

# GLOBAL Gaming Business

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matter anymore?

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HOW CASINOS AUSTRIA MANAGES  
ITS WORLDWIDE CASINOS

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# STREET NAMES

## DO CASINO BRANDS STILL MATTER?

BY MICHAEL SOLL

There is a long history of branding in gaming, beginning with independent Las Vegas and Atlantic City properties, which over time have expanded to multi-property national and international chains. This would include such high-profile names as Harrah's, Tropicana and MGM Grand.

In addition, a host of casino brands were founded in emerging markets during the early 1990s, some of which have been consolidated into larger companies. Isle of Capri, Boomtown and Argosy are representative of this group. Finally, there is a handful of non-casino entities that have made their way into gaming, including Hilton and Sheraton, and entertainment brands such as Hard Rock and House of Blues.

With all of these players in the game, it is somewhat surprising that many of the world's most recognizable casinos are unbranded properties—or at least began that way, before developing brand-like qualities due to their successes. Foxwoods and Bellagio (prior to acquisition) are two examples. The results of such properties can emanate from such business advantages as location, competitive position, quality of facility and management expertise.

Despite the proliferation of brands in gaming, what actually defines a casino brand (and subsequent brand value) remains subjective. As casino companies, Native American tribes and private developers all ask themselves whether they should seek or expand a brand, it is worth exploring whether or not it could make a difference.

### CHARACTERISTICS OF CASINO BRANDS

The definition of a brand can be broad, varying from its simplest technical description (a "mark" distinguishing one product from another) to more evolved characterizations that consider identity, experience, customer interaction and relationships. And brand definition varies further, depending on the product or service being sold.

Take Coke and Pepsi, for example. Both are colas with successful brand identities and highly channeled advertising, but their ability to touch a consumer's overall lifestyle is limited. By contrast, the ability of a leisure or service brand to affect a consumer can be much more experiential. Branded properties, in particular, offer many avenues beyond gaming through which a customer's lifestyle can be impacted (consider dining, spa, retail and other experiences).

In fact, research shows that customer-brand interaction both on-site and through CRM or social marketing is even more important for reinforcing casino brands than for many other goods or services. This is because reaching casino players with traditional advertising channels—television, billboards, print, radio, websites—can be inefficient, simply because of the limited distribution of the property type.



Even Harrah's, with the widest brand distribution in gaming, has historically relied minimally on television advertising because the convenience in selecting a destination typically outweighs the expenses associated with wide-reaching campaigns. There are, of course, exceptions to these limitations, particularly in competitive markets where channels such as en-route billboards can actually influence a player's destination decision.

### CATEGORIES OF CASINO BRANDS

In evaluating casino brands, consideration should be given to which brands have been built through differentiating product, and which have grown out of circumstance, keeping in mind that the two are not mutually exclusive. The limited distribution of gaming venues can sometimes provide business advantages such as location and accessibility that far outweigh brand. And when the financial rewards attained through these advantages are reinvested (future license bids, lines of credit, etc.), further brand proliferation can occur.

In this vein, we have distinguished five categories of brands. While these categories are not the only way to organize and analyze industry brands, they do provide a logical framework to discuss their characteristics.

CATEGORY	EXAMPLES
Single Properties and Limited Offspring	Venetian, Bellagio, Foxwoods, Atlantis
Purist Corporate Casino Brands	Isle of Capri, Trump, Wynn
Branded Collections of Brands or Properties	MGM, Harrah's, Crown
Unbranded Collections of Brands or Properties	Penn, Delaware North, Pinnacle
Other Leisure Brands	Hard Rock, Playboy, Planet Hollywood, Hilton, Sheraton

## SINGLE PROPERTIES AND LIMITED OFFSPRING

Single-property brands are represented by a handful of stand-alone properties that have become widely known through one or more of their operating or physical features. There is often some debate as to whether or not many properties in this category would be technically classified as brands at all, but they all share the characteristic that their potential to be a brand was not anticipated or known until after the property initiated operations. Similarly, once a single property gains brand-like notoriety, it often remains unclear how to leverage the brand value, and whether or not it makes sense to roll the brand out to new locations. As such, when appropriate, we extend the meaning of “single properties” to include limited offspring, where companies such as Las Vegas Sands with “The Venetian” (Las Vegas and Macau) and the Mohegan Tribe with “Mohegan” (Connecticut and Poconos) have taken the brand identity and expanded it on a limited basis.

