Strip Reset

Covid-19 is definitely challenging, but does the crisis present opportunities for a Vegas makeover?

By Steve Gallaway

Photo by Erin O'Boyle Photographics

"You can shear a sheep many times, but skin him only once."
—Amarillo Slim

Las Vegas soared until recent years, but we've reached the tipping point, where it's necessary for the Strip to redefine itself again.

Las Vegas is like no other place in the world. It's the entertainment and sports capital of the world. It has the most amazing resorts. It just needs to remember our industry's roots, redeliver on customer service, and provide value.

Covid-19 has devastated the industry and the greater Las Vegas economy. With the resulting industry shutdown, the city must take the opportunity to develop a strategy to reopen, reinvigorate and recapture its guests.

For the first time in well over a decade, both Caesars Entertainment and MGM Resorts, which between them operate 18 Las Vegas Strip resorts, have new leadership teams. These teams are comprised of seasoned casino industry professionals—not outsiders from professions other than hospitality—who have the ability to make these changes.

An enormous amount of data is available. With the right analytics, know-how, customer offers and the willingness to take risks, the Strip can pop when it reopens. But operators must show that they care about their customers and deliver the experience they expect. The key to success is as much about the offer as it is showing customers that they're wanted.

This is the opportunity for Las Vegas to hit the reset button.

Why Reset?

The Las Vegas Strip originated as the go-to destination for people to gamble, drink and play. Customers were treated like royalty, and it was fun!

A new era was ushered in with the introduction of the first true integrated resort, the Mirage, built by Steve Wynn in 1989. Visitation soared. Between 1989 and 2000, Las Vegas tourism grew 6.9 percent annually, adding an average of 1.6 million visits per year. This growth was spurred by the thirst for new construction, which saw nearly all of today's resorts built. In addition to those that were finished (or partly finished), many other properties were discussed, from the 4,000-room W to the 1,500-room Las Ramblas and the planned New Frontier property that Phil Ruffin sold to the El-Ad Group for $1.2 billion in 2007.

The growth was also spurred by Las Vegas Sands (LVS) introducing the focus on MICE as a key driver to the destination. Many resorts integrated this strategy into their business plans.

Las Vegas established itself as the mecca for adult fun. It was known for the best entertainment, great food, the largest nightclubs, outstanding bars and a high-quality gaming experience. The Las Vegas Convention and Visitors Authority (LVCVA) slogan, "What happens in Vegas, stays in Vegas," introduced in 2003, was a perfect description of the Las Vegas experience.

Caesars Palace had been open continuously from August 1966 until it closed due to Covid-19 on March 17, 2020

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—Tony Rodio, CEO, Caesars Entertainment

In the mid-2000s, a number of Las Vegas gaming companies installed CEOs from outside the industry. Several multibillion-dollar resorts were constructed. In some cases, they simply did not pencil out. As non-gaming revenue began to overtake gaming revenue, operators started to charge more for F&B, entertainment, etc. The profit margin that stems from asking $10 more for a hotel room or $2 more for a gin and tonic is 100 percent. However, there's a breaking point for how much more can be charged.

In 2008, the Great Recession befell the industry. Companies were forced to make hard decisions to survive. Boyd Gaming, which preaches the value of the customer experience, had identified a Strip project that was feasible pre-recession: the $4 billion Echelon. It had partners developing the retail component, three to four hotel brands and other amenities. But Boyd saw the writing on the wall, and in mid-2008, ordered pencils down. Originally delayed, the project was eventually canceled. Other operators chose to stay the course, and made big sacrifices to complete their resort developments.

This created a problem. Many Strip gaming companies had billions of dollars in debt to repay, and were only seeing low single-digit returns. In part due to the poor performance of many of these resorts, public companies started to focus too much on earnings per share (EPS) while forsaking the customer experience. A myopic view was taken on the yield equation. It was believed that operators could increase customer spend across various categories (short-term gain). This approach neglected the fact that doing so might risk of the loss future visits (long-term loss).

In addition, by increasing spend in categories such as F&B, operators reduced the amount of wallet available for people to spend on the casino floor, one of Vegas' key competitive advantages against other entertainment destinations, and which gives operators higher profit margins than other revenue departments.

As a result of this approach, prices increased precipitously, while staffing and service at many resorts was cut back. It was the beginning of the price-gouging that took the Las Vegas Strip by storm.

When Aria opened, a visitor could expect to pay $9.50 for a Bud Light and $17 for a martini in the now-closed Gold Lounge. Although that doesn't seem like much today, this was more than 10 years ago. More recently, a visitor would pay $12 for a draft beer at Caesars, and an incremental $4 for a large ice cube at a luxury whiskey bar. These pricing levels have become widespread on the Strip, and deviate considerably from the prices patrons pay at home or at other vacation destinations.

