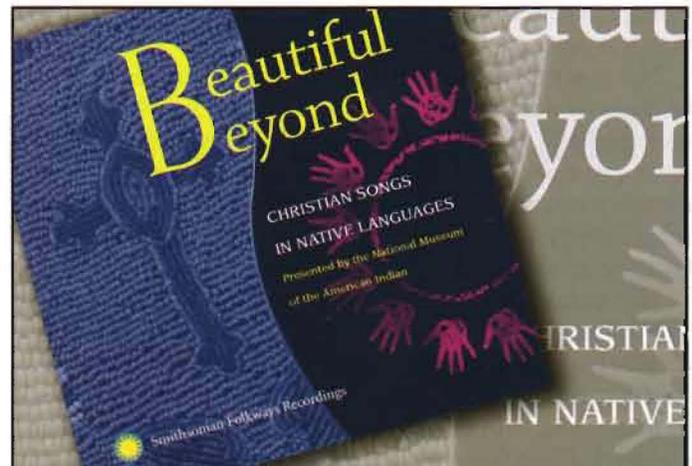
A casino must be built with quality and comfort in both the products offered and the environments that these products are placed in. Quality environments and quality products are the driving forces towards improving gaming revenue and cash flow. Quality environments are comprised of physically attractive facilities, clean refreshing air, sparkling clean and elegant restrooms, bright yet subdued lighting, high ceilings, wide aisles and attractive interiors and exterior design elements. Quality products include slot products, table game products, restaurants, parking structures and other amenities.

It is not necessary for a tribe to be located near a major population center to offer its patrons quality environments and quality products. The same principles of quality casino design can be applied to a casino with 150 machines as one

with 1,500. Casinos do not have to make architectural statements but they must provide environments that are comfortable, attractive and inviting. In many markets, tribes have an exclusive right to offer gaming entertainment.

With access to capital markets and a demonstrated track record of success, it is time to raise the standards of casino design and provide customers with facilities that exceed expectations. The right to offer casino gaming may be a license granted to tribes but it is also a privilege that should be nurtured. In return, tribes that provide superior gaming environments will enjoy substantial growth in gaming revenues and ultimately more profits to fund government services. ♣

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