## PURIST CORPORATE CASINO BRANDS

Purist corporate brands are companies deploying a single brand at nearly every portfolio property. The number of companies fitting this profile has diminished over time as mergers and acquisitions have added non-core branded properties to purist brands. The benefit of a “purist” brand is unclouded consistency and efficiency, and unwavering legitimacy to brand commitment.

## BRANDED COLLECTIONS OF BRANDS OR PROPERTIES

Companies with a “collection of brands” have typically started out as purist brands, but through mergers and acquisitions have become companies with multiple brands. In many cases, brand logic has been reorganized within these companies through the disposition of non-core properties and the reflagging of certain properties to manufacture a multi-brand architecture. Volume often proves to be a benefit for such companies, since economies of scale allow reduced expenses for many corporate-level functions and purchasing at the property level. That said, it has been challenging for some companies to remain focused on brand-building for each identity when it comes to juggling two, three or even four brand offerings.

## UNBRANDED COLLECTIONS OF BRANDS OR PROPERTIES

Unbranded collections of brands are distinguished from the previous category by virtue of the parent company being unbranded or otherwise never having been a casino brand itself. The companies have also expanded largely through mergers and acquisitions, but most were originally parimutuel interests, entertainment companies or holding companies.

## OTHER LEISURE BRANDS

The “other leisure” brands are comprised predominantly of entertainment brands, often rooted in restaurants, and chain/franchise hotel brands. In the case of entertainment brands, the involvement of these companies in gaming is often as the brand licensor to a third-party owner and/or manager. Lodging brands have typically arisen in the gaming space through legacy associations with the past combined lodging-gaming companies such as Hilton and Sheraton, or by virtue of amenity casinos within hotel-brand resorts.

## BUSINESS MODELS FOR SUPPORTING CASINO BRANDS

There are several business models for introducing a casino brand, each with variable degrees of control and reciprocal risk. Brands in most industries are created and cultivated with a deployment strategy in mind, though some are established by association, over time.

Large consumer brands, such as Hershey or GAP, tend to produce their own products or services and brand them for sale with little or no third-party involve-

ment. By contrast, fast-food brands are typically created with the licensing and franchise community in mind. And there are hybrids of both varieties, such as airlines, which manage their own fleets and license their flag to regional carriers.

Casino brand license fees generally range from 1 percent to 3 percent of revenue, depending on the power of the brand and the volume of revenue being generated. License fees are also typically coupled with centralized brand marketing fees in the 1 percent-to-1.5 percent revenue range. More effective brands command higher reciprocation to brand owners.

The license model is attractive for many brand owners, since third-party capital investments often yield higher returns. However, the increased risk that goes with more partners typically also means a need for tighter brand control.

Along these lines, there are two primary categories of risk exposure: (1) brand devaluation due to poor operating or design implementation; and (2) regulatory risk where a third-party property owner might prove unsuitable for a gaming license.

Because of these risks, most pure casino brands are owned by a full-service casino operator, who manages the brand and most properties where it is found. Alternatively, a property can be managed by the brand owner but with passive third-party ownership, thus mitigating regulatory risk exposure by taking the owner out of day-to-day operations. Fees for licensing a brand *and* managing a property typically include a revenue share as well as an incentive fee based on profit, where total fees, including brand license fees, are 2.5 percent to 4 percent of revenue and often some percentage profit, depending on the quality of the brand, management agreement, and volume of revenue generated. And again,

centralized brand marketing fees are often assessed as well.

This control-risk equation has left pure casino brands largely inaccessible to independent managers, including most Native American tribes. However, independent casino owners have found easier access to leisure brands borrowed from food and beverage, entertainment or lodging enterprises that have proven to work well in gaming. Playboy, Planet Hollywood, Hilton and Sheraton are among the most notable examples, as well as Hard Rock, for which the Seminole Tribe went as far as to acquire the entire brand.