While pricing has gone up in Las Vegas, visitation has not. Excluding convention visitors (as those individuals don't choose where they visit), the number of visitors coming to Las Vegas decreased from 36.4 million in 2015 to 35.9 million in 2019. This decline occurred despite robust growth in disposable income across the United States, which averaged 4.5 percent growth over the past five years.

Resort and Parking Fees

Similar to other tourist destinations, Las Vegas resorts began charging resort fees. The problem with its use in Las Vegas is that it simply got out of control. If a resort fee amounts to 10 percent to 15 percent of the average daily rate (ADR) of a hotel room, the fee is likely more palpable to a consumer. But when the fee is more than half the rate—very typical at numerous properties across the Strip—it simply angers the customer, particularly if they don't see value and a positive impact on their experience.

The detrimental effect of an overpriced resort fee can be observed in an evaluation of RevPAR (which includes resorts fees) at MGM Resorts, where RevPAR growth has been steadily declining since 2014 and experienced a big decrease in 2019. This example illustrates that, prior to Covid-19, while the U.S. economy was in a boom, Las Vegas was in a flatline, if not a slump.

It's not just resort fees. Onerous parking fees are hitting people's wallets as well. This especially affects those driving in from California, one of the main channels of the Las Vegas visitor. People expect to pay for parking where parking is a valuable commodity. In Las Vegas, there's no shortage of parking.

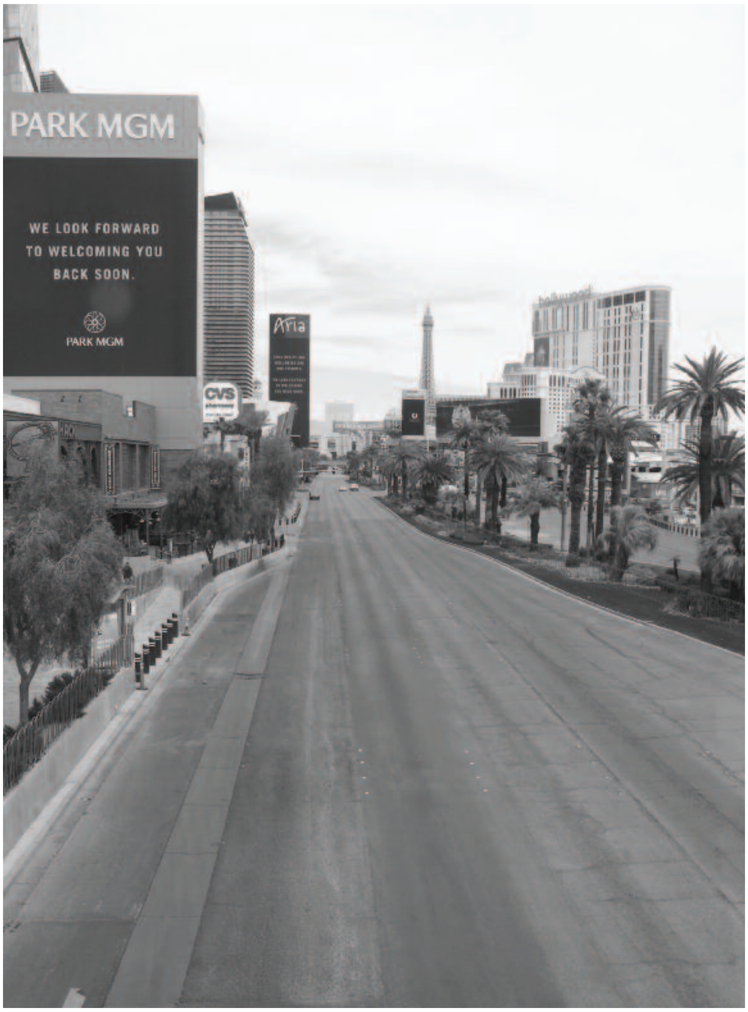
Because a significant percentage of travelers drive in, they now have to accept an incremental $15 to $35 fee per night to park on the Strip. The only resorts without these fees today include Wynn/Encore, Venetian/Palazzo, Tropicana, Sahara and Treasure Island, where both self-park and valet parking is free. Wynn used to charge for parking, but removed the fee after listening to their customers. This meant a lot to tourists, and started bringing back locals who come to enjoy Wynn restaurants and the casino floor.

Operators must show that they care about their customers and deliver the experience they expect. The key to success is as much about the offer as it is showing customers that they're wanted.

Parking fees have clearly had a deleterious impact on Strip visitation. In 2010, 52 percent of Strip customers drove to Las Vegas. That number dropped precipitously in 2018, to 44 percent, according to research from the LVCVA.

Parking fees don't just impact tourism, they also directly impact the desire of locals to

Scenes from the Strip: Covid-19 Pandemic, April 2020



visit the Strip. Today, few locals want to venture to the Strip, as it's simply too expensive. For two friends to meet at Caesars and each valet their cars for less than an hour, they would spend $30. At Bellagio, a two-hour dining experience would incur valet fees of $48.

