



The Changing Role of the Casino Hotel

A hotel addition to a casino has long been recognized as an important amenity for any local casino that seeks to evolve into a regional gaming and entertainment destination. A hotel allows a casino to be more than just a day-trip destination. A well designed and well maintained hotel that is effectively marketed can generate a substantial amount of profit as a stand-alone revenue center. Also, the hotel allows the casino to generate incremental revenue through casino marketing programs.

Traditionally, hotels were developed at casinos as stand-alone profit centers where a portion of room sales (normally 20%-30%) were allocated towards casino marketing and the remainder sold to transient, group and commercial segments. However, this business model is changing. Casino operators have begun to realize that hotel rooms can be used to overcome locational disadvantages and drive greater revenues into the casino. The trend is to allocate a far greater percentage of hotel rooms to casino marketing, which are then offered to various segments of the database through demand stimulation programs.

The Hotel as a Casino Marketing Tool

One property that has successfully adopted this strategy is the Belterra Casino in Vevay, IN. The Belterra Casino shares the greater Cincinnati market with two other Indiana casinos that have superior locations. The Argosy Casino, located on Highway 56 in Lawrenceburg, is located less than twenty minutes from Cincinnati.

The Grand Victoria is located in Rising Sun, approximately 40 minutes from Cincinnati and is also accessed by Highway 56. The Belterra Casino is approximately 60 minutes from Cincinnati and it too is accessed by Highway 56. Furthermore, Highway 56 narrows from four lanes to two lanes west of Rising Sun and becomes a more difficult road to traverse.

In order for potential customers to access the Belterra Casino from Cincinnati, they have to drive directly past the Argosy Casino and the Grand Victoria Casino and continue for an additional twenty minutes. The drive is difficult and at times, treacherous. So how can a casino like Belterra survive, much less prosper in such a location?

The Belterra Casino opened in October 2000 with approximately 300 rooms and in its first full year of operation (2001) it was able to garner 16.7% market share while the Grand Victoria captured 22.8%. In May 2004 Belterra added an additional hotel tower, bringing the total number of keys to 650. In 2005 the property was able to increase its share of gaming revenues to 21.2%. The table details Belterra's increase in market share.

It is important to understand both the location of the Belterra and its marketing strategy. The hotel and casino are surrounded by rural farms that straddle the Ohio River. There are no industries or tourist attractions to sustain a 650 room hotel. The only market segment are casino customers. While there is no public data available on the hotel's performance, it is assumed that the vast majority of the casino's hotel rooms are filled each night with casino customers who are staying there because of an offer they received.

Furthermore, unlike its primary competitors, which offer 2-1/2 star accommodations, the Belterra is a 4 star property, offering oversized guest rooms, upgraded furnishings, room service, as well as other non-gaming amenities such as a spa and private golf course. In other words, by repositioning itself as an overnight resort destination, Belterra has been able to overcome a severe locational disadvantage and consistently grow its market share. Rather than relying solely on day-trip gamers, it caters to premium

Greater Cincinnati Gaming Market Share Analysis							
	1999	2000	2001	2002	2003	2004	2005
Belterra	0.0%	2.4%	16.7%	18.7%	19.3%	20.2%	21.2%
Hyatt Grand Victoria	31.9%	29.9%	22.8%	21.7%	20.7%	20.0%	19.7%
Argosy Lawrenceburg	68.1%	67.7%	60.5%	59.6%	60.0%	59.8%	59.1%
Total	100.0%						

Belterra's first hotel tower opened in October 2000; Belterra's second tower opened in May, 2004
Source: Indiana Gaming Commission

gamers seeking an overnight gaming/resort destination.

Notwithstanding, this strategy comes at a price. The golf course, spa, and casino marketing costs erode the property's EBITDA margin. However, the property is able not only to survive but prosper in a highly competitive market at a location that is clearly inferior to its primary competitors.

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The Belterra strategy is fraught with risks not the least of which is the significant capital investment that is associated with the construction of a full-service hotel that would be large enough to impact casino revenue. Also, the Belterra strategy demands that the casino operator build a hotel property that exceeds the expectations of the market so that gaming customers perceive an overnight stay at the casino hotel as a true gaming vacation experience and not just as a place to sleep. Nevertheless, a hotel can be used to overcome significant locational disadvantages and allow a gaming operator to compete against casinos with more convenient locations.

The role of the hotel as part of a casino's amenity mix is changing and with it the business strategy that it operates under. Any new strategy involves risk. To mitigate

risk a substantial amount of analysis is needed. Prior to such an undertaking, the casino operator must accurately forecast the incremental gaming revenue that casino customers staying in the hotel will spend, compared to day-trip visitors, and weigh that against the cost of building and operating a hotel. This involves a thorough analysis of the casino's existing database, the competition and the markets that the casino serves. The risks are significant but the reward is a casino that can overcome a locational disadvantage and maintain a sustainable competitive advantage over the competition. ♣

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