## MEASURING THE VALUE OF BRANDS

Brand value varies depending on market conditions and the extent to which customer databases and global marketing programs are leveraged. At a minimum, a brand should help influence a property’s profile in a competitive market situation. Any time there is a cluster of unbranded or “soft” branded properties that are largely undistinguished from one another, there is likely to be significant opportunity and profitability in a brand deployment.

To measure brand value, we begin with information from two main sources: (1) customer sentiment and (2) historical revenue impact. In the case of customer sentiment, we rely both on quantitative survey data and qualitative data gained through focus groups.

Revenue impacts are based on historical success of branded versus non-branded venues in an appropriate sample group of markets. Using these two measures, total revenue impact from branding can then be estimated for a specific casino. Then, brand-related operating and capital costs can be factored in to generate ROI. This impact can be positive or negative, depending on whether or not a brand results in higher revenue, and whether that revenue lift, if it exists, exceeds branding costs.

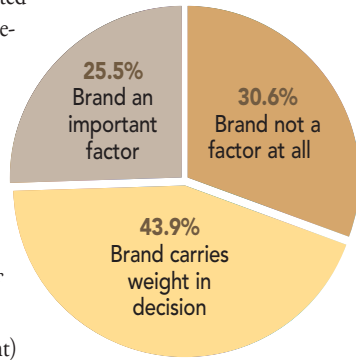
## CUSTOMER SENTIMENT

Both periodic casino brand benchmarking and project-specific survey work play roles in the customer component of brand valuations. Customer opinion and behavior surrounding brands varies, depending on the specific brands and markets

**'BRANDED PROPERTIES, IN PARTICULAR, OFFER MANY AVENUES BEYOND GAMING THROUGH WHICH A CUSTOMER'S LIFESTYLE CAN BE IMPACTED'**

involved in an opportunity. In any given market, there are players who are pre-disposed to neutral or negative opinions on branding, based upon what they value. Where customer service, as an example, is the primary driver of satisfaction among multiple gaming options for a player, brand may take a back seat. Alternatively, where a customer is interested in a broader experience including identifiable dining and entertainment options, brand can be an important factor in determining where to play.

The Innovation Group has conducted extensive customer research both for specific client-related projects and periodically to build its own database of statistics regarding gaming consumer preferences and behaviors. The pie chart summarizes results from a national survey conducted by the Innovation Group and YPBR for the notable industry publication *Portrait of American Gamblers*. In that survey, the vast majority of respondents (70 percent) said they considered the brand to some degree in their casino choice. And more than 25 percent considered brand an important factor.



Source: Portrait of American Gamblers

In addition, we can draw distinctions from quantitative research between customer awareness and receptivity to different types of casinos. The table below is based on research conducted by the Innovation Group in 2007, comparing awareness and proclivity to visit/recommend single properties, casino brands, and entertainment-branded casinos. The table summarizes the results and implies that despite having the highest awareness, chain casino brands are most likely “not” to be visited or recommended because they are considered more ordinary than entertainment and stand-alone properties.

The Innovation Group also conducted a series of qualitative brand research studies in 2008, comparing entertainment brands brought into existing casino properties against those developed independently. Entertainment brands have

	EXAMPLES	AWARENESS	WOULD VISIT	WOULD RECOMMEND	NOT RECOMMEND “ORDINARY” EXPERIENCE
Single Casino Properties	Atlantis Bellagio Borgata	28%	79%	87%	12%
Casino Brands	Harrah’s MGM Trump	77%	72%	75%	18%
Entertainment Brands	Hard Rock Planet Hollywood	58%	73%	77%	15%

proven to be an attractive option for third-party owners because license deals are typically more easily implemented with non-casino companies. Although the focus was on entertainment brands and additions to existing properties, customer responses were indicative of a wider set of brands and branding opportunities.

For the purposes of this article, we compared research responses for three highly successful entertainment brands, and organized customer sentiment across several telling categories. In addition to determining which brand stood out in particular in a subject market area, we learned that customers have strong emotional views on different brands. The following summary maintains anonymity as a professional courtesy:

#### BRAND A – THIRD IN PREFERENCE

- Resonated as a fun, bar-like atmosphere primarily considered a stand-alone venue, not needing to be related to gaming, potentially limited to a restaurant concept within an existing casino versus an all-encompassing theme.
- Low concept awareness, not unique and likened to chain restaurant venues.
- Perceived to be less premium and more casual.