Las Vegas has likely hit the breaking point that Tony Rodio, CEO of Caesars Entertainment, predicted during an earnings call in August 2019: "Over time, at some point there's going to be the straw that breaks the camel's back. I don't think we're there yet, but I want us to be very judicious and cautious about taking those rates any further."

Interestingly, three operators that provide a quality customer experience (Wynn, LVS and Cosmopolitan) have some of the lowest combined resort and valet fees as a number, and some of the lowest resort fees as a percentage of ADR. This illustrates that customers don't mind paying rate for a hotel room when they're satisfied with the value of the experience they receive.

Losing Market Share

There's no town like Las Vegas, but it's definitely losing market share to other cities. LVCVA research shows that repeat visitation is down, and overall visitation is flat. As people consider where to go for an adult weekend, they're increasingly finding new destinations. People can drink and eat for less elsewhere, and also experience higher levels of service. While the hotel rooms are often more expensive, patrons know what they're paying before they arrive, versus having, in some cases, an additional 50 percent in mandatory fees tacked on.

Destinations like New Orleans, Nashville, New York City, Los Angeles and Seattle each experienced remarkably strong year-over-year growth in both visitation and expenditures in the last year, while Las Vegas experienced declines in both categories.

Before the Great Shutdown

Immediately prior to the Great Shutdown brought on by Covid-19, Las Vegas had become unaffordable to many, and for those who stayed in the wrong resorts, it could best be described as an overpriced mediocrity.

Many operators focused too much on raising prices and cutting costs. They neglected the entrepreneurial spirit that the best customer-focused resort developers and operators relied on to build Las Vegas into the mecca of entertainment that it is.

Despite the lack of quality offerings among several operators on the Strip, a few operators have succeeded due to their business plans and products. Wynn Resorts, Las Vegas Sands and the Cosmopolitan all have been successful with individualized strategies.

Wynn continues to be the only resort in Las Vegas that offers a true five-star experience. It's able to deploy that plan across all business segments including FIT, casino, F&B and MICE. While its prices are among the highest on the Strip, its quality of product and service results in consistently high rankings in terms of customer satisfaction.

LVS has excelled at focusing on the MICE customer while still reinvesting appropriately in its gaming customers and leveraging its database with its properties in Asia. From the start, the property catered to a diverse array of segments and provided them with luxury amenities, including an all-suite hotel and numerous highly regarded F&B outlets. Additionally, LVS is the only major Strip operator that never deployed parking fees, retaining the value of that amenity.

Finally, as Cosmopolitan has evolved over the past decade, it's established itself as a premium entertainment destination. The resort provides outstanding food, quality rooms, good bars and nightclubs, and can charge handsomely for these experiences. There are only so many people who can afford the luxurious offerings at Cosmopolitan, but there are many places Cosmopolitan customers can go for affordable fun. For example, a tequila Blanco and soda at the speakeasy-style Ghost Donkey bar is only $8.

The Customer Experience

Hospitality is about the customer experience, and gaming has historically taken great care of its customers. People want to come to Las Vegas for fun and feel value for their dollar.

There's a reason why Downtown Las Vegas has experienced strong growth over the past few years. One can afford to go and gamble, and its properties offer a great value proposition to customers. One can sit at a table at the Golden Gate and know that drinks will be readily available and served. On the Strip, too many resorts have cut back on cocktail service, making getting a drink at a table or slot machine nearly impossible. Most people who gamble do so for entertainment purposes.

It's similar for F&B experiences. Would you want to return to a restaurant if the staff struggled to deliver food and drinks in a timely fashion? Casino floors are the same way. Customers expect and deserve service; it's the mentality our industry was founded on. But some resorts have gouged prices off the casino floor and provided inadequate service on the casino floor. And it's had a direct impact on Strip gaming revenues.

Over the past five years, despite a booming economy, the Las Vegas Strip's gross gaming revenue has been nearly flat, growing at a paltry 1.1 percent. Compare that to Downtown, where resorts give good value for the experience. There, gaming revenue has grown at an average of 6 percent per year.

An Opportunity to Reintroduce Las Vegas

During the Great Shutdown, Las Vegas operators can strategize on how to reinvigorate existing customers and entice new visitation.

The time is *now* to eliminate or significantly reduce resort fees, eliminate parking fees, lower drink prices on the casino floor, and go back to basics by listening to and putting customers first.

Stock prices are already depressed, and investors expect to see reduced revenues. When Las Vegas reopens, it can reintroduce itself as a destination where patrons of all levels get a great experience for their dollar. Operators can rely on extensive databases to communicate with their patrons and reach out to them with the right message.

Players are looking for a call to action. People are looking for a reason to return to Las Vegas. They just need to know that they'll have fun and be left with enough money to return in the future.

The future is not about "What happens here, only happens here." It's letting customers know, "Vegas is back, baby!"

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