



Steve Szapor

President, The Innovation Group of Companies

The current economics have been hard on everyone in the gaming industry. During a time when consultants are the first expenses cut, the Innovation Group has seen its business change. Steve Szapor, the president of the group, has a long history in the gaming industry, serving with Sahara Gaming, Hollywood Casinos, Colorado Gaming & Entertainment and other operators. At this time, his operational and analytical skills have become valuable as he recognizes that many companies need help. Szapor explains Innovation Management and how it serves clients from investors to operators. Szapor spoke with *Global Gaming Business* Publisher Roger Gros at the GGB Las Vegas offices in February.

GGB: *You've been in the gaming industry for many years, for quite some time on the operations side. Have you ever seen a more difficult operating environment than we have today?*

Szapor: Well, I've seen a couple of mild recessions—in 1991 and right after 9/11, of course—and this is the most serious downturn I've ever experienced. Consumers are getting hit badly in their net worth, their homes and their portfolios, so it's a really trying time for our business.

So much of what is happening is out of the control of operators. What should operators be focusing on to get through this time?

You have to take both a short-term view and a long-term view. You can't cut your costs too much where it affects customer service. There's a fine line here. You have to be focused on cutting costs that don't impact the customer experience. You have to hone in on your customers who are bringing in the most money and concentrate on those areas.

You have to be careful about chasing the business, however. Everyone is out there promoting and you must watch your margins. You have to concentrate on customer service. Times are tough but you still have to put cap-ex back into your product to keep it competitive. More detailed database mining is required so you can spend your marketing dollars more efficiently.

Do you find that casinos now have more time to devote to the customers who do arrive?

We do a lot of research with casino customers. We just finished two studies and found consistently that in hard economic times or not, the top thing on customers' minds about why they choose one casino over another still is customer service—how they are treated. It's very hard to cut back in this environment.

You have to get the buy-in of your employees as well. They see business slowing down and they know how important it is to keep the customers who still come.

The Innovation Group has established itself as the premier consulting company in the business. You've always had a component that advised on operations, but recently you've launched a new division that concentrates on that. Explain how this came about.

There were a number of catalysts for this. First, our clients include many lenders to the industry who have been asking for third-party analysis of operations, management and what they're doing. Not necessarily to look over someone's shoulder but just to know that things are running the best they can. We've been getting a lot of inquiries in this area.

Then, we put together a team of four or five people who have direct operating experience, including myself. Together, we have over 100 years experience in the business. It made sense to jump in and make a commitment to that business.

Bankruptcy obviously has to be an option for some of the more distressed casinos. Can this be managed to minimize the long-term impact on any operation?

It can. Before joining the Innovation Group, I was with a number of companies and went through some difficult bankruptcies. It's very important to manage it for both the short and the long terms. The long term means you must keep your employees and customers around and that means managing your communication with both groups. For the customers, it means making them aware that you're not going out of business and that they'll get paid if they hit a jackpot, or you're not tightening the machines to help pay your costs. It's communica-

tion that is most important in this situation. Keep your employees informed and let them know they're a part of the solution. And you also have to manage the press to keep them informed and make them understand what's going on.

Bankruptcy is often a business tool to get things back in order. It's not always about shutting down or liquidation. In fact, very few bankruptcies end up that way.

Marketing is becoming more important as competition heats up. For many years, there were two easy options: build it and they will come, and follow the leaders. Why is it more important to be creative and innovative today?

We have so much capacity in this business. We're competing with many other casinos for the discretionary dollars. And we're also competing with many other forms of entertainment. So you just can't do the same old things. You have to try new promotions and new ways to communicate with customers. That's important. They're not all the same. You can't talk to them the same way. You can't give everyone the same offer. You can't even address the envelope the same way. If you can be more creative that way, segment them and diversify the promotions, I think you gain the upper hand.

What jurisdictions/casinos/operations will be in the best position to rebound more quickly as the economy improves?

I'll get on my soapbox. My company testifies before committees and legislatures and we're currently active in a number of states and jurisdictions contemplating gaming. I always point to the states that have lower tax rates as the states that have created a sustainable and viable industry for the long haul. When you have a tax rate low—enough to allow operators to put money back into their facilities, develop non-gaming amenities and invest in their customers—you have a healthy industry. In that respect, I believe states like Nevada, Mississippi and New Jersey will be among the first to rebound because operators have the money to put back into their properties when they see customers returning in good numbers.