#### BRAND B – SECOND IN PREFERENCE

- Appealing to consumers in that it suggested more excitement than their current offerings, but less appealing than the other entertainment concepts.
- While considered exciting, entertaining, fun and cool, also described as dated, has-been, mediocre, touristy, higher-priced, over-marketed and a tired concept.
- Less long-term consistency than other entertainment brands and the excitement offered.

#### BRAND C – FIRST IN PREFERENCE

- Exciting and highly differentiated from otherwise mundane local market options.
- Drawing power: “The brand matters and will be a deciding factor. I’d come to see the property now.”
- Universally known, has consistency and longevity, national reputation, great atmosphere, energy, good food, fun, music and Vegas casino associations.
- Would have to be authentic: “Make sure you do it right.” It can’t be a “sparse execution.” “Has to be the real deal.”

#### BRAND IMPACTS OF REVENUE, EXPENSE AND PROJECT RETURNS

Branding initiatives will typically affect both project revenue and expense. The challenge, of course, is to make sure the revenue benefits outweigh these costs. Incremental profit must be measured carefully, by taking less obvious items such as a property’s diminishing competitiveness into account. In addition, there will usually be intangible items affecting brand decisions that cannot be quantified, such as a threat to tribal identity or desirability of third-party relationships.

Specific examples of brand revenue lift are difficult to isolate, as many factors contribute to a property’s success. Still, some examples do stand out. In the Atlantic City market, national casino brands such as Caesars and Harrah’s have historically fared better than unbranded properties, with market-share premiums of more than 30 percent in some years. In Joliet, Illinois, Harrah’s has in some years enjoyed a 60 percent premium over its soft-branded competition, the Empress casino. In nearby northern Indiana, branded facilities have earned a premium of between 64 percent and 117 percent over the past four years.

Again, greater facility quality and superior locations are partly responsible for this premium, but branding plays an unquestionable role. Looking back to 2001, the Empress Casino in Hammond was re-branded as a Horseshoe facility. With that change, the casino enjoyed a substantial jump in win per position—17.8 percent in its first year, and another 21 percent in the second. Finally, in Iowa, a state with a long history of riverboat casinos, branded casinos were added incrementally and have typically enjoyed an average win-per-position premium of between 23 percent and 31 percent.

Win per unit across a large number of markets makes a more convincing case for the overall impact of brand. The Innovation Group compared win per unit in 111 properties in 16 markets. Average win per unit across branded properties was \$293, compared to \$216 across unbranded properties, for a premium of 35 percent. Again, accepting that factors other than brand influence revenue and win per unit, in aggregate there is an undeniable impact from branding.

Offsetting much of the generally positive revenue impact of branding is a limited number of operating and capital expenses. The nature of brand-related

expenses varies depending on whether the casino owner and the brand owner are the same, or whether the brand is being secured through a third-party license deal. Operating expenses related to branding can include marketing expenses, usually the most significant expense category, as well as customized supplies including logos and other brand-conforming standards.

Additionally, enhanced (and more expensive) levels of service may be dictated by new brand ownership. On average, we believe that these combined operating expenses represent between 4 percent and 8 percent of added expense margin depending on a subject property.

Capital expenses associated with brand implementation are usually borne by the property owner, whether it is also the brand owner or a third party. These expenses relate to the overall level of finish, which can often be held to a certain brand standard (such as three-star or four-star), as well as unique brand finishes and equipment, signage, art or décor. The cost of such items varies widely from project to project; we would benchmark the total capital impact for branding to be in the 5 percent to 10 percent range for total project cost. While the initial investment is typically the costliest, ongoing capital expenditures to maintain brand compliance should also be expected.

We have demonstrated that casino brands and branding deals come in many forms, and that there are a multitude of associated benefits and costs. On balance, we remain confident that casino brands do matter, and that they can give properties a distinct market advantage, particularly in highly competitive environments.

In the end, though, when considering the revenue premium that branded properties achieve compared to non-branded properties in markets throughout the country, the question is not whether brands matter, but rather, whether or not a facility is in the appropriate strategic position to take advantage of the value and benefits that the right brand affiliation is sure to bring.

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